

Starbucks Corporation - Financial and Strategic Analysis Review

Publication Date: Mar-2016

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Company Snapshot

Key Information

Starbucks Corporation, Key Information	
Web Address	www.starbucks.com
Financial year-end	September
Number of Employees	238,000
NASD	SBUX
Source : GlobalData	

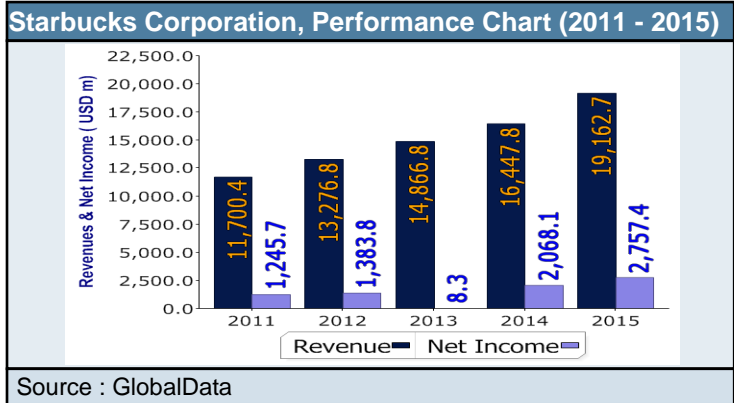
Key Ratios

Starbucks Corporation, Key Ratios	
P/E	31.61
EV/EBITDA	17.85
Return on Equity (%)	47.39
Debt/Equity	0.40
Operating profit margin (%)	20.51
Dividend Yield	0.01
Note: Above ratios are based on share price as of 15-Mar-2016	
Source : GlobalData	

Share Data

Starbucks Corporation, Share Data	
Price (USD) as on 15-Mar-2016	59.08
EPS (USD)	1.82
Book value per share (USD)	3.92
Shares Outstanding (in million)	1,513.40
Source : GlobalData	

Performance Chart



Company Overview

Starbucks Corporation (Starbucks) is a specialty coffee retailer. It roasts, markets and retails specialty coffee. The company offers several blends of coffee, handcrafted beverages, merchandise, and food items. Starbucks also offers a range of consumer products in coffee and tea, readymade drinks, and ice cream. The company, through its owned and licensed stores, has presence in Asia-Pacific, the Middle East, Africa, Europe and the Americas.

SWOT Analysis

Starbucks Corporation, SWOT Analysis	
Strengths	Weaknesses
Operational Performance	Product Issues
Strong Network	Declining Net Working Capital
Strategic Acquisitions	
Opportunities	Threats
Increasing Hot Drinks Market	Stiff Competition
Strategic Initiatives	Changing Consumer Preferences
	Supply of High Quality Arabica Coffee Beans
Source : GlobalData	

Financial Performance

The company reported revenues of (US Dollars) US\$19,162.7 million for the fiscal year ended September 2015 (FY2015), an increase of 16.5% over FY2014. In FY2015, the company's operating margin was 20.5%, compared to an operating margin of 18.7% in FY2014. In FY2015, the company recorded a net margin of 14.4%, compared to a net margin of 12.6% in FY2014.

Key Information

Starbucks Corporation, Key Information					
Corporate Address	2401 Utah Avenue South, Seattle, WA, 98134, United States	Ticker Symbol, Stock Exchange	SBUX [NASDAQ]		
Telephone	+1 206 4471575	No. of Employees	238,000		
Fax		Fiscal Year End	September		
URL	www.starbucks.com	Revenue (in USD Million)	19,162.7		
Industry	Consumer Markets, Consumer Packaged Goods, Hotels and Restaurants, Retailing				
Locations	Argentina, Australia, Austria, Bahamas, Bahrain, Belgium, Brazil, Bulgaria, Canada, Chile, China, Colombia, Costa Rica, Cyprus, Czech Republic, Denmark, Egypt, El Salvador, Ethiopia, France, Germany, Greece, Hong Kong, Hungary, India, Indonesia, Ireland, Japan, Jordan, Kuwait, Lebanon, Macau, Malaysia, Mexico, Netherlands, New Zealand, Norway, Peru, Philippines, Poland, Portugal, Qatar, Romania, Russia, Saudi Arabia, Singapore, South Korea, Spain, Sweden, Switzerland, Taiwan, Tanzania, Thailand, Turkey, United Arab Emirates, United Kingdom, United States				
Source : GlobalData					

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## Starbucks Corporation - SWOT Analysis

### SWOT Analysis - Overview

Starbucks Corporation (Starbucks) is a specialty coffee retailer. It roasts, markets and retails specialty coffee. Its operational performance, strong network and strategic acquisitions are its strengths, while declining net working capital and product issues could be area for concern. The company could benefit from Increasing hot drinks market and strategic initiatives. Nevertheless, its performance could be affected by stiff competition, changing consumer preferences and supply of high quality Arabica coffee beans.

