

First Cut Stock Study Report

Company Name:	Starbucks Corp.	Ticker:	SBUX
Date of Study:	5/28/2021	Price:	\$ 113.88
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City:	Spokane	State:	WA
Chapter Name (if applicable):	Inland Empire		

Discuss why you consider this to be a high quality, growth company that should be investigated further. Please include comments on historical sales and EPS growth, pre-tax profit margin, return on equity, and debt.

Starbucks has historically been a shareholder-friendly company and an investment club sweetheart. They have a "WIDE" Economic Moat rating from Morningstar. Their average long-term growth stats; sales 9.3% and earnings at 8.9%. All of this, along with a dividend yield of 1.55% (TTM), gives SBUX the appearance of a quality company. They also appear to be recovering from the Covid-19 crisis moderately well. A Debt to Capital Ratio nearing 145% does raise some concern, even with its decline over the past year.

Briefly describe how the company makes money:

Starbucks Corp. is one of the most recognized restaurant and specialty coffee brands. As well, they are the world's leading coffee roaster and retailer. They sell their coffee through its specialty sales group, mail-order business, supermarkets, and online. They have over 9,800 company-owned stores in the US and over 6,800 elsewhere. Additionally, they have over 16,000 licensed stores worldwide.

Projected growth rate for sales: 8.0%

Why did you select this rate? Discuss from where future growth will come.

SBUX has proven over time that it can grow at 8.0% or better. This rate is also in line with analysts' estimates. It matches well with the SBUX trend lines before the Covid-19 crisis. In general, as we move on, I think that the Covid-19 crisis era will ultimately become an outlier. For these reasons, the projections were started from the trend lines. Note 2013 was eliminated as an outlier. The significant drop in earnings that year was due to a one-time \$2.79B settlement with Mondelez International / Kraft Foods.

Projected growth rate for earnings per share: 18.6%

Why did you select this rate?

The Morningstar ACE 'Long Term EPS' average growth rate is 25.3%. I worked through the 'Preferred Procedure,' with expenses, tax rate, and outstanding shares adjusted to match the current Value Line 5-Year estimates. This yielded a 5-year EPS growth rate of 18.6%. Which seems high. But, it closely matches the SSG's ACE Detailed Estimate. When compared to a 5-year sales growth rate of 8%, this once again seems unusually high. My only rationale for this is that it reflects the recovery from the drastic drop in earnings during the Covid-19 crisis.

Projected High P/E: 33

Why did you select this value?

This is just under the 5-year average P/E, less two outliers.

Projected Low P/E: 24

Why did you select this value?

Like the High P/E, this too is on the lower side of the 5 yr average (less outliers). Both the estimated high and low P/Es are in line with those before the Covid-19 crisis.

Projected Low Price: \$70.80

Why did you select this value?

SBUX appears to be in recovery mode. Using the 'Auto Update to TTM EPS' in the SSG section 4B(a) currently yields a 'Forecast Low Price' of \$20.20. Given the last year's prices, this seems unrealistically low. For a more realistic 'Low Price,' I used \$2.95 (the 2021 Detailed EPS Est.) for the 'Low EPS Forecast' in SSG step 4B (a). For what it's worth, this is very close to the 52-week low.

At the current price, the stock is a (check one):

Buy or Hold or Sell

At the current price, the upside-downside ratio is: 1.3 to 1

Compound Annual Return – Using Forecast High P/E: 9.9%

Your final recommendation (check one):

Buy or Hold or Sell

Explain:

The current price puts SBUX in the 'HOLD' Zone. Even if the price was closer to or in the 'BUY' Zone, I'd still be reluctant to recommend a buy given the current high P/E ratio and Debt to Capital ratio pushing 145%.



