

Starbucks Corporation(SBUX)

\$89.28 (As of 02/14/20)

Price Target (6-12 Months): **\$94.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 05/10/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: B

Momentum: F

Summary

Shares of Starbucks have outperformed the industry in the past year. The company reported first-quarter 2020 results, with earnings surpassing the Zacks Consensus Estimate and revenues missing the same. However, the top and the bottom line increased year over year owing to robust performance of Americas and international segments, store openings, enhanced customer experience, and digitalization. The company believes that China and the Asia-Pacific region will drive business growth over the next five years. Meanwhile, Starbucks' business is rapidly growing in China, courtesy of innovative store designs and the success of the MSR program. However, Starbucks business in China is likely to be hurt by the coronavirus outbreak. Notably, more than half of the company's stores in China have been impacted by the outbreak.

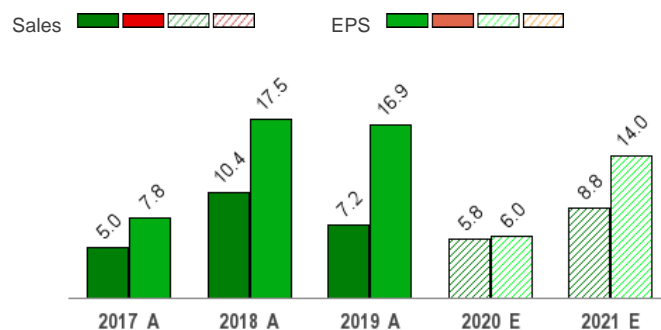
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$99.72 - \$69.03
20 Day Average Volume (sh)	8,674,870
Market Cap	\$104.8 B
YTD Price Change	1.6%
Beta	0.56
Dividend / Div Yld	\$1.64 / 1.8%
Industry	Retail - Restaurants
Zacks Industry Rank	Top 30% (77 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.0%
Last Sales Surprise	-0.1%
EPS F1 Est- 4 week change	-1.6%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	31.1
P/E F1	29.8
PEG F1	2.3
P/S TTM	3.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	7,612 E	7,153 E	7,765 E	7,900 E	30,504 E
2020	7,097 A	6,515 E	7,206 E	7,230 E	28,048 E
2019	6,633 A	6,306 A	6,823 A	6,747 A	26,509 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.84 E	\$0.74 E	\$0.92 E	\$0.93 E	\$3.42 E
2020	\$0.79 A	\$0.59 E	\$0.81 E	\$0.82 E	\$3.00 E
2019	\$0.75 A	\$0.60 A	\$0.78 A	\$0.70 A	\$2.83 A

*Quarterly figures may not add up to annual.

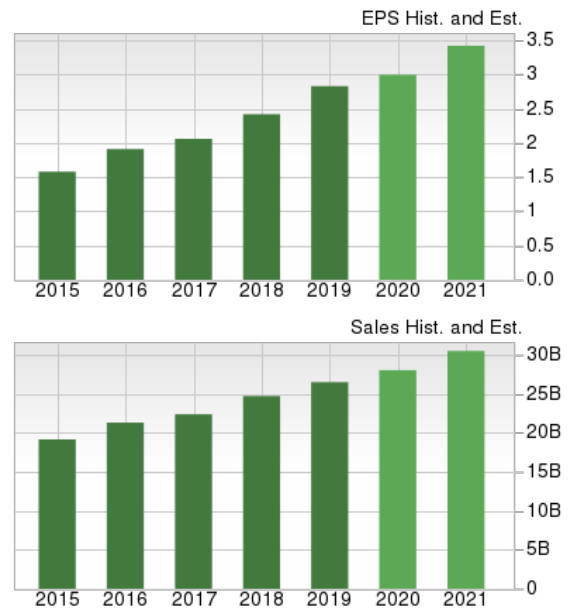
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/14/2020. The reports text is as of 02/18/2020.

Overview

Founded in 1985 and based in Seattle, WA, Starbucks Corporation is the leading roaster and retailer of specialty coffee in the world. In addition to fresh, rich-brewed coffees, Starbucks' offerings include many complementary food items and a selection of premium teas and other beverages, sold mainly through the company's retail stores. The company's popular brands include Starbucks coffee, Teavana tea, Seattle's Best Coffee, La Boulange bakery products and Evolution Fresh juices.

