LISBON SCHOOL OF ECONOMICS & MANAGEMENT
UNIVERSIDADE DE LISBOA

MASTER OF SCIENCE IN
ACCOUNTING, TAXATION AND CORPORATE FINANCE

MASTERS FINAL WORK
PROJECT

EQUITY RESEARCH:
STARBUCKS

MARIANA AGOSTINHO RODRIGUES

OCTOBER 2019

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SUPERVISOR:
PROFESSOR PEDRO RINO VIEIRA

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Abstract

The present report contains the valuation of Starbucks Corporation, market leader in the coffee industry and was elaborated following the CFA Institute references. The reason for choosing this company, in addition the interest in the sector in general, came essentially from the personal admiration for the Starbucks history and evolution..

The main purpose consists in providing a price target for the year end of 2020 understanding if the stocks are over or undervalued and according to this give a final recommendation for the investors. For that, was made a business description, based on the company history and its operational segments, an industry overview studying the macroeconomic environment and competition level, as well its corporate governance, shareholder's structure and competitive position (SWOT analysis and Porter's 5 Forces).

After this analytical analysis, we set the several inputs in order to perform the valuation and get the price target, as the main drivers of revenues, operating expenses, CAPEX and NWC variations and made the assumptions for the next 5 years. This forecast was supported by the trends and forecast of growth, for company regions. Finally, we aplly the Discounted Cash Flow method (DCF), a Relative Valuation considering comparable multiple ratios and the Dividend Discounted Model (DDM) to determinate the price target.

The price target obtained by the DCF was \$107.4, with an upside potential of 17%, compared with the price at September of 2019 results in a buy recommendation to the investors. The Relative Valuation is aligned with the DCF, giving the same recommendation, contrary to DDM which appointing to a price target of \$52.23, issuing a sell recommendation.

In addition to the DCF recommendation, it was elaborated a Risk Assessment, reporting the main risks which influence the share price, we did Sensitivity Analysis to the terminal growth rate (to perpetuity) and long-term WACC.

Key word: Equity Research; Starbucks Corporation; Coffee Industry; Discounted Cash-Flow (DCF) valuation; Multiples;

Resumo

O presente relatório inclui a avaliação da Starbucks Corporation, líder de mercado na indústria do café, elaborado de acordo com as regras do CFA Institute. A razão por de trás da escolha da empresa, para além do interesse no setor em geral, advém essencialmente da admiração pessoal pela sua história e evolução desde o inicio até à marca que é atualmente conhecida.

O principal objetivo é defenir um preço alvo para o final do ano de 2020, compreender se as ações estão sub ou sobrevalorizadas e de acordo com isso, dar uma recomendação final para os investidores. Para tal, foi inicialmente feita uma descrição do negócio, com base na história da empresa e explicação dos vários segmentos operacionais, uma visão geral da indústria analisando o ambiente macroeconômico em que se insere e os níveis de concorrência, bem como a sua organização interna, estrutura acccionária e posição competitiva (análise SWOT e 5 Forças de Porter).

Após este estudo, foram definidos e previstos para os próximos 5 anos os principais drivers de receita, despesas operacionais e variações de CAPEX e NWC. Esta previsão, juntamente com a revisão da economia global foi fundamentada pelas tendências e previsões de crescimento destes drivers para os vários segmentos operacionais. Finalmente, aplica-se o método “Discounted Cash Flow” (DCF), “Relative Valuation” considerando os rácios comparáveis e por fim “Dividend Discounted Model” (DDM).

O preço alvo obtido através do DCF foi de $107.4, com um potencial de valorização de 17%, em comparação com o preço a Setembro de 2019, resultando numa recomendação de compra para os investidores. A “Relative Valuation” encontra-se alinhada com o DCF, dando a mesma recomendação, contrariamente ao DDM que obtém um preço alvo de $52.23 e emite uma recomendação de venda.

Adicionalmente à recomendação do DCF, foram definidos os principais riscos de investimentos e feita uma análise de sensibilidade para a taxa de crescimento (para a perpetuidade) e o WACC.

Acknowledgements

This work represents the final of a long academic journey, which began in this honourable school. For now, it’s time to thank to all that in some way, directly and indirectly help me to make this possible.

To my family, especially my parents and brother, for the motivation and unconditional conviction in my capacities, even when was difficult to move on. All the support that have provided throught all my life and its efforts to help me to overcome the biggest difficulties were crucial to reach the end of this important stage.

To my boyfriend, for the patience every day, love and all support to make the best balance between my personal and professional goals.

To my friends and colleagues, for the truly friendship along this journey.

And lastly, but with equal importance for the present project, to my supervisor, Professor Pedro Rino Viera for the availability, guidance and all decisive opinions.

To all that have been there for me along the master course, a huge thank you.

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SBUX: Coffee Disruption

Starbucks

Buy

Medium risk

15 October 2019

Portugal

(YE2020 Price Target of $107.4 (+17%); recommendation is to Buy)

1. Research Snapshot

BUY is the recommendation for Starbucks Corporation (SBUX), with a price target of $107.4 at the end of 2020, using the discounted cash flow method. This offers a 17% upside potential from September 2019 closing price of $88.4 although with medium risk. Relative Valuation through multiples supports this view that SBUX is currently undervalued.

Figure 1: Historical Share Price

Source: Author

Americas Segment represent the main region in terms of revenues: with approximately 68% share of total net revenues presented in 2018, Americas continues to be the most lucrative segment of Starbucks. However, this region is currently passing over a maturity stage, where the market is saturated and therefore it is expected that its high performance will decelerate to other regions as Asia market, which was subject of a large investment in 2018.

Consistent investments in emerging markets: to overcome the maturity of Americas segment and consolidate its strong position in other regions with high level of profitability and operating margins, Starbucks has made considerable investments in overall Asia region, especially in 2018 with the acquisition of the remaining shares of East China Joint Venture. Over the years the company has continued to earn market share, especially in China, expecting high growth rates for the next years. Therefore, we consider that all Asia region has conditions to be the next big market of Starbucks.

Increase of Competition on the Coffee Industry: the competition level becomes more aggressive during the last years, attending the increase of the coffee culture around the world that conduce to more competitors that see an opportunity to expand its businesses and get more market share.

Table 1: Autor's Risk Assessment

Low	Medium	High

Was estimated a medium risk for SBUX.

Source: Own estimates

2. Business Description

Figure 2: Starbucks Logo Evolution

Source: Starbucks Coffee Company

Brief History

Starbucks Corporation is the premier roaster, marketer and retailer of specialty coffee in the world. Much of its success is due to the relationship that maintains with the customers and the constant proximity it preserves with them, not restricting itself to already notable quality of its products.

Founded in 1971, with the name of Starbucks coffee Tea and Spice, it opened its first store in Seattle, Washington, by three partners: Professors Jerry Baldwin and Zev Siegel, and writer Gordon Bowker, with the purpose of trading coffee beans. The name Starbucks was inspired on the character Starbuck of the book Moby Dick, resulting in the logo of the mermaid, which has suffered adjustments since then.

In 1982, Howard Schultz, who would come to be the prodigious booster of Starbucks, enters to the company as director of sales and marketing operations. And after a work trip to Italy, where Howard was fascinated by Italian coffees and the romanticism of the experience provided by them, in 1983 he suggests that they also could sell coffee and express in addition to the grains. However, the 3 founders rejected the idea, believing that it would drastically change the focus of the business and therefore Schultz left the company to follow the concept.

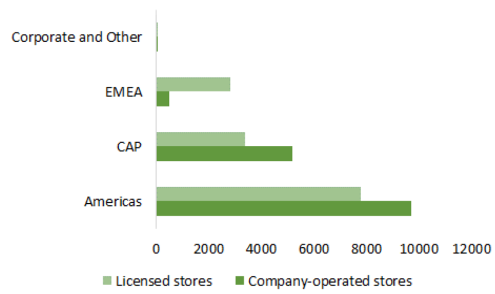
In 1985, to implement in the american culture, the style and elegance of the coffee served in Italy, Schultz founded *Il Giornale* (in italian "the newspaper"). Starting at that moment to differentiate from the regular and giving a different emotion of the traditional coffee. In 1987, with the help of local investors bought the store chain and Starbucks brand to its founders, changing the name of *Il Giornale* to Starbucks and becoming Chief Executive Officer (CEO) of Starbucks Corporation. Once acquired, he started the large evolution turning the company into the huge force it is today.

In 1996 it established a partnership, that would be crucial for the company, with the United Airlines who started serving the brand's coffee on their flights across the world. As a result, Starbucks began to expand into the international market, opening their first store outside of North America in Tokyo, Japan (first country outside of North America to have a network unit and which would later become one of the largest and most important international market of the brand), and in Hawaii and Singapore. Afterward it expanded into South-east Asia, Europe and Middle East.

Since then until now, Starbucks has as a priority to be known as a "third place" where people stop after work on their way home. If customers appreciate the "experience" of being in a Starbucks, even if other coffee shop has a better or cheaper coffee, many of them would prefer to go to a Starbucks store instead of going to any other. It's with this experience concept that the company gives a different emotion from traditional coffee and promotes the feeling of belonging to the clients.

Currently, Starbucks operates more than 29,000 stores in 70 different countries, divided in to company-operated retail stores and licensed stores, that allows Starbucks take advantage of the strong local market knowledge of its partners. Besides that, the company sells whole bean coffees through a speciality sales group and supermarkets, called Consumer Packaged Goods (CPG) and Foodservice. In 2018, the company-operated stores represented the principal source of revenue (79,7%) while CPG & Foodservice and licensed stores came in second and third respectively, representing 10,7% and 9,6% of total revenues.

Figure 3: Number of Company-operated and Licensed stores for each Segment in 2018



Source: Starbucks Annual Report 2018

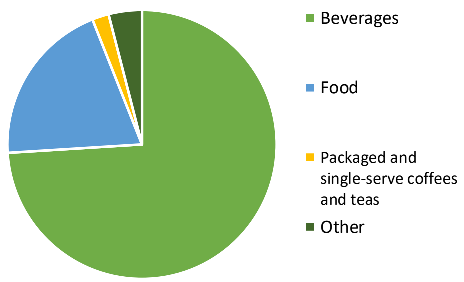
Starbucks operational segments

Starbucks operations take place in different regions of the world, with distinctive industry dynamics. As a retailer, the company is considerably sensitive to the economic environment and conditions of each region.

The segment division adopted throughout this equity research follows the same segment division applied from the company.

Currently, Starbucks operates in five different regions, with four reportable segments: Americas, which includes United States (U.S.), Canada, and Latin America; China and Asia Pacific (CAP); Europe, Middle East, and Africa (EMEA) and Channel Development. Besides these four segments, there exists a fifth non-reportable operating segment, designated of Corporate and Other (CO).

Figure 4: Retail sales by product for company-operated stores in 2018



Source: Starbucks Annual Report 2018

Americas

The Americas segment is the most mature and lucrative business market for Starbucks. Americas' segment englobes the North and South America, more specifically the U.S., Canada and Latin America. Looking at U.S., which is the biggest market of this segment, it is one of the major coffee importers in the world and consequently one of the largest consumers of coffee.

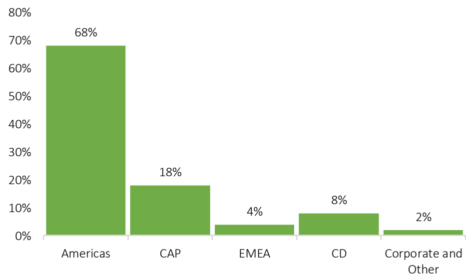
In 2018, with a percentage of total net revenues around 68%, the Americas segments represented the main market of Starbucks. When compared to the previous year

(2017) the total net revenues in 2018 increased by $1.1 billion, corresponding to 7% increases. The sales from company-operated stores increased by approximately $909 million and the licensed stores around $197 million.
In the operated stores, the increase was mainly supported by the incremental revenue of 383 new stores operated by Starbucks ($ 604 million) and a 2% increase in comparable store sales ($ 319 million). In the licensed stores, the increase is justified by the higher sales in 2018 and higher royalties from the licensees ($173 million).

CAP

With a percentage of total net revenues around 18% CAP follows the Americas segment. However, while the Americas is considered already a mature market, CAP presents conditions to be the next big market for the Starbucks Company.
In this segment the most important market is China. Despite this country having a strong tea culture, since the beginning the company tried to understand that culture and define the most appropriate market strategy, with also local items on its offer. Therefore, Starbucks continues gaining market share in China, growing over the years, benefiting from its brand reputation and perception of quality by its customers, capable to produce a strong financial performance for the next years.
In 2018, the total net revenues had suffered an increase in both operated and licenced stores in the CAP Segment. Overall had increased $1.2 billion, or 38%, when compared with 2017. However, during the last year the new competitor Luckin Coffee has emerged in the Chinese coffee market, to override the main Starbuck's advantages.

Figure 5: Revenue by Segment in 2018 (in % of Total)

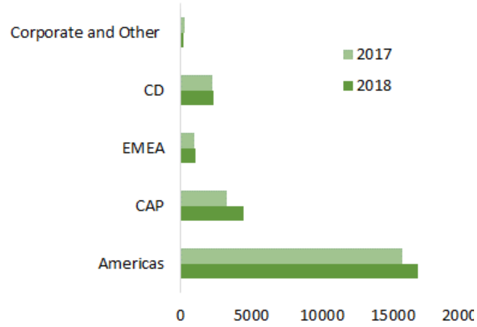


Source: Starbucks Annual Report 2018

EMEA

EMEA represents 4% of total net revenues of Starbucks, and presente a lower rate compared with others segments.
The lowest operating margins for Starbucks are in this region, which included countries with different dynamics in the coffee industry and regional preferences that conditionate the sales values, like United Kingdom (U.K.), Turkey, United Arab Emirates and Russia.
All that difference verified on the coffee consumption in these countries can be a good explanation for the low source of income. Same of the reasons was the slowdown european economy motivated by the debt crisis.
In Europe, the big competition in the coffee space also contributes to the situation of this market segment. The main competitors are the British Coffee Chain Costa Coffee and Mc Donald's Mc Café. For example, in Germany the number of McCafé is significant higher then the number of Starbucks stores, and in U.K. the number of Costa Coffee stores is also larger than Starbucks.
In addition, in Europe, there is a very strong culture of attending small local cafes and Starbucks prices reveal to be high for countries with lower purchasing power such as Portugal and Africa.
Therefore, in 2018 Starbucks developed a different structure in EMEA Segment, especially in Europe, to accelerate the long-term growth of its business. With the propose to fully license Starbucks operations, the company has started developing a strategy to achieve an increasingly-licensed growth with business partners.
Besides that, in 2018 the revenues generated from this segment, in both company-operated and licensed stores increased $89 million, or 9%, when compared with 2017. From the licensed stores, the company has suffered an increase of $64 million and from the company-operated stores $25 million, what was favourable to its results.

