



McIntire Investment Institute

At the University of Virginia



# Starbucks Corporation (Nasdaq:SBUX) - Long

Prepared by Shuting Zhang | 25 September 2012

# Company Overview

- Founded in 1971 and based in Seattle, Washington
- More than 17,000 stores in 55 countries
- Provide a wide variety of high quality coffee and tea products
- Licenses its trademarks through other channels, such as licensed stores, grocery, and national foodservice accounts
- Brand portfolio includes the Starbucks, Tazo tea, Seattles Best Coffee, and Starbucks VIA Ready Brew



# Stock Summary

Starbucks Corporation

■ SBUX

Sep 24, 2012



**Share Price:** 51.16

**Market Capitalization:** 38.88B

**P/E:** 28.42

**EPS:** 1.80

**EV:** 36.96B

**52-Week Range:** 35.12 - 62.00

**Average Volume (3 Month):** 8M

**Current Assets:** 3.8B

**Total Liabilities:** 3B

**EBITDAR:** 2.27B



# Compelling Long



Strong Brand Identity & Exceptional Customer Experience



Entrance into Single-Serve Coffee Market



Global Expansion



Strong Financials



# Starbucks Experience

- “Perfect Cup of Coffee”
- “Third Place”
- “Customer Satisfaction”
- “Starbucks Community”
- “Innovation”

