

What's interesting about Starbucks is that we can use it to better understand ROA and ROIC

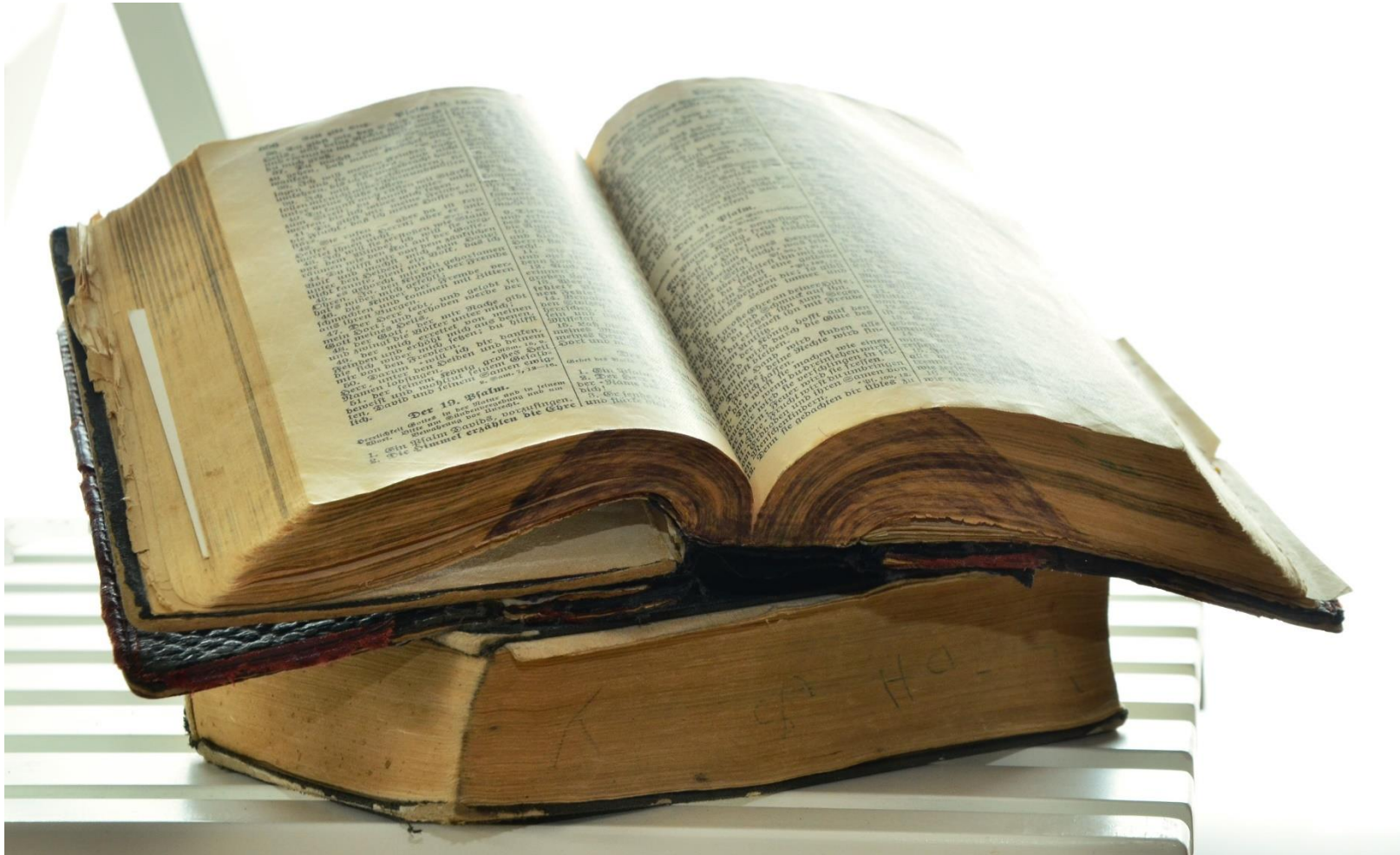


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ACADEMY

Andrew Stotz, PhD, CFA

🌐 My name is Andrew Stotz,
let's get started!