Figure 6: Revenues in 2017 and 2018 (in millions of $)



Source: Starbucks Annual Report 2018

The Chanel Development

The Channel Development segment includes in general all the CPG and food-service activities. Sold worldwide outside on both company-operated and licensed stores, the CPG business has experiencing a big success over the last years to Starbucks.
With a percentage of total net revenues around 9%, the Chanel Development Segment, as the CAP Segment, represents the highest operating margin to the company. In 2018, the value of net revenues increased by $41 million, or 2%, compared with 2017. This increase is mostly a result of the sale of Tazo brand in the first quarter of 2018 and the licensing of CPG and foodservice businesses to Nestlé.

Corporate and Other

The Corporate and Other Segment represents a fifth non-reportable operating segment, where the company sells other goods and services besides the Starbucks brand.
This segment includes the subsidiaries of Starbucks namely Evolution Fresh, Ethos, Teavana, La Boulange, Seattle's Best Coffee in its only one company-owned store, in Seattle, Digital Ventures (online sales of all available brands) and Starbucks Reserve® Roastery & Tasting Room.

During 2018, Teavana retail company-operated and licensed stores substantially ceased its operations, due to a continuously underperformance over the last years. As La Boulange, which in 2015 Starbucks announced that were going to close all stores and started to sell its foodservices in the rest of Starbucks stores.
Evolution Fresh retail stores, CPG and foodservice represent a line of cold-pressed juices that are sold in some Starbucks locations as well as in other grocery stores and retailers and Ethos represents a brand of bottled water, that contributes to the ideals of solidarity defended by Starbucks.
Collectively, the combined group of non-reportable operating segments is reported within Corporate and Other.

Company Key Drivers of profitability

The FY2018 results reflect the impact of the company restructuring efforts, namelly the closure of Teavana stores, the sale of Tazo brand and retail operations in Singapore to a licensed partner and lastly the licensing of CPG and foodservice businesses to Nestlé. This deal determinants the increase of 10% of total revenues to $24,7 billion.

All its reportable segments had suffered an increase in the revenues. The Americas Segment revenues grew by 7% to $16.7 billion and the CAP Segment revenues had an increase of 38% to $4.5 billion, driven essentially by the impact of ownership change in East China and the incremental revenues from 756 new stores. Currently Starbucks operats around 8530 stores and therefore is the second largest reportable segment. The EMEA segment and the Channel Development revenues also grew in 2018, by 9% to $1.0 billion and 2% to $2.3 billion respectively.

The total revenues from company-operated stores, can be divided in to different types of products, as beverages that in 2018 represented 74% of the company revenues, Food and Packaged coffees and teas represented 20% and 2% respectively others corresponds to ready-to-drink beverages and coffee-making equipment and represent 4% of the total revenues.

3. Management and Corporate Governance

Starbucks management has as one of their principles to promote a service that can be distinguished from the market and main competitors, always having in mind strong ethical values on the implementation of this mission.
FY 2018 represents a significant milestone for Starbucks Corporation, not only with the leadership transition and the changes made on the leaders of its operations, finance and legal positions but also at the level of development of new strategies on the company' business to focus on its core value drivers of growth and profitability.
Howard Shultz, step down from his executive position and board, being honoured with the distinction of chairman emeritus, leaving its functions to Kevin Johnson that succeeded him as president and CEO of Starbucks.
Kevin R. Johnson has been a Starbucks director since 2009 and as already mentioned, is currently the president and chief executive officer. The other main executive officers are following described. Rosalind G. Brewer is a group president and chief operating officer since October 2017. John Culver joined Starbucks in August 2002 and is also a group president, serving the company as group president, International, Channel Development and Global Coffee & Tea, since July 2018 Most recently, Rachel A. Gonzalez joined Starbucks and has attended as executive vice president, general counsel and secretary since joining Starbucks in April 2018, as Patrick J. Grismer that also joined Starbucks in 2018, as executive vice president. Lucy Lee Helm joined Starbucks in September 1999, and emerges to executive vice president, chief partner officer in 2017. Scott Maw linked to Starbucks in 2011, and has arise to executive vice president and chief financial officer in 2014. Finnaly, Vivek Varma joined Starbucks in 2008, and has served the company as executive vice president and Public Affairs since 2010.
Regarding the actions over 2018 to streamline its business, the company formed the Global Coffee Alliance, mentioned previously by combining its brand with its business partner Nestlé. Also, Starbucks had simplified its offer, focusing on the main retail products by alienating the Tazo brand and closing during 2018 the retail company-operated and licensed stores of Teavana. In China the company have the commitment of being operating around 5,000 stores in Mainland China in 2021.To reach this objective, they acquired the remaining 50% of its East China Join Venture business, undertaking this transaction with its long-term partners President Chain Store Corporation and Uni-President Enterprises Corporation, solidifying China as the main priority of the company.

Table 2: Executive Officers

Name	Position
Kevin R. Johnson	President and CEO
Rosalind G. Brewer	Group president Americas and COO
Cliff Burrows	Group president Siren Retail
Jonh Culver	Group president, International CD and Global Coffee and Tea (emerging brand)
Rachel A. Gonzalez	Executive vice president, general counsel and secretary
Scott Maw	Executive vice president and CFO (retiring November 30, 2018)
Patrick J. Grismer	Executive vice president and CFO (effective November 30, 2018)
Vivek Varma	Executive vice president, Public Affairs

Source: Starbucks Annual Report 2018

Shareholders Structure

In 1992, under the trading symbol “SBUX”, Starbucks Corporation’s began to list common stock on NASDAQ stock market. On 26 of June the company went public with a price per share of $17 and closed that day trading with $21.50 per share. Since then, over the years Starbucks has developed a long-standing relation with all shareholders. As of November 2018, Starbucks has approximately 18,100 shareholders and 1240.6 million shares outstanding. Currently, the shareholder base is composed by institutional and non-institutional ownership.

With a percentage of around 75.89%, the company seems to have a high institutional ownership that can easily cause large share price movements in the case of significant share sell-off or acquisitions by institutions. The non-institutional ownership represents 24.11%, being divided by public, individual insider and private companies.

Concerning to general public ownership, with a percentage of almost 21.45%, this group has a substantial ownership that is able to influence the main decisions of the company. The individual insiders own 2.66% and the private’s companies hold an insignificant percentage of 0.0018% in SBUX. The founder of Starbucks’s Corporation, Howard Schultz is the single-largest shareholder of the company, holding 33 million shares directly and 1.7 million shares indirectly.

The following graph shows the total return to shareholders, from 2013 to 2018, when compared with Standard & Poor’s 500 Index, NASDAQ Composite Index and Standard & Poor’s Consumer discretionary Sector.

Figure 8: Performance Comparison Graph

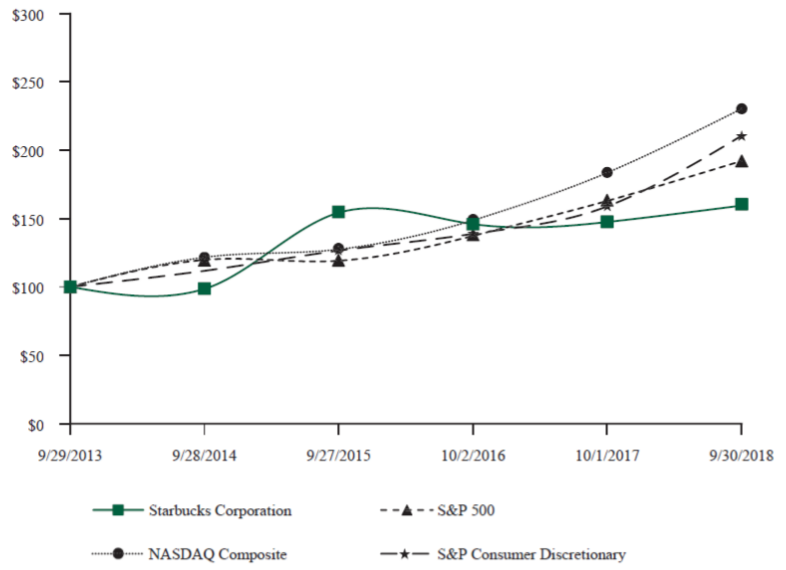


Figure 7: Board of Directors Diversity

Source: Annual Meeting of Shareholders & Proxy Statement 2019

Table 3: Ownership Summary

Institutional Ownership	72.92 %
Total Shares Outstanding (millions)	1,253
Total Value of Holdings (millions)	$78,978

Source: Nasdaq

4. Industry Overview and Competitive Positioning

Global Economic Outlook

Over the past years, Starbucks has been consistently growing, demonstrating the strength of its global business and strategy, due to main to macroeconomic factors that contributed to that and to the long-term investments developed in the reportable operating segments, as CD and CAP segment.

In 2018, the total net revenues from all segments and both operated and licensed stores had increased by $2.3 billion, or 10%, when compared with 2017. These results reflect the impact of several restructuring internal procedures, referred previously, as the acquisition of East China joint venture, the closure of Teavana stores, the sale of the Tazo brand and the licensing of CPG products and foodservice businesses to Nestlé.

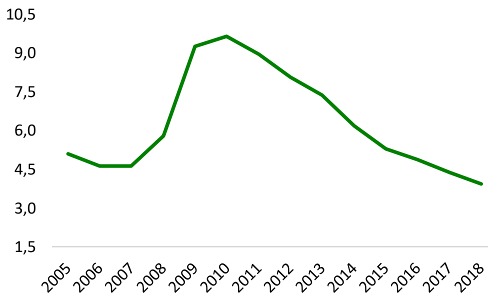
However, there’s a set of macroeconomic factors that influence the company’s performance as the Great Recession effects and the China economic development from the decade of 1980 that produced several changes in the dynamics of the world economy. More specifically, for global companies like Starbucks, such factors are as follows: (i) growth of coffee culture; (ii) the legal and fiscal framework of which region where the company operates and intends to expand; (iii) the risk of big currency exchange rates changes; (iv) the several political barriers to access to countries with different commercial cultures.

In a global comparison, China represent a key role in the world economy, with the prediction to continue acquiring more influence. According to FMI, in 2023 China will make an even more contribution to global Gross Domestic Product (GDP) growth. Follow this estimate, China will be considered as the world's largest economy, moving ahead of U.S. that currently owns this status.

Economy Outlook

As mentioned before, Starbucks operates in different geographic regions on the world, with different dynamics and growth opportunities. Being Starbucks operating in different regions is susceptible to the macroeconomic fluctuations of these different countries. Namely, some statistics as the economic growth and unemployment have a significant impact in the Starbucks financial performance. Also, as a retailer, the consumer spending growth is another variable that will have a significant impact in the company. Taking this into account, we do an economic overview to better understand that regions.

Figure 9: Unemployment values in U.S. between 2005-2018 (Annual % of total labour force)



Source: The World Bank Data

America Economic Outlook

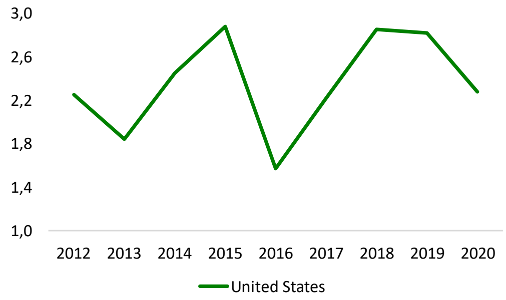
Over the years the Americas Segment, has been the most mature market of Starbucks. In 2007 U.S. suffered its major financial crisis, that struck almost all economic sectors, expanding its impacts into a world scale. Called by Great Recession, it was mainly caused by a credit bubble in the real estate sector that led to excessive leverage of companies and families and the insolvency of various banks. This crisis that unleashed until 2010, led to a strong deceleration of the economy, mainly due to the destruction of jobs and essentially the reduction of the consumption, which is the external factor that more influence the retail industry. Between 2007 and 2010, the average annual consumer spending decreases almost 8% in real terms, while America's economy has experienced its worst years of GDP growth with annual negative values. The unemployment rate peaked from less than 5% to more than 10% in the months after the crisis.

After that time, the American economy has recovered gradually and the post-crisis period experienced economic growth in several sectors, such as trade, transport, agriculture and finance. And even with the political uncertainty associated with current president Donald Trump and its challenging trade reforms as the suppression and increase of barriers to international trade and implementation of import tariffs, there are indicators showing their growing economic performance.

The stock market has increased and the unemployment values decreased to the peak of 9,63% in 2010 and the value of GDP has grown in the recent years, having an increase that hasn't been verified since 2014. There was a legislative achievement that allowed an improvement in U.S. tax code, reducing taxes paid by companies from 35% to 24,5%.

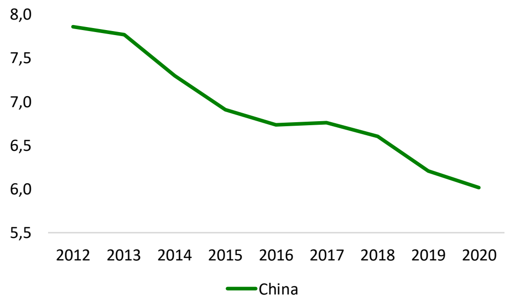
According to Donald Trump, the American economy has never been better, representing a high income country to the world. However, the numbers show that although during 2018 the GDP growth was better than expected in the fourth quarter of 2018, reaching a 2.2% growth, the World Bank expects the growth to shrink in the next years, reaching 2.0%, 1.6% and 1.5% in 2019, 2020 and 2021, respectively, as a side effect of the trade war between China and U.S.. Also, one of the big promises of Donald Trump campaign was the creation of jobs and reaching full employment. According to U.S. Bureau of Labor Statistics in the end of 2018 the unemployment rate was 3,9%. Regarding the consumption that is one of the main drivers that could affect Starbucks sale, currently the consumer confidence is very high, however it is expected a slight decrease of the consumption growth in the next years, with a growth of 2,7% in 2018 and 2.3% in 2019 according to the Passport Database (2019).

Figure 10: U.S. GDP Growth between 2014-2020 (Annual %)



Source: OECD Database

Figure 11: China GDP Growth between 2014-2020 (Annual %)



Source: OECD Database

CAP Economic Outlook

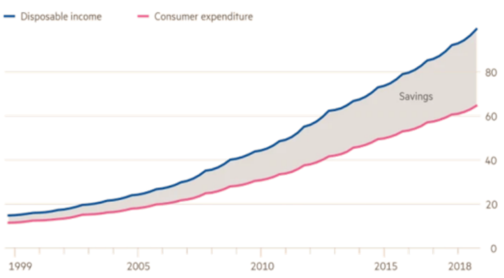
Representing the region with the highest projection of economic growth to Starbucks, China is the company's largest CAP segment market.

However, before 1978 China represented a low economy, centralized and closed to the world. After that year, China economy opened to the international trade, with focus on the growth of the private sector. In the recente internal changes occurred into its economy that together with the implementation of free market reforms and opening to foreign investment, allowed to China experience a growth economic rate much higher than the global economy, with an average of around 10% per year for three decades.

