EQUITY RESEARCH

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Sector: Restaurants

October 25, 2020

Starbucks Corporation

4Q20 Preview, and Thoughts on FY21

Our view: SBUX is scheduled to report 4Q20 earnings on 10/29. A key focus for earnings—aside from an update on the pace of top line recovery—will be guidance for FY21, which we explore in greater detail in this note. In our view, SBUX remains an attractive recovery play within restaurants, due in large part to its ability to accelerate the transformation of its physical store base (e.g. develop more drive-thru and 'Pickup' stores), while also leveraging its already best-in-class digital platform and loyalty program. Adjusting estimates, and raising our PT to $97, from $89.

Key points:

SBUX is scheduled to report 4Q20 earnings on Thursday, October 29th. For the 4Q, we estimate EPS of $0.31, in line with consensus and near the high-end of the guidance range provided in July ($0.18 to $0.33). SBUX will also provide FY21 guidance with earnings (more on this below). For the 4Q, we estimate a consolidated global comp of -12%, driven by an Americas comp of -12% and International comp of -10%. In September, SBUX provided an intra-quarter update on comps for both the US (July -14%, August -11%) and China (July -10%, August flat; note that both China comp figures include the VAT exemption, a ~4pp benefit). Our estimates assume continued sequential recovery in the US, based on improving mobility data, as well as app usage data (*see Exhibits 3 & 4*).

A tale of two halves? Thoughts on FY21: For FY21 (a 53 week year), we model EPS of $2.84, versus our prior $2.79 and consensus' $2.72. While the pace of SBUX's top line recovery will continue to be closely watched, the timing of the FY21 margin recovery will also be a key focus for investors and the subject of debate. SBUX will provide detailed FY21 guidance on Thursday, though mgmt has already indicated it believes that a margin recovery will lag the sales recovery by ~two quarters. For FY21, we assume an adjusted operating margin of 16.4%, below FY19's 17.2% and the company's (pre-COVID) LT target of 17-18%. We do assume, however, that margins accelerate meaningfully in the 2H—to ~18%, from ~14% in the 1H—driven by: 1) the continued store volume recovery and associated improving fixed cost leverage; 2) the tapering off of incremental investments; 3) the impact of accelerated closures of lower profitability stores (up to 400, or ~5% of, US company stores); and 4) the benefit of FY21's extra week. As noted, a key variable for margin improvement will be the level at which SBUX makes incremental investments in partners (i.e. employees) and technology. For context, during the Q most impacted by COVID (3Q20), SBUX made ~$300M in partner investments, including sick pay and enhanced frontline pay for store employees. While we don't yet know the contemplated level of incremental investments for FY21, we estimate that for each $100M in incremental investment spend, the impact to full-year FY21 consolidated margin would be ~35 bps, and ~$0.07 to EPS.

Outperform

NASDAQ: SBUX; USD 90.80

Price Target USD 97.00 ↑ 89.00

WHAT'S INSIDE	
☐ Rating/Risk Change	☑ Price Target Change
☐ In-Depth Report	☑ Est. Change
☑ Preview	☐ News Analysis

Scenario Analysis*

Downside Scenario	Current Price	Price Target	Upside Scenario
67.00	90.80	97.00	111.00
↓ 25%		↑ 8%	↑ 24%

*Implied Total Returns

Key Statistics

Shares O/S (MM):	1,406.6	Market Cap (MM):	127,719
Dividend:	1.44	Yield:	1.6%
Float (MM):	NA	Tr. 12 ROE:	NA
Debt to Cap:	NA	Avg. Daily Volume:	6,125,564
		3-Yr. Est. EPS Growth:	NA

RBC Estimates

FY Sep	2019A	2020E	2021E	2022E
Revenue	26,508.6	23,448.1	28,737.4	30,576.8
Prev.		23,478.0	28,727.4	
EPS, Ops Diluted	2.83	0.96	2.84	3.33
Prev.			2.79	
P/E	32.1x	NM	32.0x	27.3x

Revenue	Q1	Q2	Q3	Q4
2019	6,632.7A	6,305.9A	6,823.0A	6,747.0A
2020	7,097.1A	5,995.7A	4,222.1A	6,133.2E
Prev.				6,163.1E
2021	6,879.1E	6,609.2E	7,231.3E	8,017.8E
Prev.	7,066.3E	6,920.2E	7,286.5E	7,454.4E
EPS, Ops Diluted				
2019	0.75A	0.60A	0.78A	0.70A
2020	0.79A	0.32A	(0.46)A	0.31E
2021	0.57E	0.56E	0.79E	0.91E
Prev.	0.60E	0.58E	0.81E	0.81E

All values in USD unless otherwise noted.

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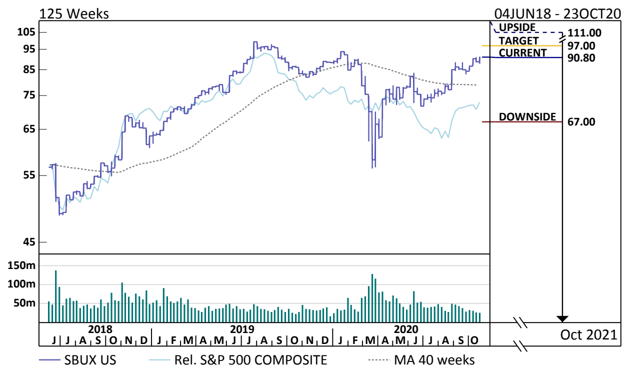
For Required Conflicts Disclosures, see Page 11.

Target/Upside/Downside Scenarios

Exhibit 1: Starbucks Corporation



Source: Bloomberg and RBC Capital Markets estimates for Upside/Downside/Target

Price target/base case

Our price target of $97 is based on applying a 31.0x P/E multiple to CY21E EPS of $3.14 (prior metrics were 29x CY21E EPS of $3.06). Our target implies an EV/EBITDA multiple of ~19x on CY21E EBITDA. Our target multiple represents a premium to the broader fast food group given Starbucks' above-average long-term unit and revenue growth. Our multiple is supported by Starbucks' dividend yield and ongoing growth model seeking to deliver double-digit EPS growth, which we see as increasingly rare among larger publicly traded consumer companies.

