

Two reasons why Starbucks is **struggling**



CASE STUDY
VALUATION MASTER CLASS

by
A. Stoltz INVESTMENT
RESEARCH



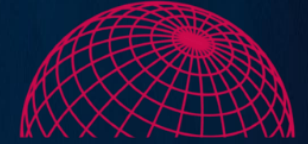
Starbucks Shanghai Container Store



STARBUCKS®



Starbucks' empire is 50+ years old, but recent developments pose questions about its strategy



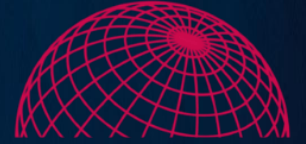
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Andrew Stotz, PhD, CFA

These are the two reasons:

- ★ The ambiance feels too standardized
- ★ The waiting time is too long



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Welcome to this Valuation Master Class case study!

- ★ My name is Andrew Stotz, and for over 30 years, I've helped thousands of finance professionals master company valuation in months, not years



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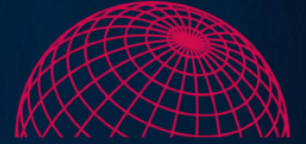
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In this video, you're gonna learn

- ★ The two reasons why Starbucks is struggling and the company's overhaul plan
- ★ The effectiveness of Starbucks' competitive advantage
- ★ Starbucks' attractiveness on my **Global Stock Tracker**



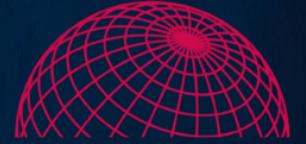
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Remember to...

- ★ ...click the link in the description to get this presentation and my Global Stock Tracker of the top 500 companies for free!



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Two reasons why Starbucks is struggling



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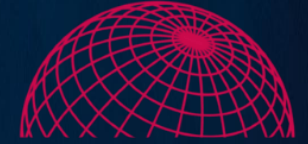
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or investment advice.**

- What is this company's story?
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Starbucks is a global coffee giant that redefined experiences, culture, and connection



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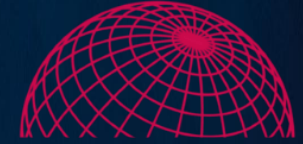
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Do you know there is science behind getting your name written on a Starbucks' coffee cup?

- ★ Charles Duhigg (The Power of Habit) – Starbucks uses the habit loop (Cue → Routine → Reward) to create repeat customers.
 - **Cue:** Entering Starbucks and giving your name
 - **Routine:** Ordering, waiting, and hearing your name
 - **Reward:** Receiving a personalized cup and enjoying your drink



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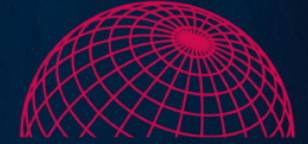
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Do you know there is science behind getting your name written on a Starbucks' coffee cup?

- ★ Jonah Berger (Contagious) – The name-writing encourages social sharing and virality, especially with misspellings.
- ★ Joseph Pine & James Gilmore (The Experience Economy) – Calling names enhances customer experience by making the interaction personal and memorable



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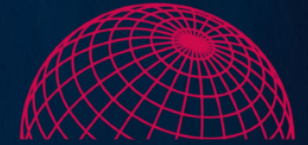
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Do you know there is science behind getting your name written on a Starbucks' coffee cup?

- ★ Richard Thaler (Nudge) – Triggers the Endowment Effect, making customers feel psychological ownership of their drink
- ★ Seth Godin (Purple Cow, Tribes) – Builds brand storytelling and a sense of belonging, making Starbucks feel like a community



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Beverage is the main revenue driver for Starbucks, grossing 74% of revenue

Beverage



74%

Food

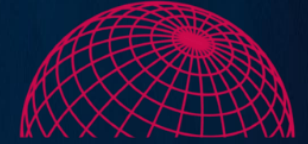


23%

Others



3%



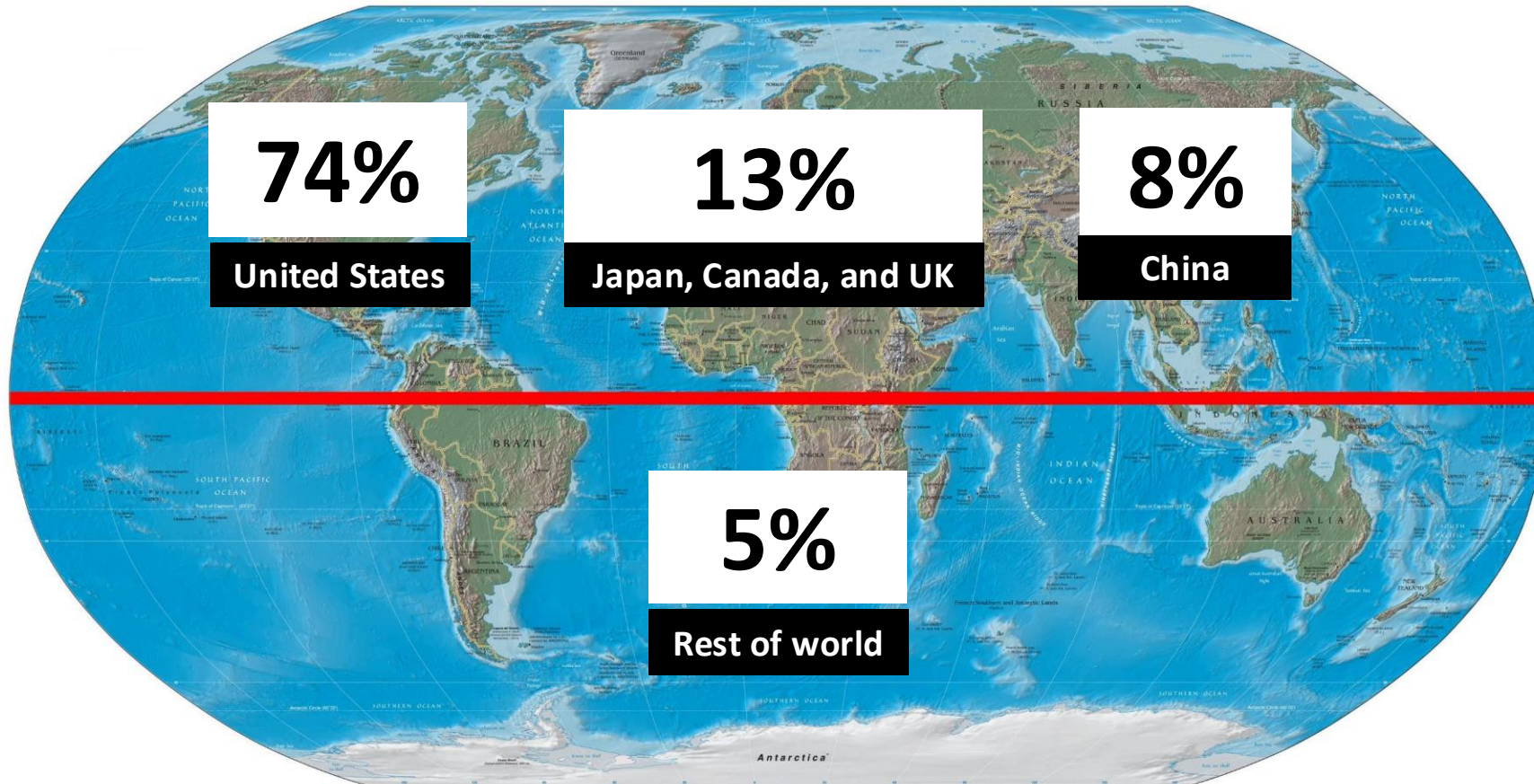
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United States is Starbucks' biggest market, making up 74% of its revenue



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Being so reliant on the American market, any slowdown there will hurt



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Reason number 1

- ★ Starbucks' ambiance feels too standardized and lacks uniqueness



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New CEO Brian Niccol's "Back to Starbucks" plan aims to save Starbucks from its decline




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New CEO Brian Niccol said

- ★ “The reality is the majority of what we have are these cafes that I think don’t have the right seats, potentially have the right texture, don’t have the right layers, don’t have the right warmth. We need to bring that back,”



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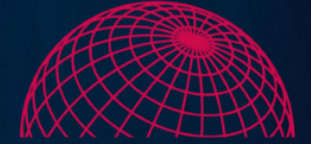
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The successful strategy of global expansion has the seeds of its own destruction

- ★ Starbucks' global expansion has led to uniform store designs, similar layouts, and consistent branding, making many locations feel interchangeable rather than unique



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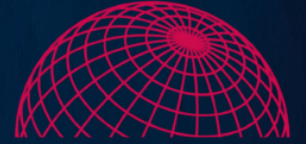
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Efficiency over community

- ★ Starbucks has become more focused on efficiency, mobile orders, and quick turnover, reducing the cozy, community-driven feel



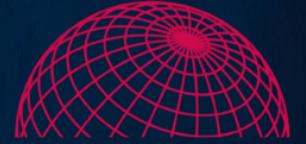
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Amazing independent options

- ★ The rise of independent coffee shops with unique designs and local character makes Starbucks feel generic and less distinctive by comparison



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Customers are talking about the decline

- ★ Reviews on platforms like Reddit, Yelp, and Twitter/X often describe Starbucks as “too corporate,” “generic,” and “lacking soul.”
- ★ Long-time customers have noticed that stores now feel more transactional than inviting



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Reddit User Comment:

- ★ "Former partners say it's so different now. Baristas cared more. Because the company cared more. It wasn't so corporate heavy."