In 2008, with the emergence of economic instabilities in the U.S. and Europe, there was a slowdown in China's economic growth. According to World Bank Data (2019), during the crisis in 2009 GDP growth decreased from 9.4% and 7.8% in 2012. There's a decline in China's exports and foreign direct investment flows (FDI), causing a slowdown of GDP growth. However, the country has succeeded to minimize the negative effects of this global crisis, through the adoption of internal policies that expanded credit, investment and domestic consumption. There was therefore a fast

and an efficient reply by the Chinese government with tax and monetary incentives who have succeeded in reducing the impact of the 2008 global crisis on the country's economy, allowing China to escape the economic recession lived in those years, experiencing only a slowdown in economic activity.
Even with all the vulnerabilities of the global economy, due to the strong capacity of China to sustain a fast growing environment, in the recent years there has been continuous growth of GDP, with optimism around its economic performance.
Although China continues to be one of the countries with the biggest GDP growth, is expected that it starts to follow a downward trend because of the import tariffs implemented by the United States. According to World Bank (2019) it is expected that GDP growth to decrease to 6.2% in 2019 and 2020. However, new tax policies, together with stronger consumer confidence will stimulate consumer spending.In 2019, it is expected to reach a 7.4% consumer growth a value that is in line to the ones presented last year (7.3%). One of the main drivers of this growth is the expected raise of the middle-class. Barton, Chen and Jin (2013) suggest that by 2022, 76% of China's population in urban areas will be considered middle-class.

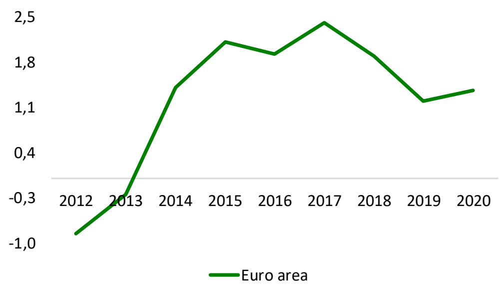
Figure 12: China per capita disposable income and consumer expenditure



Source: Financial Times

EMEA Economic Outlook
Currently, there's two significant events that can explain the weak performance of this region over the years, the effects of Great Recession and most recently the Brexit in U.K..
After 2008, when the U.S. perceived the real state bubble rupture, the global economy suffered a setback in its growth, exposing Europe's critical situation and exposing the weakness of the banking sistem and fiscal and financial imbalances of several countries in the European Union. Europe witnessed the effects of the Great Recession, with high budget deficits and public debt, due to its unsustainable tax policies and several structural problems in public finances. Facing this problem, several european countries applied austerity policies. However, the most affected as Portugal, Greece,, Cyprus,Ireland and to a lesser extent Spain that needed to recapitalize the internal banks implemented strong structural reforms, reducing expenses in sectors such as the education, health and pensions. Germany, England and France felt less the effects of the crisis, specially at the level of employment, due to higher technologic and its economies being highly industrialized, with a hogher capacity to invest with large international reserves.
Most recently, Europe had suffered another setback, due to Brexit announced by the U.K. This affected the fragile economic growth of the European Union, specially the increase of barriers to free trade between the countries. As a result, business and consumption in Europe has been slowing develop when compared to other global economies.
After the economic crisis, some fiscal easing and the monetary policy supported domestic demand, in particular the private consumption and employment. Despite the exceptional year of 2017 in terms of growth, where the Euro area have outperformed the United States, it is expected for the next years a steady GDP growth of 1.8% for 2019 and 1.6% in 2020. In terms of unemployment rates the downward trend of the last year is expected to continue, passing from 10% in 2016 to an expected rate of 7.2% in 2020, according by the Organization for Economic Cooperation and Development (OECD) (2019).

Figure 13: Euro Area GDP Growth between 2014-2020 (Annual %)



Source: OECD Database

Industry Overview
To approximate the culture and habits experienced in each market where Starbucks operates, the company has developed over the years plans to expand its business besides the coffee industry, partnering and buying several companies to expand its portfolio of products.
Currently, operating in 78 markets, Starbucks has a long variety of high-quality products and services. Through all the company-operated stores, Starbucks sells handcrafted beverages like fresh-brewed coffee, hot and cold espresso drinks, non-coffee blended beverages, tea and a variety of fresh food items like pastries (cookies, muffins, cakes, croissants and others). From the licensed stores, the company also sells a variety of coffee and tea products. And as well Starbucks brand, the company also sells products and services under the following brands: Teavana, Seattle's Best Coffee, Evolution Fresh, La Boulange and Ethos.

Global Coffee Industry
Ensure the quality of its coffee and jointly promote social, economic and environmental standards, the coffee industry is part of the Starbucks DNA. However, as it was already mentioned Starbucks is present in many countries around the world, with these countries having different cultures and habits regarding the consumption of coffee, i.e., U.S. habits are completely different from the China and Europe when considering the specialty coffee consumption.

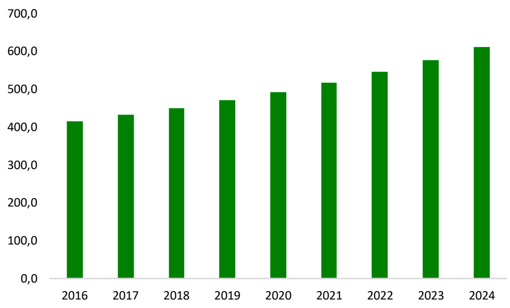
As said before, in the coffee industry, America represent the biggest market of Starbucks. Americans are one of the world's largest coffee consumers and regular coffee drinkers. According to Passport database (2019), in 2017, 41% of consumers claimed to drink specialty coffee daily and in 2018 they drunk around two cups per day in the different regions of the continent, being the northeast region with the higher volume. In value terms, the general coffee industry grew by 4% in 2018, with Starbucks always in the front of the consumers preferences. This fact is mainly due to the investment made by Starbucks in suburban drive-through-only locations. The specialty coffee sector has been responsible for the continuous growth, reform and improvement of the coffee industry. Passport Database (2019) forecasts a transaction growth between 2018 and 2023 of 2.6% Compound Annual Growth Rate (CAGR) in the specialist coffee and tea shops.

While America is a mature market in specialty coffee, China is considered by several studies the next big market for the company. The Statista (2018) released that Starbucks sales in China represented almost 81% of the country's coffee chain sales, showing that even with the strong tea drinking culture, the company has developed very well its strategy in the Asian market. This strong tea culture was one of the main Starbucks concerns when entered in the Chinese market. In the beginning more important than the coffee was Starbucks understanding the Chinese tastes and for that it was important to find the right partners with knowledge of their tastes. Only after that Starbucks was able to slowly shift the Chinese tastes and made them look also for coffee. The Passport Database (2019) shows that Chinese people only drink, in average, 5 cups of coffee per capita per year much far when compared with the United States that drinks, on average, 400 cups of coffee per capita per year.

Coffee consumption is expected to continuous expand in the next years, Passport Database (2019) expects a raise in the sales at 12% CAGR between 2019 and 2023, reaching a total market value of CNY 196 billion in 2023, while the number of outlets is expected to increase an 8% CAGR in the same period. This growth can be in part explained by the fact that coffee is the preferential choice of the expanding middle class, whose exposure to Western influences is encouraging the adoption of the coffee-drinking habits. The emergence of Luckin Coffee's "forced" Starbucks to response and teamed up with Alibabba's Ele.me to offer a delivery coffee service. Notably, many of the new middle-class families are not in the principal cities but in tier three and four cities. Therefore Starbucks already plans to enter in 100 new Chinese cities by 2022.

As mentioned before, to Starbucks continues to struggle to grow in the European market. In Europe, the specialty coffee sector has a much different pattern when compared with the American market. The European incorporates a wider range of countries with some differences amongst them. However, European countries are the one how has the highest consumption of coffee, with countries like Finland and Sweden drinking, on average, 1.459 and 1.117 cups of coffee per capita per year. Being the continent with a higher consumption of coffee the European countries import 45% of the exported coffee worldwide. Mordor Intelligence (2019) expects the coffee market to register a CAGR of 5.6% during 2018 a 2023. Some factors influencing this growth are the growing population and the availability of a wide range of coffee flavours and types.

Figure 14: Global Coffee Market between 2016 and 2024 (millions of $)



Source: Mordor Intelligence

Table 4: Main Starbucks Competitors

Costa Coffee	United Kingdom
Lunkin Coffee	China
McCafé	Around the World
Dunkin' Donuts	North America
Tim Hortons	Canada
Independent Coffee Shops	Around the World

Source: Personal Analysis

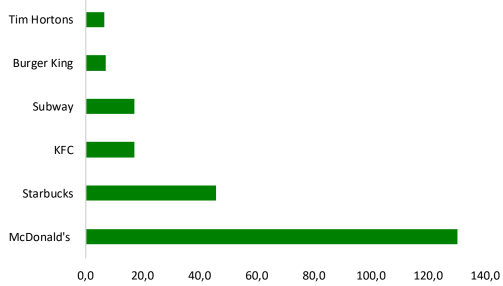
Competition

The coffee culture in the different geographic regions where Starbucks operates, has been changed over the years. The coffee industry is the business sector of Starbucks with more competitors. Main of the competitors are Costa Coffee and other companies as McDonalds and Dunkin' Brands that saw this world tendency and started to invest in this sector, expanding its offer to a bigger portfolio of products and consequently growing its market share.

The coffee and tea products sold by Channel Development segment also have many competitors, like coffees and teas sold through grocery stores, warehouses, retailers and indirectly against all other coffees and teas on the market.

Direct competitors or other brands which have a different combination of products to offer and independent fast food chains and bakeries are analysed, since they have the capacity and potential to somehow interfere in the usual Starbucks customer base and therefore its revenues.

Figure 15: Most valuable fast food brands worldwide in 2019 (millions of USD)



Source: Statistics

Luckin Coffee

Founded recently in 2017, Luckin Coffee is considered in China as the biggest competitor of Starbucks.

With more than 1.500 stores along 20 cities in less than a year, Luckin Coffee has in its focus to compete directly with Starbucks in the Chinese market and override its mains advantages. While McCafé and Costa Coffee are trying get market share and take advantages of the growth of coffee consumption, Luckin Coffee has plans to grow

even faster and became the largest coffee chain in China, in terms of stores, dominating the coffee network by the end of 2019.
Along two decades, Starbucks's success has opened the way to grow the coffee culture in China, creating an emergent market to new competitors such Luckin Coffee, that take advantage of the fact that chinese prefer national products instead of international as Starbucks. Luckin Coffee is, therefore, the first large-scale threat to Starbucks' coffee business.

<u>McCafé</u>
Due to the consumer's growing appetite for specially coffee, Mc Donald's entered in the coffee industry with the sub brand of McCafé. And over the years, it is coming up as one of the main Starbucks competitors, in part because all the support it has with the number of McDonald's stores across the world.
Due to its brands and dominate fast food service, the company began serving breakfast items during the day with the focus of captivating the increase number of coffee consumers and expand this sector around the world. In 2018, the company generated a total revenue of $21 billion and within the specialist coffee shops, McCafé is already in the top three of the largest brands in terms of value.
However, beside its market share and McDonald's portfolio, McCafé offers a very different range of products and specializes its offer in coffee. Other brands leading of fast food market as a Burger King and KFC offer a more comparable range of products than a Starbucks.

<u>Figure 16</u>: Starbucks strategic priorities

Build the brand

- Accelerate China and U.S.
- Expand global reach
- Increase return

Source: Annual Meeting of Shareholders & Proxy Statement 2019

<u>Dunkin' Donuts</u>
With more than 20,000 stores under the Dunkin' Donuts and Baskin-Robbins brands, the Dunkin' Brands is one of the world's leading franchisors, operating in more than 60 points around the world. The Baskin-Robbins is considered the large chain of ice cream specialty shops and the Dunkin' Donuts serves hot and cold coffee and baked goods like donuts, muffins, and bagels.
Using the same strategy as McDonald's, early the 2000s Dunkin' Donuts introduced its first specialty coffee line and in 2006 the company started to invest more in coffee instead of only "doughnuts". However, while Starbucks has created an intentionally chic and upscale environment as the coffee shop is known, Dunkin' Donuts represents the application of Starbucks ideas to the coffee sector at a more accessible price for working people.

<u>Costa Coffee</u>
Founded in 1971 in the UK, Costa Coffee was before a subsidiary of Whitbread, a multinational Group, acquired by 1995 and has experiencing a considerably growth since then. Currently Costa Coffee is considered the second largest coffeehouse in the world after Starbucks and the largest in the UK. Costa Coffee is the main direct Starbucks competitor, which exclusively deals and promotes its coffee, is not only the leader in the U.K. but also the biggest coffee chain in Europe, reaching in 2018 a total of 3,882 branches worldwide. During the second semester of 2018, Coca-Cola bought the Costa Coffee business, making therefore its first move into the coffee market. With this acquisition Coca-Cola follows the step of other big companies by investing in a growing market has the coffee. Coca-Cola's deal threatens not only Starbucks stores operations but also its retail segment.

<u>Tim Hortons</u>
One of the largest coffee chains in North America and the largest in Canada, Tim Hortons is a chain store of fast food that offers in tis menu premium coffee, specialty drinks and food & snacks.
However, Outside North America the company is only present in the Middle East. Even being the main player in Canada it is still struggling to gain market share in the U.S. Therefore, in 2014 with the intention to expand the brand to new markets in the upcoming years, especially to the Europe, this chain was acquired by Burger King's and then was created the company Restaurant Brands International with headquarters in the Canada. However, despite the acquisition each brand continues to operate independently.

<u>Independent Coffee Shops</u>
Currently, in every region where Starbucks is present, there is other smaller local business as is the case of independent coffee shops that can be considered as Starbucks competitors. And more than large coffee chains as McCafé or Dunkin' Donuts that are trying to specialize its offer and gain market share, the increase of the number of this independent coffee shops around the world is consider a really concern to Starbucks. Specially, when many of them try to copy the "third place" environment, applying the same strategy of being a comfortable and inviting space, becoming more difficult to maintaining this well-known excellence and brand exclusivity.

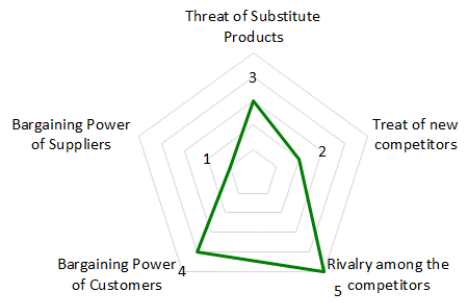
Competitive Position

Besides all the investments done to guaranty the quality of its products, from the beginning Starbucks has as main goal the promotion of a different service and interaction with customers, in an environment that combines the passion for coffee with the relaxation and adapted to the local culture and type of costumers' preferences.
To the company, the importance of each customer contact extends from its mission and values to its workers.
All these facts put Starbucks in the current leading position within the global coffee chain market. It is through differentiation that Starbucks stands out in the market, enhancing its competitive advantages.

SWOT Analysis

This instrument search to systematize all the strengths and weaknesses of the company (internal environment) and the opportunities and threats faced by it (external environment). From the relation of that opportunities and threats with the forces and weakness, the company can define strategic goals and resolve some problems.

