



Starbucks Corporation

The Brew Has Gone Cold

With a turnaround in progress, **SBUX faces slowing sales growth, rising labor costs, and intensifying competition.** While its new “Back to Starbucks” strategy is designed to revitalize the brand by investing in store renovations and labor retention, execution risks and a premium valuation leave little room for error. We believe that against a backdrop of weakening consumer spending and economic uncertainty, this java juggernaut’s return to glory is not happening anytime soon. **We initiate \$SBUX with a SELL rating and one-year price target of \$70.**

Thesis Point 1 The specialty coffee and beverage market has become increasingly crowded with differentiated competitors, putting Starbucks’ historical economic moat under pressure. Local cafes and niche craft-focused roasters have captured the loyalty of younger, urban consumers seeking authenticity and community. Meanwhile, peers such as Dutch Bros continue to eat into SBUX U.S. market share, notably, BROS saw 4.7% same-store sales growth in a quarter where SBUX same-store sales growth declined by 2.0%. In China, Starbucks market share is steadily declining as they face competition from various competitors like Luckin who already operates nearly three times as many coffee shops in China. The coffee shop market’s low barriers to entry and minimal switching costs create a challenging environment for Starbucks to defend its brand strength and competitive position in the near term.

Thesis Point 2 Recent labor investments in increased staffing and retention incentives to improve the in-store experience have driven a 4.5% decline in operating margins in Q2 2025. Although management believes these investments are essential to revitalizing customer traffic and the in-store experience, we remain skeptical about whether they will drive meaningful sales growth, especially in the near term. SBUX’s new labor costs are structural rather than temporary, suggesting that margins may remain below historical levels unless Starbucks can meaningfully grow revenue. Competitive pressures from leaner, low-cost rivals along with shifting consumer preferences toward grab-and-go convenience, cast further doubt on Starbucks’ ability to fully offset these new structural costs, even beyond the near term.

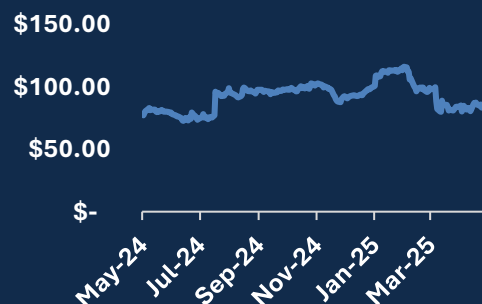
Thesis Point 3 The new CEO Brian Niccol is well respected by Wall Street, having led Taco Bell’s brand resurgence, and then Chipotle’s turnaround post E. coli crisis. Niccol’s hiring in August 2024 sent the stock soaring over 20%, signaling investor confidence in his ability to revitalize SBUX. The stock has since come back to earth, but it’s clear that Wall Street analysts still believe Niccol deserves a premium multiple. We believe that unlike Chipotle’s food safety scandal, which had a clear operational fix, SBUX must adapt to evolving consumer preferences, a crowded coffee market, and a higher labor cost environment. Even considering Niccol’s track record, we believe that at current valuation of 37.0x P/E, in line with the historical average leaves little margin for error as the business faces pressure from all sides, especially considering the limited visibility into the success of the “Back to Starbucks” strategy at this stage.

Company Overview Starbucks is a leading global coffeehouse chain and specialty beverage company. Founded in 1971, Starbucks has expanded to over 38,000 stores in more than 80 countries. SBUX’s business is segmented into three areas: North America (75% of sales), International (20%), and Channel Development (5%). SBUX generates most of its revenue from its own stores, which account for roughly 82% of total net revenue, with the remainder from licensed stores and other channels.

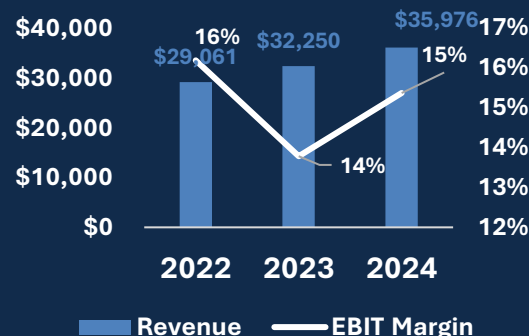


| | |
|-------------------|-------------------|
| TICKER: | \$SBUX |
| RATING: | SELL |
| PRICE: | \$86.00 |
| PRICE TARGET: | \$70.00 |
| MARKET CAP: | \$97bn |
| 52-W RANGE: | \$72.50 – \$115.8 |
| P/E: | 37.0x |
| IMPLIED DOWNSIDE: | 18.6% |