Other than the company's own retail stores, it generates revenues through licensed stores, consumer packaged goods and foodservice operations. The company receives royalties and license fees from the U.S. and international licensed stores. Under its consumer packaged goods operations, Starbucks sells packed coffee and tea products as well as a variety of ready-to-drink beverages and single-serve coffee and tea products to grocery, warehouse clubs and specialty retail stores. It also includes revenues from licensing deals with many partners to produce and sell its Starbucks and Seattle's Best Coffee branded products. Under its foodservice operations, Starbucks supplies some of its products to restaurants, office coffee distributors, hotels, airlines and other retailers.

Starbucks operates through the following segments: Americas (inclusive of the United States), Canada and Latin America — (71% of total revenues in Q1 fiscal 20); International (22%); and Channel Development (CD — 7%). The CD segment is not a geographic region but an entirely different channel (it is a combination of the consumer packaged goods or CPG and foodservice businesses). It includes roasted whole bean and ground coffees, premium Tazo teas, a variety of ready-to-drink beverages (like Frappuccino and Starbucks Refreshers) and Starbucks and Tazo branded K-Cup packs sold through channels such as grocery, specialty retailers, and foodservice to name a few. The All-Other segment comprises Teavana-branded stores, Seattle's Best Coffee, as well as certain developing businesses such as Siren Retail, which includes Starbucks Reserve Roastery & Tasting Rooms, Starbucks Reserve brand and products and Princi operations.



Reasons To Buy:

- ▲ **Solid Top & Bottom Line Growth:** Shares of Starbucks have outperformed the industry in the past year. The uptrend is likely to continue as the company's top and the bottom line performances continue to increase year over year. The company's top and bottom line have increased in all of the trailing five quarters. In the first-quarter 2020, the company's earnings and revenues increased 5.3% and 7%, respectively. The company results continue to benefit from robust performance by the Americas and China-Asia-Pacific segments, store openings, enhanced customer experience and, digitalization. The company witnessed strong demand for its new beverages in the United States and China. Moreover, the company's strategic efforts have helped to bring back traffic growth.
- ▲ **Strong Brand Position:** Starbucks is one of the most recognized coffee brands in the world. From espresso to specialty roast and ground coffee to premium single-serve market, Starbucks commands authority and a leading position in all coffee segments. Further, management focuses on increasing its global market share by judiciously opening stores in new and existing markets, remodeling existing stores, deploying technology, controlling costs and aggressive product innovation and brand building. In fiscal 2019, Starbucks added 1,900 net new stores. In 2018 and 2017, the company had added 2,300 and 2,250 net new locations. For fiscal 2020, Starbucks plans to add 2,000 (600 net new stores in Americas and 1,400 net new stores internationally) net new stores. New store productivity and Return on Investment (ROI) in the United States and China are high. By fiscal 2021, the company intends to open approximately 12,000 stores globally. This will take the total store count to an estimated 37,000. Notably, Starbucks' long-term growth targets include 3-4% comps growth, yielding high-single digit revenue growth and EPS growth of at least 12%.
- ▲ **Global Coffee Alliance With Nestle Expands Starbucks' Channel Development Footprint:** Starbucks and the Swiss-based food giant Nestle SA have teamed up to revitalize their coffee domains. Starbucks and Nestle announced a global marketing deal that gives the latter "perpetual rights" to market Starbucks' products globally outside its coffee shops. This alliance will expand the global reach of Starbucks brands in the consumer packaged goods ("CPG") and foodservice categories to nearly 190 countries around the world. In the past year, the company has launched three new coffee platforms in over 30 new markets — Starbucks by Nespresso, Starbucks by Dolce Gusto, and Starbucks roast and ground coffee.
- ▲ **Emphasis on China:** China Asia Pacific or CAP has now become the fastest growing segment. Improving customer experience via innovative new store designs, upgrading product offerings and margin expansion through process and supply chain efficiencies are driving CAP performance. China has witnessed comps growth of 1%, 3%, 6% and 5% in the first, second, third and fourth of fiscal 2019. In first-quarter 2020, China delivered comps growth of 3%. Management believes that China and the Asia-Pacific region will drive business growth over the next five years supported by rapid unit growth, growing brand awareness, and increased usage of the digital/mobile/loyalty platforms.