Figure 17: Porter's 5 Forces Indicators



Source: Personal Analysis

Strengths

Strong Brand Image: With a large and loyal customers, currently Starbucks is the largest coffee house chain in the world, being a reference for its welcoming environment and high quality of its products.
Valuing of the employees: The company underlines the importance of Human Resources in its business model, calling its employees by partners and giving them different conditions when compared with the competitors.
Personalized service: The service in its stores is characterized by being close to the costumers, called by the name. There is a strong connection with the costumers, through their personalized service and offering value added products.

Weaknesses

High price of Starbucks products: Not only in its main coffee business, but also in its subsidiaries Starbucks is recognised by the expensive price of its products. Although it maximizes the profit margins, it also reduces the affordability of its products, especially in locations without that financial capacity.
Imitability of Starbucks offers: Many Starbucks products are imitable, the direct competitors above described invested in the coffee industry and developed similar products with the same value proposition in terms of environment and experience.

Opportunities

Partnerships with other companies: Specially the global Coffee Alliance with Nestle that has allowed Starbucks to improve the distribution and market share of the CPG, advancing the operational margins of its Chanel Development Segment.
Expansion in Asia Markets: Currently, China represents the largest market outside of U.S., due not only to the rise of coffee demand, but also by the increasing presence of Starbucks in this Asia markets, with margins to help the company to increase its revenues and its international expansion, producing a strong financial performance.
Growth of coffee consumption: Over the years, there has been an increase of the coffee culture by the consumers around the world, mainly driven by the younger people. That can be considered one of the reasons of the consistent growth and financial results of Starbucks.
Business Diversification: A huge part of the leadership of Starbucks is the result of a new products' strategy of Starbucks. Beside the coffee industry, the company has operated under its subsidiaries, offering a large diversify of products. This helps the company stabilize its revenues in the long-term, reducing its dependence of some industries.

Threats

Big Competition: Currently, Starbucks faces an intense competition. The company compete against an extensive variety of international and national firms in all its sectors and locations, described previously that offer low-cost coffee products or with the same value offer. Looking at this number of competitors and its increasing market share, the customer base and revenues of Starbucks is also more threatened.
Imitation: In the same point of Starbucks' weaknesses, the threat of imitated products by other firms is a big concern to the company. Starbucks defeat companies around the world that has been trying copy its products, not only in the taste and flavour, but also the image and propose.
Dependence of coffee image: For many people around the world, the image of Starbucks is only associated to the coffee industry, despite its diversity of products. This can lead the company to a problem in some regions where the coffee trend is not

so followed, and therefore the adhesion doesn't correspond to the expected results, being a threat to its profitability.
Raw Materials: Even Starbucks establish long-term contracts with its suppliers to better control its operational process and make it the most efficient, the cost of raw material, the volatility of exchange rates and the probability of unavailability of the required raw materials, can impact the operating margins and consequently its sustainability.

Porter's 5 Forces
The Porter's analysis focuses on the influence of the external environment on the company, allowing to characterize the external forces (threats) that can produce more influence on the company and which of them can be influenced by the strategies of the company to become opportunities.

Threat of Substitute Products (low-moderate)
To maintain the loyal public to its products, that goes from hot and cold drinks, tea and smoothies until food like baked goods and sandwiches, even with the diversity and innovation which is characterized, Starbucks must continually attend to the new tendencies in every region that operates. And as already said above, beside the direct competitors like McCafé or Costa Coffee, Starbucks must compete with all the independent coffee shops, that can make products that its customers could easily replace, not only because of the price or the same value offer, but specially because they know very well the local preferences and can take this advantage over an international company like Starbucks. However, attending to its dimension, this investment on new products require a financial effort that may not compensate the risk and investment made and therefore the threats of substitute products is considered as moderate at maximum.

Treat of new competitors (low-moderate)
Even with the growth of the consumer appetite for special coffee, this industry is starting to be a mature and saturated sector around the world with all the competitors previously mentioned taking all the advantages and margins to increase the revenues and its market share.
Besides, to enter into the market of Starbucks, require a significantly investment and risk that attending to the company dimension, profit margins and its bargaining power, cannot reach to revenues and financial results necessaries to enforce the investment. Only a company with a large and strong market base already structured or a result of strategic acquisitions and fusion has the capacity to enter into a market like Starbucks and be succeed. Thus, the threat of new competitors is considered as moderate at most.

Rivalry among the competitors (strong)
Despite its strong and solid presence in the markets where it operates, the pressure exercised by more economical offers from its competitors around the world has been affecting the Starbucks. Over the years the competition has been strongly increasing and due to the economic crises experienced in the past years, the demand for a lower price and the offer of products with the same value to the customer is even more a concern to Starbucks.

Bargaining Power of Customers (moderate-strong)
As a company that works directly to promote a good or service to its customers, that put a reasonable amount of bargaining power in them. For the founder of Starbucks, Howard Schultz one of the success factors of the company is the connection and loyalty established with the customers. Since the beginning that has been the main strategy of the company: a strong relation with the customers.
Due to its position in the market, with its high price, the company must continually differentiate from the main competitors and guaranty all the perception by the costumers of the value of its brand, investing in offering products and an experience that goes into or beyond its necessities and expectations. Otherwise, customers not always feel that the special and differentiating service received does not compensates the highest price they are paying, so they easily change to a cheaper competitor.

Bargaining Power of Suppliers (low)
Currently, Starbucks is solid and consolidated in all its business sectors, what makes its payment to the suppliers almost guaranteed by the circumstances of the company. Even with possibility of selling its products for a better price to another customer, the big suppliers of Starbucks hardly can get one that can buy on the same scale and with the same level of guarantee of payment as Starbucks.
However, the company establishes strong long-term relationships with its suppliers, through practices as the Company's Coffee and Farmer Equity (CAFE) program that

Table 5: DCF computations Summary

Enterprise Value	140 014
Equity Value	134 524
Number of shares outstanding	1 253
Price at September 2019	88,42
Price Target ($)	**107,4**
Annualized Upside Potencial	**17%**

Source: Own estimates

gives to its coffee suppliers the fair prices for the products it buys, giving to them a kind of partnership status.

5. Investment Summary

The recommendation to potential investors is BUY, with a 2020YE price target of $107.4 achieving a potential gain of 17%, comparing to September 2019FY closing price of $88.4, with medium risk. The relative valuation is aligned with this buy recommendation, contrary to DDM that appoints in a different diorection.

Valuation Methods

In order to evaluate Starbucks, it was applied different methods based on inputs and forecasted assumptions. For the absolute valuation models, we used the Discounted Cash Flow (DCF) and Dividends Discount Model (DDM). However, the DCF was the principal approach considered for the main conclusions of price target. As a complement, a relative valuation model was considered using the Market Multiples approach.

Table 6: Multiples Valuation results

Multiples	Price Target ($)
PE-ratio	106,7
PS- ratio	78,5
EV-to-EBITDA ratio	149,9
EV-to-Revenue ratio	71,6

Source: Own estimates

Risks to Price Target

There is a combination of several risks with conditions to adversely influence and affect the Starbucks business and financial position. Moreover, in the competitive environment where it is operating currently. These investment risks are crucial to describe the level of the company risk and some of them are aligned with potential risks to the target price obtained by DCF.

To compute the impact of these risks to the price target, was performed a Sensitivity Analysis. For that, we studied the impact of Starbucks main costs to verify the accuracy of our BUY recommendation and quantified the impact of changing some important variables on the target price, as the terminal growth rate and the discount rate.

Despite that, it is important to take into consideration that the perpetuity growth rate of 1.9% is based on International Monetary Fund (IMF) predictions to the GDP growth to U.S. in 2021, alongside with the revenues per store that were computed based on the inflation rates estimated by IMF. This indicate that DCF results and consequently the price target of $107.4 is very dependent of IMF predictions.

6. Valuation

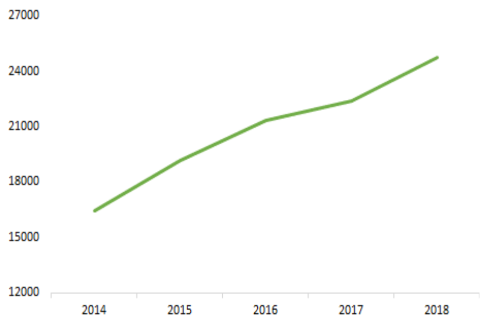
Forecast Analysis

To apply the equity valuation were defined, in this section, several assumptions for the key value drivers of DCF model analysis for the forecast period of 2019F-2023F. These assumptions are explained below.

Revenues Assumptions

The forecast of revenues is divided by the several segments of Starbucks, essentially due to the different projections of each one for the coming years.
Within these segments, the revenues are generated through the operated and licensed stores and the CGP and foodservice. Therefore, the main drivers of revenues analysed are the open net stores, the revenues per store (company-operated stores) and the licensed royalty (licensed stores).
Relative to revenues per store, the estimates follow the economic perspective of IMF to the inflation rates. In the case of license royalty, which results from the division of the revenues of licensed stores by its number, during the historical period its value has been constant in all segments (0.2 million for Americas and EMEA Segments and 0.1 million for CAP and Corporate and Other). Therefore, it is not expected that will occur changes in the license royalty required to licensees.

Figure 18: Starbucks Revenues Growth (2014-2018)



Source: Starbucks Annual Reports

Americas

Despite being the most lucrative market of Starbucks, with the biggest percentage of total net revenues, more stores (operated and licensed) and rising sales. In addition to the economy recovery after the Great Recession in 2008 done at unemployment and consumption levels, it is important to consider the political instability of the U.S.A and the long-term effects of Donald Trump's election in the economy. As the stronger competition of Starbucks due to the increase of coffee culture around the world.

Taking in consideration these factors, in addition the saturated margins of this segment is allocated a stable growth rate of 3% and 4% to the number of company-operated and licensed stores, respectively. The forecast growth of 4% for the number of licensed stores is due to its growth being higher than operated stores in the historic period. To the revenues per store, following the predictions of IMF, is expected an annual percentage of inflation of 2.6% and 2.4% to 2019 and 2020 respectively and 2.3% for next years until 2023 including.

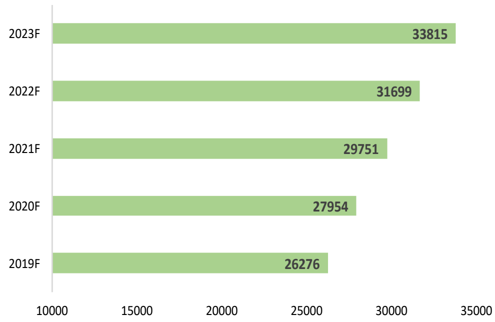
<u>CAP</u>

As an important market to Starbucks, with conditions to acquire more influence and produce an increasingly impact in the company's revenues, according the Economic Analysis previously made and several estimates, the CAP Segment represent the region with biggest economic growth to Starbucks for the next years.

In addition of being this emerging market, with the intense investment made in both operated and licensed stores and the largest restructuring reform made by Starbucks in 2018, more concretely the acquisition of the remaining 50% part of its East China business from its joint venture partners, induce the growth rate to reach a potential of 8% assumed for company-operated stores and 5% for licensed stores.

For revenues per store, in line with the predictions of IMF, is expected an annual percentage of inflation of 3.3% for 2019 until 2021 and 3.4% for 2022 and 2023.

Figure 19: Revenue on valuation period (in millions of $)



Source: Own estimates

<u>EMEA</u>

With the purpose of reducing the vulnerabilities on the economy left by the debt crisis and the decrease of the number of company-operated stores, Starbucks has been developing plans to make a balance between its operated and licensed stores and in the future start to growth in both types of stores. However, that's a slow process, that with the expansion of the coffee culture and the European Union efforts to recover from the Recession, is reasonable to think in a growth rate of 3% for licensed stores. For the operated stores, considering the decrease in its number and the balance intended by the company, is considered a different negative rate smaller every year.

For revenues per store, according the predictions of IMF, is expected an annual percentage of inflation of 2.2% for 2019 and 2020, 2.3% for 2021 and 2022 and 2.4% for 2023.

<u>Chanel Development</u>

Including generally all company's CPG and foodservice goods, over the years the CD Segment has been to Starbucks one of its operational areas with more margins to increase. As the CAP Segment, in 2018 this segment had suffered the Starbuck's biggest reforms and restructurings to create more long-term value for its shareholders. In August of 2018, the company concluded the licensing and distribution agreements with Nestlé to sell the CPG and foodservice products, with the main objective of bring these products to outside the company's coffee shops world and reaching a globally view to them. To support the success of this new established Global Coffee Alliance with Nestle, this strategic process led to big changes in the internal procedures of Starbucks, namely the realignment and transition of its operational structures in the component CPG, Foodservice and Others from the Americas, EMEA and Corporate and Other segments to the Chanel Development Segment.

Because of this large process, is expected a forecast growth of 1% to Americas, EMEA and Corporate and Other Segments, and for CD Segment in 2019 is expected a growth rate of 6% that with the worldwide vision of these products and its boost of advertising is projected that goes up to 7% in the 2020. After these two years it is expected that this growth rate of 7% stabilizes for the succeeding years. In the CAP segment, that doesn't suffer influence from this alliance, it is expected a growth rate in the CPG and foodservice component of 4% for the next 5 years.

Figure 20: Drivers of Operating Expenses considered to the valuation

Source: Personal Analysis

<u>Corporate and Other</u>

FY 2018 reflects a combination of the company's changes to reduce the operating loss of this segment. The subsidiary Teavana ceased its operations and it expect that both operated and licensed stores remain closed, as Seattle's Best Coffee and Evolution Fresh that after Starbucks close all its stores, it is expect these remain closed and do not open any more store. In the case of Seattle's Best Coffee subsidiary is assumed for both operated and licensed stores. At the same time, Starbucks Reserve Roastery & Tasting rooms, the most recent investment created in 2015 as a premium brand, due to its goods results in 2017 and 2018 it is expected after 2018 start to open more two company-operated store per year.

In the final, this assumptions with the small proportion of this segment leads to the conclusion changes since 2018 in the company-operated stores are not expecxteds and therefore the expected value per store for the next 5 years is the same as the calculated for 2018 (14.1 millions).

Operating Expenses

The operating costs of the company are essentially driven by the cost of revenues, general and administrative expenses, store operating expenses and depreciation and amortization expenses. For the forecast period 2019F-2023F, for each segment these costs were derived based on a ratio of each these expenses to the total of company's sales or number of stores. In the past years all these costs have been increasing, not only due to a bigger number of stores and increase of the revenues but also to all reforms made in 2018, as the ownership change in East China (CAP segment) and the impact of licensing the CPG and Foodservice business to Nestlé in the other segments. In the case of cost of revenues, that's include all the packaging and transportation costs and the General and administrative expenses, analysing its similar behaviour during the historical period and predicting that won't occur changes, the forecast was computed considering a five-year historical average, in percentage of total revenue. Only for the Corporate and Other Segment was considered the period of 2014-2017 due to in 2018 its percentage be overvalued with the closure of a large number of stores.