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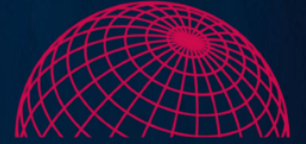
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Reason number 2

- ★ The waiting time is too long
- ★ Average wait time for Dunkin Donuts is 1 minute while it is a bit over 4 minutes for Starbucks



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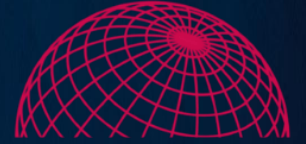
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Reason number 2

- ★ The surge in mobile orders is causing delays in in-person service, impacting the overall in-store customer experience



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Reason number 2

- ★ Baristas receive up to 7 mobile orders per minute, causing delays for in-store customers. (Business Insider)
- ★ Mobile orders allow unlimited drink modifications, slowing preparation times. (Business Insider)
- ★ In-store customers feel neglected as mobile orders are prioritized. (Reddit)



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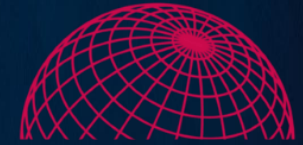
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Company Response

- ★ Starbucks is testing ways to limit mobile orders during peak times to reduce delays. (Reuters, Bloomberg)



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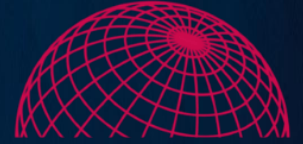
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Recap: What is this company's story?

- Starbucks is a global brand that redefined experiences, culture, and connection
- The company's overhaul plan aims to deal with the two reasons Starbucks is struggling



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Two reasons why Starbucks is struggling



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- What is this company's story?
- **What is the company's competitive strategy?**
- Does that strategy lead to a competitive advantage?
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Starbucks - US - Founded 1971

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

Main segments/products/divisions/brands

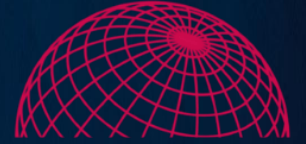
- Starbucks Coffee beverages
- Frappuccino blended beverages
- Starbucks Reserve Roastery and Reserve stores

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



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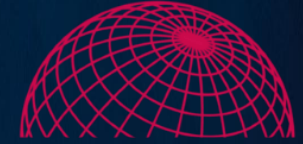
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Starbucks uses only arabica beans for their superior quality and complex flavors

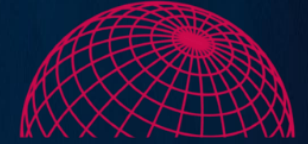


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Vertical integration is Starbucks' strength, managing and controlling nearly all operations



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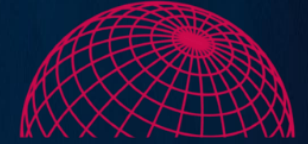
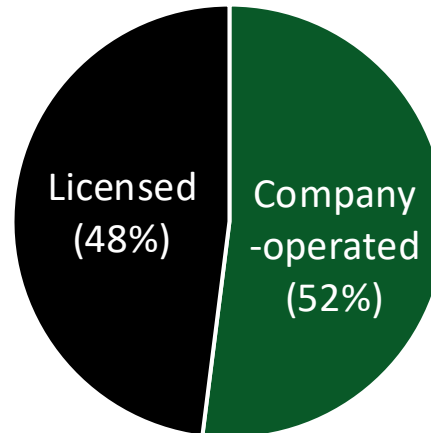
Starbucks continues to expand globally, balancing company-operated and licensed stores



In 2024,
there were
40,199
Starbucks stores
in the world

North America
18,424

Outside the US
21,775



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Product differentiation and innovation help Starbucks stay relevant



New Cortado



Pistachio Cream Cold Brew



Iced Matcha Latte



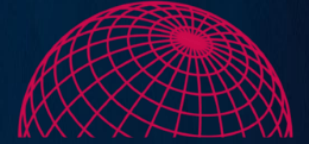
Vanilla Bean Custard Danish



New Spicy Falafel Pocket



Seasonal merchandise



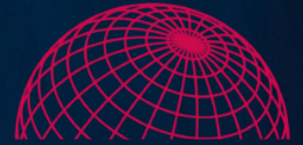
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Recap: What is the company's competitive strategy?

- Starbucks created a competitive advantage through strong brand loyalty, premium coffee experience, and global expansion
- Starbucks made it possible through product differentiation, global expansion, and vertical integration



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Two reasons why Starbucks is struggling



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I use my **World Class Benchmarking** scorecard to measure if a company has a **competitive advantage**



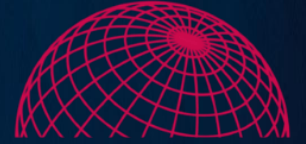
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I developed this scorecard 10 years ago; here's how we construct it

- ★ My team gathers 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



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I developed this scorecard 10 years ago; here's how we construct it

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



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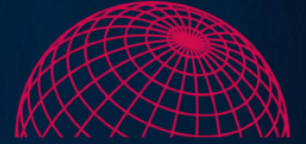
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**Is the company
financially
world class?**

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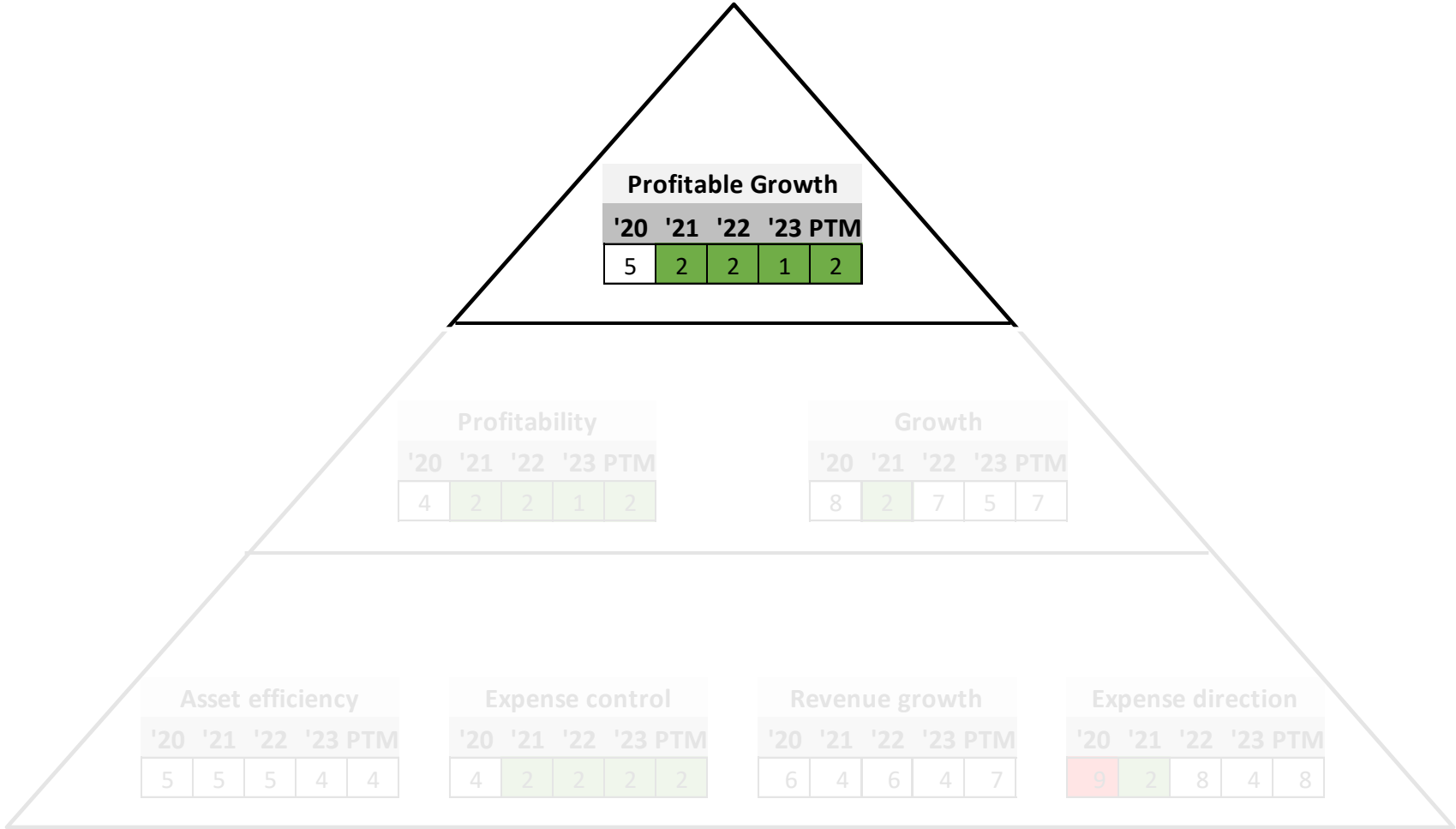


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Starbucks: A. Stotz Profitable Growth



Benchmarked against 940 large Cons. Disc. companies worldwide.