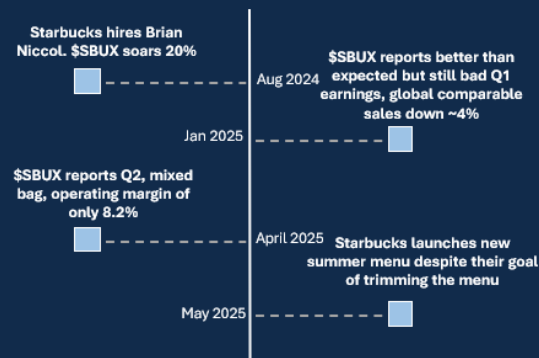
1 Year Price History



EBIT Margin with Annual Revenue



Recent Events Timeline



Upside Risk 1 Brian Niccol has stated that the competitive environment in China is extreme, and they are exploring a strategic partnership or licensing arrangement. This could act as an upside catalyst as they pursue a franchisee or trademark model similar to McDonald’s and Yum! Brands in China, which would allow Starbucks to retain brand presence in its second-largest market while also reducing volatility and capital intensity and freeing up cash flow to reinvest in the turnaround.

Upside Risk 2 Niccol recently mentioned their strategy had seen success at the handful of select pilot locations. Thus, a faster and more effective execution of the “Back to Starbucks” strategy could help SBUX see upside. If Starbucks can quickly reinvigorate its U.S. store base, improve labor productivity (a quick glance at r/starbucksbarista tells you this isn’t easy), and re-engage its customer base through digital innovation and menu simplification, SBUX could see a rebound in traffic and operating leverage. In such a scenario the stock’s premium multiple may be justified.

Catalysts Catalysts for the stock to move toward our \$70 price target include continued negative same-store sales growth in Q3 earnings, particularly in the U.S. and China, signaling persistent weakness in customer demand as competitors sip away share. Additionally, prolonged periods of limited progress in executing the “Back to Starbucks” strategy may also erode investor confidence in Niccol’s leadership. If key initiatives fail to deliver tangible results in traffic or margin recovery, we believe the market could grow impatient with the turnaround narrative, thus spurring the stock to the downside.

Valuation – Price Target of \$70

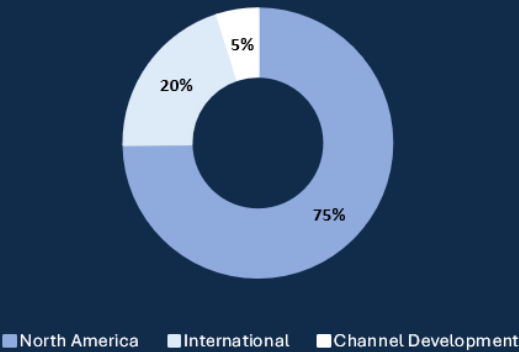
| DCF Analysis (\$mm) | | | | | | | |
|---------------------|------------|------------|------------|------------|------------|------------|------------|
| | FY2024 | FY2025 | FY2026 | FY2027 | FY2028 | FY2029 | FY2030 |
| | 12/31/2024 | 12/31/2025 | 12/31/2026 | 12/31/2027 | 12/30/2028 | 12/30/2029 | 12/31/2030 |
| Revenue | 36,176 | 36,800 | 38,476 | 40,122 | 41,726 | 43,276 | 44,759 |
| Revenue Growth | 1% | 2% | 5% | 4% | 4% | 4% | 3% |
| North America | 27,068 | 27,000 | 28,080 | 29,133 | 30,153 | 31,133 | 32,067 |
| International | 7,339 | 8,000 | 8,560 | 9,116 | 9,663 | 10,195 | 10,705 |
| Channel Development | 1,770 | 1,800 | 1,836 | 1,873 | 1,910 | 1,948 | 1,987 |
| EBIT | 5,131 | 4,800 | 4,925 | 5,206 | 5,487 | 5,767 | 6,042 |
| EBIT Margin | 14.2% | 13.0% | 12.8% | 13.0% | 13.2% | 13.3% | 13.5% |
| Tax Expense | 1,207 | 1,100 | 1,083 | 1,145 | 1,207 | 1,269 | 1,329 |
| Effective Tax Rate | 24% | 23% | 22% | 22% | 22% | 22% | 22% |
| NOPAT | 3,923.60 | 3,700.00 | 3,841.44 | 4,060.56 | 4,279.86 | 4,497.88 | 4,713.08 |
| D&A | 1,592 | 1,760 | 1,924 | 1,956 | 1,982 | 2,002 | 2,014 |
| Capex | 2,778 | 2,940 | 2,886 | 2,959 | 3,025 | 3,083 | 3,133 |
| Changes in NWC | (186) | (50) | (192) | (251) | (313) | (379) | (448) |
| UFCF | 2,924 | 2,570 | 3,072 | 3,308 | 3,550 | 3,795 | 4,042 |
| PV of FCF | | 2,545 | 2,904 | 2,907 | 2,900 | 2,882 | 2,854 |