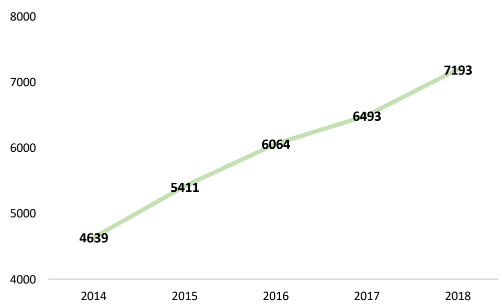
Besides these costs, Starbucks had demonstrated also in 2017 and 2018 restructuring and impairment expenses, that are essentially associated to the closure of the Teavana Stores, as a result of strategic change in the CO Segment. For that reason, we considered that cost will not remain, for being a result from an isolated transaction done by the company in those years.

Store Operating Expenses

In relation to store operating expenses, since the beginning this cost represents a real concern for Starbucks. As it was already explained, the objective in provide a "third place" environment and create a set of details that make a difference, as the promotion of a close atmosphere to the costumers, is along the essence and quality of its products, the focus of the company.

Given the intention of constantly improve their image to guarantee all these factors, we considered that it can influence the historical ratios of this cost, resulting in a bigger increase, mainly in the CAP Segment, that as an emerging market has large margins to grow. For that reason, was assumed an increase of two and three percentual points in 2018 store operating expenses ratio for the next years, for America and EMEA Segments and CAP Segment respectively. In the Corporate and Other Segment, as the other costs referred previously, was considered a percentage of 32%, based on an average of the period 2014-2017.

Figure 21: Historical behaviour of store operating expense



Source: Starbucks Annual Report

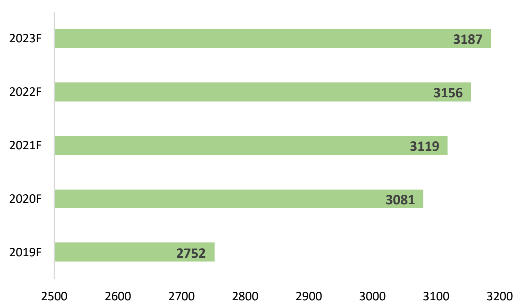
CAPEX and Depreciation and Amortization

Corresponding to the investments in capital goods of Starbucks, the Capital Expenditure (CAPEX) is based in acquisitions in tangible assets (Property, plant and equipment) and intangible assets. Due to growth of new projects developed in the several operating segments over the past years and the significant investment made in emerging markets, for the next years is expected significant capital expenditures. The investment in intangible assets was forecasted as a percentage of revenues and the investment in Property, plant and equipment (PP&E) was calculated per company-operated store.

On intangible assets, for the item Other intangible assets that include trademarks, acquired rights, patents, licensing agreements and copyrights, given the expected continuous investment for the next years, was assumed a constant ratio of 4% equal to the presented in 2018. For Goodwill, we considered its value in 2018 overload due to a large acquisition of Starbucks in this year, and therefore, the forecast results from an average of the period from 2014 to 2017. Concerning the investments in PP&E, was estimated through the average of the historical period, reflecting the quite stable behaviour of this investment activities during the past years.

For Depreciation and amortization expenses, following the same line of the other operating expenses, an average of the historical period, in percentage of total number of stores was assumed for the analysed period.

Figure 22: FCFF projected on valuation period (2019F-2021F)



Source: Own estimates

Net Working Capital (NWC)

The Net Working Capital includes the current portion of assets and liabilities of the company. For currents assets, we have Accounts Receivables, Inventories, Deferred taxes, Prepaid expenses and other current assets. The inventories were considered based on a ratio of this asset to the cost of sales and the rest in percentage of total revenues. In relation to currents liabilities, Accounts Payable, Accrued Liabilities and Stored value card liability, were also considered in percentage of Cost of sales and total revenue, respectively.

For that items, given its similar behaviour during the past years and with no events that can influence and indicate a change, the forecast for the next years was computed considering a 5-year historical average of these ratios.

WACC Assumptions

To achieve the present value of the future cash flows of the firm, we estimated the Weighted Average Cost of Capital (WACC). The WACC represents the different sources of financing used by the company, being dependent by its weight in the company's capital structure and respective cost. Therefore, for its computation we considered the Capital Structure, the Cost of Equity and Cost of Debt of the company, that we will explain below.

<u>Capital Structure</u>

Analyzing the historical behavior of the past years in the capital structure of Starbucks, in 2018 occurred considerable changes in the debt value, in relation to previous years. FY 2018 had suffered a higher debt level of 12%, mainly due to the strong investment made by the company.

Considering the continuity of these investments and financial efforts for the coming years, we assumed a market debt to equity ratio of 10 %, closer to the values of debt in 2018 and not of the previous years. Consequently, the weight of the debt on the enterprise value will be 9.09%.

<u>Cost of equity</u>

The Cost of Equity (ke) was calculated through the Capital Asset Pricing Model (CAPM), which has three different variables analyzed: the risk-free rate (Rf), the levered beta of the company and the equity risk premium (ERP). The CAPM formula used is the following:

$$Ke = Rf + \beta * ERP$$

Starting by the Rf, we opted for a 10-year U.S. treasury bond as an approximation, given its time horizon be assimilated with the period analysed and the Starbucks's headquarter be allocated in Seattle. Based on this U.S. treasury bond with 10Y maturity, this rate has derived from a 5Y average (31/12/2013 to 31/01/2019) of 2.35%. For the leverage beta, we estimated through the correlation between the Starbucks 5Y monthly variation and the S&P 500 Index, resulting in a leveraged beta of 0.54.

Lastly, the ERP corresponds to the difference between the market returns and Rf. The S&P 500, as an index of the biggest companies in the world, was used as a proxy for the market returns. For its computations was used the monthly returns of the last twenty years, reaching an average market return of 6%.

<u>Cost of debt</u>

To finance its different operations, during the last years Starbucks have issued several long-term debts, with different maturities. As an approximation of the cost of debt, given the time horizon of the long-term debt issued in August of 2018 with maturity of 2028 aligned with the number of years in analysis at the present valuation, the effective interest rate of 3.96% from this note was opted.

More information about the long-term debt can be consulted in Appendix 11.

DCF Valuation

In the DCF Method, we opted for the two-stage approach, with five years of CF projections (2019F-2023F) in the first stage and the computation of terminal value (TV) to the perpetuity in the stage two. For The TV, we follow the Perpetuity Growth Model approach. It was assumed a perpetuity WACC equalled to 4.19%, and a perpetual growth rate (g) of 1.9%, based on IMF predictions to the GDP growth to U.S. in 2021.The formula used for its computation is the following:

$$TV = [FCFF * (1 + g)] / [(WACC – g)]$$

In order to obtain the Enterprise Value, of $140.014m, we summed the PV of both periods ($11.800m of the valuation period and $128.214m of the perpetuity period). Following that, the Equity Value was reached subtracting the Net Debt (Debt minus Cash and Equivalents in 2020F) and Non-controlling interests from the Enterprise value. After we obtain the Equity Value of $135.062m, dividing this last by the 1.253.000.000 shares of Starbucks, the value for share of $107,8 for the end of 2020FY is obtained, corresponding to a buy recommendation with 17% annualized upside potential to the shareholders.

These computations explained above can be consulted on appendix 13.

<u>Table 7</u>: Comparable Peers of Starbucks used in Multiples Valuation

Peers	Industry
Luckin Coffee	Coffee
Coca-Cola Group	Beverages
McDnnalds	Food & Restaurants
Dunkins Brand Group	Food & Restaurants
Restaurant Brands International	Food & Restaurants
Yum! Brands	Food & Restaurants
Darden Restaurants	Food & Restaurants

Source: Bloomberg and Personal Analysis

Relative Valuation

Selection of Peers
The main assumption to apply the Multiple-Based Valuation, derives essentially from the selection of appropriate peers that can be comparable with Starbucks. However, as mentioned before, the main competitors of Starbucks have a different portfolio of products and its assets not similar, and therefore the price target obtained may not exactly accurate. The sample used is composed by seven companies, all of them, except the Luckin Coffee and Coca Cola, belong to the Retail - Food and Restaurant industry.

Multiples Valuation
Even being difficult to identify peers that may be strictly compared with Starbucks, were applied four multiples: Price-to-Sales ratio (P/S), Price-to-Earnings ratio (P/E), Value/Revenues (EV/Revenue) and Value/EBITDA (EV/ EBITDA). In the computations, the Enterprise Value results from the multiplication of the index average of the peers with the revenues (in the case of P/S and EV/Revenue), earnigs (in the case of the P/E Index) and Operating Income (in the case of the EV/EBITDA). For the P/S and EV/Revenue, we reached a price target of $107.1 and $150.3, corresponding to a 16.6% and 52.9% annualized upside potential, respectively. Looking for these two results, the recommendation is aligned with the DCF Valuation, however, we must consider the set of significant differences between the peers that will influence the reached results.
More information about the Relative Valuation can be consulted in Appendix 14.

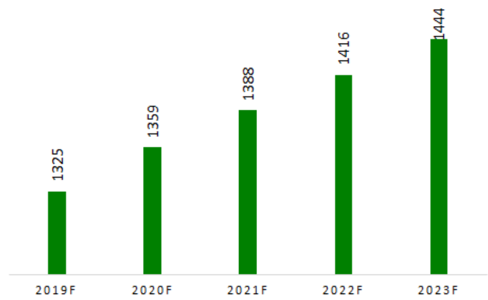
Table 8: Multiples Valuation computations

	P/S	P/E	EV/Revenue	EV/EBITDA
Enterprise Value (Average)	139210	103879	193301	95201
Price Target ($)	**107.1**	**79.0**	**150.3**	**72.0**
Price at September 2019	88.4	88.4	88.4	88.4
Annualized Upside	**16.6%**	**-8.7%**	**52.9%**	**-15.1%**

Source: Own estimates

DDM Valuation
We also used the DDM model. The future dividends paid were forecasted, based on payout ratio, and discounted to the present value considering the company's cost of capital equity of 4.19% and the growth rate for perpetuity of 1.9%. The price target obtained ($52.23) appoints to an annualized potential upside of -34.4%, corresponding to a selling recommendation.
Contrary to DCF Model, the price target is lower than the current market price, meaning that the company is overvalued. However we may not considerate this value reliable to the present valuation, due to a lower dividends level and therefore we don't considerate the DDM adequate to Starbucks valuation.
The DDM computations can be consulted in Appendix 15.

Figure 23: Prediction of dividends paid for valuation period (in millions of $)



Source: Personal Analysis

7. Financial Analysis

Along the past years, Starbucks has been solidifying its position in the several operating segments. In terms of total **revenues**, has performing a consistently growth over the past 5 years. This progress, beyond the increase of the coffee culture around the world, as already discussed, derives essentially from Starbuck's capacity to adapt to diverse markets, proposing different strategies than its potential competitors and investing to increasing its margins and continually grow. Until 2018, the Americas Segment was the most lucrative market of Starbucks, with a participation of 67.7% in the total net revenues. However, despite this share, it is expected that Starbucks will see its investments in CAP Segment be compensated, through the increase of its participation in more than 4%, up to 22.4% in 2023F. While, EMEA Segment has underperformed during 2014-2017, with a revenue decrease of 0.08% on average.

Analysing Starbuck´s **liquidity**, the current, quick and cash ratios along the past 5 years show the good capacity of Starbucks to pay any obligation without raising external capital, in line with its low debt weight. In 2018, the current and cash ratios had a high percentage of 234% and 164% and for the period of 2018- 2023F, it is expected to maintain this tendency of good coverage for debt and business changes.

From 2015 until 2018, **EBIT Margin** decreased from 19% to 16%. In 2019 we expected an increase of 2%, up to 18% and then until 2023F, it is expected that decline again, to 15%. This decrease can be explained not only by the increase of the costs in general but also the increase assumed for the stores operating expenses, that represent the highest operating expense of Starbucks.

Looking to others important **profitability** ratios, as Return on Assets **(ROA)** and Return on Equity (**ROE)** it is possible to measure the company's efficiency using its assets to generate earnings and the profit generated with shareholders' investments. During the historic period, ROA showed a quite regular behaviour (between 19% and 20%), and then after 2019F it is expected a decrease of its percentage to around 15% in 2023F, showing a lower profitability of Starbucks relative to its total assets. Relative to ROE, along the valuation period Starbucks demonstrate high values of this ratio. In 2018, experienced a sharp peak of 384%, mainly due to the drastic decline of shareholder's equity, given the intense repurchase of common stock activity during that year. After 2018, it is expected a decrease of this value, but reaching as well good percentages until the end of the valuation period.

In addition, the good performance of Starbucks is also supported by the constant increase of its earnings per share (EPS) and dividend per share (DPS) proportions. Until the end of the valuation period, it is expected the EPS and DPS continuously increase to $2.8 and $1.15 respectively.

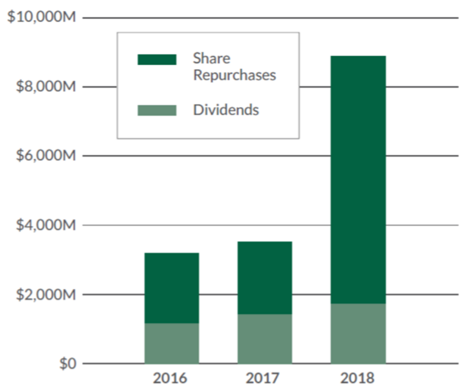
8. Investment Risks

Strategic Risks

Innovation and Design of new products (IDP)
The success of Starbucks is due ti its capacity and liability of the company to implement good platforms to development innovative products. However, the identification of new products and diversification of its offer has being appointed by the company, in its annual reports, as one of the factors that must improve to maintain preserve the difference of its brands and competitive position in the market.

Intense Competition (IC)
As mentioned before, Starbucks is facing a large competition, which is continually growing over the years, threatening its leadership position across all channels and markets.
For the company, the continuous competition from already well-established competitors, new entrants in its business areas and the competition from small competitors that continue to open coffee specialty stores in big scale around the world, is one of the main points where Starbucks strategically works to be different and reduce the negative impact of these competitors in net revenues. In addition of this competition that affects the affluence of the costumers in its stores around the world, Starbucks is also being challenged by the increase of the competition in the Channel Development segment. More concretely, in the CPG and ready-to-drink coffee beverage market.

Figure 24: Return to shareholders/investors in the last three years



Source: Annual Meeting of Shareholders & Proxy Statement 2019

Risk linked to digital media (RDM)
Besides the good position and reputation of Starbucks in the market, it is important a clear relation with the media, not only to be able to prevent scandals and negative events, but also because of all the audience and technological progress of digital media. The potential consumers are always connected to the Web, and therefore, the access to new information is much larger currently.
Especially in U.S and Canada, where there are more consumption of its products and the company has been targeted of negative social media publicity to alert of the health problems associated to the excessive coffee consumption.