Upside scenario

Our upside scenario of $111 is based on 33.0x upside CY21E EPS of $3.35. Our upside target multiple is above SBUX's recent peak multiple and would represent a premium to the restaurant peer group average.

Downside scenario

Our downside scenario of $67 is based on 25x downside CY21E EPS of $2.69. Our downside target multiple is approximately in line with SBUX's more recent trough multiple and represents a below-peer-group average multiple given our below-ongoing (double-digit) EPS growth in our downside scenario.

Investment summary

Rare, quality growth among larger-cap consumer peer group: While there are numerous growth opportunities across the consumer investing landscape, SBUX is among only a handful of $100B market cap consumer companies expected to drive double-digit EPS growth in FY22E and beyond. While we expect COVID-19 will impact FY20 and into FY21, we see long-term guidance as achievable—and potentially conservative—and setting up for double-digit growth beyond this year.

Potential catalysts

- An acceleration in US traffic and/or same-store sales trends.
- Continued strong growth in China.
- An acceleration in unit development.
- Delivery of double-digit EPS growth, in line with the company's ongoing goals.

Risks to our thesis

- COVID-19 related risks may continue to impact top-line, margins, and cash flow longer than expected.
- Same-store sales could grow more slowly than anticipated for a number of reasons, including: macro/consumer headwinds; increased competition; declining consumer demand for the brand.
- A number of potential factors can adversely impact restaurant margins, including: higher-than-forecast labor costs (driven by both government legislation and market supply/demand for labor); commodity volatility.
- Unit growth—a key long-term top-line driver for the company—could be impacted by increasing competition for real estate, changes in development costs, or shifts in overall demand for the brand.

4Q20 Preview

For the 4Q20 we estimate an in-line $0.31 in EPS, near the high end of the $0.18 to $0.33 guidance range. In our model we estimate global comps of -12% and operating margin of 10.1%—see below for more detail on our estimates versus consensus.

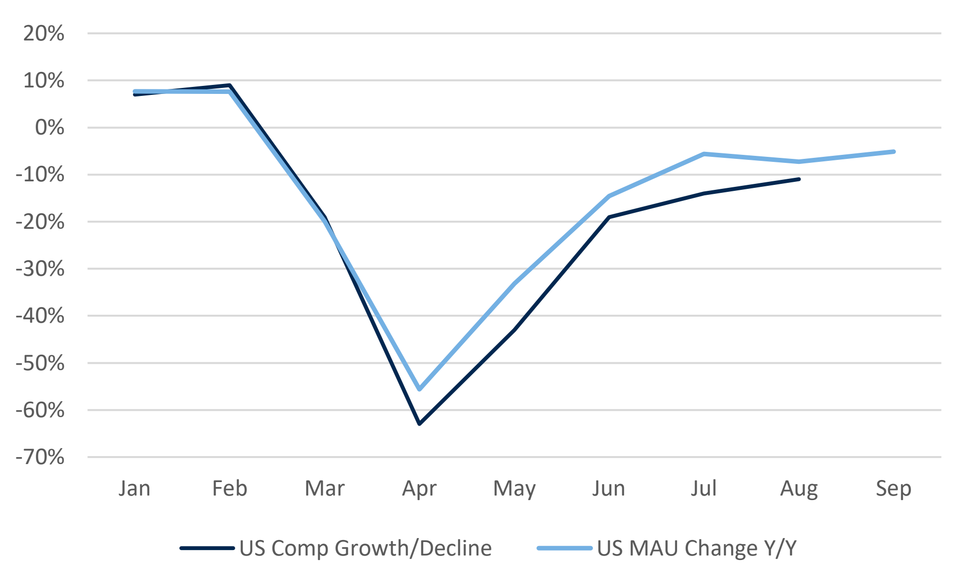
Exhibit 2: SBUX 4Q20 Key Earnings Metrics

	4Q19	4Q20E		
	Actual	RBC	Consensus	Guidance (as of July 28th)
Comparable Store Sales				
Americas	6%	-12%	-12%	-12% to -17%
International	3%	-10%	-12%	-10% to -15%
Global	5%	-12%	-12%	-12% to -17%
Store Growth				
Total System Restaurants	31,256	32,575	32,555	FY20 net new stores: Americas 300+/China 500+
Y/Y Change		*4.2%*	*4.2%*	
Total Net Revenues				
$ (Millions)	$6,747.0	$6,133.2	$6,058.2	-10% to -15%
Y/Y Change		*-9.1%*	*-10.2%*	
G&A				
$ (Millions)	$450.7	$411.6	$416.1	
% of Revenue	*6.7%*	*6.7%*	*6.9%*	
Operating Income				
$ (Millions)	$1,160.7	$622.5	$610.1	
% of Revenue	17.2%	10.1%	10.1%	
Y/Y Margin Change		*-705 bps*	*-713 bps*	
EPS				
$	$0.70	$0.31	$0.31	$0.18 to $0.33
Y/Y Change		*-56.0%*	*-55.7%*	

Source: Company reports, Consensus Metrix, FactSet, RBC Capital Markets estimates

Exhibit 3: SBUX US Comp Growth/Decline vs. Y/Y Change in US App Active Users

Continued improvement in app usage trends imply a sustained domestic comp recovery…