This is not a recommendation or investment advice.

Sources: 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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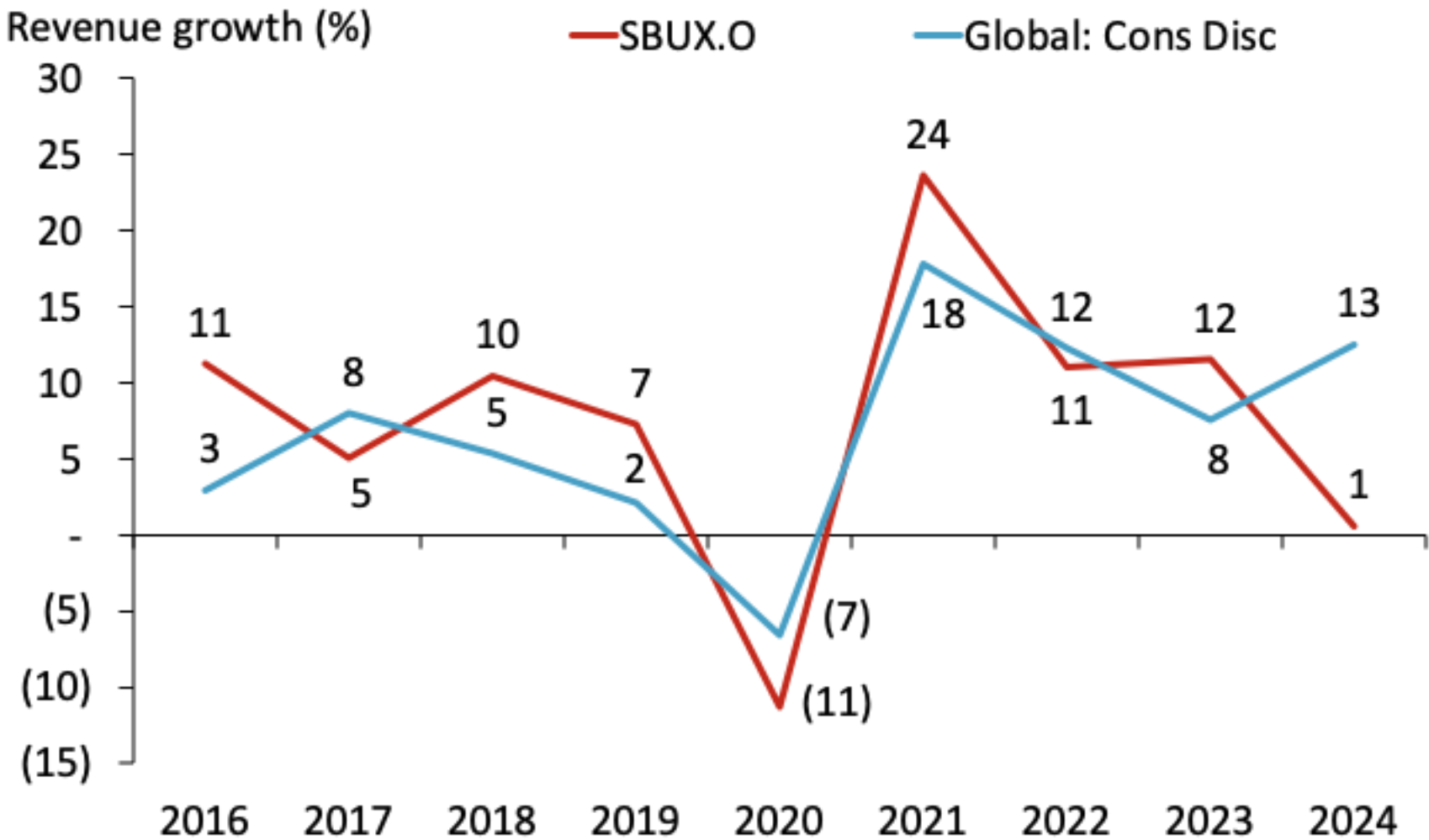


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Starbucks' revenue growth was consistently in line with the global sector average but not in 2024

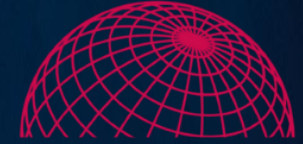
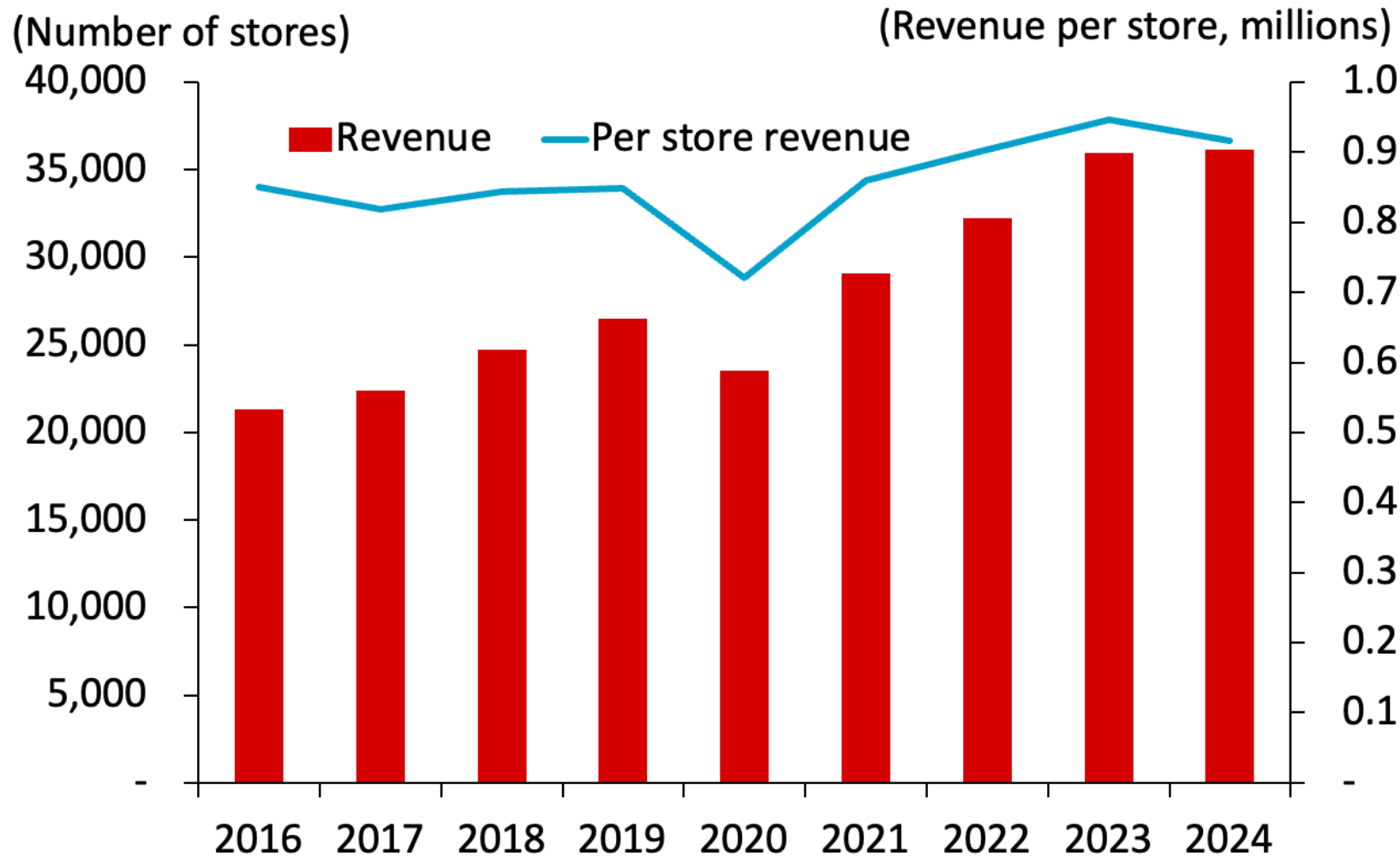


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Brian Niccol suspended new store openings to prevent dilution of per-store revenue



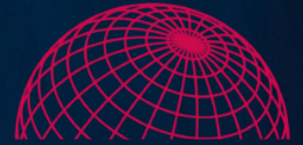
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Recap: Does its strategy lead to a competitive advantage?