COMPANY BACKGROUND



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Slightly more than 50% of stores are company owned

Company operated



82% of revenue

Licensed



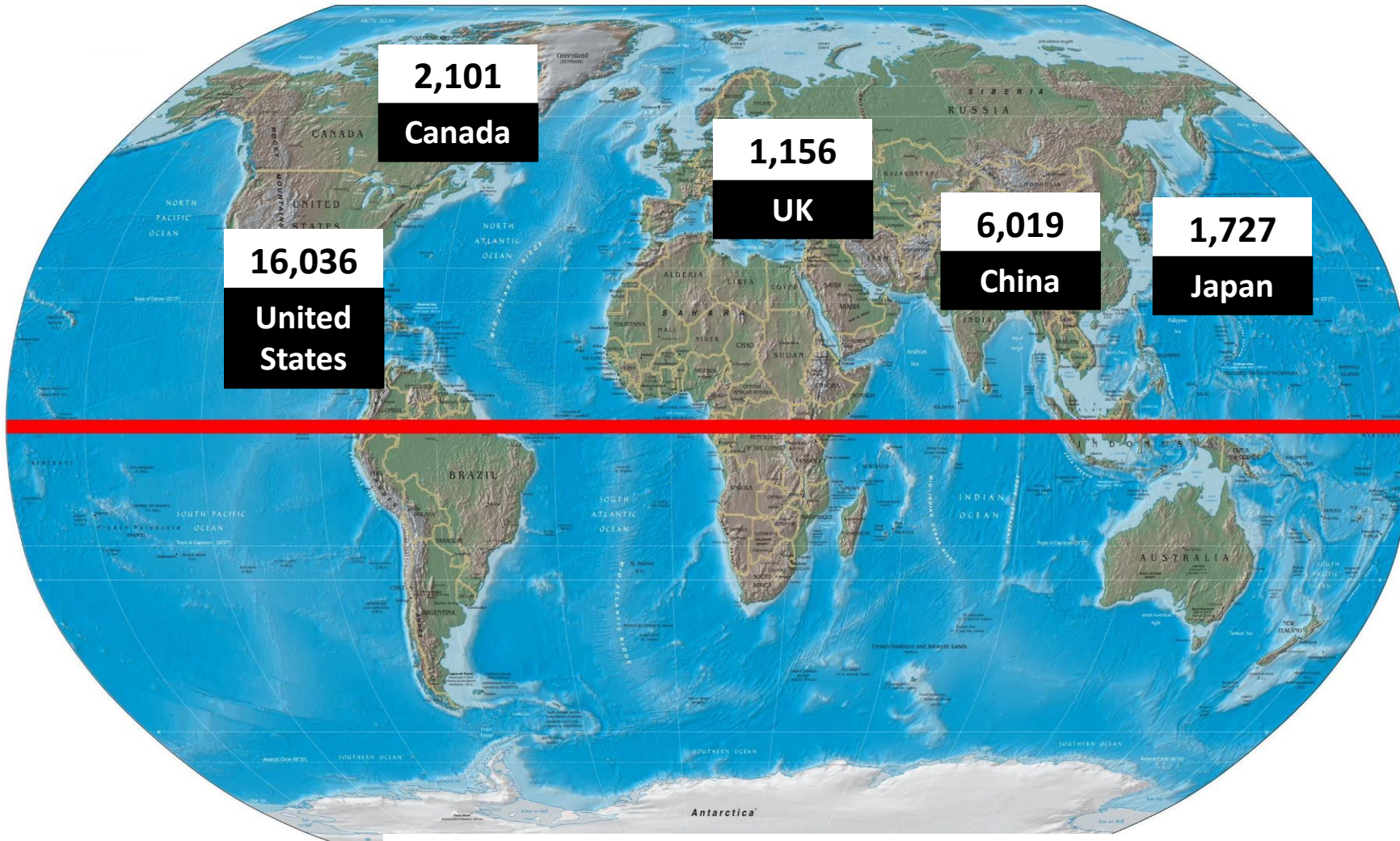
12%

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- About 36,000 stores
- 18,253 company owned
- 17,458 licensed
- Another 6% of revenue comes from other items

Number of stores worldwide in 2022



Sources: ASIR, commons.wikimedia.org/wiki/File:World_map_with_equator.jpg

Revenue breakdown by segment

Beverage

Food

Others



74%

22%

4%

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COMPETITIVE STRATEGY



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Starbucks - US - Founded 1971

Cons. Disc. sector, 402,000 employees, US\$27bn revenue

Main segments/products/divisions/brands

- Starbucks Coffee beverages
- Frappuccino blended beverages
- Starbucks Reserve Roastery and Reserve stores

Its competitive advantage

Competitive advantage through strong brand loyalty, premium coffee experience, and global expansion.