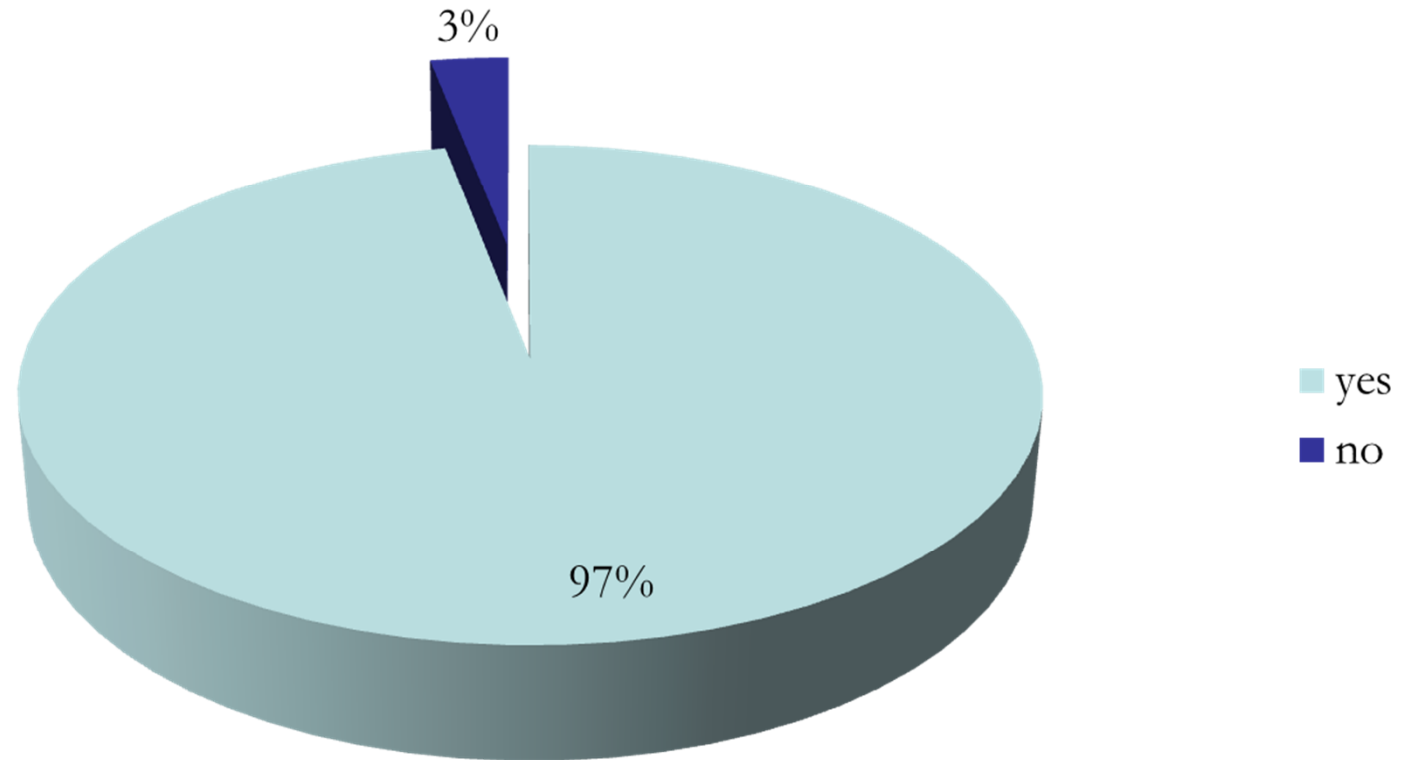


# VAR

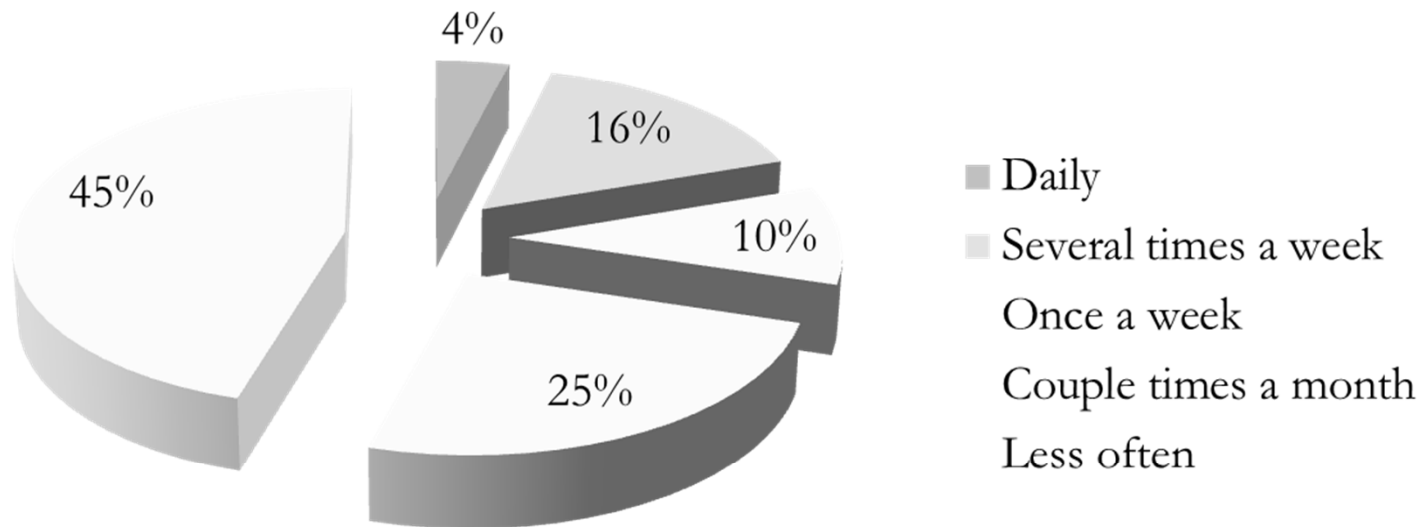
- Online survey with 146 Respondents
- 3 Questions:
  - 1. Have you ever been at a Starbucks Coffee Shop?
  - 2. If yes, how often do you go to a Starbucks?
  - 3. Why do you go to a Starbucks (not another coffee shop)?