- Yes
- Starbucks has shown consistent Profitable Growth according to our scorecard



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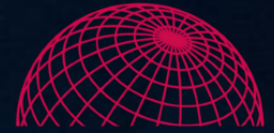
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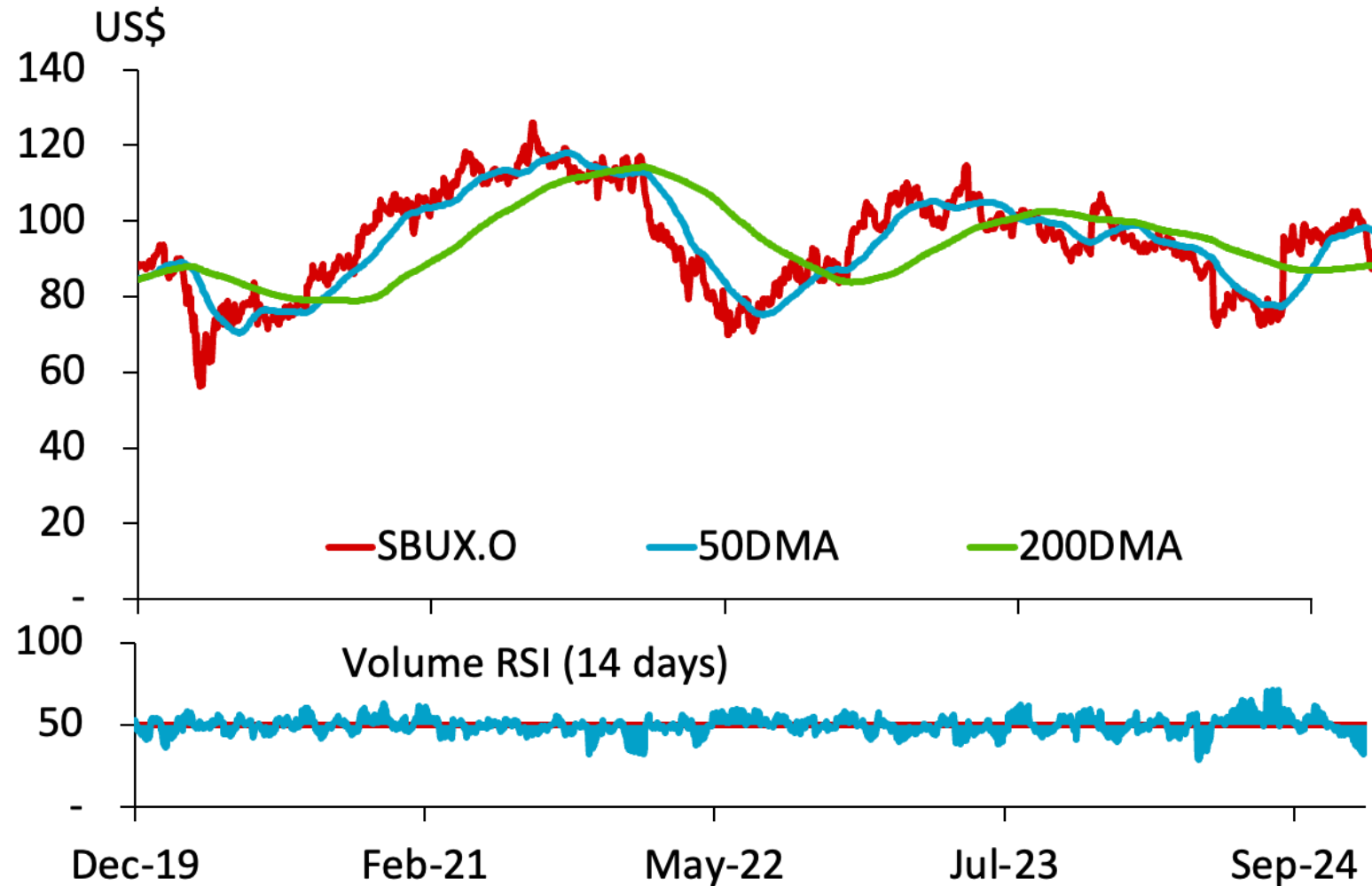
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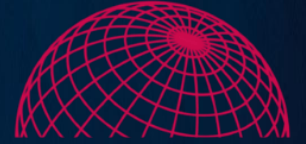
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Starbucks' share price today is at about the same level it was 5 years ago



Let's apply my **Global Stock Tracker** to assess the attractiveness of the company



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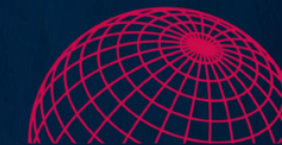
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Global Stock Tracker - Fundamentals



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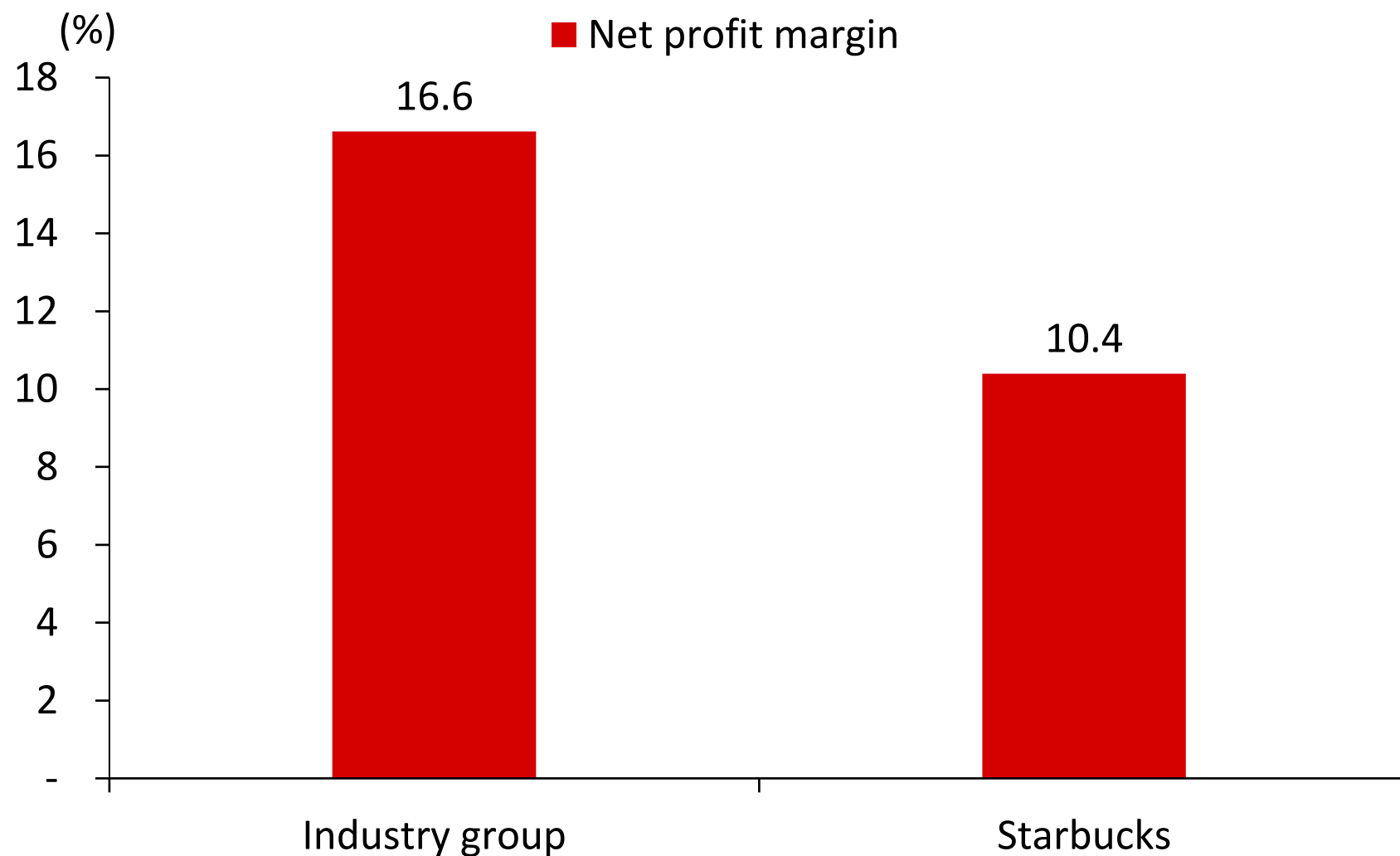
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Company	Mcap US\$bn	Fund. (%)		Valuation (x)		Momo (% chg)		Risk (x)	
		NPM	ROA	PE	PB	EPS	Price*	NDE	Beta*
Cons. Disc.: Cons. Servs.	1,331	17	12	30	5	63	2	(2.1)	0.9
McDonald's Corp	203	32	15	25	nm	0	(10)	(7.3)	0.7
Booking Holdings Inc	155	22	19	31	nm	3	7	0.2	0.7
Meituan	123	10	11	28	5	214	(13)	(0.4)	0.4
Starbucks Corp	111	10	13	30	nm	(8)	2	(1.4)	0.5
Airbnb Inc	83	17	8	45	10	(66)	(3)	(1.0)	1.6
Marriott International Inc	77	11	11	28	nm	1	5	(15.9)	1.3
Chipotle Mexican Grill Inc	77	14	18	52	21	28	(6)	(0.4)	1.2
DoorDash Inc	74	(2)	(2)	nm	10	83	16	(0.5)	1.7
Royal Caribbean Cruises Ltd	65	17	8	25	9	196	22	4.3	1.5
Hilton Worldwide Holdings Inc	60	11	8	51	nm	(6)	4	(3.4)	1.0
Compass Group PLC	57	3	6	40	8	(11)	8	0.7	0.4
Trip.com Group Ltd	47	32	7	21	2	51	15	(0.0)	0.7
Oriental Land Co Ltd	38	18	9	51	5	3	(8)	(0.1)	0.1
Yum! Brands Inc	35	21	25	23	nm	2	(6)	(1.4)	0.9
Carnival PLC	33	8	4	17	3	1,078	30	4.2	0.8
Las Vegas Sands Corp	33	13	7	22	10	129	(11)	2.2	1.2
Amadeus IT Group SA	32	21	11	23	6	28	1	0.5	0.2
Aristocrat Leisure Ltd	28	20	13	32	6	(8)	19	(0.0)	0.0