Our 5yr DCF model assumes revenue growth at a CAGR of 3.6% through FY2030 as SBUX sees continued near term headwinds in customer demand while trying to execute Niccol’s “Back to Starbucks” strategy, and specialized competitors continue to eat away at share. We see EBIT margins contracting as Niccol’s plan structurally weighs on operating income with higher labor costs, eventually recovering to 13.5%, which is still materially lower than SBUX’s 5-yr avg margin. At an exit multiple of 15.0x EV/EBITDA, a contraction from their current premium multiple of 20.0x EV/EBITDA, SBUX stock presents nearly 20% downside.

Conclusion

We remain cautious in our view: although Niccol’s leadership could deliver long-term benefits if Starbucks successfully reclaims its brand positioning and grows transaction volumes, we believe the magnitude of structural headwinds, particularly labor-driven margin pressures and competitive encroachment suggests that near-term risks are not fully priced into the current premium multiple. This dynamic creates a risk of multiple compression if progress on the turnaround does not materialize as swiftly as the market anticipates. **Initiate SBUX with a SELL rating, and a one-year PT of \$70.00.**

Revenue Segments



| Terminal Value | |
|----------------------------|-----------|
| Exit Multiple Method | |
| 2034 EBITDA | \$8,057 |
| EV/EBITDA Exit Multiple | 15.0x |
| Terminal Value | \$120,848 |
| PV of Terminal Value | \$85,302 |
| PV of Projection Period | \$16,988 |
| PV of Terminal Value | \$85,302 |
| Implied TEV | \$102,290 |
| (-) Debt | \$27,907 |
| (+) Cash | \$3,286 |
| Implied Equity Value | \$77,669 |
| Diluted Shares Outstanding | 1,137 |
| Implied Share Price | \$68.33 |
| Upside/Downside | -19.9% |

Football Field Valuation Range



Risk vs. Reward - DCF Cases



| Income Statement (\$mm) | 2024A | 2025E | 2026E | 2027E | 2028E | CAGR% |
|-------------------------|--------|--------|--------|--------|--------|-------|
| Revenue | 36,176 | 36,800 | 38,476 | 40,122 | 41,726 | 3.6% |
| EBITDA | 6,723 | 6,560 | 6,849 | 7,162 | 7,469 | 2.7% |
| EBIT | 5,131 | 4,800 | 4,925 | 5,206 | 5,487 | 1.7% |
| NOPAT | 3,924 | 3,700 | 3,841 | 4,061 | 4,280 | 2.2% |
| Margin & Growth Data | 2024A | 2025E | 2026E | 2027E | 2028E | AVG% |
| EBITDA Margin | 18.6% | 17.8% | 17.8% | 17.9% | 17.9% | 18.0% |
| EBIT Margin | 14.2% | 13.0% | 12.8% | 13.0% | 13.2% | 13.2% |
| Revenue Growth | 0.6% | 1.7% | 4.6% | 4.3% | 4.0% | 3.0% |
| EBIT Growth | -7.2% | -6.4% | 2.6% | 5.7% | 5.4% | 0.0% |
| Valuation Metrics | 2024A | 2025E | 2026E | 2027E | 2028E | AVG% |
| P/FCF | 33.2x | 37.7x | 31.6x | 29.3x | 27.3x | 31.8x |
| EV/Sales | 3.4x | 3.3x | 3.2x | 3.0x | 2.9x | 3.2x |
| EV/EBITDA | 18.1x | 18.5x | 17.8x | 17.0x | 16.3x | 17.5x |
| FCF Yield | 3.0% | 2.7% | 3.2% | 3.4% | 3.7% | 3.2% |