Source: Company reports, Sensor Tower

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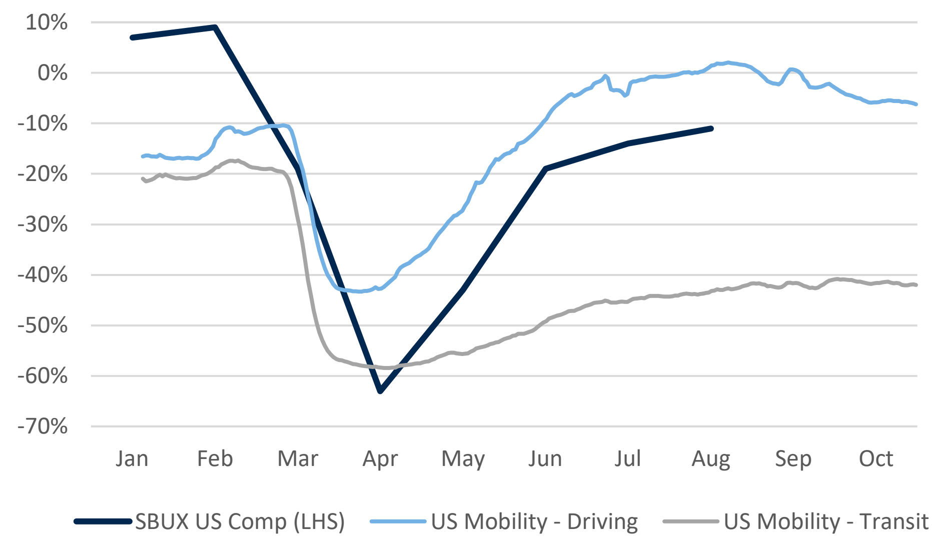
Exhibit 4: SBUX US Comp Growth/Decline vs. Change In US Mobility Trends (7-Day Average, Indexed to January 13th)

… as does stabilization of mobility trends



Source: Company reports, Apple Mobility Trends Reports

Thoughts on FY21

For FY21, we are estimating EPS of $2.84, versus consensus of $2.72. A key factor for FY21 earnings growth will be Americas segment margin recovery, driven by sales improvement in the US, as well as the level of investment spend by SBUX to support the ongoing recovery. While SBUX does plan to provide detailed FY21 guidance with 4Q20 earnings, management has already provided some directional guidance, including:

- FY21 includes a 53rd week. For context, FY16 was the last year with a 53rd week, and the extra week added about $0.06 to EPS of $1.89 (or ~4% to overall growth of nearly 20%). Of course, the circumstances of that year were far different than that of FY21.
- In September, the company reiterated that it expects—based on the current trajectory—that US comps will turn positive by the end of 2Q21, and that China comps (ex-VAT benefit) will turn positive by the end of 1Q21.
- With respect to margins, the company noted with 3Q20 earnings (in July), that it expects margin recovery to trail sales recovery by ~two quarters. The company expects investment spend (e.g. labor and tech investments) to continue into FY21.
- Net new unit growth in the Americas segment will be impacted by transformation initiatives (e.g. accelerated drive-thru and Pickup stores) as well as closures. As such, the company anticipates a return to the Americas +3-4% annual net new unit growth model beyond FY21, with lower net new unit growth in FY21.

In our model, we assume overall operating margin for the year will be 16.4%, which is below the company's (pre-COVID) "ongoing model" target of 17% to 18% and FY19's 17.2%. We assume that margins will recover back to near-FY19 levels by the 3Q.

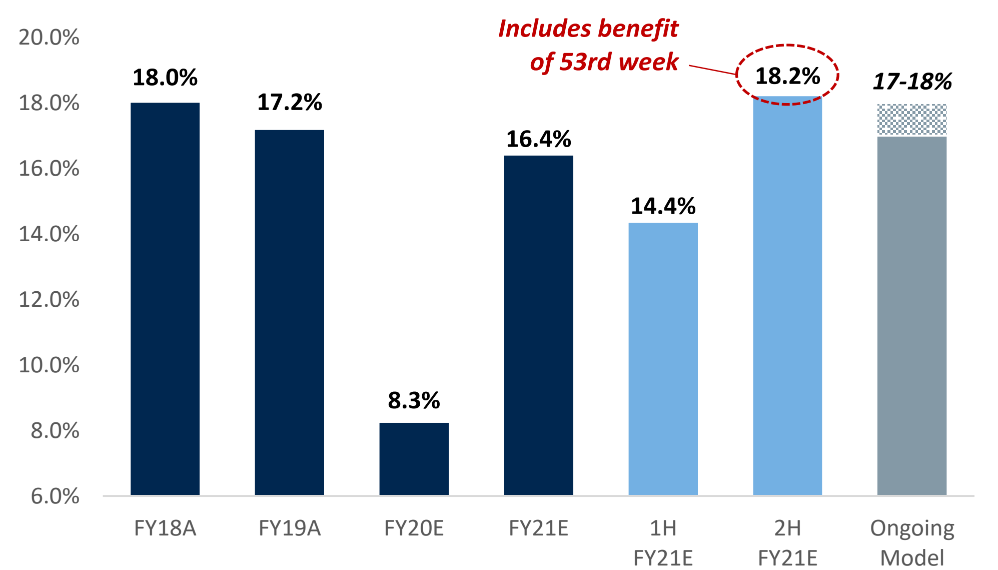
Exhibit 5: SBUX FY21 Key Earnings Metrics

	FY21E		
	RBC	Consensus	Comments
Comparable Store Sales			
Americas	20%	18%	
International	30%	27%	
Global	22%	20%	
Store Growth			
Total System Restaurants	34,440	34,241	
Y/Y Change	*5.7%*	*5.2%*	
Total Net Revenues			
$ (Millions)	$28,737.4	$28,169.3	53 Week Year
Y/Y Change	*22.6%*	*20.5%*	
G&A			
$ (Millions)	$1,820.8	$1,747.6	
% of Revenue	*6.3%*	*6.2%*	
Operating Income			
$ (Millions)	$4,719.8	$4,535.6	
Y/Y Change	*143.6%*	135.6%	
% of Revenue	16.4%	16.1%	
EPS			
$	$2.84	$2.72	53 Week Year
Y/Y Change	*197.0%*	*180.4%*	