Source: A. Stotz Academy, LSEG. Sector data is market cap weighted. *Price change and beta over the past three months as of 21 January 2025

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Below average profit margin



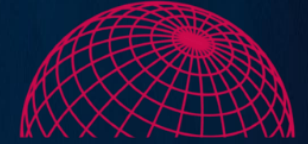
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Tim Hortons and Dutch Bros rival Starbucks with affordability, speed, and unique customer appeal

- ★ Tim Hortons is a Canadian coffee chain known for affordable drinks and fast service owned by Restaurant Brands International (RBI)
- ★ Dutch Bros is a US-based drive-thru coffee chain known for its customizable drinks and community-focused approach



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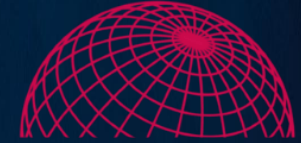
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Starbucks is far behind RBI and Dutch Bros in terms of NPM margin

Restaurant Brands			
	Starbucks	International (RBI)	Dutch Bros
US\$bn	2024	2024	2024
Revenue	36.2	8.0	1.2
Net profit	3.8	1.3	0.3
NPM(%)	10.4%	16.0%	25.4%



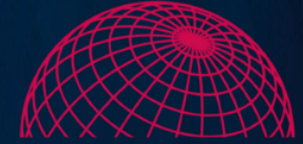
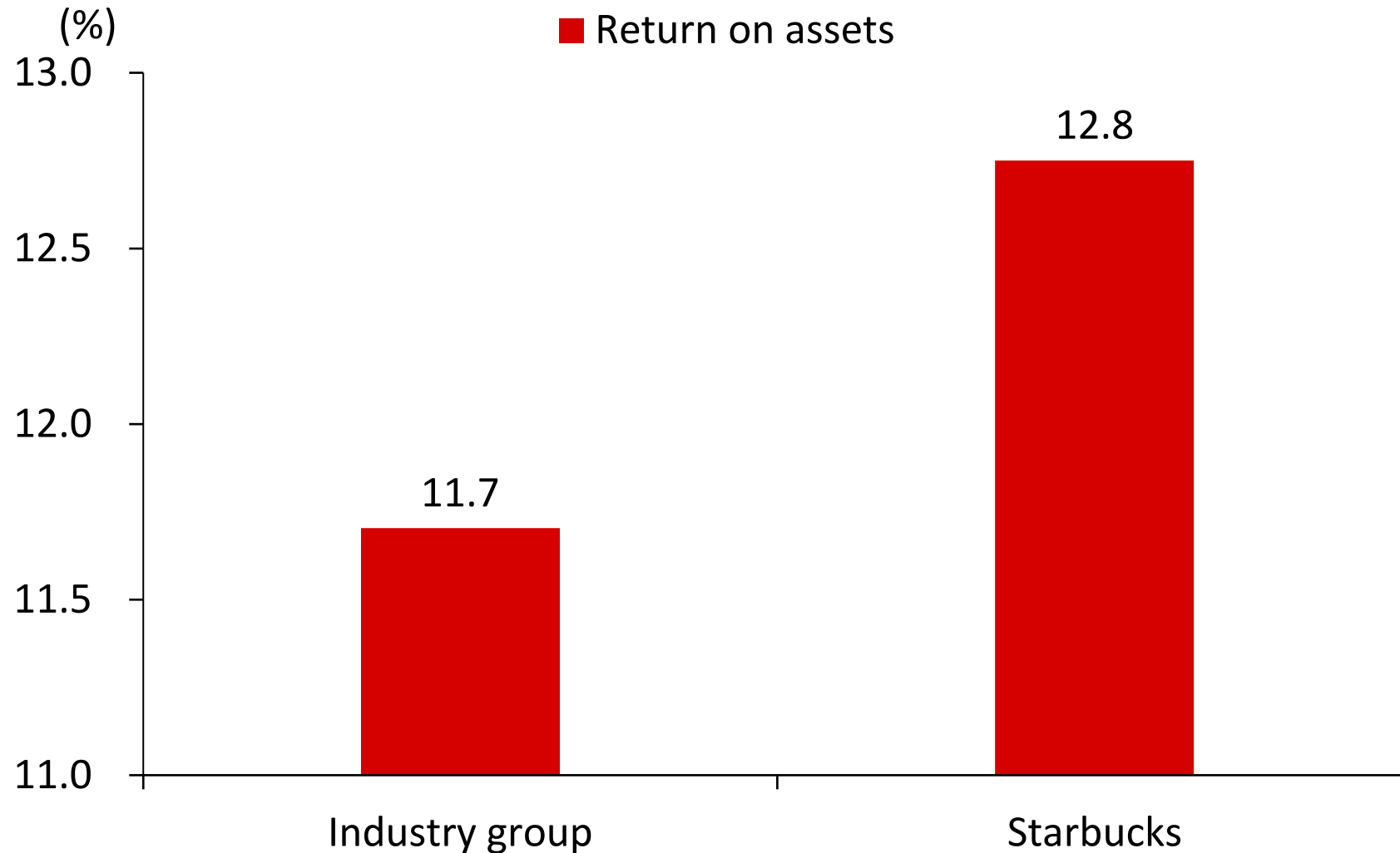
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Above average asset utilization keeps ROA strong despite lower-than-average net profit margin



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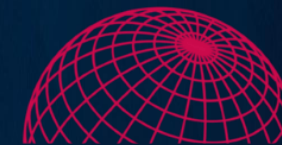
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Global Stock Tracker - Valuation

Company	Mcap US\$bn	Fund. (%)		Valuation (x)		Momo (% chg)		Risk (x)	
		NPM	ROA	PE	PB	EPS	Price*	NDE	Beta*
Cons. Disc.: Cons. Servs.	1,331	17	12	30	5	63	2	(2.1)	0.9
McDonald's Corp	203	32	15	25	nm	0	(10)	(7.3)	0.7
Booking Holdings Inc	155	22	19	31	nm	3	7	0.2	0.7
Meituan	123	10	11	28	5	214	(13)	(0.4)	0.4
Starbucks Corp	111	10	13	30	nm	(8)	2	(1.4)	0.5
Airbnb Inc	83	17	8	45	10	(66)	(3)	(1.0)	1.6
Marriott International Inc	77	11	11	28	nm	1	5	(15.9)	1.3
Chipotle Mexican Grill Inc	77	14	18	52	21	28	(6)	(0.4)	1.2
DoorDash Inc	74	(2)	(2)	nm	10	83	16	(0.5)	1.7
Royal Caribbean Cruises Ltd	65	17	8	25	9	196	22	4.3	1.5
Hilton Worldwide Holdings Inc	60	11	8	51	nm	(6)	4	(3.4)	1.0
Compass Group PLC	57	3	6	40	8	(11)	8	0.7	0.4
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Yum! Brands Inc	35	21	25	23	nm	2	(6)	(1.4)	0.9
Carnival PLC	33	8	4	17	3	1,078	30	4.2	0.8
Las Vegas Sands Corp	33	13	7	22	10	129	(11)	2.2	1.2
Amadeus IT Group SA	32	21	11	23	6	28	1	0.5	0.2
Aristocrat Leisure Ltd	28	20	13	32	6	(8)	19	(0.0)	0.0

Source: A. Stotz Academy, LSEG. Sector data is market cap weighted. *Price change and beta over the past three months as of 21 January 2025