How it achieved its competitive advantage

Achieved by creating a unique coffeehouse atmosphere, focusing on high-quality beans, providing personalized customer experiences, and building a strong global presence through franchising and company-owned stores.



Howard Schultz (born 1953) Former CEO and chairman of Starbucks

- ★ Joined Starbucks in 1982 and transformed it into a global brand
- ★ Credited with popularizing the concept of the "third place" - a comfortable social gathering spot outside of home and work
- ★ Stepped down as CEO in 2000 but returned in 2008 to guide Starbucks through the global financial crisis, finally stepped down in 2022
- ★ He still owns nearly 2% of the company

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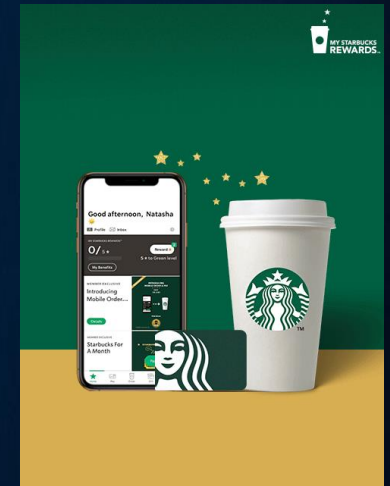


The success of the Starbucks app

- ★ 26% of sales from mobile apps alone
- ★ Strong loyalty program
 - Earn stars and redeem for free drink
 - Added gift card to the app
- ★ Customer convenience
 - Order, pay, and skip the line

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Aprons colors have meaning



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- 🌐 Green – Classic
- 🌐 Black – Coffee master
- 🌐 Pale blue - Happy Hour
- 🌐 Orange - King's Day celebration in the Netherlands

A journey from teachers to a global coffee icon

- ★ Original store opened in 1971, Seattle, USA
- ★ Founders: Jerry Baldwin, Gordon Bowker, and Zev Siegl
- ★ Were teachers and a writer who all loved coffee

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LATEST NEWS

A. Stotz ACADEMY

TITLE



TIMES

LONDON SATURDAY JANUARY 11 1947

POSTAGE: INLAND 14d; ABROAD 2s.

LONDON EDITION

DEATHS (continued)

BEINER.—On Jan. 9, 1947, at 186, Malda Vale, St. Charles, Frederick, dearly loved husband of Mrs. BEINER, aged 63. Service at Golden Gate mortuary on Tuesday, Jan. 14, at 12.30 p.m. No flowers, by request.

OBERTS.—On Jan. 9, 1947, ROBIN PETER FRASER, first son of R. H. ROBERTS, Football, Dornoch, and Esater Barar and Dean of College, Corpus Hill College, Cambridge, aged 45 years. Funeral service will be held in Corpus Hill College Chapel on Friday, Jan. 17, at 2.30 p.m.

AINDEERS.—On Jan. 9, 1947, at 10, Colchester, GEORGE, widow of Lt.-Col. W. POWER SANDERS, A.C. Funeral, Monday, Jan. 13, at 11 a.m., at Holy Trinity Church, Folkestone. Followed by interment at Kingsley Cemetery. No mourners. Flowers to 1, Dover 6, Folkestone.

ABLEFORTH.—On Jan. 9, 1947, at 38, Russell Street, Henry BAYTON STABLEFORTH, father of Mrs. Pitt-Rivers and Eileen Clutton Brock, aged 71.

ANDERSON.—On Jan. 8, 1947, at King's House, Good, GEORGE WILSON STANFORTH, late of Sheffield, peacefully on, in his 95th year. Funeral service at King's Church, Theford, at 2.15 p.m., on Monday, 13, followed by interment at Theford Church graveyard. No mourners. Flowers to 1, Dover 6, Folkestone.

LIBBERFIELD.—On Jan. 8, 1947, at Padon, Springfield Road, Wokingham, MALCOLM STREIBERFIELD, of Croydon.

YELVER.—On Jan. 9, 1947, GALETH HENRY JAMES ROY, younger son of William H. Taylor, of Ham-ford, St. Mary's Church, Devon, aged 52. No flowers, by request.

RY.—On Jan. 8, 1947, very suddenly, at "The Littlestone, Mary Constance, beloved wife of "TERRY" and dearly loved mother of Wynne, of Ruen, Lucas, and Patricia Handley. Funeral at scholas Church, New Romney, to-day (Saturday) at 11 a.m.