Source: Company reports, Consensus Metrix, FactSet, RBC Capital Markets estimates

We are modeling meaningful operating margin expansion in the 2H of FY21…

Exhibit 6: SBUX Consolidate Adj. Operating Margin



Source: Company reports, RBC Capital Markets estimates

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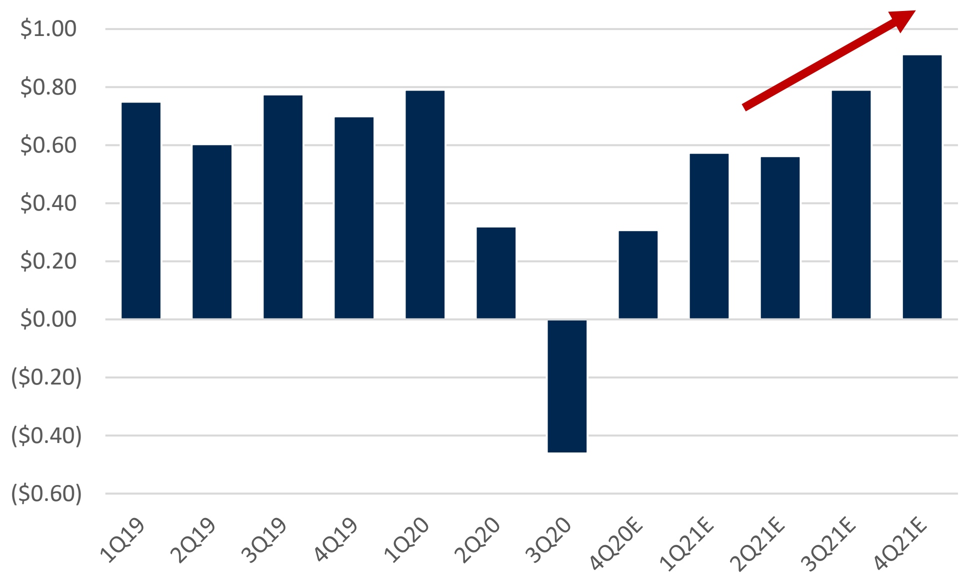
… Which we expect to drive an acceleration in EPS in the 3Q/4Q of FY21

Exhibit 7: SBUX Quarterly EPS

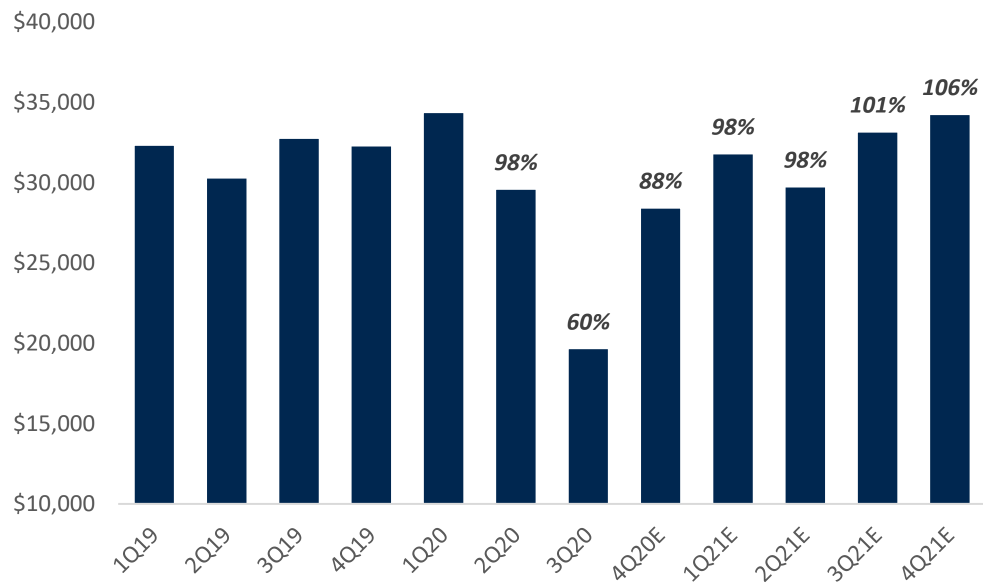


Source: Company reports, RBC Capital Markets estimates

As noted earlier, the key driver of SBUX's overall margin recovery will be that of the Americas segment, given that: A) Americas segment operating income was responsible for nearly 85% of consolidated operating income in FY19; and B) China (~10%+ of overall operating profit, and a significant portion of International segment) has seen sales recover faster, so International margin recovery is less of a debate. Top line recovery will be driven by factors both within SBUX's control, as well as external factors, including the impact of at-home coffee consumption and changes in consumer mobility. However, we assume that store volumes approach FY19 levels by the late 1Q or early 2Q, with sales effectively "fully" recovered by 3Q21.

We assume Americas store volume recovery roughly at or above FY19 levels by early FY21…