### Starbucks Corporation - Strengths

#### Strength - Operational Performance

The company reported strong growth in its operating performance for the FY2015. Its revenue increased 16.5% to US\$19,162.7 from US\$16,447.8 million in FY2014. The increase in revenue was due to 7% increase in store sales, acquisition of Starbucks Japan and revenues from 550 newly started Starbucks stores in FY2015. Starbucks operating income increased 27.6% to US\$3930.5 million in FY2015, as compared to US\$3081.1 million in FY2014. The company's net income decreased to US\$2757.4 million in FY2015, as compared to US\$2068.1 million in FY2014. Starbucks also showed an improvement in its operating margin. For FY2015, the company's operating margin was 20.5%, as compared to 18.7% in FY2014. The increase in operating margin indicates that the company's revenue increased at a higher rate than that of its expenses. The company's strong operational performance increases the investors' confidence and provides positive outlook for the future.

The increasing operating and net profits also resulted in increased profitability ratios. The company reported increased return on equity (ROE) in FY2015. Its return on equity (ROE) was 47.3% for FY2015, as compared to 39.2% in FY2014. Improving ROE indicates that the company is efficiently using the shareholders' money and it is generating high returns for its shareholders, compared to other companies in the sector. Its return on capital employed was 44.3% in FY2015, compared to 39.9% in FY2014. The company's return on assets and return on fixed assets improved to 22.2% and 46.5% in FY2015 from 19.2% and 46.7% respectively in FY2014. Improved profitability ratios indicate improvement in the company's performance and its ability to deliver returns expected by its shareholders.

#### Strength - Strong Network

A strong presence in markets could help the company to benefit from improved profit margins, economies of scale, and recognition on a worldwide basis. Starbucks roasts, markets and retails specialty coffee across 68 countries. As of September 2015, the company had 23,043 stores including 12,235 company-operated and 10,808 licensed stores. Starbucks had 8,671 company stores and 6,132 licensed stores in Americas; 737 company stores and 1,625 licensed stores in EMEA and 375 company stores and 41 licensed stores in China and Asia Pacific. Such wide presence enables the company to mitigate risks associated with overdependence on a specific market. It bestows the group with a wide customer base, strong brand presence and growth opportunities across emerging markets.

#### Strength - Strategic Acquisitions

Strategic acquisition provides various inorganic opportunities to the company. In September 2014, the company acquired 60.5% share in Starbucks Coffee Japan, Ltd., a joint venture between Starbucks and Sazaby League. Japan is the company's second largest market in terms of retail sales. Through this acquisition Starbucks revenue increased approximately US\$1.1 billion in FY2015.

### Starbucks Corporation - Weaknesses

#### Weakness - Product Issues

Product recall issues due to low quality and misrepresentation not only affects the brand image but also causes the company incur additional expenses. In March 2014, the company voluntarily recalled a limited number of Greek Yogurt Raspberry & Lemon Parfait cups sold under the Starbucks brand in Seattle and Portland regional Starbucks stores as the product was mislabeled and failed to declare the presence of eggs, an allergen. Persons who have an allergy or sensitivity to egg run the risk of a serious or life-threatening allergic reaction if they consume this product. In February 2014, the company recalled about 1,700 bottles of Evolution Fresh juice sold at grocery stores in California and Nevada after finding a small number of swollen Organic Sweet Greens and Ginger juice bottles.

#### Weakness - Declining Net Working Capital

Starbucks reported decline in its net working capital during FY2015. Declining total cash components coupled with declining net working capital could affect the company's short term business operations. For the FY2015, the company reported 71.4% decline in its net working capital to US\$322.9 million from US\$1,130 million in FY2014. The decline was due to 4.7% decline in total current assets. In FY2015, the company reported 10.3% decline in its cash and equivalents to US\$1,530.1 million from US\$1,708.4 million in FY2014.