The company has announced a historic partnership with Alibaba for providing seamless Starbucks Experience to drive growth in China. Starbucks began delivery services in Beijing and Shanghai via Alibaba's Ele.me platform. The company announced that it has surpassed the goal of increasing Starbucks Delivers footprint to 3,000 stores in 100 cities by the end of fiscal 2019. Starbucks' business in China is rapidly growing due to innovative store designs, local product innovations and the success of MSR program. It has plans to launch certain features in China loyalty program this year and full digital capabilities over time. The company has plans to build 600 net new stores annually over the next five years in Mainland China that will double the market's store count from the end of fiscal 2017 to 6,000 across 230 cities. This speedy expansion in China is likely to triple its revenues and double its operating profit by the end of fiscal 2022 from fiscal 2017.
- ▲ **Best-in-Class Loyalty Program and Digital Offerings:** Starbucks holds a leading position in digital, card, loyalty and mobile capabilities. Starbucks' loyalty cards are gaining popularity. In the United States, the company's membership increased 11% year over year under the My Starbucks Rewards (MSR) program in fiscal 2017 and rose 15% as well to 15.3 million active members in fiscal 2018. The momentum continued in 2019 with the membership improving 15% year over year to 17.6 million active members. At the end of first-quarter 2020, the company had 18.9 million active members, up 16% from year-ago period's levels. Customers in the United States are utilizing the chain's mobile app to order and pay for drinks. They are also joining the company's rewards program. Currently, MSR is one of the most important business drivers of Starbucks.
- ▲ **Focus on Innovation:** Starbucks is strengthening its product portfolio with significant innovation around beverages, refreshment, health and wellness, tea and core food offerings. Starbucks is leaning toward fast-growing categories like Cold Brew, Draft Nitro beverages, and plant-based modifiers, including almond, coconut, and soy milk alternatives. Apart from the numerous beverage innovations, Starbucks has also been making an effort to offer more nutritional and healthy products to its customers. Meanwhile, the company's Reserve Roastery and Tasting Room elevates the coffee experience to the next level, with small-batch super-premium coffee produced using innovative coffee-brewing techniques. Starbucks' strategy to boost the overall brand through its premium Roastery/Reserve brands is a huge opportunity. Starbucks is fast expanding its food offerings in the United States to complement its drinks. Food has become a key growth driver and contributes more than 21% to the company's U.S. revenues.

Starbucks' solid execution of several initiatives in the United States and China, along with best-in-class loyalty programs and digital offerings are expected to drive profits

Reasons To Sell:

- ▼ **Soft Channel Development Sales:** Channel Development is another segment that has disappointed investors. Sales at the segment have declined for the sixth straight quarter. In first-quarter fiscal 2020, net revenues in this segment dropped 2% to \$494.6 million, following a decline of 6% in fourth-quarter fiscal 2019. The downside can be attributed to licensing of the company's CPG and foodservice businesses to Nestlé (completed on Aug 26, 2018).
- ▼ **Impact of Coronavirus:** Starbucks business in China is likely to be impacted by the coronavirus outbreak. Per the company, fiscal 2020 guidance will be updated, once the impact of coronavirus is estimated. Notably, more than half of the company's stores in China have been impacted by the coronavirus outbreak.
- ▼ **Tricky Retail and Consumer Spending Environment in the United States:** Being a retail restaurant, Starbucks is dependent on consumer discretionary spending environment. Consumers' propensity to spend largely depends upon the overall macro-economic scenario. Although higher disposable income and increased wages are favoring the industry right now, it can change with the slightest disruption in the economy. The company, therefore, is highly vulnerable to the inconsistent nature of consumer discretionary spending. If it does not make pragmatic use of advanced technologies to innovate across value chains, it has high chances of fading out like many other restaurant retailers.
- ▼ **Valuation Looks Stretched:** Considering price-to-earnings (P/E) ratio, Starbucks looks overvalued when compared with the industry. The stock has a trailing 12-month P/E ratio of 28.26, which is above the median level of 30.31, scaled in the past year. Meanwhile, the trailing 12-month P/E ratio for the industry is 25.85.

Operating margin contraction over the past few quarters has been a concern.

