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Starbucks Corporation (SBUX-US)

Hotels Restaurants & Leisure

- We reiterate our Buy rating on SBUX as new business initiatives to drive growth will continue to accelerate Business Performance and an increase in return of cash to shareholders, which together will drive increasing shareholder value creation.
- Increasing momentum in the U.S. along with strong performance in China is driving accelerated Business Performance.
- SBUX announces a global alliance with Nestlé's to market Starbucks' packaged coffee and drink brands globally.
- SBUX continues to expand its product portfolio by introducing new beverages and core food offerings.
- SBUX's enhanced digital capabilities and growing its customer loyalty program improves operating efficiency, increases profitability, and further strengthens its brand which can increase traffic in other dayparts.
- SBUX's ongoing international expansion will drive significant future growth.
- SBUX's strong balance sheet and cash flow will enable it to fund growth and along with the initial consideration payment from Nestlé', will further its ability to enhance shareholder returns through ongoing dividend increases and share repurchases.

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Company Note
Starbucks Corporation (SBUX-US)

Hotels Restaurants & Leisure

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Research Action:

Reiterate rating

Rating: Buy

Prior Rating: Buy

Price 05/08/2018: \$57.67

52 Week High / Low: \$64.87

\$52.58

Key Data: (TTM as of Mar-18)

Excess Cash per Share: \$1.19

Annual Dividend: \$1.20

Dividend Yield: 2.08%

Avg. Volume (30 Day): 8.1M

Shares Outstanding: 1,380.0M

Float: 1,339.9M

Short Interest: 34.5M

SI % / Float 2.57%

Equity MV: \$79,584.6M

Sales TTM: \$23,465.9M

Beta: 0.69

EBITDAR: \$6,908.9M

NOPAT: \$3,224.1M

Total Invested Capital: \$19,423.5M

Return on Capital: 19.32%

Cost of Capital: 6.09%

Economic Profit: \$2,207.4M

Market Value Added: \$73,868.2M

Current Operations Value: \$52,924.2M

Future Growth Value: \$40,367.5M

- We reiterate our Buy rating on SBUX as new business initiatives to drive growth will continue to accelerate Business Performance and an increase in return of cash to shareholders, which together will drive increasing shareholder value creation.** SBUX's recent announcement granting Nestlé a perpetual global license to market Starbucks branded packaged coffee and drink products in supermarkets, restaurants, and catering operations enables it to focus on expanding its retail operations in the U.S. and China. SBUX is focusing its efforts on changing its U.S. retail environment to reaccelerate growth in its mature U.S. market while at the same time investing in the growing Chinese and Asia-Pacific markets. SBUX is investing in new initiatives including new technologies and innovation, loyalty program expansion, and further global growth. It is investing in new digital initiatives to improve customer service and better manage its supply chain, while expanding its loyalty program and increasing mobile ordering and e-commerce capabilities. SBUX is also ramping up its evening program with expanded food offerings along with wine and beer. We believe SBUX's successful operating history and incredible brand equity combined with its new expansion and digital initiatives will drive significant increases in Return on Capital, increasing Economic Profit and creating greater shareholder value. SBUX can further enhance shareholder returns as it refocuses capital investment, as well as through dividend growth and increasing share repurchases. We believe significant upside exists in the shares from current levels and continue to recommend purchase.

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- **Increasing momentum in the U.S. along with strong performance in China is driving accelerated Business Performance.** For the 12 months ending April 1, 2018, Net Sales Revenue increased 6.8% Y/Y to a record \$23.47 billion. We estimate a further increase of 10.2% to \$25.89 billion over the NTM as accelerating retail growth in the U.S. and China continue to drive increasing revenue growth. Economic Operating Cash Flow (EBITDAR) increased 4.25% Y/Y from \$6.63 billion to \$6.91 billion over the LTM. We forecast a further increase of 11% to \$7.66 billion over the NTM. Net Operating Profit After Tax (NOPAT) increased 10.1% Y/Y from \$2.93 billion to \$3.22 billion over the LTM. We forecast a further increase of 21% to \$3.9 billion over the NTM driven by increasing operating efficiency and the benefits of the lower tax rate. Return on Capital (ROC) declined from 21.71% to 19.32% over the LTM. We forecast an increase to 21% over the NTM as SBUX accelerating business performance begins to drive Return on Capital higher and believe it will start to approach its five-year average of 23% over the next 24 months. Economic Profit increased 1.6% Y/Y from \$2.17 billion to \$2.21 billion. We forecast a further increase of 9% to \$2.41 billion over the NTM as new growth initiatives and higher-margin licensing revenue from international store openings increase economic profitability. As SBUX re-accelerates Economic Profit growth, it will start to drive greater shareholder value creation.