OMAN.—On Jan. 8, 1947, at 5, Adamson Road, T. THOMAS THOMAS, beloved mother of Gertrude, aged, in her 78th year. Funeral, to-morrow (Sunday) at 11.45 a.m., at the Liberal Jewish Cemetery, St. Andrew Road (junction Pound Lane), N.W.10. All contributions to 63A, Holland Park, W.11.

WELER.—On Jan. 7, 1947, WILLIAM ABEL TOWLER, Woodwood, Crawley, Sussex.

WYTON.—On Jan. 10, 1947, of meningitis, JOHN WYTON, Priest, Vicar of Witley, Chichester, 826, much-loved husband of Bertha, and devoted father of Mary and George, aged 51. Funeral, Church, 2.30 p.m., Monday, Jan. 13. No flowers.

KELLY.—On Jan. 8, 1947, at Redhill, MARY, 70, and for 46 years cook in the family late Brig.-General Sir Edward Rabas.

IDEN.—On Jan. 7, 1947, FRANK WARDEN, of Bath.

WINTINGTON.—On Jan. 7, 1947, at Brighton, ELIZABETH (EFFIE) WINTINGTON, formerly 87, aged 91.

HEDDIE.—On Jan. 4, 1947, at Sutton Coldfield, MARGARET CECILY NEVILLE WOODROOPE, of Redhill Road, Woodroope-Mare, aged 70.

EDWARD.—On Jan. 7, 1947, peacefully, at the Rev. HEARY WOODWARD, M.A., R.D., late of C.M.S., Japan Mission, and Rector of St. with Keasby, and Wroton, Lincs, aged 77.

IN MEMORIAM

POLE, HELEN.—In loving and happy memory of my all at White Cottage.

S. CAKAPIC.—In still death memory of my husband, who died at Aberystwyth on Jan. 11, will share with you every step of the way.

MARGARET.—In loving memory of my dear mother, who died at Aberystwyth on Jan. 11, 1947.

PERSONAL

JESUS sent him away, saying, Return to those who sent you, and show how great things God has done unto thee. And he went his way, and publishing throughout the whole city how great things Jesus had done unto him. — Luke viii, 38.

ST. PAUL'S SCHOOL.—Old Paulines and other friends of the School who have not yet received a copy of the Appeal to subscribe to the War Memorial Fund are invited to write to Mr. W. H. Priest, St. Paul's School, London, W.14.

M.D.G.—OLD WIMBLEDONIANS.—All Old Boys and friends of Wimbledon College are asked to contribute to the War Memorial Fund.—Donations to P. M. Vandah, 21, Dunmore Road, Wimbledon, S.W.20.

KING'S ST. JOHN'S TRINITY, GONVILLE and CAULIS, CORPUS CHRISTI, and CHRISTI COLLEGIIS, CAMBRIDGE.—Continued examinations will be held on March 18 and 19, 1947, for doctoral awards at these Colleges.—For particulars apply to the Dean, King's College, or the Senior Tutor, St. John's College, or the Senior Tutor, Trinity College, or the Dean, Gonville and Caius College, or the Tutor, Corpus Christi College, or the Chaplain, Christi's College. Closing date for entries, March 1, 1947.

FOR SALE. Large and Small Old Paintings, Ivories, Crystal Glasses, Silver Tea and Coffee Sets, large Tray, and various Encyclopaedias, Clocks, etc.—Write Box 114, London, E.C.4.

HEARTFELT THANKS to the dear Sacred Heart, Our Lady, and Saints Joseph, Jude, and Anthony for great favours received.—G. Family.

PRIVATE COLLECTOR WANTS old WATER COLOURS, OILS, PRINTS, BOOKS, MAPS, relating to South Africa.—Write particulars to Box 20, 601, Deacons' Advertising, 36, Leadenhall Street, London, E.C.3.

BED-ROOM SUTLEH, flannel waistcoat, wardrobe, tall boy, dressing table, two beds, box mattress, chair for sale; new condition.—Raymond, 21, Queen's Gardens, W.2, Tel. 7959.

GRATEFUL THANKS to the Sacred Heart and Our Lady for favour received.

ZEISS TELESCOPE of high-power Binoculars wanted, c.c., Anson, Abingdon, Oxford, Aylesbury, Aylesbury, Ascot, W.10. Write Box 1, 768, The Times, E.C.4.