Comparable Companies

\$mm

| Ticker | Mkt Cap | EV | P/E LTM | Revenue LTM | EBITDA LTM |
|---|-----------|-----------|---------|-------------|------------|
| McDonald's Corporation (NYSE:MCD) | \$216,215 | \$270,228 | 25.0x | \$26,060 | \$14,170 |
| Chipotle Mexican Grill, Inc. (NYSE:CMG) | \$53,810 | \$57,044 | 36.0x | \$11,578 | \$2,335 |
| Dutch Bros Inc. (NYSE:BROS) | \$7,016 | \$7,939 | 108.0x | \$1,452 | \$249 |
| Yum! Brands, Inc. (NYSE-YUM) | \$41,428 | \$53,066 | 29.5x | \$7,908 | \$2,760 |
| Starbucks Corporation (NasdaqGS:SBUX) | \$96,949 | \$120,357 | 35.0x | \$36,689 | \$5,576 |

| Ticker | LTM EV/EBITDA | Gross Margin | EBITDA Margin | EBIT Margin | 1 Yr Rev Growth Rate LF |
|---|---------------|--------------|---------------|-------------|-------------------------|
| McDonald's Corporation (NYSE:MCD) | 19.1x | 57.0% | 54.4% | 46.1% | 1.2% |
| Chipotle Mexican Grill, Inc. (NYSE:CMG) | 24.4x | 40.2% | 20.2% | 17.2% | 8.6% |
| Dutch Bros Inc. (NYSE:BROS) | 31.8x | 26.7% | 17.2% | 10.0% | 29.8% |
| Yum! Brands, Inc. (NYSE-YUM) | 19.2x | 46.2% | 34.9% | 32.5% | 11.3% |
| Starbucks Corporation (NasdaqGS:SBUX) | 21.6x | 15.2% | 10.5% | 7.2% | 0.6% |

| | | | | | |
|-----------------|--------|-------|-------|-------|-------|
| High | 31.85x | 57.0% | 54.4% | 46.1% | 29.8% |
| 75th Percentile | 24.43x | 46.2% | 34.9% | 32.5% | 11.3% |
| Average | 23.23x | 37.1% | 27.4% | 22.6% | 10.3% |
| Median | 21.58x | 40.2% | 0.0% | 17.2% | 8.6% |
| 25th Percentile | 19.23x | 26.7% | 17.2% | 10.0% | 1.2% |
| Low | 19.07x | 15.2% | 10.5% | 7.2% | 0.6% |

Insert Company Name

| | | |
|--|----|---------|
| Implied Enterprise Value (25th Percentile) | \$ | 107,216 |
| Implied Enterprise Value (Median) | \$ | 120,357 |
| Implied Enterprise Value (75th Percentile) | \$ | 136,219 |

| | | |
|---------------------------------------|----|-------|
| Implied Share Price (25th Percentile) | \$ | 72.66 |
| Implied Share Price (Median) | \$ | 84.22 |
| Implied Share Price (75th Percentile) | \$ | 98.18 |

| Weighted Average Cost of Capital (\$mm) | |
|---|----------|
| Market Risk Premium | 4.33% |
| Beta | 1.00 |
| Risk Free Rate | 4.39% |
| Cost of Equity | 6.77% |
| Weighted Average Cost of Debt | 4.56% |
| Tax Rate | 22.00% |
| Cost of Debt | 0.22% |
| Total Equity | \$96,949 |
| Total Debt | \$24,621 |
| Equity/Total Capitalization | 77.65% |
| Debt/Total Capitalization | 22.35% |
| WACC | 7.57% |

Downside Case: Our downside case assumes further margin contraction, as sales fail to offset increased costs, and macro pressures such as a recession or high coffee bean costs depress earnings. At a multiple of 13.0x our downside case presents 38% downside with a PT of \$54.

Upside Case: Our upside case is a scenario where Brian Niccol proves why he deserves a premium multiple. If his “Back to Starbucks” strategy is effective and well executed, Starbucks’ reclaiming of the “third place” in the customer’s mind justify an EV/EBITDA multiple of 20x and margins returning to historical levels, presenting 23% upside and a PT of \$105.

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