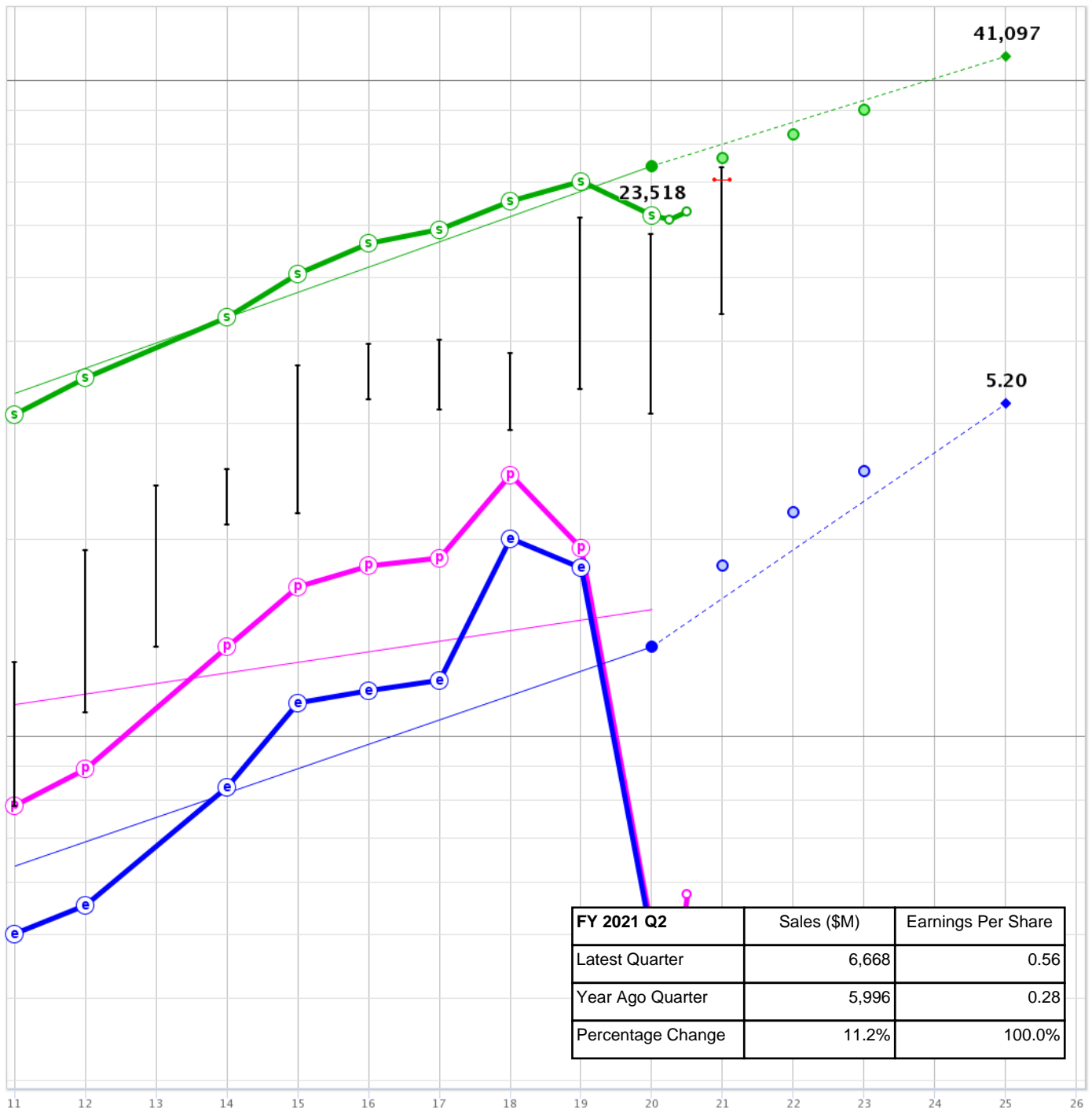
For transparency, I belong to two investment clubs that have held SBUX for some time. At present, I recommend that both continue to HOLD. This does not preclude regular review. Over time, the ongoing recovery with improved earnings should help take care of the high P/E ratio but, the Debt to Capital Ratio should be watched closely. Hopefully, that will improve with time as well.

Company	Starbucks		Date	05/28/21	
Prepared by	Treffry		Data taken from	BI Stock Data	
Where traded	NAS	Industry	Restaurants		
Capitalization --- Outstanding Amounts	Reference				
Preferred (\$M)	0.0	% Insiders	% Institution		
Common (M Shares)	1,184.8	3.1	61.1		
Debt (\$M)	23,522.7	% to Tot Cap	148.2	% Pot Dil	0.6

Stock Selection Guide

Symbol: SBUX

1 VISUAL ANALYSIS of Sales, Earnings, and Price



- | | | | |
|-----------------------------------|------|--|-------|
| (1) Historical Sales Growth | 9.3% | (3) Historical Earnings Per Share Growth | 8.9% |
| (2) Estimated Future Sales Growth | 8.0% | (4) Estimated Future Earnings Per Share Growth | 18.6% |

2 EVALUATING Management

Starbucks

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Last 5 Year Avg.
Pre-tax Profit on Sales	15.5%	15.5%	-1.5%	19.2%	20.4%	19.7%	19.3%	23.4%	16.8%	5.0%	16.8%
% Earned on Equity	27.6%	24.9%	0.1%	40.1%	46.2%	48.7%	48.7%	106.3%	-80.1%	-10.8%	22.6%
% Debt To Capital	11.1%	9.7%	22.5%	28.0%	28.7%	38.0%	41.9%	89.0%	226.3%	144.7%	108.0%

3 PRICE-EARNINGS HISTORY as an indicator of the future

This shows how stock prices have fluctuated with earnings and dividends. It is building block for translating earnings into future stock prices.