ORGANIST (PROVISIONAL) REQUIRED for spring of Second Church, Scientist, London, 108, Palace Gardens Terrace, W.8.—Applications, to Clerk, at above address, should be received by 1.10.1947. For further particulars apply to Clerk, at above address.

ACLESBURY AREA, in lovely Witley Valley.—To be LET. Furnished completely, one year, 100-year-old stone and thatched TWIN COTTAGE RESIDENCE; 2 1/2 acres, large studio; modern conveniences; fully redecorated; attractive garden, garage. Rent 6 guineas per week.—Apply Longley, Duntrich, Witley, Hants late Brig.-General Sir Edward Rabas.

LET FURNISHED complete, one year, 100-year-old stone and thatched TWIN COTTAGE RESIDENCE; 2 1/2 acres, large studio; modern conveniences; fully redecorated; attractive garden, garage. Rent 6 guineas per week.—Apply Longley, Duntrich, Witley, Hants late Brig.-General Sir Edward Rabas.

S.N.W., 1940 LAGONDA Saloon, V.12, cylinders, 4, 12, 15, 18, 21, 24, 27, 30, 33, 36, 39, 42, 45, 48, 51, 54, 57, 60, 63, 66, 69, 72, 75, 78, 81, 84, 87, 90, 93, 96, 99, 102, 105, 108, 111, 114, 117, 120, 123, 126, 129, 132, 135, 138, 141, 144, 147, 150, 153, 156, 159, 162, 165, 168, 171, 174, 177, 180, 183, 186, 189, 192, 195, 198, 201, 204, 207, 210, 213, 216, 219, 222, 225, 228, 231, 234, 237, 240, 243, 246, 249, 252, 255, 258, 261, 264, 267, 270, 273, 276, 279, 282, 285, 288, 291, 294, 297, 300, 303, 306, 309, 312, 315, 318, 321, 324, 327, 330, 333, 336, 339, 342, 345, 348, 351, 354, 357, 360, 363, 366, 369, 372, 375, 378, 381, 384, 387, 390, 393, 396, 399, 402, 405, 408, 411, 414, 417, 420, 423, 426, 429, 432, 435, 438, 441, 444, 447, 450, 453, 456, 459, 462, 465, 468, 471, 474, 477, 480, 483, 486, 489, 492, 495, 498, 501, 504, 507, 510, 513, 516, 519, 522, 525, 528, 531, 534, 537, 540, 543, 546, 549, 552, 555, 558, 561, 564, 567, 570, 573, 576, 579, 582, 585, 588, 591, 594, 597, 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2163, 2166, 2169, 2172, 2175, 2178, 2181, 2184, 2187, 2190, 2193, 2196, 2199, 2202, 2205, 2208, 2211, 2214, 2217, 2220, 2223, 2226, 2229, 2232, 2235, 2238, 2241, 2244, 2247, 2250, 2253, 2256, 2259, 2262, 2265, 2268, 2271, 2274, 2277, 2280, 2283, 2286, 2289, 2292, 2295, 2298, 2301, 2304, 2307, 2310, 2313, 2316, 2319, 2322, 2325, 2328, 2331, 2334, 2337, 2340, 2343, 2346, 2349, 2352, 2355, 2358, 2361, 2364, 2367, 2370, 2373, 2376, 2379, 2382, 2385, 2388, 2391, 2394, 2397, 2400, 2403, 2406, 2409, 2412, 2415, 2418, 2421, 2424, 2427, 2430, 2433, 2436, 2439, 2442, 2445, 2448, 2451, 2454, 2457, 2460, 2463, 2466, 2469, 2472, 2475, 2478, 2481, 2484, 2487, 2490, 2493, 2496, 2499, 2502, 2505, 2508, 2511, 2514, 2517, 2520, 2523, 2526, 2529, 2532, 2535, 2538, 2541, 2544, 2547, 2550, 2553, 2556, 2559, 2562, 2565, 2568, 2571, 2574, 2577, 2580, 2583, 2586, 2589, 2592, 2595, 2598, 2601, 2604, 2607, 2610, 2613, 2616, 2619, 2622, 2625, 2628, 2631, 2634, 2637, 2640, 2643, 2646, 2649, 2652, 2655, 2658, 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4653, 4656, 4659, 4662, 4665, 4668, 4671, 4674, 4677, 4680, 4683, 4686, 4689, 4692, 4695, 4698, 4701, 4704, 4707, 4710, 4713, 4716, 4719, 4722, 4725, 4728, 4731, 4734, 4737, 4740, 4743, 4746, 4749, 4752, 4755, 4758, 4761, 4764, 4767, 4770, 4773, 4776, 4779, 4782, 4785, 4788, 4791, 4794, 4797, 4800, 4803, 4806, 4809, 4812, 4815, 4818, 4821, 4824, 4827, 4830, 4833, 4836, 4839, 4842, 4845, 4848, 4851, 4854, 4857, 4860, 4863, 4866, 4869, 4872, 4875, 4878, 4881, 4884, 4887, 4890, 4893, 4896, 4899, 4902, 4905, 4908, 4911, 4914, 4917, 4920, 4923, 4926