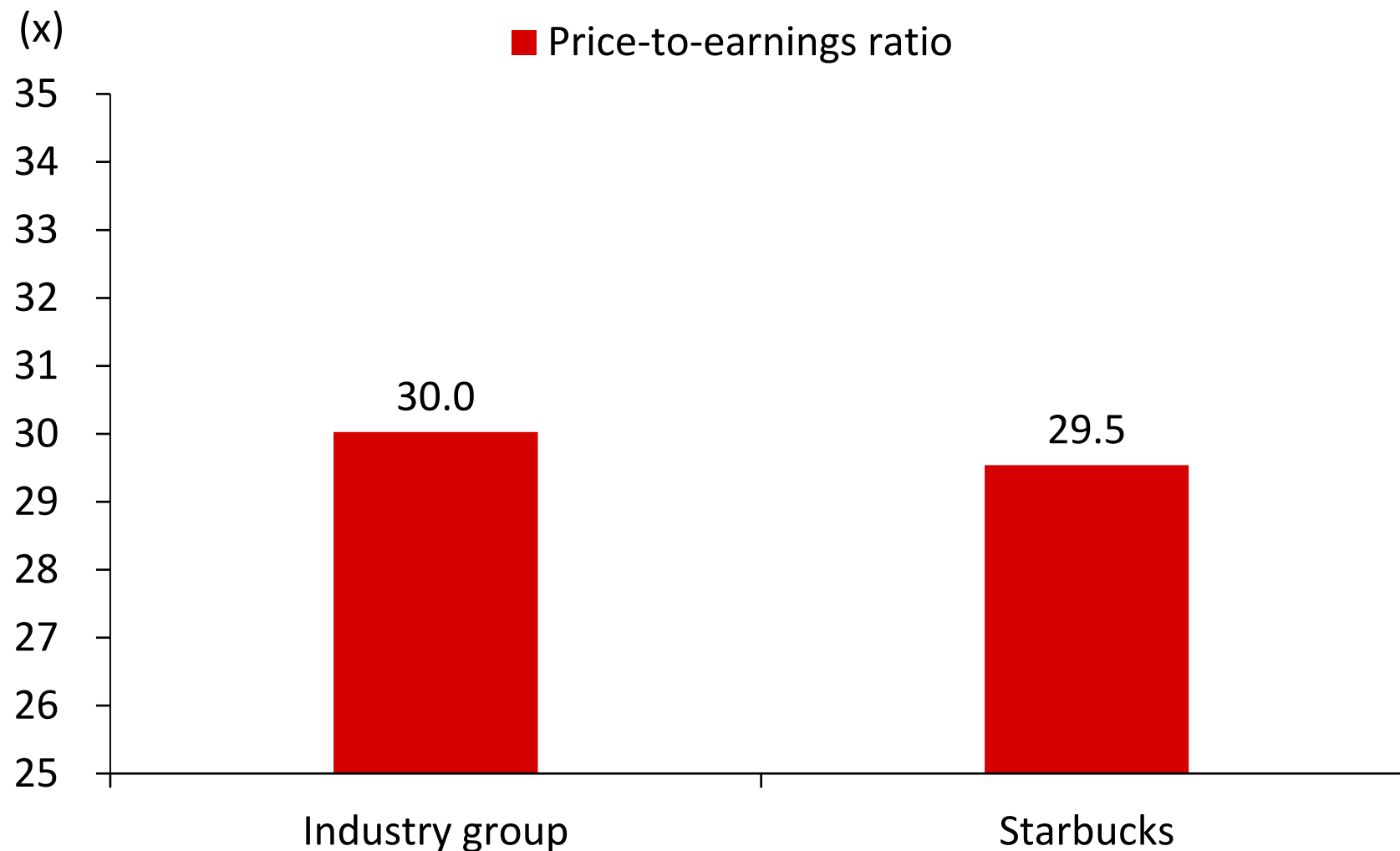


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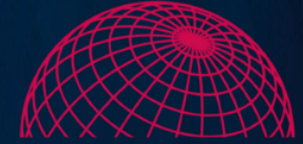
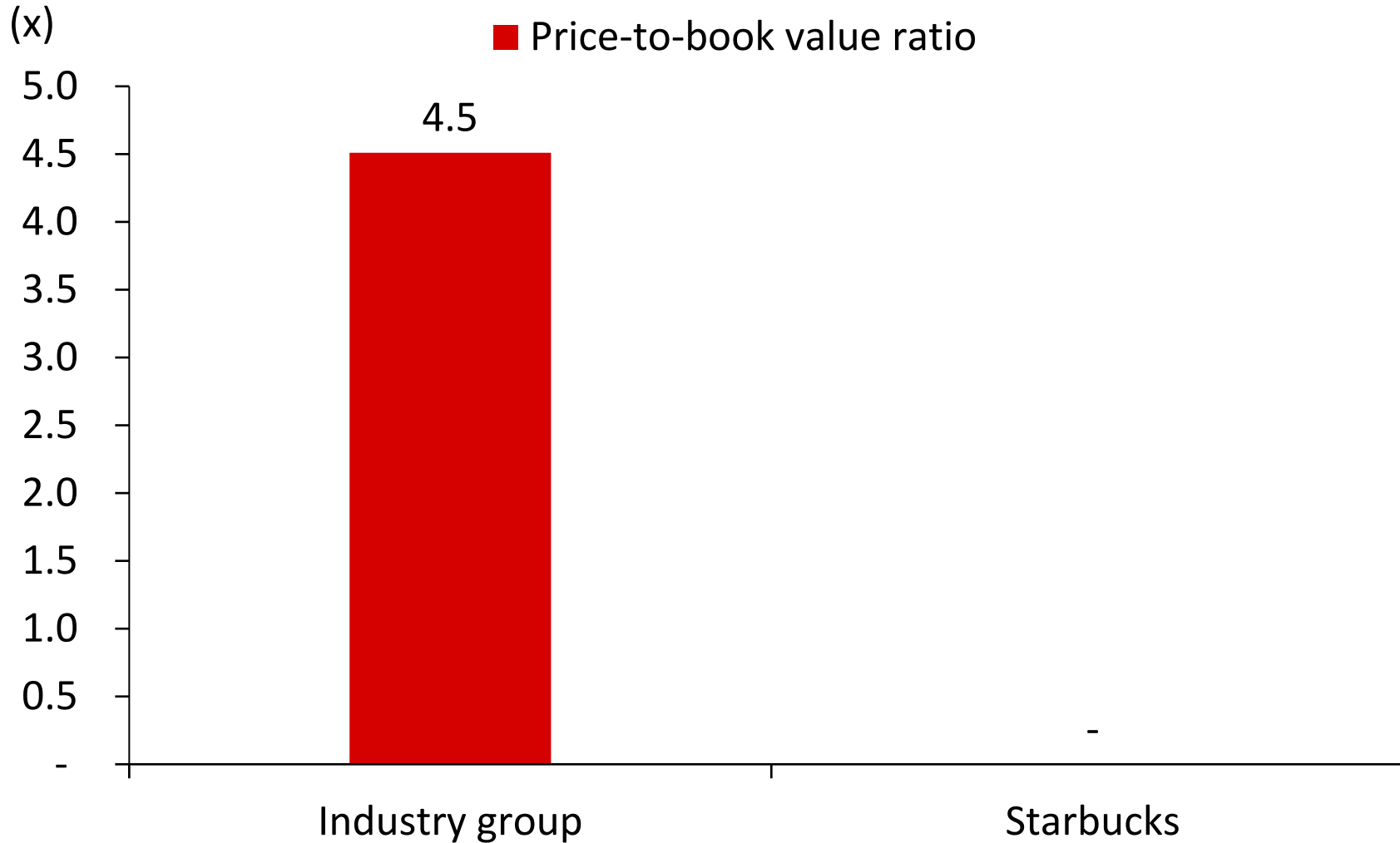
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PE is in line with the industry average



Shareholder equity is negative US\$7.5bn due to share buybacks



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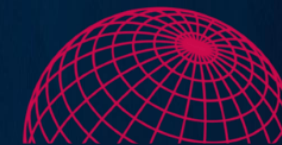
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Global Stock Tracker - Momentum