Operational Risks

Dependence of Americas Operating Segment (RDA)
The Americas Segment was the pioneer market of Starbuck and the main booster of its success across the world. Therefore, with approximately 68% of consolidated total net revenues presented in 2018, the company's financial performance is highly dependent of this segment results. This fact, with the saturation and maturity of this segment can result in a big risk to the company, if its revenues tends to decelerate or decline and the other operating segments be not able to compensate that shortfall of cash flow to the firm and consequently the global business results be affected.

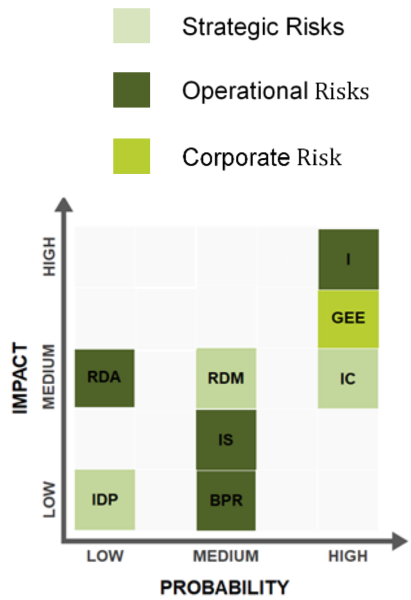
Incidents (I)
All incidents involving the contamination of beverage, food or any products sold by the company, that comes to public and adverse medical reports about the consuming of these products, or any publicity that associate the company with healthy security problems, even being not entirely true, can severely damage the reputation of Starbucks in the market, in a reginal and global basis. In addition to that the company can be forced, from external orders to temporarily close some stores or supply chains,

as well as remove products from the market, what results in significant negative effects into the company net revenues.
Besides all these intern process capable of be monetarized by the company, there's also the risk linked to food provided directly from suppliers, which is more difficult to detect and control the product quality and service. Additionally, to the fact, that over the years Starbucks has been evolving its products range to include more local suppliers, with smaller dimensions who may not have safety systems and quality audit so rigorous as larger suppliers.

Business Partner Risk (BPR)
The implementation of favourable strategic and commercial alliances is vital to ensure the strong position of Starbucks in the different regions where is allocated, and consequently achieve a higher market share.
However, the success of these commercial relationships and joint ventures not depends only of Starbucks efforts and performance. That is the case of the large strategic transaction made last year with Nestle. If this last is not successful in the distribution and marketing process of Chanel Development business, and do not expand into other regions as is expected, Starbucks suffers the relevant risk of failure and therefore the transaction has an adverse impact on the company results.

Information Security (IS)
The information technology systems of Starbucks have stored a large set of material related with its business, projects and development plans of new products. All that material includes internal information, entrusted by the main stakeholders, related with human resources, payroll, accounting and financial evidences, and external information from its licensees, franchisees and business partners.
The unauthorized access, theft, use or destruction of any of this confidential information, through cyber-attacks or internally, is reflected in a relevant risk of compliance and exposition of important and private information of the company, compromising its reputation and future operations.

Figure 25: Risk Matrix



Source: Own estimates

Corporate Risks

Global Economic Environment (GEE)
The uncertainty of the macro-economic environment, social and political risks associated to big markets as U.S. and Europe, the recent economic policy changes and trade disputes is a real concern to Starbucks, that as retailer, is highly dependent of the economic conditions of its customers. These risks can induce to higher interest rates, more taxes and consequently bring on the inflation of the costs, that will promote a decrease of the costumers traffic in the company stores and negatively affect the customers' purchasing capacity and company's results.

Table 9: Risk associated to each initial

Investment Risk	
Strategic Risk	
Innovation and Design of new porducts	IDP
Intense Competition	IC
Digital Media	RDM
Operational Risk	
Dependence of Americas Segment	RDA
Incidents	I
Business Partner Risk	BPR
Information Security	IS
Corporate Risk	
Global Economic Environment	GEE

Source: Own estimates

Sensitivity Analysis

In order to quantify and analyse the impact of changing some important variables in the target price reached by DCF computations, an Excel's data table function was used in this section.
Considering the importance of terminal value and the discount rate in the present overall valuation, the main sensitivity analysis, presented in the table below, was performed using as key value drivers the terminal growth rate and the long-term WACC previously computed. Analysing the results of changing 0.01 p.p in the growth rate and 0.05 p.p in the WACC, we can conclude these two variables have a considerable impact in the base assumption made, especially the discount rate which the model is very sensitive.

Table 10: Sensitivity Analysis for the long-term WACC and the terminal growth rate (g)

		Long-term WACC						
		2,69%	**3,19%**	**3,69%**	**4,19%**	**4,69%**	**5,19%**	**5,69%**
Growth Rate	**1,3%**	175,0	128,9	102,4	85,3	73,3	64,4	57,5
	1,5%	205,2	144,2	111,7	91,5	77,8	67,8	60,2
	1,7%	248,3	163,9	122,9	98,8	82,9	71,5	63,1
	1,9%	314,6	189,8	136,8	107,4	88,7	75,8	66,3
	2,1%	429,9	225,8	154,1	117,6	95,5	80,6	69,9
	2,3%	680,6	278,8	176,7	130,1	103,4	86,1	73,9
	2,5%	1643,6	365,0	207,2	145,6	112,8	92,4	78,5

In addition, a further sensitivity analysis was performed to the cost of equity (Re) and the weight of equity. Both variables assume an important influence in the stock price, giving the high weight of equity in the Starbucks's capital structure and the uncertainty associated to the several inputs for the cost of equity (ERP, beta and Rf). According to the table below, the results indicate that the model is quite sensitive to the variation of 0.01 p.p in the Cost of Equity, but is robust in the weight of equity variations.

Table 11: Sensitivity Analysis for the weight of equity and the cost of equity (re)

		Weight of Equity [E/(D+E)]						
		87,9%	**88,9%**	**89,9%**	**90,9%**	**91,9%**	**92,9%**	**93,9%**
Cost of Equity (re)	**3,7%**	152,6	149,1	145,7	142,5	139,4	136,5	133,6
	3,9%	137,2	134,2	131,3	128,5	125,9	123,3	120,9
	4,1%	124,6	121,9	119,4	117,0	114,7	112,4	110,3
	4,3%	114,0	111,7	109,5	107,4	105,3	103,3	101,4
	4,5%	105,1	103,1	101	99,2	97,3	95,5	93,8
	4,7%	97,5	95,6	93,8	92,1	90,4	88,8	87,3
	4,9%	90,9	89,2	87,6	86,0	84,5	83,0	81,6

Appendices

Appendix 1: Statement of Financial Position

(In millions of $)	Historic Period					Forecast Period				
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Assets:										
Cash and cash equivalents	1708	1530	2129	2462	8756	8787	8821	8857	8896	8938
Short-term investments	135	81	134	229	182	152	152	152	152	152
Accounts receivable, net	631	719	769	870	693	955	1015	1080	1150	1227
Inventories	1091	1306	1379	1364	1401	1662	1770	1887	2014	2152
Prepaid expenses and other current assets	286	334	350	358	1463	671	713	759	808	862
Total current assets	**3851**	**3971**	**4761**	**5283**	**12494**	**12227**	**12472**	**12735**	**13020**	**13331**
Long-term investments	318	313	1142	542	268	517	517	517	517	517
Equity and cost investments	515	352	355	482	335	522	555	590	628	670
Total Property, plant and equipment, net	3519	4088	4534	4920	5929	5687	5943	6218	6513	6832
Deferred income taxes, net	1221	1181	885	795	135	843	843	843	843	843
Other long-term assets	199	416	418	363	412	460	489	521	554	591
Other intangible assets	274	520	516	441	1042	1107	1177	1252	1334	1422
Goodwill	856	1575	1720	1539	3542	1423	1423	1423	1423	1423
Total non-current assets	**6902**	**8445**	**9569**	**9082**	**11662**	**10558**	**10946**	**11363**	**11812**	**12299**
Total Assets	**10753**	**12416**	**14330**	**14366**	**24156**	**22786**	**23418**	**24098**	**24832**	**25629**
Liabilities:										
Accounts payable	534	684	731	783	1179	971	1034	1102	1176	1257
Accrued liabilities	1514	1755	1999	1935	2298	2437	2591	2756	2936	3131
Insurance reserves	196	225	246	215	214	285	303	323	344	367
Stored value card liability	795	984	1171	1289	1643	1485	1579	1679	1789	1907
Total current liabilities	**3039**	**3648**	**4547**	**4221**	**5684**	**5178**	**5507**	**5860**	**6244**	**6661**
Debt	2048	2348	3602	3933	9440	14191	13766	13669	13738	13898
Deferred revenues	0	0	0	0	6776	0	0	0	0	0
Other long-term liabilities	392	601	690	755	1431	953	1013	1078	1148	1225
Total non-current liabilities	**2441**	**2948**	**4292**	**4688**	**17646**	**15145**	**14780**	**14747**	**14886**	**15122**
Total Liabilities	**5479**	**6597**	**8839**	**8909**	**23331**	**20322**	**20286**	**20608**	**21130**	**21784**
Equity:										
Shareholders' equity	5272	5818	5884	5450	1170	2456	3124	3482	3695	3837
Noncontrolling interests	2	2	7	7	6	7	7	8	8	8
Total Equity	**5274**	**5820**	**5891**	**5457**	**1176**	**2463**	**3132**	**3490**	**3703**	**3845**
Total Liabilities and Equity	**10753**	**12416**	**14730**	**14366**	**24506**	**22786**	**23418**	**24098**	**24832**	**25629**

Source: Company data and own estimates

Appendix 2: Income Statement

(In millions of $)	Historic Period					Forecast Period				
	2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Net Revenues:										
Company-operated stores	12978	15197	16844	17651	19690	21004	22402	23902	25535	27318
Licensed stores	1589	1862	2154	2355	2652	2756	2865	2979	3097	3220
CPG, foodservice and other	1881	2104	2318	2381	2377	2516	2687	2870	3067	3276
Total Net Revenues	**16448**	**19163**	**21316**	**22387**	**24720**	**26276**	**27954**	**29751**	**31699**	**33815**
Operating Expenses:										
Cost of Revenues	6851	7790	8493	9030	10175	10682	11378	12127	12942	13829
Store operating expenses	4638	5411	6064	6493	7193	7748	8426	9164	9967	10845
Other operating expenses	458	524	543	553	539	635	680	729	782	840
Depreciation and amortization expenses	592	744	828	861	1247	1007	1052	1100	1152	1208
General and administrative expenses	346	422	412	425	1759	568	611	658	711	769
Restructuring and impairments	0	0	0	154	224	0	0	0	0	0
Litigation credit	-20	0	0	0	0	0	0	0	0	0
Unallocated corporate operating expenses	770	920	1122	1129	0	1300	1383	1472	1568	1673
Total Operating Expenses	**13635**	**15812**	**17462**	**18644**	**21137**	**21939**	**23530**	**25251**	**27122**	**29165**
Income from equity investees	268	250	318	391	301	390	415	441	470	501
Operating income/(loss)	**3081**	**3601**	**4172**	**4135**	**3883**	**4727**	**4838**	**4941**	**5047**	**5151**
Gain resulting from acquisition of joint venture	0	391	0	0	1376	0	0	0	0	0
Loss on extinguishment of debt	0	-61	0	0	0	0	0	0	0	0
Net Gain resulting from divestiture of certain operations	0	0	0	0	499	0	0	0	0	0
Interest income and other, net	143	43	108	275	191	396	398	401	404	407
Interest expense	-64	-71	-81	-93	-170	-357	-347	-345	-347	-351
Earnings/(loss) before income taxes	**3160**	**3903**	**4199**	**4318**	**5780**	**4765**	**4889**	**4997**	**5104**	**5207**
Operating taxes	-965	-966	-1266	-1239	-735	-1312	-1339	-1362	-1385	-1407
Non-operating taxes	-100	-72	-105	-130	-62	-118	-125	-133	-142	-152
Tax shield	28	106	9	64	465	9	12	14	14	14
Income tax expense/(benefit)	**1092**	**1144**	**1380**	**1433**	**1262**	**1440**	**1476**	**1509**	**1541**	**1572**
Net earnings attributable to Starbucks	**2068**	**2759**	**2819**	**2885**	**4518**	**3325**	**3413**	**3488**	**3563**	**3635**

Source: Company data and own estimates

Appendix 3: Cash Flow Statement

	2019F	2020F	2021F	2022F	2023F
EBIT	4 337	4 424	4 500	4 577	4 650
Operating Taxes	-1 312	-1 339	-1 362	-1 385	-1 407
Depreciation and Amortization	1 007	1 052	1 100	1 152	1 208
Gross Free Cash Flow	**4 031**	**4 137**	**4 239**	**4 344**	**4 452**
Working cash	526	559	595	634	676
Accounts Receivable	955	1 015	1 080	1 150	1 227
Inventories	1 662	1 770	1 887	2 014	2 152
Deferred taxes, net	843	843	843	843	843
Prepaid expenses and other current assets	671	713	759	808	862
Change in Accounts Payable	971	1 034	1 102	1 176	1 257
Accrued Liabilities	2 437	2 591	2 756	2 936	3 131
Stored value card liability	1 485	1 579	1 679	1 789	1 907
Change in NWC	-699	67	71	77	84
Acquisition of Intangible Assets	65	70	75	81	89
Acquisition of PP&E	764	1 307	1375	1 447	1 528
Goodwill	-2 119	0	0	0	0
CAPEX	-1 290	1 377	1 450	1 529	1 616
Operating FCF	**4 621**	**2 826**	**2 860**	**2 893**	**2 919**
Other long-term assets	460	489	521	554	591
Other long-term liabilities	953	1 013	1 078	1 148	1 225
Deferred Revenues	0	0	0	0	0
Insurance Reserves	285	303	323	344	367
Equity and Cost investments	522	555	590	628	670
Investments	669	669	669	669	669
Income from equity investees	390	415	441	470	501
Litigation Credit	0	0	0	0	0
Non-operating taxes	-118	-125	-133	-142	-152
Non-Operating FCF	**-7 364**	**305**	**325**	**346**	**370**
Total FCF Available to Investors	**-2 742**	**3 131**	**3 185**	**3 239**	**3 289**
Excess cash	8 262	8 262	8 262	8 262	8 262
Debt	14 191	13 766	13 669	13 738	13 898
Non-controlling interests	7	7	8	8	8
Change in Equity	-2 130	-2 828	-3 212	-3 434	-3 578
Net Interest	159	161	164	167	170
Tax shield	39	39	40	41	42
Total FCF Available from Investors	**2 742**	**-3 131**	**-3 185**	**-3 239**	**-3 289**