Quarterly results



(US\$ m)	FY3Q22	FY4Q22	FY1Q23	FY2Q23	FY3Q23	YoY (%)	9M23	23E	% of 23E
Revenue	8,150	8,414	8,714	8,720	9,168	12.5	26,602	35,637	74.6
Cost of sales	(6,273)	(6,613)	(6,803)	(6,780)	(6,904)	10.1	(20,486)	(27,797)	73.7
Gross profit	1,877	1,801	1,911	1,940	2,264	20.6	6,116	7,840	78.0
SG&A	(487)	(538)	(581)	(620)	(604)	24.2	(1,806)	(2,209)	81.7
Other (exp)/inc	(135)	(123)	(129)	(126)	(139)	nm	(394)	(721)	54.7
EBIT	1,255	1,140	1,201	1,194	1,521	21.2	3,916	4,909	79.8
Finance cost	(123)	(125)	(130)	(136)	(141)	14.5	(407)	(501)	81.3
Other inc/(exp)	20	31	12	110	21	7.6	143	31	463.3
Earnings before taxes	1,152	1,046	1,083	1,167	1,402	21.7	3,652	4,439	82.3
Income tax	(279)	(223)	(280)	(301)	(322)	15.8	(904)	(1,069)	84.5
Earnings after taxes	874	823	803	866	1,079	23.5	2,748	3,370	81.5
Equity income	54	91	58	51	70	28.8	179	243	73.7
Minority interest	(1)	(0)	-	-	(0)	(75.0)	(0)	(4)	5.5
Earnings from cont. operations	927	913	861	917	1,149	23.9	2,927	3,609	81.1
Forex gain/(loss) & unusual items	(14)	(35)	(6)	(9)	(7)	nm	(22)	16	(135.1)
Net profit	913	878	855	908	1,142	25.1	2,905	3,625	80.1
Recurring profit	923	906	859	915	1,147	24.2	2,921	3,613	80.9
EBITDA	1,701	1,591	1,601	1,612	1,956	15.0	5,169	6,751	76.6
Recurring EPS (US\$)	0.804	0.788	0.747	0.795	0.999	24.3	2.542	3.199	79.5
Reported EPS (US\$)	0.798	0.767	0.746	0.793	0.999	25.2	2.537	3.210	79.0
Profits (%)	FY3Q22	FY4Q22	FY1Q23	FY2Q23	FY3Q23	Diff (%)	9M23	23E	Diff (%)
Gross margin	23.0	21.4	21.9	22.3	24.7	1.7	23.0	22.0	(1.0)
Operating margin	15.4	13.5	13.8	13.7	16.6	1.2	14.7	13.8	(0.9)
Net margin	11.2	10.4	9.8	10.4	12.5	1.3	10.9	10.2	(0.7)

Andrew Stotz, PhD, CFA

- SBUX reported FY3Q23 recurring EPS of US\$1.00, which was +24.3% YoY and +25.6% QoQ
- The 9M23 result was 79.5% of our full-year forecast

Starbucks Claims \$181M in Revenue From Unused Gift Cards and Loyalty Credits

BY PYMNTS | NOVEMBER 16, 2022



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- 🌐 About 1% of its sales and 4% of its net income

What's interesting about Starbucks is that we can use it to better understand ROA and ROIC



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Invested capital (SBUX, US\$m)	20A	21A	22A
Short term loans	1,689	999	1,924
Long term borrowings	14,660	13,617	13,120
Minorities	6	7	8
Equity	(7,805)	(5,321)	(8,707)
Total funding	8,549	9,301	6,345



Andrew Stotz, PhD, CFA

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Less cash & securities	(4,632)	(6,618)	(3,183)
Less LT-investments	(479)	(269)	(311)
Invested capital	3,438	2,415	2,851

