

October 5th, 2021

Starbucks Corporation

4Q21 Preview

SBUX is scheduled to report **Q4FY2021 earnings on 10/28**. I do expect **Q4FY2021 EPS to be \$1.00** (consensus 1.01) for Q4, leading to **FY2021 EPS of \$3.24** (consensus \$3.24).

One key aspect will be the updated management guidance for FY2022 and FY2023. I do expect some more colour on the following aspects: **a) anticipated inflation on coffee and food items and upward pressure on wages** and whether mgmt. assumes this can (mainly) **be offset by pricing initiatives** due to pricing power. I do expect **inflation pressure to kick in in Q4FY2022 and holds on until Q4FY2023 / Q2FY2024** due to hedging strategies conducted by SBUX. b) Ongoing recovery in China since in Q3FY2021 earnings call revenues in China fell short of expectations.

Overall, within the restaurants industry I do think SBUX operates in a **compelling segment** due to **a) expected growth in global coffee market** (8-9% global growth and total global volume of \$400 bn. by the end of 2024) and **b) global trends** within the coffee market that include **consumer shifts to higher quality products** (e.g. premium arabica where SBUX is the global leader) and "better for you option" (e.g. less dairy) or "cold brew" options.

Overall, as a key market player **SBUX is well positioned to benefit from these trends** within the next couple of years. Based on the targeted growth from **approx. 33.000** restaurants from FY 2021 to **approximately 55.000** restaurants outlined on the Investors Day 12/2020, management seems to be determined to grow the business further in this growing segment.

Base Scenario

According to my base scenario I do expect SBUX to be in line with targeted **(4.0% - 5.0%)** growth of **comp. store sales total** with **+4,5%** from **FY2023** onwards. I do expect that management already accounted for some effects of global trends like "better for you options" and "cold brew" in this guidance thus I do not want to expand this growth rate further and like to be on the conservative side here. In FY 2022 I still see some recovery from COVID thus comp store sales are expected to be higher.

Operating Margin (Non-GAAP) is within management expectation (18.0 - 19.0 %) however I do think we see some headwind from Q42022 onwards until Q2FY2024 due to **a) coffee and food price inflation** as well as **b) some upward pressure on wages**, partially offset by pricing initiatives (price increases) by management. The main effects are expected in FY2023 due to hedging strategies conducted by management.

Within the base scenario I think that the targeted number of restaurants of 55.000 in FY2031 might be quite ambitious and thus we modelled the annual increase slightly below a linear approximation within the next 5 years.

Valuation:

The **implied target share** price is derived from the **equal weighted average** of my **DCF model** (base scenario) and from 12m F P/E-multiple with **31.4x** base scenario FY2022E EPS of \$3.79. The **12m F P/E-multiple** represents a **premium** to a group of **comparable fast food restaurants** (Median **26,19x**) which I think is reasonable due to the potential of higher medium and long term revenue growth.

Analyst:
Christopher Adrian

Sector: Restaurants

Rating: Hold

Explanation of the rating categories is given at the bottom of the report.

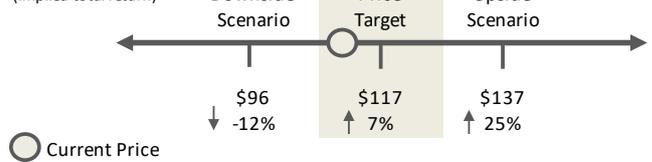
NASDAQ: SBUX \$111,46 October 4th, eob

Target Price \$117

Implied 12-month target price

Scenario Analysis

(implied total return)



Key Statistics

Shares O (MM): 1.185,43 Market Cap (MM): 132.128
Dividend: 1,84 Yield: 1,65%

	FY2020A	FY2021E	FY2022E	FY2023E
Revenue (USD mln.)	23.518,0	29.193,7	31.952,5	34.528,8
Non-GAAP EPS, dil. (USD)	3,24	3,79	4,11	4,69
Operating Margin (Non-GAAP)	9,1%	18,0%	18,8%	18,5%
Number of Restaurants:				
Americas		18.354	18.490	19.070
International		15.415	16.015	17.515
FWD P/ E		29,41	27,15	23,79
Adj. Debt to lease adj. EBITDA		3,01	2,72	2,71

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Sector: Restaurants

Upside Scenario

According to my upside scenario I do expect SBUX to be slightly above **targeted growth of comp. store sales total** with **+5.3%** from FY2023 onwards. Potential catalyst are higher revenues per ticket due to a favourable product mix, **mainly driven by higher than expected revenues from higher priced products** ("better for you" options and an increase in "cold brews" or individualized products). Enhanced **pricing initiatives** also drive growth in average ticket.