## Starbucks Corporation - Opportunities

### Opportunity - Increasing Hot Drinks Market

The hot drinks market in Asia has traditionally been dominated by tea consumption, rather than coffee. According to International Coffee Organization's (ICO) 2015/16 review, the Asian coffee market has increasingly become the focus of the world coffee industry. Africa and Asia reported the most dynamic growth in coffee consumption in the world, growing by an average rate of 5% and 4.5% respectively. Coffee consumption in the region has been growing. In December 2015, the global coffee exports stood at 9.31 million bag 60 kg bags, as compared to 9.18 million bags in December 2014. For the twelve month ended December 2015 (FY2015), the world Arabica exports stood at 70.1 million 60 kg bags, as compared to 68.9 million bags in FY2014. The demand for coffee is strong in emerging markets such as Algeria, Australia, Russia, South Korea, Turkey among others. The company expects the segment will become a more significant contributor to overall company profitability in the future.

### Opportunity - Strategic Initiatives

The company implemented certain strategic initiatives that are aimed at enhancing business operations in new markets and profitability. In February 2016, the company launched Starbucks express store in Canada. The Express store integrates both technology and efficiency to improve the customer experience to reduce the waiting time for service. In October 2015, the company entered into partnership with REWA, a premium German retailer and part of REWA Group. The partnership could help the company to offer Starbucks products to consumers in more than 3000 REWA stores in Germany. In September 2015, Starbucks entered into partnership Monoprix SA, a retail chain offering solutions such as food, clothing, household items, and hardware. Under the terms of the agreement Starbucks will cafes within Monoprix outlets. The partnership could help the company to enhance its presence in France. In July 2015, the company entered into licensed partnership with Taste Holdings, a licensor of global brands in the Southern African regions. The partnership could help the company to open Starbucks stores in South Africa. In March 2015, the company entered into partnership with Tingyi Holding Corp, a food and beverage company. Under the terms of agreement Tingyi would manufacture and expand the distribution of Starbucks read-to-drink (RTD) products throughout mainland China. The agreement could help the company to improve its presence in RTD market.

## Starbucks Corporation - Threats

### Threat - Stiff Competition

Starbucks' competitors for coffee beverage sales include quick-service restaurants and specialty coffee shops. The market is highly competitive and with the entrance of more new players, the level of competition is expected to further intensify in the near future. Starbucks competes with various manufacturers and distributors of coffee products, having substantially greater financial, marketing and distribution resources. The company's other competitors include specialty coffees sold through supermarkets, specialty retailers and a growing number of specialty coffee stores under the whole bean coffee segment. Starbucks whole bean coffees and its coffee beverages compete indirectly against all other coffees in the market. Starbucks Specialty operations face significant competition from established wholesale and mail order suppliers. Some of its competitors include Caribou Coffee Company, Inc., McDonald's Corporation, Mondelez International, Inc., Kraft Foods Inc., and Nestle USA, Inc. among others. If the company is not able to maintain the product quality and consumer loyalty, such intense competition could reduce the sales volume of the company, thereby hampering its market position.

### Threat - Changing Consumer Preferences

Starbucks' business operations could be affected by the changing consumer preferences. The consumer preference may change relating to their tastes, dietary habits and trends and product packaging preferences. The company should anticipate and offer products that appeal to the changing preference of the consumers. The Health-driven snacks are setting into motion strong demand for healthy, low fat, low-calorie, organic, fiber-rich, vitamin, mineral fortified snacks. If the company is not able to anticipate, identify or develop and market its products that respond to these changes in consumer preferences, demand for its products may decline which could adversely affect its operations. The company also needs to be updated with the key trends so as to attract and retain its customer base.

### Threat - Supply of High Quality Arabica Coffee Beans

The company's business depends on the availability of high quality Arabica coffee beans. The company roasts Arabica coffee beans from various regions to produce different types and blends of coffee. The political and economic situations in many of those regions, including Africa, Indonesia, and Central and South America, could become unstable, which in turn might affect the company's ability to buy coffee from those parts. If Arabica coffee beans from a particular market become unavailable or become too costly, then the company may be forced to withdraw particular coffee types and blends or replace coffee beans from other regions. Frequent substitutions and changes in coffee product lines could lead to cost increases, customer alienation and fluctuations in the gross margins. Thus, the political wavering in coffee growing regions could result in a decrease in the availability of high-quality Arabica coffee beans needed for the continued operation and growth of the company's business.

**NOTE:** The above strategic analysis is based on in-house research and reflects the publishers opinion only