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Long term average	Global	Cons. Staples	
EBIT return on assets	9	10	
Return on assets	6	6	
Ret. on invest. capital	13	13	

COMPETITIVE ADVANTAGE



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**Is the company
financially world class?**



Here's the method I use as
an **investor** and **business**
owner to measure whether
a company has a
competitive advantage

The **World Class** **Benchmarking** score card we developed 10 years ago



Here's how I construct the scorecard for any company



Andrew Stotz, PhD, CFA

- ★ We gather the yearly and quarterly financial data of 26,000 companies worldwide
- ★ We then calculate each company's **Profitable Growth** score
 - Which is a composite measure of both profitability and growth

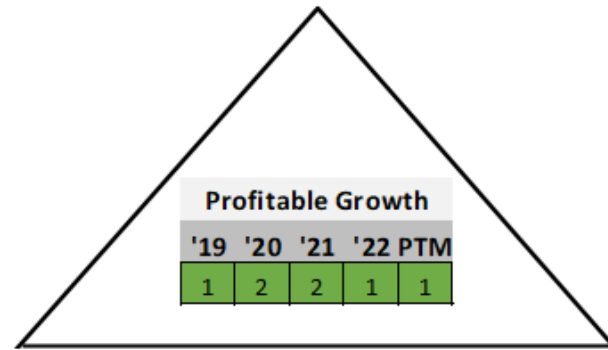
Here's how we construct the scorecard for any company



Andrew Stotz, PhD, CFA

- ★ After that, we rank the subject company relative to sector peers of similar size
 - Decile ranking is from **1 (best)** to **10 (worst)**
 - A score of **1 or 2** is financially world class
- ★ We assess the company's performance over the prior four years and the past 12 months (PTM)

**Is the company
financially
world class?**

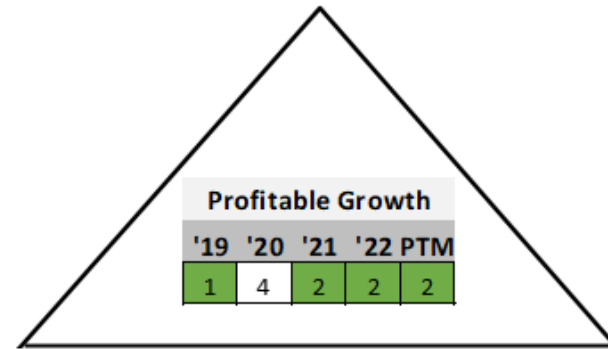


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Benchmarked against 960 large Cons. Disc. companies worldwide.

Source: A. Stotz Investment Research. Notes: 1 = top ranking and 10 = worst. Most recent year's data is based on the past 12 months (PTM) of published data.



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**This is not a recommendation
or investment advice.**

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	McDonalds	
	US\$bn	
US\$bn	2021	2022
Revenue	23.2	23.2
Profit	7.5	6.2
NPM (%)	32.5	26.6

	McDonalds		Starbucks	
	US\$bn		US\$bn	
US\$bn	2021	2022	2021	2022
Revenue	23.2	23.2	24.6	26.6
Profit	7.5	6.2	4.2	3.3
NPM (%)	32.5	26.6	17.1	12.3

**Is your company financially
world class?**

**Just message me, and I'll
score your company**



VALUATION



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Free cash flow



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(YE Oct, US\$ m)	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E
EBIT	1,678	4,757	4,507	4,909	5,198	4,758	5,112	5,430
<i>Est tax rate (%)</i>	28	23	24	24	24	24	24	24
NOPAT	1,200	3,650	3,437	3,731	3,950	3,616	3,885	4,127
Add: Depre & amort	1,503	1,524	1,529	1,599	1,648	1,698	1,750	1,804
Cash NOPAT	2,704	5,175	4,967	5,330	5,598	5,315	5,635	5,930
Chg in A/R	(159)	(74)	(133)	(141)	(84)	(73)	(123)	(133)
Chg in inventory	(22)	(53)	(573)	(63)	(224)	(291)	(220)	(238)
Chg in oth curr asst	(96)	162	8	(49)	(46)	(46)	(44)	(48)
Chg in A/P	417	484	234	309	347	451	342	369
Chg in oth curr liabs	(922)	1,011	(159)	571	463	31	410	443
Less: Chg in work cap	(783)	1,530	(622)	627	456	73	364	393
Less: CAPEX	(1,484)	(1,470)	(1,841)	(840)	(876)	(864)	(894)	(926)
Less: Chg in invest cap								
Free cash flow to firm	437	5,235	2,504	5,118	5,178	4,524	5,105	5,398
<i>FCF per share (US\$)</i>	0.4	4.4	2.2	4.5	4.7	4.2	4.9	5.4
<i>NOPAT growth (%)</i>	(61.3)	204.1	(5.8)	8.5	5.9	(8.5)	7.4	6.2
<i>FCF growth (%)</i>	(89.7)	1,097.6	(52.2)	104.4	1.2	(12.6)	12.9	5.7