Last Earnings Report

Starbucks' Q1 Earnings Beat, Revenues Miss Estimates

Starbucks reported mixed first-quarter fiscal 2020 results, wherein the bottom line surpassed the Zacks Consensus Estimate but the top line missed the same. Notably, revenues missed the consensus mark after beating in the trailing two quarters.

However, the company's both top and bottom line increased year over year. The quarterly results benefited from robust performance of Americas and international segments, store openings, enhanced customer experience, and digitalization. Meanwhile, comparable sales from China increased for the sixth straight quarter.

Quarter Ending **12/2019**

Report Date	Jan 28, 2020
Sales Surprise	-0.11%
EPS Surprise	3.95%
Quarterly EPS	0.79
Annual EPS (TTM)	2.87

Discussion on Earnings, Revenues & Comps

In the quarter under review, adjusted earnings of 79 cents per share surpassed the consensus mark of 76 cents and improved 5.3% on a year-over-year basis.

Total revenues came in at \$7,097.1 million, marginally missing the Zacks Consensus Estimate of \$7,100 million. However, the figure improved 7% from the year-ago level. The upside can be attributed to robust global retail sales, comparable sales growth and streamline-driven activities.

Global comparable store sales increased 5% compared with 5% improvement in fourth-quarter fiscal 2019. Global comps were driven by a 3% increase in average ticket and 2% improvement in comparable transactions.

Starbucks opened 539 net new stores worldwide in the fiscal first quarter, bringing the total store count to 31,795. Global store growth came in at 6%, based on a year-over-year comparison.

Overall Margin Improves in Q1

On a non-GAAP basis, operating margin expanded 80 basis points year over year to 18.2%. The uptrend was primarily due to sales leverage and supply chain efficiencies. The increase was partially overshadowed by rise in wages and benefits. It was also negated to a lesser degree by rent inflation and investments in store labor hours. Per management, despite investing in partners, stores and digital capabilities, it has managed to deliver margin expansion.

Segmental Performance

Notably, in fourth-quarter fiscal 2019, the company realigned its operating segments. Specifically, the China/Asia Pacific segment and Europe, Middle East and Africa segment have been combined into one International segment.

Results of Siren Retail — which is a non-reportable operating segment consisting of Starbucks Reserve™ Roastery & Tasting Rooms, Starbucks Reserve brand and Princi operations — were previously included within Corporate and Other. It will now report within Americas and International segments based on the geographical location of operations.

Americas: Net revenues at this flagship segment increased 9% year over year to \$5,010.9 million, driven by 550 store openings in a year's time and comps growth of 6% in the quarter under review.

Markedly, segmental growth was driven by robust performance of beverage — the company's highest margin category. Growth was also favored by an improved in-store experience and digital initiatives. Starbucks' cold beverage platform grew across all dayparts led by cold coffee, refreshment and tea. The Nitro Cold Brew platform, which reached full penetration of its company-operated stores by the end of the fiscal fourth quarter, continued to be well received. Beverage and food contributed five points and one point to comps growth, respectively, during the quarter under review.

Operating margin in the Americas segment expanded 90 bps to 21.9% due to sales leverage, supply chain competences and lower restructuring and impairment charges.

International: Net revenues grew 4% year over year to \$1,571.1 million at this segment. After adjusting for the unfavorable impact of streamline-related activities of 6%, revenues grew 10% year over year in the quarter. The upside was mainly driven by 11% store growth and comps growth of 1% in the quarter under review.

Moreover, operating margin in the segment expanded 230 bps to 17.6% on the back of sales leverage, cost-saving initiatives, labor efficiencies and the impact of conversion of certain retail businesses to fully-licensed markets.

In China, the company's main international market, new store development continues to be the number one growth factor. Its store count increased 16% from the prior-year figure.

Comps growth was 3% in China, including 1% transaction growth, driven by strength in digital customer engagement, primarily owing to growth of delivery, the Starbucks Rewards loyalty program and MOP.

Channel Development: Net revenues at this segment decreased 2% from the prior-year quarter to \$494.6 million. The downturn was due to the sale of Tazo branded products to Unilever and transition activities related to the Global Coffee Alliance.

Nonetheless, operating margin expanded 70 bps to 35.5%, attributable to lapping prior-year Nestlé transaction costs, distribution efficiencies and favorable business mix shift.