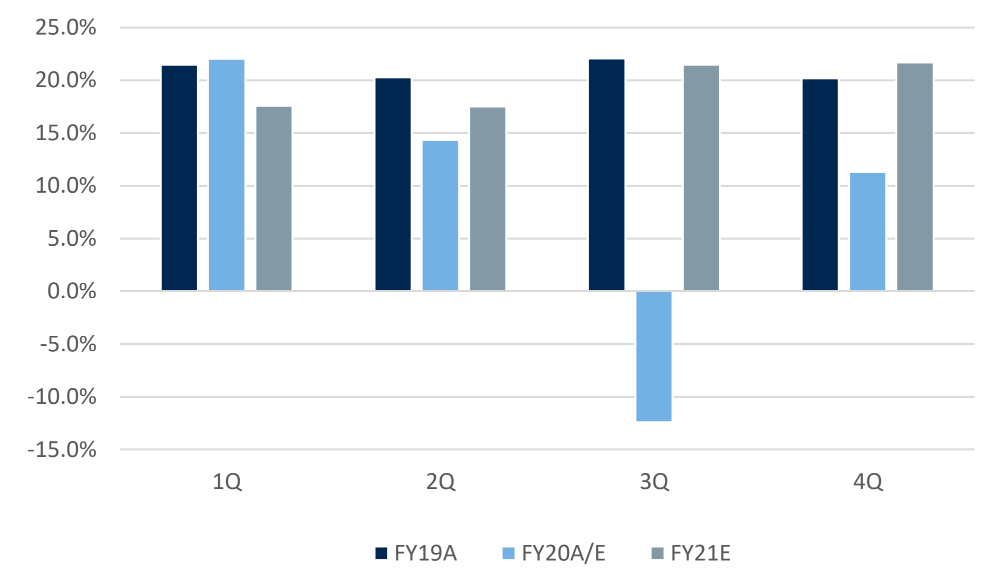
Exhibit 8: Americas Company Store Avg. Weekly Sales (Figures Indicate % of FY19 Equivalent Quarter Sales)



Source: Company reports, RBC Capital Markets estimates

… Driving segment margin recovery by the back-half of the year

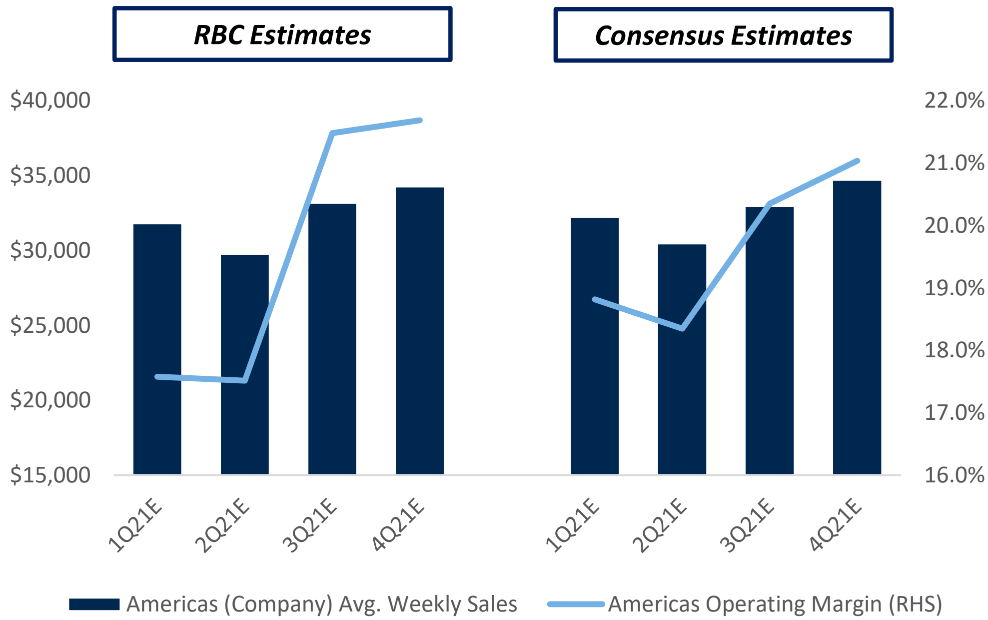
Exhibit 9: SBUX Americas Segment Quarterly Adj. Operating Margin



Source: Company reports, RBC Capital Markets estimates

Versus consensus, we assume more significant margin expansion in the back-half of FY21

Exhibit 10: SBUX Americas Segment Average Weekly Sales vs. Adj. Operating Margin



Source: Company reports, Consensus Metrix, Factset, RBC Capital Markets estimates

Valuation

Our price target of $97 is based on applying a 31.0x P/E multiple to CY21E EPS of $3.14. Our target implies an EV/EBITDA multiple of ~19x on CY21E EBITDA. Our target multiple represents a premium to the broader fast food group given Starbucks' above-average long-term unit and revenue growth. Our multiple is supported by Starbucks' dividend yield and ongoing growth model seeking to deliver double-digit EPS growth, which we see as increasingly rare among larger publicly traded consumer companies. Our price target supports our Outperform rating.

Risks to rating and price target

Our investment view is driven by a number of factors and any material deviation from the following may add or diminish support for the stock price:

1. COVID-19 related risks may continue to impact top-line, margins, and cash flow longer than expected.
2. Same-store sales could grow more slowly than anticipated for a number of reasons, including: macro/consumer headwinds; increased competition; declining consumer demand for the brand.
3. A number of potential factors can adversely impact restaurant margins, including: higher-than-forecast labor costs (driven by both government legislation and market supply/demand for labor); commodity volatility.
4. Unit growth—a key long-term top-line driver for the company—could be impacted by increasing competition for real estate, changes in development costs, or shifts in overall demand for the brand.

Company description

Starbucks is a multi-channel brand company offering primarily brewed and espresso based coffee beverages, smoothies, and teas. It operates two distinct segments: Americas and International. The company operates and licenses more than 32,000 retail coffeehouses, bakeries, and mall-based stores serving ready-to-consume beverages and food items including coffee, tea, juices, and baked goods under the Starbucks brand. The company licenses branded packaged goods in grocery, warehouse, and mass market channels as part of its Channel Development segment.