CLOSING PRICE 113.88 (05/28/21)

HIGH THIS YEAR 118.98

LOW THIS YEAR 71.06

	A	B	C	D	E	F	G	H
Year	Price		Earnings	Price Earnings Ratio		Dividend	% Payout	% High Yield
	High	Low	Per Share	High A / C	Low B / C	Per Share	F / C * 100	F / B * 100
2016	64.0	52.6	1.90	33.7	27.7	0.80	42.1	1.5
2017	64.9	50.8	1.97	32.9	25.8	1.00	50.8	2.0
2018	61.9	47.4	3.24	19.1	14.6	1.26	38.9	2.7
2019	99.7	54.7	2.92	34.2	18.7	1.44	49.3	2.6
2020	94.1	50.0	0.79	119.2	63.3	1.64	207.6	3.3
AVERAGE		51.1		33.6	24.1		45.3	
CURRENT/TTM			0.84			1.80	214.3	
AVERAGE PRICE EARNINGS RATIO: 28.8				CURRENT PRICE EARNINGS RATIO: 135.6				

4 EVALUATING RISK and REWARD over the next 5 years

Assuming one recession and one business boom every 5 years, calculations are made of how high and how low the stock might sell. The upside-downside ratio is the key to evaluating risk and reward.

A HIGH PRICE - NEXT 5 YEARS

Avg. High P/E 33.0 X Estimate High Earnings/Share 5.20 = Forecasted High Price \$ 171.6

B LOW PRICE - NEXT 5 YEARS

(a) Avg. Low P/E 24.0 X Estimate Low Earnings/Share 2.95 = Forecasted Low Price \$ 70.8

(b) Avg. Low Price of Last 5 Years 51.1

(c) Recent Market Low Price 50.0

(d) Price Dividend Will Support $\frac{\text{Indicated Dividend}}{\text{High Yield}} = \frac{1.80}{3.28\%} = 54.9$
Selected Forecasted Low Price \$ 70.8

C ZONING using 25%-50%-25%

Forecasted High Price 171.6 Minus Forecasted Low Price 70.8 = 100.8 Range. 25% of Range 25.2

Buy Zone 70.8 to 96.0
Hold Zone 96.0 to 146.4
Sell Zone 146.4 to 171.6

Present Market Price of 113.88 is in the **HOLD** Zone

D UPSIDE DOWNSIDE RATIO (POTENTIAL GAIN VS. RISK OR LOSS)

$\frac{\text{High Price} - \text{Present Price}}{\text{Present Price} - \text{Low Price}} = \frac{171.6 - 113.88}{113.88 - 70.8} = \frac{57.73}{43.08} = 1.3$ To 1

E PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)

$\frac{\text{High Price} - \text{Closing Price}}{\text{Closing Price}} = \frac{171.6 - 113.88}{113.88} = 1.5069$ X 100 = 150.69 - 100 = 50.7 % Appreciation

5 5-YEAR POTENTIAL

This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.

A $\frac{\text{Indicated Annual Dividend}}{\text{Closing Price}} = \frac{1.64}{113.88} = 0.0158 = 1.6\%$ Current Yield

B AVERAGE YIELD - USING FORECAST HIGH P/E

$\frac{\text{Avg. \% Payout}}{\text{Forecast High PE}} = \frac{45.0\%}{33.00} = 1.4\%$

AVERAGE YIELD - USING FORECAST AVERAGE P/E

$\frac{\text{Avg. \% Payout}}{\text{Forecast Average PE}} = \frac{45.0\%}{28.50} = 1.6\%$

C COMPOUND ANNUAL RETURN - USING FORECAST HIGH P/E

Annualized Appreciation 8.5 %
Average Yield 1.4 %
Annualized Rate of Return 9.9 %

COMPOUND ANNUAL RETURN - USING FORECAST AVG P/E

Annualized Appreciation 5.4 %
Average Yield 1.6 %
Annualized Rate of Return 7.0 %