Forecasting estimates:

Thesis:

I strongly believe that Starbucks growth will continue to be substantial. Watching the company grow over the last 10 years has been nothing short of remarkable. With a brand known for excellence in coffee and incredible service, there are no signs for any decline in sales. Especially after covid hopefully ending soon or at least being controlled things should start to get back to normal. As you stated in your presentation, the integration of mobile ordering and curbside pickup made up for those sales lost from going into the physical stores. I believe the mobile ordering industry has helped businesses grow. And brands like Starbucks who already have a substantial market share, now have an even larger opportunity to make money even with rising inflation rates. My three main aspects I will be focusing on are: 1) I am expecting Growth from around 33,000 to 55,000 stores over the next 10 years, this really stands out because that means the CFO expects revenues to basically double over the next 10 years. Not even including increasing online sales and inflation. 2) I really could also see the licensing opportunities as a huge aspect to really help continue Starbucks huge growth potential. Starbucks is expecting more growth outside of the US and China, adding other countries especially larger ones with more people such as India, Japan, and Canada, would offer substantial growth. 3) The part expecting enterprise growth to go from 8-10% offers some substantial growth opportunities with a new channel development occurring. By channel development I understand this as the integration of more online sales and mobile ordering/curbside. The entire mobile ordering system essentially has grown the entire fast-food industry, especially helping people who have severe anxiety and do not like talking in public to place their order.

Forecasting Notes Broken down:

Reading the Investor Day notes from the CFO a few points really stood out to me. Those included:

* Growth from around 33,000 to 55,000 stores over the next 10 years really stands out because that means the CFO expects revenues to basically double over the next 10 years. Not even including increasing online sales and inflation.
  + Adjusting for inflation I increased the product and distribution costs by .7%. I am taking the average product distribution costs for the previous 3 years very similar calculations as John did for America. I then retook the average every year of the last 3 years to while adding in a .7% growth for inflation in overall product and distribution costs. For America, I like the .5% increase yearly for the product and distribution costs. I am taking the average product distribution costs for the previous 3 years as given by John in the assignment. And retook the average every year of the last 3 years to while adding in a .5% growth for inflation in overall product and distribution costs. I believe international inflation will be slightly above American inflation that is why I chose to increase international product and distribution costs by .7% opposed to staying consistent with .5%.
  + I continued to take the average store operating expenses for the previous 3 years and subtracted a .5% growth rate as well for America because I am expecting online sales to grow and in store expenses to decrease.
  + I continued to take the average store operating expenses for the previous 3 years and subtracted a .7% growth rate as well for International because I am expecting online sales to grow and in store expenses to decrease.
  + I continued to take the average for other operating expenses for the previous 3 years and adding in a .02% growth rate as well for America.
  + I continued to take the average for other operating expenses for the previous 3 years and adding in a .05% growth rate as well for international.
  + Instead of subtracting the average of the G&A expense by .2%, I added .2% for America and .5% for International.
    - Store Growth:
      * For store growth, I multiplied the net new company operated stores added by 1 x a growth rate of 20% while taking the average every December of the previous 3 years to increase the number of stores in America.
      * For store growth, I multiplied the net new company operated stores added by 1 x a growth rate of 30% while taking the average every December of the previous 3 years to increase the number of stores for International.
* The part expecting enterprise growth to go from 8-10% offers some substantial growth opportunities with a new channel development occurring. By channel development I understand this as the integration of more online sales and mobile ordering/curbside. The entire mobile ordering system essentially has grown the entire fast-food industry, especially helping people who have severe anxiety and do not like talking in public to place their order.
  + After adjusting the Comp store sales for international with a consistent 9%, the revenue growth rate is at 8.8% which is in the range of the 8-10% growth rate, which the CFO said.
    - I will be adjusting your forecasted values of 4.5% for Total Comp Stores Sales to 5% for America and International to be consistent with the revenue growth rate. For year 2022 I will be adjusting to 21% to make up for the year of covid.
    - I will be adjusting my international forecasted values of to 8.8% instead of 9% for Total Comp Stores Sales to be consistent with the revenue growth rate.
    - I will be adjusting
  + I adjusted the revenue YoY growth rate to be consistent the next five years at 6% which is the upper level of percentages from the Biennial Investor Day (December-2020).
  + Adjusting for inflation in channel development I increased the product and distribution costs to .6%. which is the average of international (.7%) and America (.5%) growth rates. I am then taking the average product distribution costs for the previous 3 years, like my previous product and distribution costs.
  + I continued to take the average for other operating expenses for the previous 3 years and adding in the average of international (.05%) and America (.02%) growth rates which is a .035% growth rate for channel development.
  + I continued to take the average for G&A expense for the previous 3 years and adding in the average of international (.5%) and America (.2%) growth rates which is a .35% growth rate for channel development.
  + Adjusting for inflation in corporate and other GAAP I increased the product and distribution costs to .6%. which is the average of international (.7%) and America (.5%) growth rates. I am then taking the average product distribution costs for the previous year, like my previous product and distribution costs.
  + I continued to take the average for other operating expenses for the previous year and adding in the average of international (.05%) and America (.02%) growth rates which is a .035% growth rate for Corporate and Other GAAP.
* I really could also see the licensing opportunities as a huge aspect to really help continue Starbucks huge growth potential. Starbucks is expecting more growth outside of the US and China, adding other countries especially larger ones with more people such as India, Japan, Canada, would offer substantial growth.
  + For store growth, I multiplied the net new licensed stores added by 1 x a growth rate of 20% while taking the average every December of the previous 3 years to increase the number of stores in America.
  + For store growth, I multiplied the net new licensed stores added by 1 x a growth rate of 30% while taking the average every December of the previous 3 years to increase the number of stores for International.
  + For average revenue per licensed store, I’m increasing by a growth rate of 1+ 20% for America while taking the average every December of the previous 3 years to increase the number of revenues per licensed store.
  + For average revenue per licensed store, I’m increasing by a growth rate of 1+ 30% for International while taking the average every December of the previous 3 years to increase the number of revenues per licensed store.
  + For Other revenue YoY growth rate, I am increasing the American growth rate to 20% to remain constant with the rest of my revenue forecasting for America.
  + For Other revenue YoY growth rate, I am increasing the international growth rate to 30% to remain constant with the rest of my revenue forecasting for International.
  + For revenue YoY growth rate, I am increasing the channel development growth rate to 25% to remain constant with the rest of my revenue forecasting for taking the average for International and America.
  + For net revenue YoY growth rate, I am increasing the channel development growth rate to 25% to remain constant with the rest of my revenue forecasting for taking the average for International and America.

ERP:

* I will be adjusting the Fed Funds Rate consistent with my model with an average increase in inflation by .6% from the year 2021 on, to follow my models view of increasing inflation as well as a pessimistic view.
* I will be adjusting the Treasury Spread (10yr to Fed Funds) .6% growth rate consistent with my model due to my very optimistic view on the market, for expected expansion.
* I will be keeping the Equity Market Volatility (VIX) consistent with your base case because I believe with my very optimistic view of market recovery, I want the figures to be below the historic average.
* For the Equity Market Return Projections and S&P 500 total return I will be increasing each quarter by .6% growth rate to stay consistent with the rest of my model. I know this figure gets to quite a high number, but since we are only forecasting until the end of year 2023, I feel confident in my optimistic view that the market will continue to recover at quite a significant rate.

Multiples Valuation:

* For the P/E 3-month average (NTM) I adjusted it to 32x because of my high growth expectancy.
* For the P/E 3-month high (NTM) I adjusted it to 35x because of my high growth expectancy.
* For the P/E 3-month low (NTM) I adjusted it to 30.7x because of my high growth expectancy, so my low is not below 30x.
* For the P/E used for valuation (NTM) I adjusted it to 33x because of my high growth expectancy, and I wanted it to be in between my average and my high expected.