Fiscal 2020 Guidance

The company has reiterated fiscal 2020 guidance. Starbucks continues to anticipate global comps growth in the range of 3-4%. Globally, it expects to add approximately 2,000 net new stores (600 in Americas and 1,400 in International markets). Consolidated GAAP revenue growth is projected within 6-8%.

GAAP EPS is envisioned in the band of \$2.84-\$2.89. Also, non-GAAP EPS is expected within \$3.00-\$3.05. The Zacks Consensus Estimate for fiscal 2020 earnings is currently pegged at \$3.05.

Recent News

Starbucks Adds Oatmilk Honey Latte to 1,300 Stores in U.S.-Jan 07, 2020

Starbucks Corporation recently introduced Oatmilk Honey Latte to its menu in Midwest. This menu is available in over 1,300 locations in the U.S. Midwest, including cafes in Illinois, Indiana, Iowa, Michigan, Missouri and Wisconsin.

Starbucks to Boost Portfolio With Toffeenut Flavored Creamer - Dec 16, 2019

Starbucks Corporation and Swiss-based food giant Nestle SA announced the addition of Starbucks Toffeenut Creamer to the refrigerated grocery aisle. Starbucks Toffeenut Creamer, which will roll out in grocery shelves in the United States next January, is inspired by the Toffeenut Latte at Starbucks cafes.

We believe the addition of Toffeenut Creamer has further strengthened Starbucks' creamer flavors portfolio. Notably, this concept of coffee creamers is inspired by café favorites including Caramel Macchiato, White Chocolate Mocha and Cinnamon Dolce.

Starbucks to Open Largest Reserve Roastery in Chicago - Nov 12, 2019

Starbucks Corporation is all set to open its largest ever Reserve Roastery in Chicago. The company will open the store for coffee lovers on Friday.

The 35,000-square-foot store, situated on North Michigan Avenue and Erie Street on Chicago's Magnificent Mile, will be the company's sixth global Reserve Roastery. The other five Reserve Roastery are located in Seattle, Shanghai, Milan, New York and Tokyo.

Valuation

Starbucks shares are up 27.2% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are up 18.2% and 17.7%, respectively.

The S&P 500 index is up 20.7% in the past year.

The stock is currently trading at 28.26X forward 12-months Price to Earnings value, which compares to 25.85X for the Zacks sub-industry, 26.07X for the Zacks sector and 19.35X for the S&P 500 index.

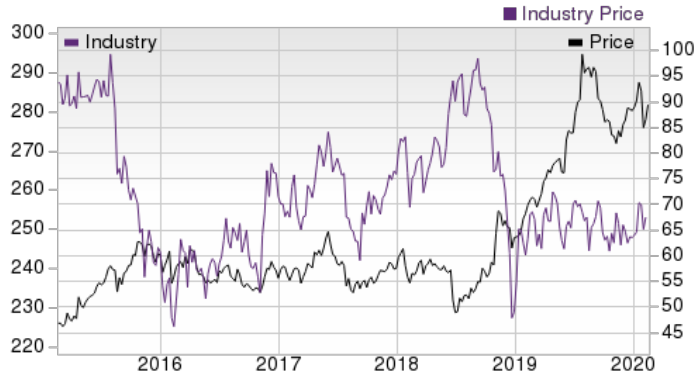
Over the past five years, the stock has traded as high as 36.24X and as low as 18.64X, with a 5-year median of 26.13X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$94 price target reflects 29.8X forward 12-months Price to Earnings value.

The table below shows summary valuation data for SBUX.

Valuation Multiples - SBUX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	28.26	25.85	26.07	19.35
	5-Year High	36.24	26.41	26.2	19.35
	5-Year Low	18.64	20.45	19.07	15.18
	5-Year Median	26.13	23.25	22.99	17.47
P/S F12M	Current	3.62	3.68	1.09	3.58
	5-Year High	4.45	3.85	1.11	3.58
	5-Year Low	2.59	2.91	0.8	2.54
	5-Year Median	3.51	3.25	0.92	3
EV/EBITDA TTM	Current	22.15	16.74	15.89	12.31
	5-Year High	23.53	17.48	15.89	12.85
	5-Year Low	13.88	12.08	10.79	8.47
	5-Year Median	18.94	14	21.41	10.7