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				Resegmented											
Starbucks Corporation (SBUX) *(in millions, except per share data)*	**2016**	**2017**	**2018**	**1Q19 Dec-18**	**2Q19 Mar-19**	**3Q19 Jun-19**	**4Q19 Sep-19**	**2019**	**1Q20 Dec-19**	**2Q20 Mar-20**	**3Q20 Jun-20**	**4Q20E Sep-20**	**2020E**	**2021E**	**2022E**
Income Statement															
Net revenues															
Company-operated stores	$16,844.2	$17,650.7	$19,690.3	$5,370.3	$5,159.0	$5,535.0	$5,480.1	$21,544.4	$5,780.7	$4,766.0	$3,444.4	$4,980.5	$18,971.6	$23,328.3	$24,840.1
Licensed stores		2,355.0	2,652.2	737.1	678.2	725.0	734.7	2,875.0	792.0	689.8	300.5	692.6	2,474.9	3,192.2	3,457.8
Other		2,381.0	2,376.9	525.3	468.7	563.0	532.2	2,089.2	524.4	539.9	477.2	460.1	2,001.6	2,216.9	2,278.9
Total net revenues	**21,315.9**	**22,386.7**	**24,719.4**	**6,632.7**	**6,305.9**	**6,823.0**	**6,747.0**	**26,508.6**	**7,097.1**	**5,995.7**	**4,222.1**	**6,133.2**	**23,448.1**	**28,737.4**	**30,576.8**
Cost of sales	8,511.0	9,023.0	7,929.0	2,176.0	2,012.0	2,199.6	2,139.8	8,527.4	2,236.4	1,997.7	1,484.0	1,969.4	7,687.5	9,195.1	9,821.4
Store operating expenses	6,064.3	6,489.1	9,460.8	2,582.1	2,550.3	2,638.3	2,706.1	10,476.8	2,818.2	2,717.2	2,533.5	2,814.6	10,883.5	11,604.0	11,984.6
Other operating expenses	545.4	500.2	507.2	92.6	82.8	90.6	90.0	356.0	96.5	88.4	98.6	92.6	376.1	408.5	434.4
Depreciation and amortization	980.8	962.9	1,071.9	281.0	302.2	289.5	291.6	1,164.3	297.9	302.7	308.1	313.7	1,222.4	1,322.9	1,426.9
General and Administrative	1,326.6	1,390.4	1,594.1	415.1	421.8	434.4	450.7	1,722.0	430.6	403.4	396.5	411.6	1,642.1	1,820.8	1,929.3
Income from equity investees	318.2	391.4	301.2	67.8	62.3	76.0	91.9	298.0	73.9	67.9	68.4	91.3	301.5	333.7	356.6
Operating income	**4,206.0**	**4,412.5**	**4,457.6**	**1,153.7**	**999.1**	**1,246.6**	**1,160.7**	**4,560.1**	**1,291.4**	**554.2**	**(530.2)**	**622.5**	**1,937.9**	**4,719.8**	**5,336.8**
Gain on sale of investment/other	5.6	0.0	5.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest income and other, net	108.0	191.4	191.4	24.8	15.2	40.2	16.4	96.6	15.9	2.0	12.7	5.0	35.6	70.0	70.0
Interest expense	(81.3)	(92.5)	(170.2)	(75.0)	(73.9)	(86.4)	(95.7)	(331.0)	(91.9)	(99.2)	(120.8)	(128.1)	(440.0)	(498.0)	(498.0)
Total other income	**32.3**	**98.9**	**26.6**	**(50.2)**	**(58.7)**	**(46.2)**	**(79.3)**	**(234.4)**	**(76.0)**	**(97.2)**	**(108.1)**	**(123.1)**	**(404.4)**	**(428.0)**	**(428.0)**
Earnings before income taxes	**4,238.3**	**4,511.4**	**4,484.2**	**1,103.5**	**940.4**	**1,200.4**	**1,081.4**	**4,325.7**	**1,215.4**	**457.0**	**(638.3)**	**499.4**	**1,533.5**	**4,291.8**	**4,908.8**
Income tax expense	1,426.1	1,478.4	1,102.7	163.5	185.3	252.3	237.7	838.7	273.3	79.5	(98.8)	139.8	393.7	987.1	1,129.0
Reported Net Income	**$2,812.2**	**$3,033.0**	**$3,381.5**	**$940.1**	**$755.1**	**$948.1**	**$843.7**	**$3,487.0**	**$942.1**	**$377.5**	**($539.5)**	**$359.5**	**$1,139.7**	**$3,304.7**	**$3,779.8**
EPS	**$1.89**	**$2.07**	**$2.42**	**$0.75**	**$0.60**	**$0.78**	**$0.70**	**$2.83**	**$0.79**	**$0.32**	**($0.46)**	**$0.31**	**$0.96**	**$2.84**	**$3.33**
Diluted Shares Out	1,486.9	1,462.4	1,394.7	1,253.4	1,250.7	1,223.0	1,205.6	1,232.7	1,191.0	1,180.7	1,168.5	1,168.5	1,191.2	1,163.0	1,134.9
YOY Change	*-1.7%*	*-1.6%*	*-4.6%*	*-12.6%*	*-11.1%*	*-11.9%*	*-10.6%*	*-11.6%*	*-5.0%*	*-5.6%*	*-4.5%*	*-3.1%*	*-3.4%*	*-2.4%*	*-2.4%*
Share Price											$77	$79			
Dividends per share	$0.85	$1.05	$1.32	$0.36	$0.36	$0.36	$0.41	$1.49	$0.41	$0.41	$0.41	$0.47	$1.70	$1.96	$2.25
% Growth YOY	$0.25	$0.24	25.7%	20%	20%	0%	14%	$0.13	14%	14%	14%	15%	$0.14	$0.15	$0.15
Margins / Key Ratios															
Cost of sales including occupancy costs	50.5%	51.1%	40.3%	40.5%	39.0%	39.7%	39.0%	39.6%	38.7%	41.9%	43.1%	39.5%	40.5%	39.4%	39.5%
YOY basis point change	(71) bp	59 bp	(1,085) bp	(133) bp	(139) bp	69 bp	(85) bp	(69) bp	(183) bp	292 bp	334 bp	50 bp	94 bp	(111) bp	12 bp
Store operating expenses	36.0%	36.8%	48.0%	48.1%	49.4%	47.7%	49.4%	48.6%	48.8%	57.0%	73.6%	56.5%	57.4%	49.7%	48.2%