Operating Margin (non-GAAP) expands despite of potential inflation pressure due to **high pricing power and intense pricing initiatives conducted** by management which **totally offset** a) coffee and food price inflation as well as b) upward pressure on wages.

Within the upside scenario the model is calibrated that I see **further acceleration in new restaurants until FY2026**. Thus, due to a higher number of restaurants from FY2023 ongoing, a positive effect of sales leverage compared to the base scenario also kicks in in later years, further enhancing the operating margin.

Valuation:

The **upside scenario share price** is derived from the **equal weighted average of my DCF model** (upside scenario) and from the 12m upside F P/E multiple with **33.7x** (high end of historical 12m P/E ratio, derived over a period of the last 3 month) with last upside scenario **FY2022E EPS of \$4.16**.

Downside Scenario

According to my downside scenario I do expect SBUX to be below the **targeted growth of comp. store sales total** with **+3.6% to + 3.8%** from FY2023 onwards. The incorporated risks are lower revenues per ticked due to an unfavourable product mix, **mainly driven by lower than expected revenues from higher priced products** ("better for you" options and an increase in "cold brews" or individualized products). Less pricing initiatives than expected due to higher competition and consumers preference of lower priced products due to an inflationary environment.

Operating Margin (non-GAAP) contracts due to a) coffee and food price inflation as well as b) upward pressure on wages and c) in the international segment additional depreciation in main currencies (EURO and Chinese Yen) which drive pressure on product costs because of commodity hedges are traded in USD. Inflation is only partially offset by pricing initiatives.

Within the downside scenario the model is calibrated that I see less new restaurants until FY2026 than it is modelled in the base case. The targeted 55.000 restaurants in FY2031 are too ambitious.

Valuation:

The **downside scenario share price** is derived from the equal weighted average of my DCF model (downside scenario) and from the 12m downside F P/E multiple with **26.19x** (12 M F P/E multiple of comparables due to decreased revenue and earnings forecast) downside scenario **FY2022E EPS of \$3.58**.

Required Disclosure

All of the views expressed in this report accurately reflect the personal view of the responsible analyst about any and all kind of the subject securities. As part of the Financial Modelling Cooperative Education Program, conducted by Gutenberg Research, all rights are reserved.

Information on Rating categories

Ratings

Buy: Expected 12-month total return is higher than 10%, based on implied target price.

Hold: Expected 12-month total return is less than 10% but higher than -5%, based on implied target-price.

Sell: Expected 12-month total return is less -5%, based on implied target-price.

	FY2020A	FY2021E	FY2022E	FY2023E
Revenue (USD mln.)	23.518,0	29.641,2	33.396,7	36.421,6
Non-GAAP EPS, dil. (USD)	3,24	4,16	4,68	5,43
Operating Margin (Non-GAAP)	9,1%	18,0%	19,6%	19,9%
Number of Restaurants:				
Americas		18.333	18.524	19.104
International		15.450	16.120	17.780
FWD P/ E		26,82	23,82	20,52
Adj. Debt to lease adj. EBITDA		2,93	2,43	2,38

	FY2020A	FY2021E	FY2022E	FY2023E
Revenue (USD mln.)	23.518,0	28.751,0	31.512,8	33.338,1
Non-GAAP EPS, dil. (USD)	3,24	3,58	3,66	4,15
Operating Margin (Non-GAAP)	9,1%	17,7%	18,1%	17,2%
Number of Restaurants:				
Americas		18.197	18.297	18.727
International		15.370	15.770	16.920
FWD P/ E		31,15	30,47	26,87
Adj. Debt to lease adj. EBITDA		3,10	2,94	3,04