Discounted cash flow analysis

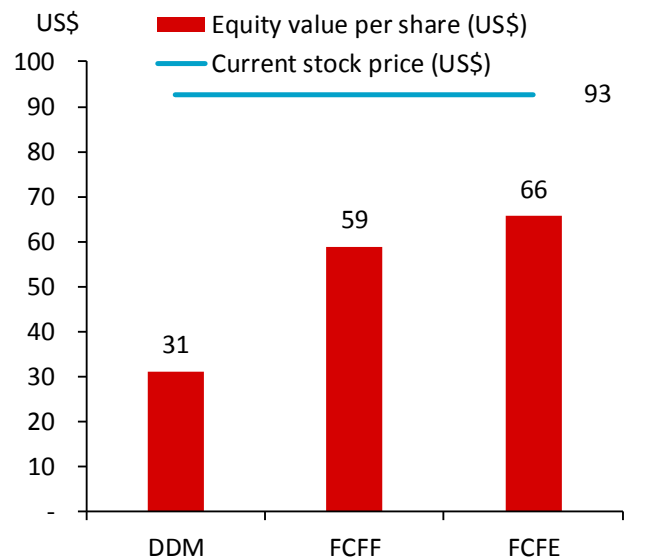
Calculation of cost of equity (COE, %) Estimate

Market: United States of America	
Market risk-free rate	3.5
Market equity risk premium	10.0
Market return	13.5
Company beta (x)	1.0
COE	13.5

Calculation of WACC Average

Cost of debt	4.1
Average tax rate	25.3
After tax cost of debt	3.1
Cost of preferred stock	-
Debt as a % of total capital	14.5
Preferred stock as a % of total capital	-
Equity market value as a % of total capital	85.5
Weighted average cost of capital	12.0

SBUX: Valuation (US\$ m)	DDM	%	FCFF	%	FCFE	%
PV of cash flow in years 2023-27	9,330	26	18,212	27	16,965	23
PV of fade period	14,142	40	28,576	43	27,775	37
PV of terminal value	11,738	33	31,299	47	25,969	35
Present value of future cash flows	35,209	100	78,086	117	70,710	95
Add: Cash & ST investments	na*	-	3,183	5	3,183	4
Add: Long-term investments	na	-	311	0	311	0
Corporate value	35,209	100	81,580	123	74,204	100
Less: Total debt, preferred stock & minorities	na	-	(15,052)	(23)	na	-
Shareholder value	35,209	100	66,529	100	74,204	100
Number of shares (m)	1,129		1,129		1,129	
Equity value per share (US\$)	31		59		66	



Multiple valuation

PE ratio (x)	2021A	2022A	2023E	2024E
SBUX	35.6	35.7	29.0	27.6
USA	28.0	38.9	28.2	24.1
Asia ex Japan	30.9	24.2	15.1	12.6
World	21.9	25.8	19.6	17.3

EPS growth (%)

SBUX	212.2	(7.6)	10.6	5.0
USA	0.5	16.4	na	16.3
Asia ex Japan	(13.2)	17.6	60.3	20.0
World	55.5	(0.1)	31.7	13.1



PB ratio (x)	2021A	2022A	2023E	2024E
SBUX	(24.7)	(13.6)	(13.7)	(15.8)
USA	7.1	9.4	8.0	6.8
Asia ex Japan	2.3	2.1	1.9	1.7
World	3.1	3.5	3.3	2.9

ROE (%)

SBUX	na	na	na	na
USA	25.4	24.2	28.6	28.2
Asia ex Japan	7.5	8.8	12.9	13.8
World	14.3	13.5	16.6	16.9



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-  The company has about a 140% return on invested capital due to share buyback which makes equity negative
-  It's 12% return on assets is a comparable measure

What is your company worth?

**Message me, and let's discuss
the value of your company**