Company	Mcap US\$bn	Fund. (%)		Valuation (x)		Momo (% chg)		Risk (x)	
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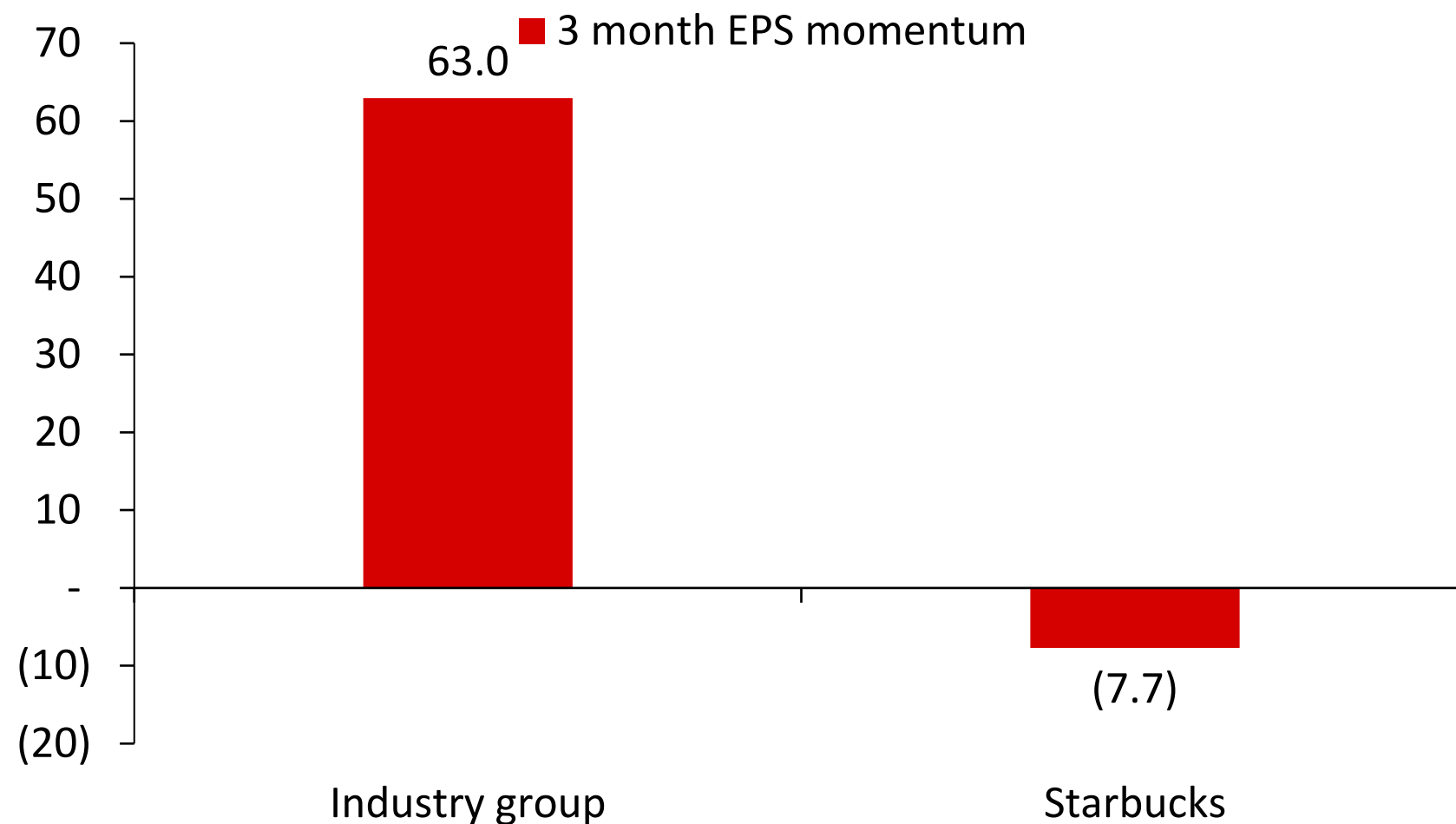
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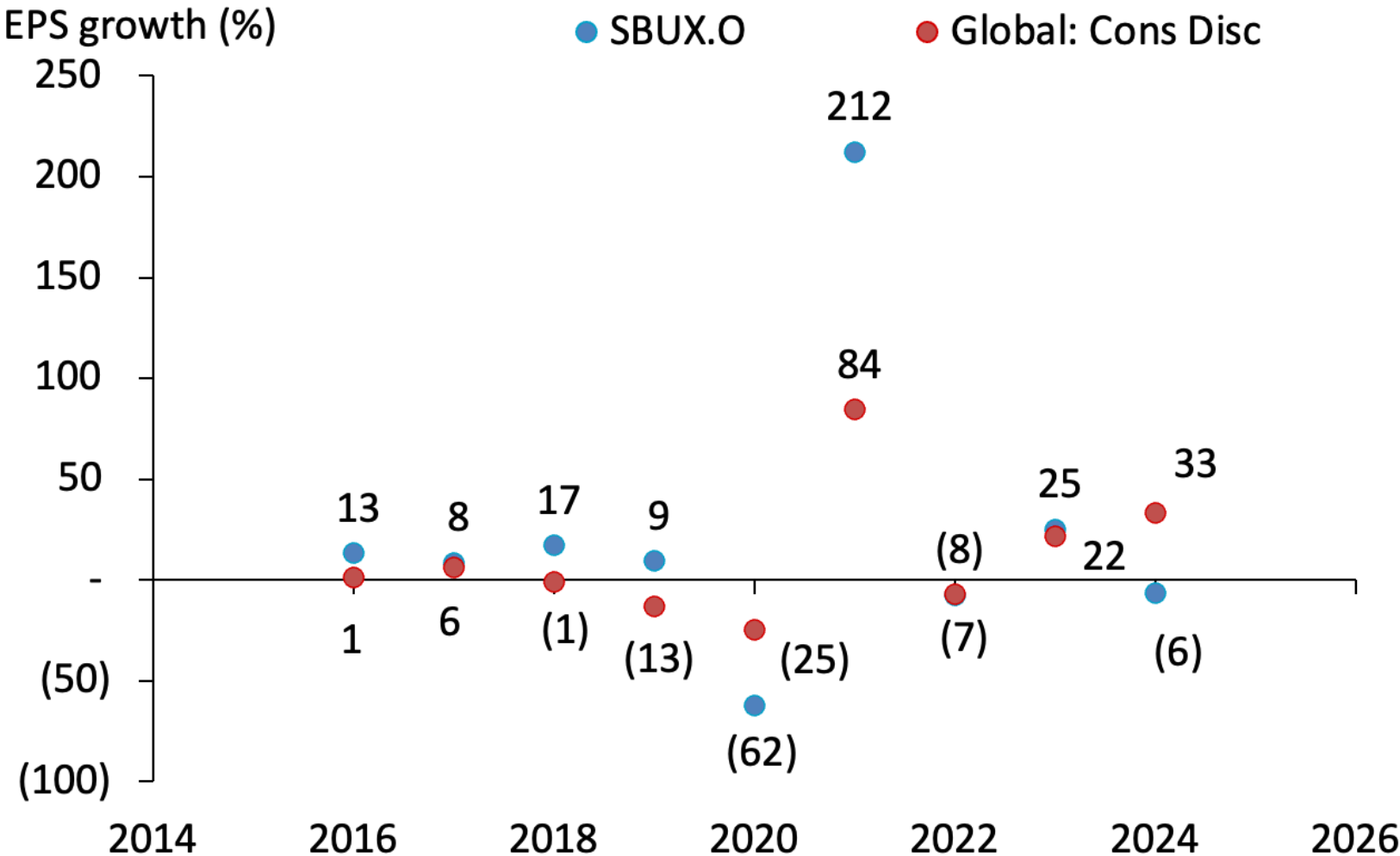
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Weak earnings momentum

(Quarter-on-quarter % change)



EPS CAGR from 2016 to 2024 was 9%, slightly above the global sector average of 8%



Starbucks Q1 FY25 Summary

- ★ Global sales down 4%, China -6%
- ★ Oper. profit -25%, due to store expansion
- ★ 377 new stores, total 40,600 (US 17,000, Int'l 15,800, China 7,700)
- ★ 53% company-operated, 47% licensed
- ★ 35m US Rewards members +2% QoQ
- ★ CEO Brian Niccol says “Back to Starbucks” is key to long-term growth
- ★ Turnaround, shareholder value priority



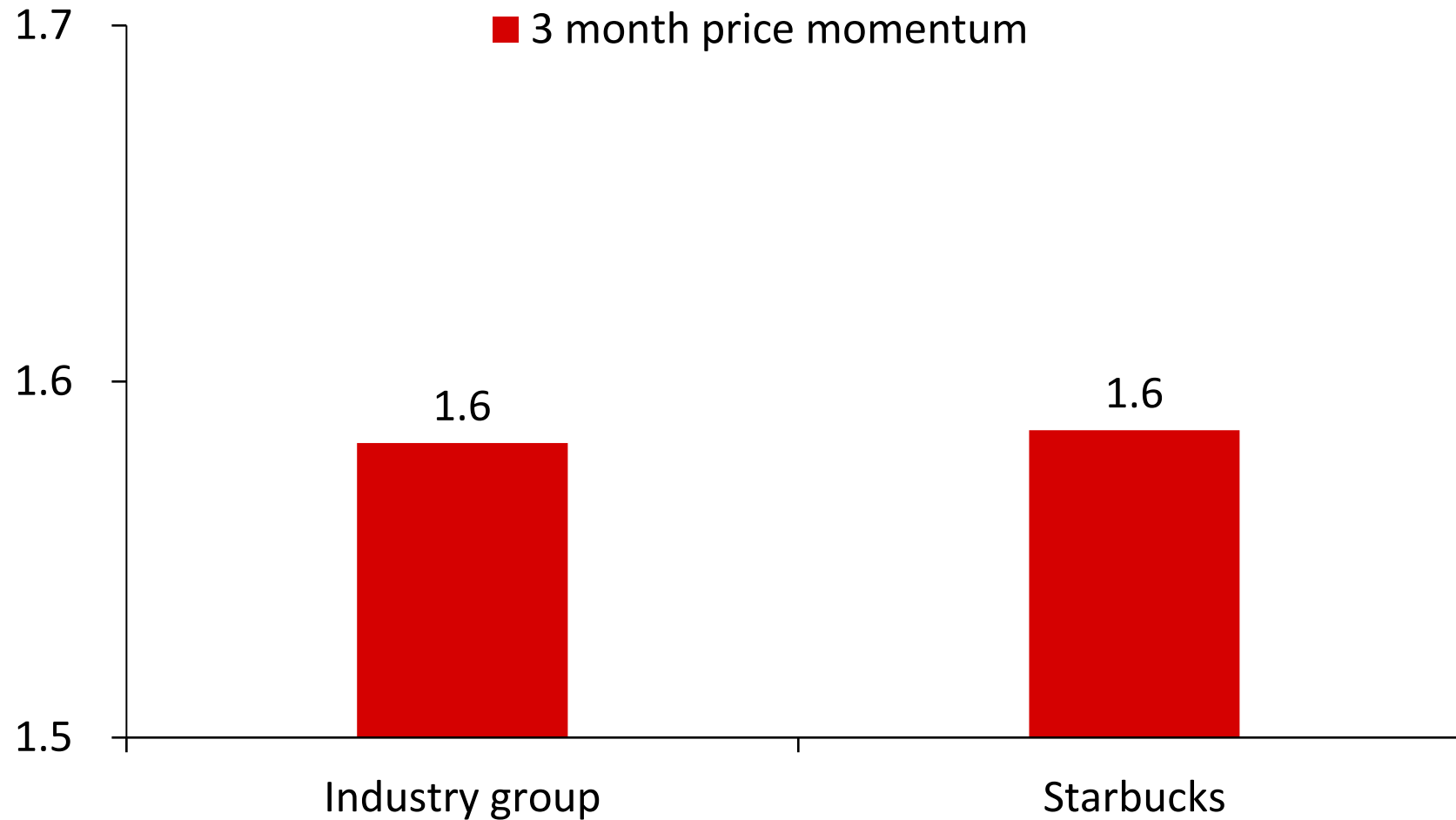
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Price momentum in line with the industry, market is not buying the turnaround yet