YOY basis point change	40 bp	76 bp	1,128 bp	54 bp	47 bp	2 bp	133 bp	58 bp	67 bp	758 bp	2,589 bp	713 bp	874 bp	(763) bp	(149) bp
Company-operated Margin	**13.5%**	**12.1%**	**11.7%**	**11.4%**	**11.6%**	**12.6%**	**11.6%**	**11.8%**	**12.6%**	**1.1%**	**(16.6%)**	**3.9%**	**2.1%**	**10.8%**	**12.2%**
YOY basis point change	32 bp	(135) bp	(43) bp	79 bp	92 bp	(71) bp	(48) bp	11 bp	116 bp	(1,049) bp	(2,923) bp	(763) bp	(968) bp	873 bp	137 bp
Other operating expenses	12.2%	10.6%	10.1%	7.3%	7.2%	7.0%	7.1%	7.2%	7.3%	7.2%	12.7%	8.0%	8.4%	7.6%	7.6%
YOY basis point change	(98) bp	(164) bp	(48) bp	(264) bp	(292) bp	(341) bp	(267) bp	(291) bp	(0) bp	(3) bp	564 bp	93 bp	123 bp	(85) bp	2 bp
Depreciation and amortization (% of total revenue)	4.6%	4.3%	4.3%	4.2%	4.8%	4.2%	4.3%	4.4%	4.2%	5.0%	7.3%	5.1%	5.2%	4.6%	4.7%
Depreciation and amortization (% of company revenue)	5.8%	5.5%	5.4%	5.2%	5.9%	5.2%	5.3%	5.4%	5.2%	6.4%	8.9%	6.3%	6.4%	5.7%	5.7%
YOY basis point change	(6) bp	(37) bp	(1) bp	3 bp	14 bp	(20) bp	(10) bp	(4) bp	(8) bp	49 bp	371 bp	98 bp	104 bp	(77) bp	7 bp
G&A % of operating revenue	6.2%	6.2%	6.4%	6.3%	6.7%	6.4%	6.7%	6.5%	6.1%	6.7%	9.4%	6.7%	7.0%	6.3%	6.3%
YOY basis point change	26 bp	(1) bp	24 bp	5 bp	14 bp	(28) bp	30 bp	5 bp	(19) bp	4 bp	302 bp	3 bp	51 bp	(67) bp	(3) bp
G&A % of system-wide sales	4.5%	4.4%	4.5%	4.3%	4.6%	4.4%	4.6%	4.5%	4.1%	4.6%	7.6%	4.5%	4.9%	4.3%	4.3%
EBIT Margin	**19.7%**	**19.7%**	**18.0%**	**17.4%**	**15.8%**	**18.3%**	**17.2%**	**17.2%**	**18.2%**	**9.2%**	**-12.6%**	**10.1%**	**8.3%**	**16.4%**	**17.5%**
YOY change margin (bps)	66 bp	(2) bp	(168) bp	(183) bp	(36) bp	(27) bp	(93) bp	(83) bp	80 bp	(660) bp	(3,083) bp	(705) bp	(894) bp	816 bp	103 bp
Interest % of Avg. Net Debt	3.0%	2.5%	2.6%	3.3%	3.2%	3.4%	3.4%	3.3%	3.4%	3.5%	3.8%	3.5%	3.4%	3.4%	3.3%
Tax rate	33.6%	32.8%	24.6%	14.8%	19.7%	21.0%	22.0%	19.4%	22.5%	17.4%	15.5%	28.0%	25.7%	23.0%	23.0%
Year-Over-Year Changes															
Company-operated stores	*10.8%*	*4.8%*	*11.6%*	*13.3%*	*6.9%*	*9.4%*	*8.3%*	*9.4%*	*7.6%*	*(7.6%)*	*(37.8%)*	*(9.1%)*	*(11.9%)*	*23.0%*	*6.5%*
Licensed stores			*12.6%*	*8.0%*	*8.4%*	*9.7%*	*7.5%*	*8.4%*	*7.4%*	*1.7%*	*(58.6%)*	*(5.7%)*	*(13.9%)*	*29.0%*	*8.3%*
Other			*(0.2%)*	*(19.1%)*	*(18.9%)*	*(4.5%)*	*(4.9%)*	*(12.1%)*	*(0.2%)*	*15.2%*	*(15.2%)*	*(13.6%)*	*(4.2%)*	*10.8%*	*2.8%*
Licensed + Other	*12.8%*	*5.9%*	*6.2%*	*(5.2%)*	*(4.7%)*	*3.0%*	*1.9%*	*(1.3%)*	*4.3%*	*7.2%*	*(39.6%)*	*(9.0%)*	*(9.8%)*	*20.8%*	*6.1%*
Total net revenues	***11.2%***	***5.0%***	***10.4%***	***9.2%***	***4.5%***	***8.1%***	***7.0%***	***7.2%***	***7.0%***	***(4.9%)***	***(38.1%)***	***(9.1%)***	***(11.5%)***	***22.6%***	***6.4%***
Cost of sales including occupancy costs	*9.3%*	*6.0%*	*-12.1%*	*9.7%*	*3.2%*	*11.3%*	*6.0%*	*7.5%*	*2.8%*	*-0.7%*	*-32.5%*	*-8.0%*	*-9.8%*	*19.6%*	*6.8%*
Store operating expenses	*12.1%*	*7.0%*	*45.8%*	*14.5%*	*7.9%*	*9.4%*	*11.3%*	*10.7%*	*9.1%*	*6.5%*	*-4.0%*	*4.0%*	*3.9%*	*6.6%*	*3.3%*
Other operating expenses	*4.4%*	*-8.3%*	*1.4%*	*-30.3%*	*-32.2%*	*-30.6%*	*-26.0%*	*-29.8%*	*4.2%*	*6.8%*	*8.8%*	*2.9%*	*5.6%*	*8.6%*	*6.4%*
Depreciation and amortization	*9.7%*	*-1.8%*	*11.3%*	*13.8%*	*9.5%*	*5.4%*	*6.3%*	*8.6%*	*6.0%*	*0.2%*	*6.4%*	*7.6%*	*5.0%*	*8.2%*	*7.9%*
General and Administrative	*16.2%*	*4.8%*	*14.7%*	*10.0%*	*6.7%*	*3.5%*	*12.1%*	*8.0%*	*3.7%*	*-4.4%*	*-8.7%*	*-8.7%*	*-4.6%*	*10.9%*	*6.0%*
Income from equity investees	*27.3%*	*23.0%*	*-23.0%*	*-24.2%*	*18.2%*	*6.4%*	*4.8%*	*-1.1%*	*9.0%*	*9.0%*	*-10.0%*	*-0.6%*	*1.2%*	*10.7%*	*6.9%*
Operating income	***15.1%***	***4.9%***	***1.0%***	***-1.2%***	***2.3%***	***6.6%***	***1.5%***	***2.3%***	***11.9%***	***-44.5%***	***-142.5%***	***-46.4%***	***-57.5%***	***143.6%***	***13.1%***
Net income	*17.5%*	*7.9%*	*11.5%*	*0.7%*	*0.5%*	*10.1%*	*0.9%*	*3.1%*	*0.2%*	*-50.0%*	*-156.9%*	*-57.4%*	*-67.3%*	*190.0%*	*14.4%*
EPS	*19.7%*	*9.7%*	*16.9%*	*15.3%*	*13.0%*	*25.0%*	*12.9%*	*16.7%*	*5.5%*	*-47.0%*	*-159.6%*	*-56.0%*	*-66.2%*	*197.0%*	*17.2%*