Source: Company data and own estimates

Appendix 4: Key Financial Ratios

	Historic Period					Forecast Period				
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Liquidity Ratios:										
Current Ratio	1,27	1,09	1,15	1,25	2,34	2,36	2,26	2,17	2,09	2,00
Quick Ratio (x)	0,91	0,73	0,82	0,93	2,08	2,04	1,94	1,85	1,76	1,68
Cash Ratio (x)		0,42	0,51	0,58	1,64	1,70	1,60	1,51	1,42	1,34
Efficiency Ratios										
Total Assets Turnover (x)		1,65	1,59	1,56	1,28	1,12	1,21	1,25	1,30	1,34
Accounts Receivables Turnover (x)		28,39	28,65	27,31	31,62	28,99	28,99	28,99	28,99	28,99
Collection Period (days)		12,86	12,74	13,36	11,54	12,59	12,59	12,59	12,59	12,59
Inventory Turnover (x)		-6,50	-6,33	-6,59	-6,59	-6,69	-6,69	-6,69	-6,69	-6,69
Days in Inventory (days)		-56,16	-57,70	-55,43	-49,59	-54,54	-54,54	-54,54	-54,54	-54,54
Payables Turnover (x)		27,01	27,09	28,18	22,82	26,27	26,27	26,27	26,27	26,27
Payables Period (days)		13,51	13,47	12,95	15,99	13,89	13,89	13,89	13,89	13,89
Operating Cycle (days)		-43,30	-44,96	-42,06	-38,04	-41,95	-41,95	-41,95	-41,95	-41,95
Cash Cycle (days)		-41,28	-42,52	-41,07	-33,96	-39,43	-39,43	-39,43	-39,43	-39,43
Profitability Ratios										
Gross Profit Margin (%)		59%	60%	60%	59%	59%	59%	59%	59%	59%
EBIT Margin (%)		17%	17%	18%	17%	14%	17%	16%	15%	14%
Net Profit Margin (%)		14%	13%	13%	18%	13%	12%	12%	11%	11%
ROA (%)		29%	29%	29%	29%	16%	21%	21%	21%	20%
ROCE (%)		41%	41%	41%	21%	27%	27%	27%	27%	27%
ROE (%)		47%	48%	53%	384%	138%	111%	102%	98%	97%
EPS (x)		2,2	2,2	2,3	3,6	2,6	2,7	2,7	2,8	2,8
DPS	0,62	0,74	0,94	1,16	1,39	1,06	1,08	1,11	1,13	1,15
Solvency Ratios										
Debt Ratio (%)	19%	19%	25%	27%	39%	63%	59%	57%	56%	55%
Equity Multiplier (x)	2,04	2,13	2,43	2,63	20,54	9,45	7,65	7,07	6,86	6,82
Interest Coverage Ratio (x)	39	-131	156	23	184	124	95	89	89	92

Source: Company data and own estimates

Appendix 5: Common-Size Statement of Financial Position

	Historic Period					Forecast Period				
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Assets:										
Cash and cash equivalents	16%	12%	15%	17%	36%	39%	38%	37%	36%	35%
Short-term investments	1%	1%	1%	2%	1%	1%	1%	1%	1%	1%
Accounts receivable, net	6%	6%	5%	6%	3%	4%	4%	4%	5%	5%
Inventories	10%	11%	10%	9%	6%	7%	8%	8%	8%	8%
Prepaid expenses and other current assets	3%	3%	2%	2%	6%	3%	3%	3%	3%	3%
Total current assets	**36%**	**32%**	**33%**	**37%**	**52%**	**54%**	**53%**	**53%**	**52%**	**52%**
Long-term investments	3%	3%	8%	4%	1%	2%	2%	2%	2%	2%
Equity and cost investments	5%	3%	2%	3%	1%	2%	2%	2%	3%	3%
Total Property, plant and equipment, net	33%	33%	32%	34%	25%	25%	25%	26%	26%	27%
Deferred income taxes, net	11%	10%	6%	6%	1%	4%	4%	3%	3%	3%
Other long-term assets	2%	3%	3%	3%	2%	2%	2%	2%	2%	2%
Other intangible assets	3%	4%	4%	3%	4%	5%	5%	5%	5%	6%
Goodwill	8%	13%	12%	11%	15%	6%	6%	6%	6%	6%
Total non-current assets	**64%**	**68%**	**67%**	**63%**	**48%**	**46%**	**47%**	**47%**	**48%**	**48%**
Total Assets	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Liabilities:										
Accounts payable	10%	10%	9%	9%	5%	5%	5%	5%	6%	6%
Accrued liabilities	28%	27%	24%	22%	10%	12%	13%	13%	14%	14%
Insurance reserves	4%	3%	3%	2%	1%	1%	1%	2%	2%	2%
Stored value card liability	15%	15%	14%	14%	7%	7%	8%	8%	8%	9%
Total current liabilities	**55%**	**55%**	**49%**	**47%**	**23%**	**25%**	**27%**	**28%**	**29%**	**30%**
Debt	37%	36%	43%	44%	41%	70%	68%	67%	65%	64%
Deferred revenues	0%	0%	0%	0%	29%	0%	0%	0%	0%	0%
Other long-term liabilities	7%	9%	8%	8%	6%	5%	5%	5%	5%	6%
Total non-current liabilities	**45%**	**45%**	**51%**	**53%**	**77%**	**75%**	**73%**	**72%**	**71%**	**70%**
Total Liabilities	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Equity:										
Shareholders' equity	100%	100%	100%	100%	99%	100%	100%	100%	100%	100%
Noncontrolling interests	0%	0%	0%	0%	1%	0%	0%	0%	0%	0%
Total Equity	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Total Liabilities and Equity	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: Company data and own estimates

Appendix 6: Common-Size of Income Statement

	Historic Period					Forecast Period				
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Net Revenues:										
Company-operated stores	79%	79%	79%	79%	80%	80%	80%	80%	81%	81%
Licensed stores	10%	10%	10%	11%	11%	10%	10%	10%	10%	10%
CPG, foodservice and other	11%	11%	11%	11%	10%	10%	10%	10%	10%	10%
Total Net Revenues	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Operating Expenses:										
Cost of Revenues	42%	41%	40%	40%	41%	41%	41%	41%	41%	41%
Store operating expenses	28%	28%	28%	29%	29%	29%	30%	31%	31%	32%
Other operating expenses	3%									
Depreciation and amortization expenses	4%	4%	4%	4%	5%	4%	4%	4%	4%	4%
General and administrative expenses	2%	2%	2%	2%	7%	2%	2%	2%	2%	2%
Restructuring and impairments	0%	0%	0%	1%	1%	0%	0%	0%	0%	0%
Litigation credit	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Unallocated corporate operating expenses	5%	5%	5%	5%	0%	5%	5%	5%	5%	5%
Total Operating Expenses	**83%**	**83%**	**82%**	**83%**	**86%**	**83%**	**84%**	**85%**	**86%**	**86%**
Income from equity investees	2%	1%	1%	2%	1%	1%	1%	1%	1%	1%
Operating income/(loss)	**19%**	**19%**	**20%**	**18%**	**16%**	**18%**	**17%**	**16%**	**16%**	**15%**
Gain resulting from acquisition of joint venture	0%	2%	0%	0%	6%	0%	0%	0%	0%	0%
Loss on extinguishment of debt	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Net Gain resulting from divestiture of certain operations	0%	0%	0%	0%	2%	0%	0%	0%	0%	0%
Interest income and other, net	1%	0%	1%	1%	1%	2%	1%	1%	1%	1%
Interest expense	0%	0%	0%	0%	-1%	-1%	-1%	-1%	-1%	-1%
Earnings/(loss) before income taxes	**19%**	**20%**	**20%**	**19%**	**23%**	**18%**	**17%**	**17%**	**16%**	**15%**
Operating taxes	-6%	-5%	-6%	-6%	-3%	-5%	-5%	-5%	-4%	-4%
Non-operating taxes	-1%	0%	0%	-1%	0%	0%	0%	0%	0%	0%
Tax shield	0%	1%	0%	0%	2%	0%	0%	0%	0%	0%
Income tax expense/(benefit)	**7%**	**6%**	**6%**	**6%**	**5%**	**5%**	**5%**	**5%**	**5%**	**5%**
Net earnings attributable to Starbucks	**13%**	**14%**	**13%**	**13%**	**18%**	**12%**	**12%**	**12%**	**11%**	**11%**

Source: Company data and own estimates

Appendix 7: Revenues Forecast

	Historic Period						Forecast Period			
	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Americas											
Company operated-stores:											
Net opened stores		317	276	348	394	271	291	299	308	317	327
Total number of stores	8078	8395	8671	9019	9413	9684	9975	10274	10582	10899	11226
Revenue per store		1	1	1	1	2	2	2	2	2	2
Total Net Revenue		**10867**	**11926**	**13247**	**13996**	**14905**	**15751**	**16613**	**17505**	**18445**	**19435**
Licensed stores:											
Net opened stores		381	336	456	558	624	311	323	336	350	364
Total number of stores	5415	5796	6132	6588	7146	7770	8081	8404	8740	9090	9453
License royalty		0	0	0	0	0	0	0	0	0	0
Total Revenue		**1075**	**1334**	**1519**	**1617**	**1814**	**1887**	**1962**	**2041**	**2122**	**2207**
Foodservice and Others											
Total Revenue		**39**	**33**	**30**	**39**	**13**	**13**	**13**	**13**	**13**	**13**
CAP											
Company operated-stores:											
Net opened stores		227	1320	359	259	2089	413	446	481	520	562
Total number of stores	905	1132	2452	2811	3070	5159	5572	6017	6499	7019	7580
Revenue per store		0,8	0,9	0,9	0,9	0,8	0,8	0,8	0,9	0,9	0,9
Total revenue		**859**	**2127**	**2640**	**2906**	**4097**	**4571**	**5099**	**5689**	**6353**	**7094**
Licensed stores:											
Net opened stores		515	-482	622	777	-1038	169	177	186	195	205
Total number of stores	2977	3492	3010	3632	4409	3371	3540	3717	3902	4097	4302
License royalty		0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1
Total Revenue		**270**	**264**	**292**	**327**	**366**	**384**	**403**	**423**	**445**	**467**
Foodservice and others											
Total Revenue		**0**	**4**	**6**	**7**	**11**	**11**	**12**	**12**	**13**	**13**
EMEA											
Company operated-stores:											
Net opened stores		-36	-80	-214	-21	-12	-39	-27	-17	-8	8
Total number of stores	853	817	737	523	502	490	451	424	407	399	407
Revenue per store		1,2	1,2	1,4	1,1	1,2	1,2	1,2	1,3	1,3	1,3
Total revenue		**1014**	**911**	**732**	**551**	**576**	**541**	**520**	**511**	**512**	**535**
Licensed stores:											
Net opened stores		207	302	494	353	358	85	87	90	93	96
Total number of stores	1116	1323	1625	2119	2472	2830	2915	3002	3092	3185	3281
License royalty		0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,2
Total Revenue		**238**	**257**	**340**	**408**	**471**	**485**	**500**	**515**	**530**	**546**
Foodservice and others:											
Total Revenue		**43**	**48**	**53**	**55**	**1**	**1**	**1**	**1**	**2**	**2**
Corporate and Other											
Company operated-stores:											
Net opened stores		12	6	-17	-68	-282	2	2	2	2	2
Total number of stores		369	375	358	290	8	10	12	14	16	18
Revenue per store		0,6	0,6	0,6	0,7	14,1	14,1	14,1	14,1	14,1	14,1
Total revenue		**238**	**233**	**224**	**197**	**113**	**141**	**169**	**197**	**225**	**254**
Licensed stores:											
Net opened stores		-24	-1	-6	2	-25	-12	0	0	0	0
Total number of stores		42	41	35	37	12	0	0	0	0	0
License royalty		0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1
Total Revenue		**5**	**6**	**4**	**3**	**1**	**0**	**0**	**0**	**0**	**0**
Foodservice and others											
Total Revenue		**254**	**287**	**296**	**272**	**55**	**55**	**55**	**55**	**56**	**56**
Channel development											
CPG and Foodservice											
Total Revenue		**1546**	**1731**	**1933**	**2009**	**2297**	**2435**	**2606**	**2788**	**2983**	**3192**

Source: Company data and own estimates

Appendix 8: Revenues Assumptions

1. Number of Company-Operated and Licensed stores

Growth of Company-operated and Licensed stores	
	Forecast Growth
Americas	
Company-operated stores	3%
Licensed stores	4%
CAP	
Company-operated stores	8%
Licensed stores	5%
EMEA	
Company-operated stores	Different growth rate each year
Licensed stores	3%

2. Number of Corporate and Other stores

	2017	2018	2019F	2020F	2021F	2022F	2023F	Assumption
Teavana								
Total Company-operated stores	288	0	0	0	0	0	0	Is expected that all Teavana stores remain closed
Net opened/closed stores	-288	0	0	0	0	0	0	
Total licensed stores	37	12	0	0	0	0	0	
Net opened/closed stores	3	-25	-12	0	0	0	0	
Seattle's Best Coffee								
Total Company-operated stores	0	0	0	0	0	0	0	Maintain the current number of stores and don't be expected to open any more store
Net opened/closed stores	0	0	0	0	0	0	0	
Total licensed stores	0	0	0	0	0	0	0	
Net opened/closed stores	-1	0	0	0	0	0	0	
Evolution Fresh								
Total Company-operated stores	0	0	0	0	0	0	0	Is expected that both operated and licensed stores remain closed
Net opened/closed stores	-2	0	0	0	0	0	0	
Starbucks Reserve Roastery & Tasting Rooms								
Total Company-operated stores	2	8	10	12	14	16	18	Is predicted that after 2018, this subsidiary start to open more two stores per year
Net opened/closed stores	1	6	2	2	2	2	2	

3. Revenues per store and Licensed Royalty

	2014	2015	2016	2017	2018	2019F	2020F	2021F	2022F	2023F	Assumption
Americas											
Company-operated stores:											
Total Revenues	10867	11926	13247	13996	14905	15751	16613	17505	18445	19435	
Total number of stores	8395	8671	9019	9413	9684	9975	10274	10582	10899	11226	Follows the economic perspective of IMF for the annual percentage of inflation (2.6% and 2.4% to 2019 and 2020 respectively and 2.3% for following three years).
Revenue per store	**1,3**	**1,4**	**1,5**	**1,5**	**1,5**	**1,6**	**1,6**	**1,7**	**1,7**	**1,7**	
Licensed stores:											
Total Revenues	1075	1334	1519	1617	1814	1 887	1 962	2 041	2 122	2 207	Equal to constant value from the historical period
Total number of stores	5796	6132	6588	7146	7770	8081	8404	8740	9090	9453	
Licensed Royalty	**0,2**	**0,2**	**0,2**	**0,2**	**0,2**	**0,2**	**0,2**	**0,2**	**0,2**	**0,2**	
CAP											
Company-operated stores:											Applied the annual percentage of inflation of 3.3% for 2019 until 2021 and 3.4% for 2022 and 2023, following IMF predictions.
Total Revenues	859	2127	2640	2906	4097	4571	5099	5689	6353	7094	
Total number of stores	1132	2452	2811	3070	5159	5572	6017	6499	7019	7580	
Revenue per store	**0,76**	**0,87**	**0,94**	**0,95**	**0,79**	**0,82**	**0,85**	**0,88**	**0,91**	**0,94**	
Licensed stores:											
Total Revenues	270	264	292	327	366	384	403	423	445	467	Equal to constant value from the historical period
Total number of stores	3492	3010	3632	4409	3371	3540	3717	3902	4097	4302	
License Royalty	**0,1**	**0,1**	**0,1**	**0,1**	**0,1**	**0,1**	**0,1**	**0,1**	**0,1**	**0,1**	
EMEA											
Company-operated stores:											Applied the annual percentage of inflation of 2.2% for 2019 and 2020, 2.3% for 2021 and 2022 and 2.4% for 2013, according the IMF predictions.
Total Revenues	1014	911	732	551	576	541	520	511	512	535	
Total number of stores	817	737	523	502	490	451	424	407	399	407	
Revenue per store	**1,24**	**1,24**	**1,40**	**1,10**	**1,17**	**1,20**	**1,23**	**1,26**	**1,28**	**1,31**	
Licensed stores:											
Total Revenues	238,4	257,2	339,5	407,7	471,3	485,4	500,0	515,0	530,5	546,4	
Total number of stores	1323,0	1625,0	2119,0	2472,0	2830,0	2914,9	3002,3	3092,4	3185,2	3280,7	Equal to constant value from the historical period
License Royalty	**0,2**	**0,2**	**0,2**	**0,2**	**0,2**	**0,2**	**0,2**	**0,2**	**0,2**	**0,2**	
Corporate and Other											
Company-operated stores:											
Total Revenues	238	233	224	197	113	141	169	197	225	254	
Total number of stores	369	375	358	290	8	10	12	14	16	18	
Revenue per store	**0,6**	**0,6**	**0,6**	**0,7**	**14,1**	**14,1**	**14,1**	**14,1**	**14,1**	**14,1**	Equal to 2018 value
Licensed stores:											
Total Revenues	5	6	4	3	1	0	0	0	0	0	
Total number of stores	42	41	35	37	12	0	0	0	0	0	Equal to constant value from the historical period
License Royalty	**0,1**	**0,1**	**0,1**	**0,1**	**0,1**	**0,1**	**0,1**	**0,1**	**0,1**	**0,1**	