(Quarter-on-quarter % change)



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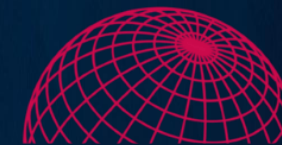
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**This is not a recommendation
or investment advice.**

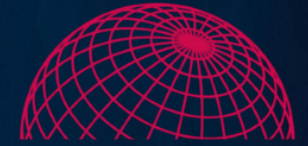
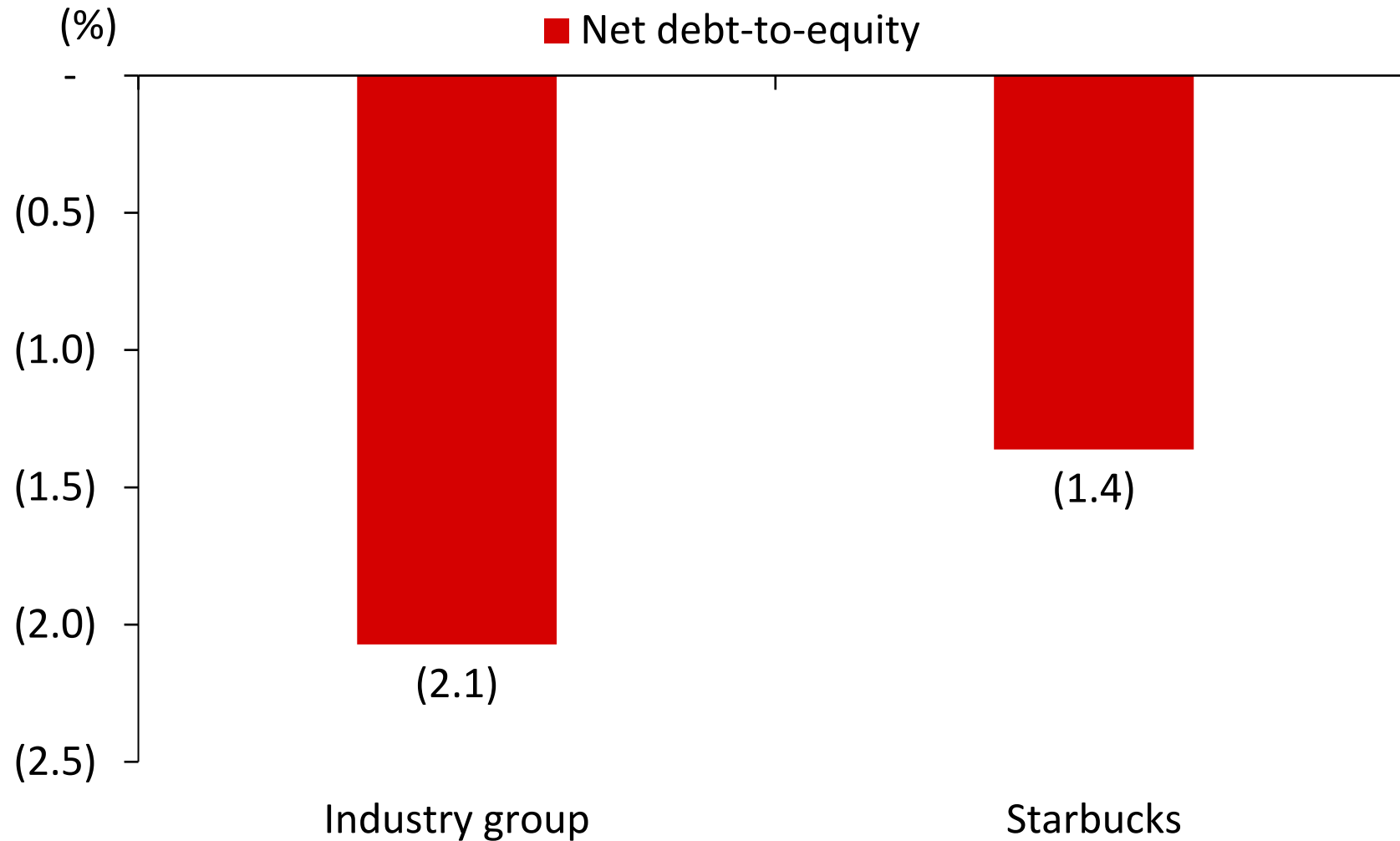


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US\$3.7bn in cash and US\$14bn in debt, meaning 37% of assets are financed by debt



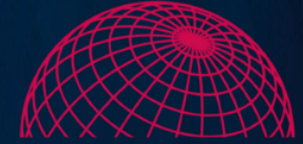
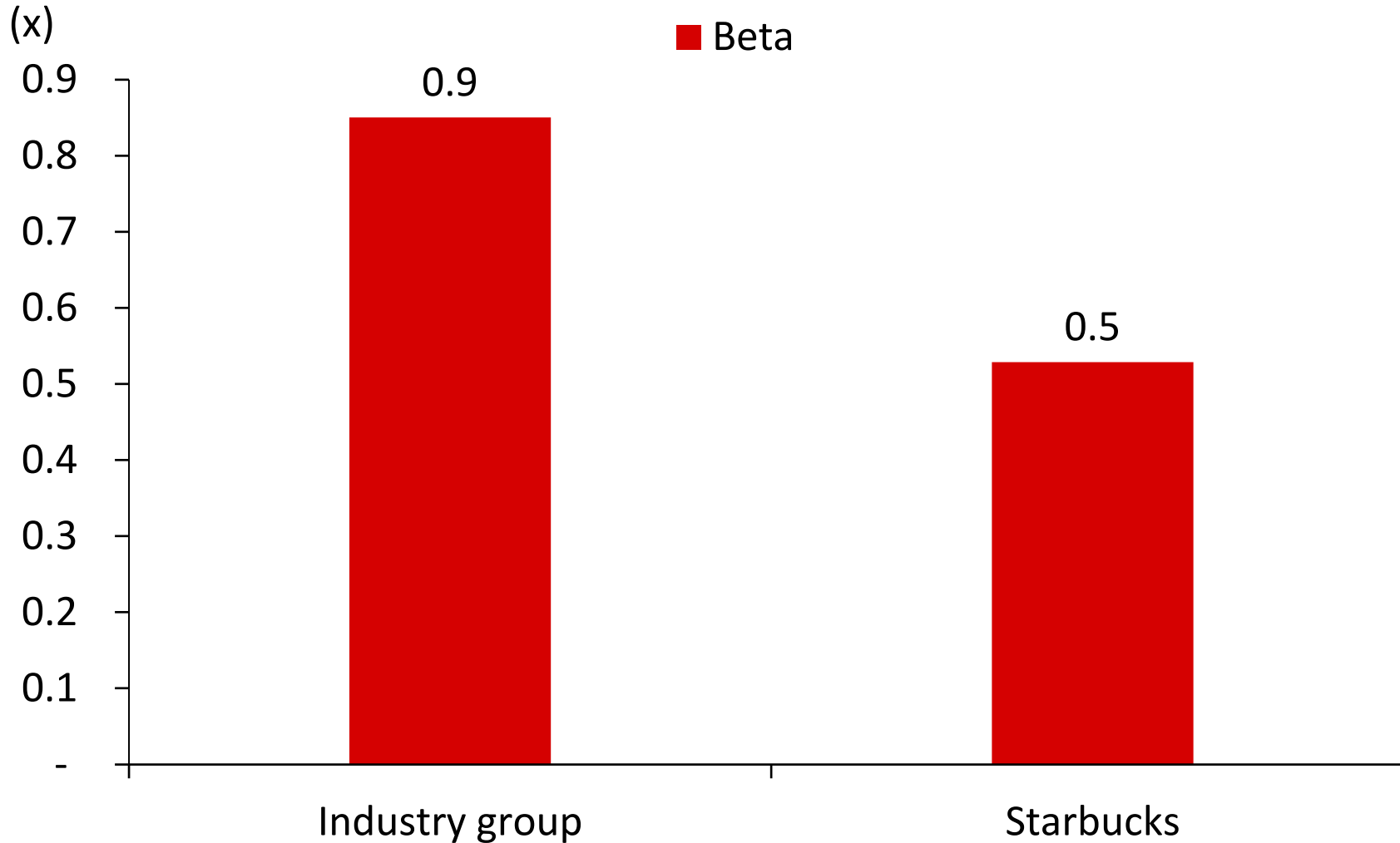
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Steady business produces a low beta, for comparison, DoorDash is 1.7x



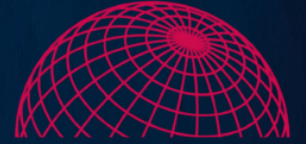
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