As of 02/14/2020

Industry Analysis Zacks Industry Rank: Top 30% (77 out of 255)



Top Peers

Bloomin Brands, Inc. (BLMN)	Neutral
Chipotle Mexican Grill, Inc. (CMG)	Neutral
Dunkin Brands Group, Inc. (DNKN)	Neutral
Dominos Pizza Inc (DPZ)	Neutral
Darden Restaurants, Inc. (DRI)	Neutral
McDonalds Corporation (MCD)	Neutral
The Wendys Company (WEN)	Neutral
Yum! Brands, Inc. (YUM)	Underperform

Industry Comparison Industry: Retail - Restaurants				Industry Peers		
	SBUX Neutral	X Industry	S&P 500	DPZ Neutral	MCD Neutral	YUM Underperform
VGM Score	D	-	-	D	D	D
Market Cap	104.79 B	435.91 M	24.61 B	11.93 B	163.49 B	31.84 B
# of Analysts	14	5.5	13	9	15	10
Dividend Yield	1.84%	0.00%	1.78%	0.89%	2.30%	1.79%
Value Score	D	-	-	D	D	F
Cash/Price	0.03	0.03	0.04	0.02	0.01	0.02
EV/EBITDA	19.22	15.17	14.06	24.02	20.38	20.99
PEG Ratio	2.32	2.20	2.09	2.01	2.87	2.20
Price/Book (P/B)	NA	3.01	3.29	NA	NA	NA
Price/Cash Flow (P/CF)	21.64	12.10	13.65	28.42	20.13	26.07
P/E (F1)	29.76	22.56	19.21	27.47	25.42	26.93
Price/Sales (P/S)	3.88	0.95	2.70	3.36	7.76	5.69
Earnings Yield	3.36%	4.28%	5.19%	3.64%	3.93%	3.71%
Debt/Equity	-2.72	0.94	0.71	-1.23	-5.71	-1.26
Cash Flow (\$/share)	4.12	1.53	6.92	10.26	10.78	4.04
Growth Score	B	-	-	B	B	A
Hist. EPS Growth (3-5 yrs)	15.40%	7.71%	10.85%	30.90%	12.23%	0.67%
Proj. EPS Growth (F1/F0)	5.90%	8.72%	7.17%	13.13%	8.91%	10.14%
Curr. Cash Flow Growth	5.49%	7.67%	8.56%	37.70%	5.63%	3.60%
Hist. Cash Flow Growth (3-5 yrs)	12.19%	6.24%	8.36%	19.72%	3.21%	-6.71%
Current Ratio	0.68	0.60	1.23	1.44	0.98	0.99
Debt/Capital	NA%	61.12%	42.91%	NA	NA	NA
Net Margin	13.81%	3.13%	11.81%	10.79%	28.59%	23.12%
Return on Equity	-62.51%	7.75%	16.86%	-12.92%	-79.57%	-13.90%
Sales/Assets	1.26	1.16	0.54	3.23	0.45	1.14
Proj. Sales Growth (F1/F0)	5.81%	3.02%	3.85%	7.36%	4.32%	3.52%
Momentum Score	F	-	-	F	D	F
Daily Price Chg	-0.72%	0.00%	0.06%	1.95%	-0.15%	0.24%
1 Week Price Chg	1.87%	0.24%	2.47%	-2.21%	-1.10%	-3.53%
4 Week Price Chg	-3.56%	0.00%	0.59%	1.48%	2.96%	3.05%
12 Week Price Chg	8.48%	3.92%	6.98%	2.66%	12.86%	7.54%
52 Week Price Chg	26.03%	2.28%	16.62%	1.54%	23.44%	12.18%
20 Day Average Volume	8,674,870	205,630	2,020,569	673,094	3,159,974	2,002,509
(F1) EPS Est 1 week change	-0.05%	0.00%	0.00%	0.45%	0.00%	-1.53%
(F1) EPS Est 4 week change	-1.64%	0.00%	-0.05%	0.41%	0.76%	-4.89%
(F1) EPS Est 12 week change	-1.64%	0.00%	-0.17%	1.11%	0.73%	-5.46%
(Q1) EPS Est Mthly Chg	-10.84%	0.00%	-0.24%	-0.44%	0.90%	-9.71%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	B
Momentum Score	F
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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