Source: Company documents; RBC Capital Markets estimates

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As of 30-Sep-2020

			Investment Banking Serv./Past 12 Mos.	
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SELL [Underperform]	**81**	**5.44**	**11**	**13.58**

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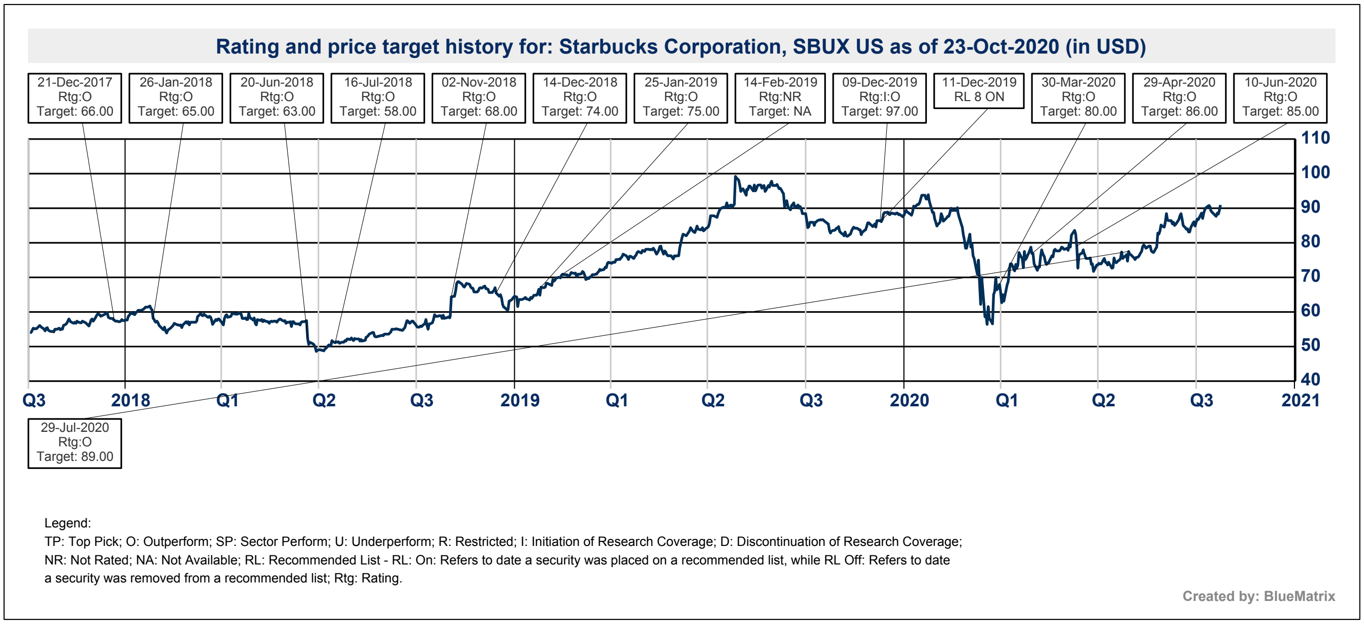

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Starbucks Corporation

Valuation

Our price target of $97 is based on applying a 31.0x P/E multiple to CY21E EPS of $3.14. Our target implies an EV/EBITDA multiple of ~19x on CY21E EBITDA. Our target multiple represents a premium to the broader fast food group given Starbucks' above-average long-term unit and revenue growth. Our multiple is supported by Starbucks' dividend yield and ongoing growth model seeking to deliver double-digit EPS growth, which we see as increasingly rare among larger publicly traded consumer companies. Our price target supports our Outperform rating.

Risks to rating and price target

Our investment view is driven by a number of factors and any material deviation from the following may add or diminish support for the stock price:

1. COVID-19 related risks may continue to impact top-line, margins, and cash flow longer than expected.
2. Same-store sales could grow more slowly than anticipated for a number of reasons, including: macro/consumer headwinds; increased competition; declining consumer demand for the brand.
3. A number of potential factors can adversely impact restaurant margins, including: higher-than-forecast labor costs (driven by both government legislation and market supply/demand for labor); commodity volatility.
4. Unit growth—a key long-term top-line driver for the company—could be impacted by increasing competition for real estate, changes in development costs, or shifts in overall demand for the brand.

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