## Have you ever been at a Starbucks coffee shop?

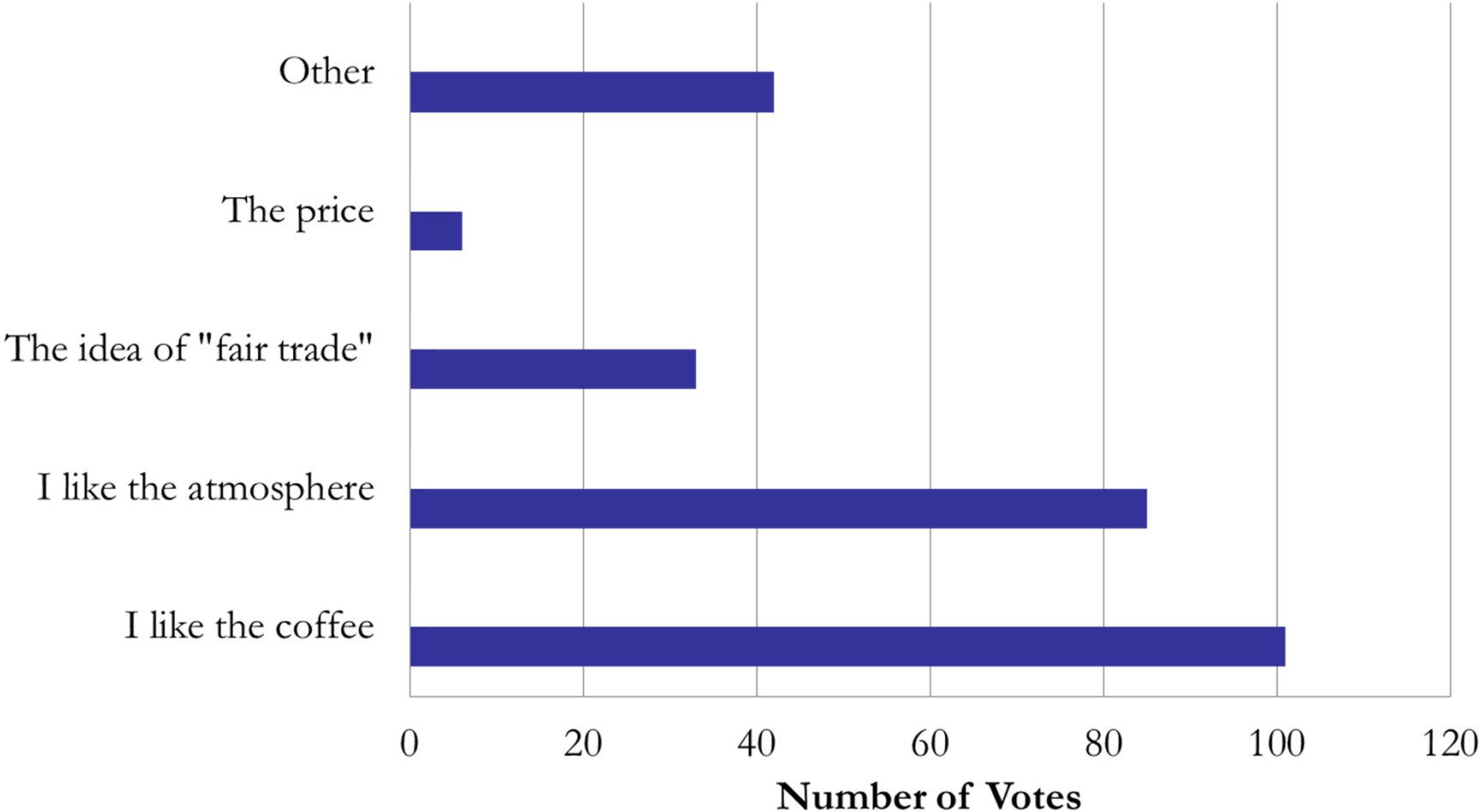


## If yes, how often do you go to a Starbucks?





# Why do you go to a Starbucks (not another coffee shop)?



# Single-Serve Coffee Market

- Currently dominated by Green Mountain Coffee Roasters Inc.
- Patent on its K-cup technology expired
- Starbucks' deal with Green Mountain
- Starbucks' growth in the market
- The relationship with Green Mountain will continue and that Starbucks will still sell its pods for Keurig machines in cafes



# New Verismo Home Brewer

- Makes lattes and other espresso-based drinks, as well as brewed coffee, while Green Mountain is still on track to introduce its own high-pressure espresso system on a limited basis.
- Priced in the high end of the market - \$199 and \$399 models.
- Starbucks plans a multimillion-dollar marketing campaign, and customers will be able to buy both the machines and pods at its cafes.



# How It Plays Out?

No adverse effects, but nothing evident in the short run.