4. Component of Revenue: CPG, Foodservice and Other

Component of Revenue: CPG, Foodservice and Other	
	Forecast Growth
Americas	
CPG, Foodservice and Other	0,5%
CAP	
CPG, Foodservice and Other	4%
EMEA	
CPG, Foodservice and Other	0,5%
Corporate and Other	
CPG, Foodservice and Other	0,5%
Channel Development	
CPG, Foodservice and Other	Different growth rate each year

Appendix 9: Forecasting Assumptions

1. Inflation, Revenues and Operating Expenses

	2019F	2020F	2021F	2022F	2023F	Assumption
Inflation						
Americas	2,6%	2,4%	2,3%	2,3%	2,3%	
CAP	3,3%	3,3%	3,3%	3,4%	3,4%	IMF predicted inflation rate
EMEA	2,2%	2,2%	2,3%	2,3%	2,4%	
Revenues						
Americas	17651	18589	19559	20581	21656	
CAP	4966	5514	6125	6810	7575	
EMEA	1028	1021	1027	1044	1083	"Revenues Forecast" Sheet
Channel Development	2435	2606	2788	2983	3192	
Corporate and Other	196	224	253	281	309	
Operating Expenses						
Cost of Revenues						Equal to the 5Y historical average, in percentage of total revenues (for each segment).
Americas	37%	37%	37%	37%	37%	
CAP	45%	45%	45%	45%	45%	
EMEA	51%	51%	51%	51%	51%	
Channel Development	55%	55%	55%	55%	55%	
Corporate and Other	61%	61%	61%	61%	61%	
Store operating expenses						
Americas	61%	63%	65%	67%	69%	Was assumed an increase of two percentual point in the 2018 expenses
CAP	25%	28%	31%	34%	37%	Due to its large margins and potential market, is given an increase of three percentual points, in percentage of total number of company-operated stores.
EMEA	48%	50%	52%	54%	56%	Was assumed an increase of two percentual point in the 2018 expenses
Corporate and Other	32%	32%	32%	32%	32%	Based on the average, in percentage of total number of company-operated stores, during the period 2014-2017.
Other operating expenses						Based on historical average, in percentage of total revenues (for each segment).
Americas	0,8%	0,8%	0,8%	0,8%	0,8%	
CAP	2%	2%	2%	2%	2%	
EMEA	5%	5%	5%	5%	5%	
Channel Development	12%	12%	12%	12%	12%	
Corporate and Other	14%	14%	14%	14%	14%	
General and administrative expenses						Equal to the 5Y historical average, in percentage of total revenues (for each segment).
Americas	1%	1%	1%	1%	1%	
CAP	5%	5%	5%	5%	5%	
EMEA	5%	5%	5%	5%	5%	
Corporate and Other	6%	6%	6%	6%	6%	
Depreciation and amortization expenses						Was assumed an average of the historical period, in percentage of total number of stores. In order to reach the Price target, by the DCF model, we considered the sum of all segments in 2018.
Americas	6%	6%	6%	6%	6%	
CAP	6%	6%	6%	6%	6%	
EMEA	7%	7%	7%	7%	7%	
Corporate and Other	4%	4%	4%	4%	4%	
Unallocated Expenses	5%	5%	5%	5%	5%	Based on historical average, in percentage of Revenues (excluding 2018).

2. Capital Expenditures

	2014	2015	2016	2017	2018	2019F	2020F	2021F	2022F	2023F	Assumption
Total number of operated stores	10713	12235	12711	13275	15341	16007	16727	17502	18333	19231	
Total PP&E	3519	4088	4534	4920	5929	5687	6055	6498	6940	7433	
Investment in PP&E per store	0,33	0,33	0,36	0,37	0,39	**0,36**	**0,36**	**0,37**	**0,38**	**0,39**	The investment in PP&E was calculated per each company-operated store, being estimated through the average of the historical period.
Intangible assets	274	520	516	441	1042	1107	1177	1252	1334	1422	Forecasted as % of revenues, was assumed a constant ratio equal to presented in 2018.
As a % of Revenues	2%	3%	2%	2%	4%	**4%**	**4%**	**4%**	**4%**	**4%**	
Goodwill	856	1575	1720	1539	3542	1423	1423	1423	1423	1423	Results from an average of the period from 2014 to 2017.

3. Net Working Capital

	2018	2019F	2020F	2021F	2022F	2023F	Assumption
Working Cash	494	526	559	595	634	676	Corresponding to the fraction of total revenues available to apply into the operating activities of the company, was assumed a rate of 2% to this operating asset.
Accounts Receivable	693	955	1 015	1 080	1 150	1 227	Equal to the 5Y historical average, in % of total revenues.
Inventories	1 401	1 662	1 770	1 887	2 014	2 152	Based on the historical average, in % of Cost of sales.
Deferred taxes, net	135	843	843	843	843	843	Equal to the 5Y historical average, in % of total revenues.
Prepaid Expenses and other current assets	1 463	671	713	759	808	862	Equal to the 5Y historical average, in % of total revenues.
Total	**4 185**	**4 657**	**4 901**	**5 164**	**5 449**	**5 760**	
Accounts Payable	1179	971	1034	1102	1176	1257	Based on the historical average, in % of Cost of sales.
Stored value card liability	1643	1485	1579	1679	1789	1907	Equal to the 5Y historical average, in % of total revenues.
Accrued Liabilities	2298	2437	2591	2756	2936	3131	Equal to the 5Y historical average, in % of total revenues.
Total	**5121**	**4892**	**5203**	**5538**	**5900**	**6295**	
Working Capital Requirements	**-935**	**-236**	**-302**	**-373**	**-451**	**-535**	
ΔNet Working Capital		**-699**	**66**	**71**	**78**	**84**	

Appendix 10: WACC Assumptions

	2019F	2020F	2021F	2022F	2023F
Weight if equity [E/(D+E)]	0,91	0,91	0,91	0,91	0,91
Cost of equity (re)	4,43%	4,43%	4,43%	4,43%	4,43%
Weight of debt [D/(D+E)]	0,09	0,09	0,09	0,09	0,09
Cost of debt (rd)	3,96%	3,96%	3,96%	3,96%	3,96%
Tax rate	25%	25%	25%	25%	25%
WACC	**4,30%**	**4,30%**	**4,30%**	**4,30%**	**4,30%**

Variable	Assumption/Basis
Risk free rate	5Y (31/12/2013 to 31/01/2019) average of the U.S. treasury bond with 10 years of maturity
Market Risk Premium	Monthly return of the last 20 years of S&P 500 Index.
Leverage Beta	Correlation between Starbucks 5Y monthly variation and the S&P 500 Index
Cost of Equity	Computed through the CAPM model
Corporate tax rate (Tc)	Personal assumptions
Terminal Growth rate	Based on IMF predictions to the Real GDP growth rate for U.S. for 2021.
Cost of Debt	Based on the long-term debt, issued in August 2018 with maturity of 2028.
Debt-to-Equity ratio	Personal assumptions
Debt-to-Value	Personal assumptions
Equity-to-Value	Personal assumptions

Source: Company data and own estimates

Appendix 11: Components of Long-term Debt

Issuance of Debt	Sep 30, 2018		Stated Interest Rate	Effective Interest Rate
	Face Value	Estimated Fair Value		
2018 notes	350	350	2,00%	2,012%
2020 notes	500	490	2,20%	2,228%
2021 notes	500	489	2,10%	2,293%
2021 notes	250	244	2,10%	1,600%
2022 notes	500	486	2,70%	2,819%
2023 notes	750	759	3,85%	2,859%
2023 notes	1000	986	3,10%	3,107%
2024 notes	748,4	743	0,37%	0,462%
2025 notes	1250	1249	3,80%	3,721%
2026 notes	500	451	2,45%	2,511%
2028 notes	600	576	3,50%	3,529%
2028 notes	**750**	**754**	**4,00%**	**3,96%**
2045 notes	350	330	4,30%	4,35%
2047 notes	500	438	3,75%	3,77%
2048 notes	1000	977	4,50%	4,50%
Total	9548,4	9322		

Source: Company data and own estimates

Appendix 12: Beta Regression Output and Data

Date	SBUX Price	SBUX % Change	S&P 500 Index	S&P 500 % Change
31/12/2013	39,20		1 845,9	
31/01/2014	35,56	-9%	1 782,7	-3%
28/02/2014	35,48	0%	1 857,7	4%
31/03/2014	36,69	3%	1 874,0	1%
30/04/2014	35,31	-4%	1 884,4	1%
30/05/2014	36,62	4%	1 923,9	2%
30/06/2014	38,69	6%	1 962,3	2%
31/07/2014	38,84	0%	1 929,8	-2%
29/08/2014	38,91	0%	2 004,1	4%
30/09/2014	37,73	-3%	1 971,4	-2%
31/10/2014	37,78	0%	2 018,2	2%
28/11/2014	40,61	7%	2 065,8	2%
31/12/2014	41,03	1%	2 058,9	0%
31/01/2019	68,10	6%	2 702,3	9%

Regression Statistics	
Multiple R	36,05%
R Squared	0,13
Adjusted R Square	11,52%
Standard Error	0,05
Observation	61

ANOVA	Degrees of Freedom	Sum Square	Medium of Square	F	Significance of F
Regression	1	0,0202	0,0202	8,8155	0,00431
Residual	59	0,1354	0,0023		
Total	60	0,1556			

	Coefficients	Standard Error	T Statistic	P-value	Bellow 95%	Above 95%
Intercept	0,007	0,006	1,074	0,287	-0,006	0,019
X1 Variable	**0,536**	0,180	2,969	0,004	0,175	0,897

Appendix 13: DCF Computations

	2019F	2020F	2021F	2022F	2023F
Total Net Revenues	26276	27954	29751	31699	33815
Total Operating Expenses	21939	23530	25251	27122	29165
EBIT	4337	4424	4500	4577	4650
EBIT*(1-T)	3274	3340	3398	3456	3511
Depreciation	1007	1052	1100	1152	1208
NWC	-699	67	71	77	84
Capex	829	1377	1450	1529	1616
FCFF	**2752**	**3081**	**3119**	**3156**	**3187**
DCF Period (nº of years)		0	1	2	3
Discount Factor		1,00	0,96	0,92	0,88
Discounted FCFF		3081	2994	2908	2818

Perpetuity WACC	4,19%
Terminal Growth rate	1,95%
PV of FCFF	11800
Terminal Value (TV)	144 997
PV of TV	128 214
Enterprise Value	140 014

Enterprise Value	140 014
Net Debt	4 945
Noncontrolling interests	7
Equity value	135 062
Number of shares outstanding	1253
Price Target ($)	107,8
Price at September 2019	88,42
Upside Potential	21,91%
Monthly average upside	0,0133
Annualized Upside Potential	**17%**

Source: Company data and own estimates

Appendix 14: Relative Valuation

Peers	Industry	Closing Information July, 24, 2019		P/S	P/E	EV/Revenue	EV/EBITDA
		Share Price	Shares (millions)				
Luckin Coffee	Coffee	23,12	36,9	N/A	N/A	N/A	N/A
Coca-Cola Group	Beverages	53,78	4 266,1	6,4	33,4	7,8	24,2
McDnnalds	Food & Restaurants	212,78	763,6	7,8	27,8	9,2	19,1
Dunkins Brand Group	Food & Restaurants	81,13	82,7	5,0	27,9	6,6	20,0
Restaurant Brands International	Food & Restaurants	74,4	207,4	3,5	48,7	8,1	21,0
Yum! Brands	Food & Restaurants	112,66	306,0	5,3	27,4	8,0	22,5
Darden Restaurants	Food & Restaurants	124,24	123,0	1,8	20,3	1,8	13,0

	Based on P/S	Based on P/E	Based on EV/Revenue	Based on EV/EBITDA
Enterprise Value (Average)	**139210**	**103879**	**193301**	**95201**
Net Debt	4945	4945	4945	4945
Noncontrolling interests	7	7	7	7
Equity Value	**134258**	**98927**	**188349**	**90249**
Number of shares	1253	1253	1253	1253
Price Target ($)	**107,1**	**79,0**	**150,3**	**72,0**
Price at September 2019	88,4	88,4	88,4	88,4
Upside Potential	**21%**	**-11%**	**70%**	**-19%**
Monthly average upside	1,3%	-0,8%	3,6%	-1,4%
Annualized Upside Potential	**16,6%**	**-8,7%**	**52,9%**	**-15,1%**

Source: Company data and team estimates

Appendix 15: Dividend Discount Model Computations

	2014	2015	2016	2017	2018	2019F	2020F	2021F	2022F	2023F	TV
Dividends Paid	-783	-929	-1178	-1450	-1743	-1325	-1359	-1388	-1416	-1444	
Payout Ratio	38%	34%	42%	50%	39%	40%	40%	40%	40%	40%	
DPS	0,62	0,74	0,94	1,16	1,39	**1,06**	**1,08**	**1,11**	**1,13**	**1,15**	**49,77**
PV of Dividends						**55,5**	**54,4**	**53,2**	**52,1**	**50,9**	

Price target ($)	**54,37**
Price at September 2019	88,4
Upside Potential	**-39%**
Monthly average upside	-3,2%
Annualized Upside Potential	**-32,2%**

Source: Company data and team estimates

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