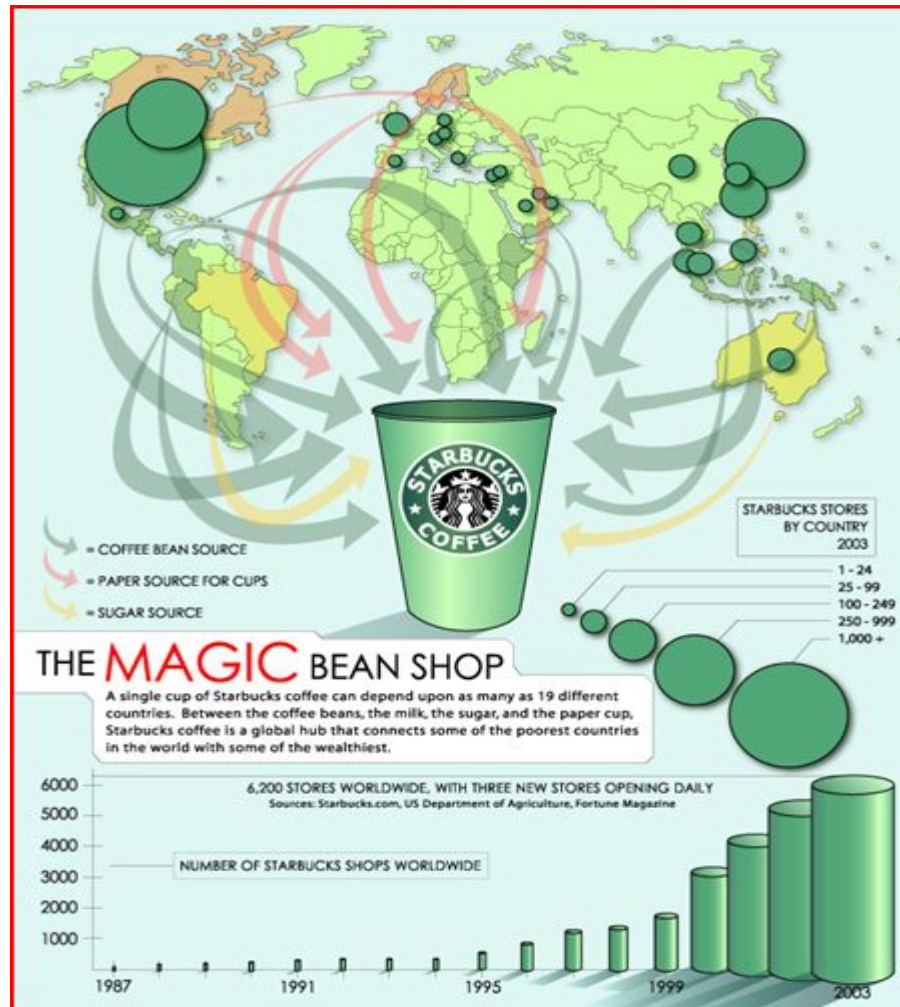
- With Starbucks being a \$38 billion company, even an extremely successful implementation would only have a marginally positive effect on stock price in the short term.

Positive long run effect

- The product is very important to the company's image as a whole.
- Gives investors confidence that Starbucks is a company that knows how to leverage its position and is committed to dominating the coffee industry over the long term.



# Starbucks' Expansion



# Starbucks' Expansion

- “Smart Partnerships”
- “Brand Marketing”



# China/Asia-Pacific Region

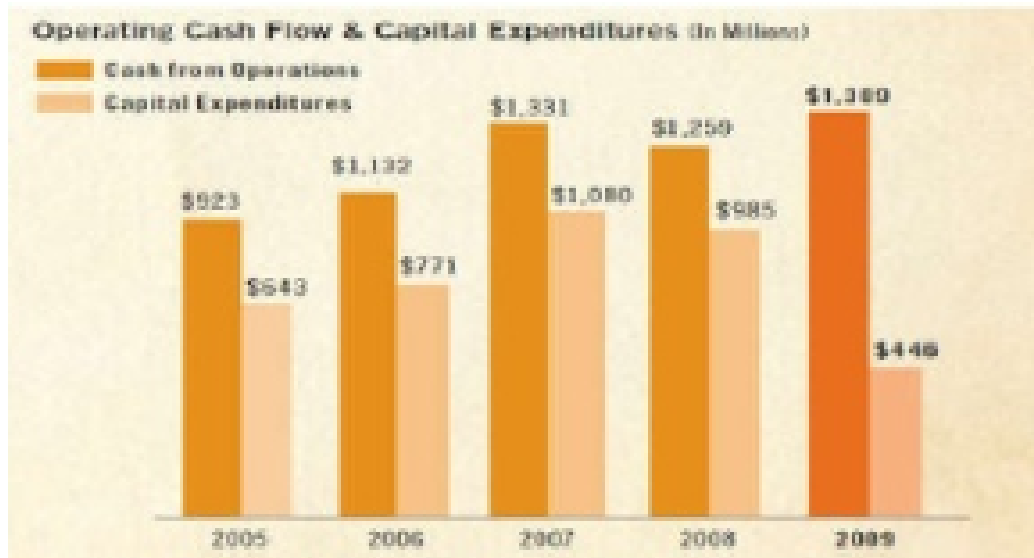
In the second quarter of this year:

- Comparable-store sales grew by 7% overall, with China/Asia-Pacific comp sales jumping 20%, while American same-stores sales grew 8%.
- Overall, Starbucks added 176 restaurants in the quarter, with almost half of them in China/Asia-Pacific. The region now boasts of more than 3,000 Starbucks outlets.
- Starbucks recently announced its plans to triple the number of outlets in China to 1,500 by the end of 2015 and double the number of restaurants in South Korea to 700 by 2016. The company will also launch its first outlets in India and Vietnam in 2012 itself.



# Strong Financials

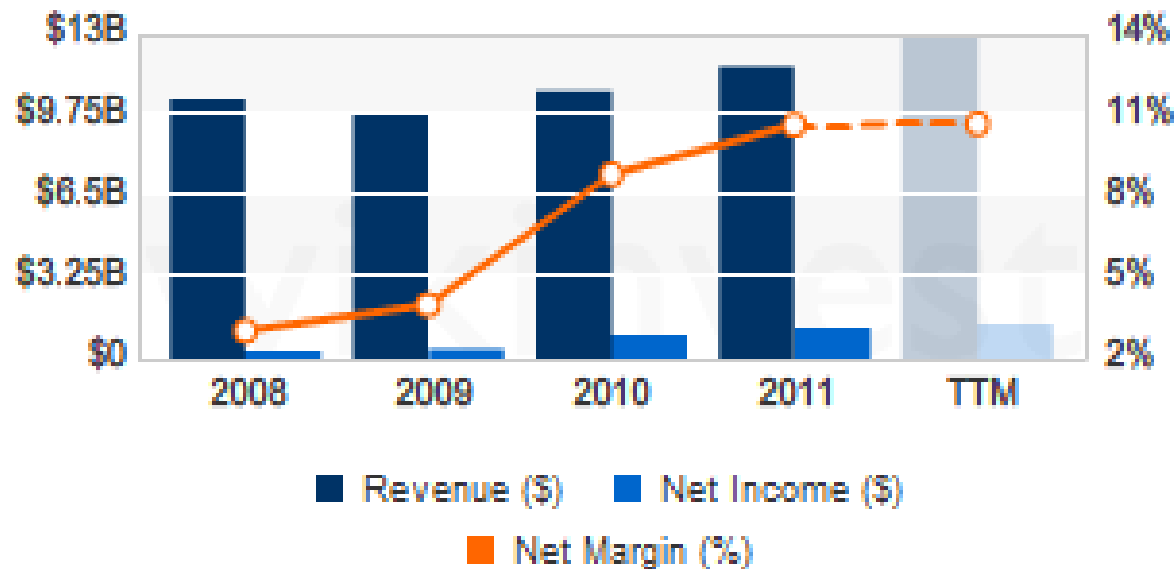
- Strong Cash Flow Generations





# Strong Financials

- Revenue, Net Income and Net Margin growing steadily



# Industry peers

	SBUX	Green Mountain Coffee Roasters (GMCR)	Caribou Coffee Company, Inc. (CBOU)	Tim Hortons Inc. (THI)	McDonald's Corporation (MCD)
P/E	28.42	12.34	28.12	20.70	17.60
EV/EBITDA	16.31	6.68	8.89	11.74	10.65
Debt/Equity	10.20	18.76	N/A	40.33	96.71
Gross Margin	43.90	37.80	49.00	32.50	43.30
Return on Assets	11.80	6.20	0.50	17.90	14.20
Return on Investment	19.20	8.00	0.90	23.60	17.60



# Risks

- Competition is intensifying in the specialty coffee industry.
- Aggressive store openings during the last 10 years may have cannibalized the firm's sales.
- Volatile labor costs and commodity prices could weigh on quarter-to-quarter operating results.
- Expectations are high for Starbucks' potential in the premium single-serve coffee market.



# Catalyst

- Increased popularity of coffee drinks in previously untapped markets
- Development of new product lines such as tea, juice and pastries



# Recommendation

Initiate Long Position at 3.5%



# Questions?