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- **SBUX announces a global alliance with Nestlé's to market Starbuck's packaged coffee and drink brands globally.** Nestlé S.A. (NSRGY-US, Non-rated) will pay \$7.15 billion plus royalties for the exclusive rights to market, sell and distribute Starbucks brands of packaged coffees and teas including Starbucks, Starbucks Reserve, Starbuck's VIA, Seattle's Best Coffee, Teavana, and Torrefazione Italia around the world. This global distribution alliance brings together the world's leading coffee brand and leading food product marketer. It combines the world's largest coffee producer with the largest and fastest growing installed base of at-home single serving coffee machines. Nestlé will add Starbucks products to its Nespresso and Dolce Gusto single-serving product offerings and illustrates the strength of the Starbucks brand. This partnership is similar to the other successful distribution partnerships that SBUX currently has with Anheuser Busch (BUS-US, Non-rated) and PepsiCo (PEP-US, Neutral-rated) along with others that distribute its ready-to-drink coffee and tea beverages globally. Starbucks's current packaged tea and coffee business generates \$2 billion of annual sales. Starbucks said it would use the proceeds from this transaction to increase its targeted return of cash to shareholders to over \$20 billion, up from \$15 billion, over the next three years.
- **SBUX continues to expand its product portfolio by introducing new beverages and core food offerings.** Beverage innovation has been a significant driver of same-store sales growth for SBUX. SBUX's growth drivers have been the introduction of new beverages including cold-brewed coffee, iced espresso, and Teavana Infusion-flavored iced teas. SBUX is expanding its product offerings and enhancing its coffee experience by increasing the use of small-batch super-premium coffee products using innovative brewing techniques, along with including fast-growing categories like Cold Brew and Draft Nitro beverages. SBUX is offering more nutritional and healthier beverages by increasing the use of plant-based modifiers including almond, coconut, and soy milk. SBUX has also expanded distribution of its Evolution Fresh Juice brand. SBUX continues to expand its food offerings as food is increasingly becoming a key growth driver. Food now contributes more than 21% of Starbucks U.S. revenues. Currently, SBUX does most of its business before noon. An expanded menu to include lunch items, along with the rollout of its evening program can turn Starbucks stores into a lunch destination and drive greater traffic at night. SBUX's evening program that includes food, wine and beer is currently available at 100 stores and is expected to roll-out to 25% of all US stores by the end of 2019. The ability to round-out traffic throughout the day and not just vested in morning hours can be a significant growth and profit opportunity.

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- **SBUX's enhanced digital capabilities and growing its customer loyalty program improves operating efficiency, increases profitability, and further strengthens its brand which can increase traffic in other dayparts.** SBUX continues to leverage its mobile and digital capabilities along with its loyalty and e-commerce platforms to capitalize on these trends and drive greater revenue. SBUX currently has one of the largest and most popular customer loyalty programs with over 40% participation by its customer base. Membership in the My Starbucks Rewards (MSR) loyalty program increased 11% Y/Y to 13.3 million members. SBUX customers are increasingly using its mobile app to pay for their purchases. SBUX mobile app and MSR are key business drivers as loyalty members have much higher repeat rates and average purchases than non-members. SBUX's mobile app is one of the industry's most widely used mobile payment platforms, accounting for over 30% of all U.S.-based store transactions, up from 25% last year. With SBUX's MOP (Mobile Order & Pay) service, customers can order ahead of time and have their purchases ready for pickup upon arrival, saving time and reducing lines. SBUX is expanding its rollout to include Canada and the United Kingdom and will focus on expansion in China as well. China's consumers have the highest adoption rate of using mobile-ordering apps and mobile-payment platforms of any country. MSR members can also earn reward points on the purchase of Starbucks products in grocery channels. SBUX is focusing on broadening the reach of its loyalty program and mobile app for use in its consumer product business and eventually other retail locations.

- **SBUX's ongoing international expansion will drive significant future growth.** China and Asia Pacific regional expansion will drive significant growth over the next five years as SBUX opens new stores and increases its brand presence. The rising middle class and a younger population with rising incomes are embracing coffee beverages over tea and using digital and mobile platforms and participating in loyalty programs at an increasing rate. Currently, SBUX has almost 7500 stores in Asia (600 of which are in China) with the goal of 11,000 locations by the end of 2021. In July 2017, SBUX bought out its joint-venture partner, transitioning its East China joint venture to a full company-operated market, enabling its local leadership team to drive its China expansion. On December 6th, SBUX opened its Shanghai Starbucks Roastery, a destination 30,000 square-foot store marking the beginning of a significant Starbucks brand presence. SBUX will also include its high-end Italian artisanal bakery, Princi, in all its Starbucks Roastery locations, and will be opening Roasteries in Chicago and New York, along with Tokyo, Japan, and Milan, Italy later in 2018. SBUX plans on opening over 5,000 stores in China by 2021 and will introduce its consumer products business there as well. In addition to China, SBUX will open stores in other Asia Pacific countries including Japan, South Korea, Indonesia, and Thailand.
- **SBUX's strong balance sheet and cash flow will enable it to fund growth and along with the initial consideration payment from Nestlé', will further its ability to enhance shareholder returns through ongoing dividend increases and share repurchases.** SBUX currently has \$1.66 billion in excess cash, and we expect it to generate \$7.66 billion in Economic Operating Cash Flow. SBUX current yield of 2.1% is slightly higher than the current 1.9% yield of the S&P 500. SBUX has increased its dividend on average over 23% for the past five years. For 2017, SBUX increased its dividend 20% from \$0.25 a share per quarter to \$0.30 after increasing it 25% in 2016. With its recent partnership announcement with Nestlé, SBUX will receive a cash payment of \$7.15 billion which it will use to accelerate share repurchases as it plans to return \$20 billion in both dividend increases, and share repurchases by 2020.

Investment Thesis

SBUX is refocusing its corporate strategy to drive future growth with the implementation of several business improving key initiatives. SBUX is expanding its product portfolio, emphasizing new health and wellness beverages, teas, and core food offerings. New food and beverage offerings can drive increased customer traffic during the later hours. SBUX is investing in new digital initiatives to improve customer service, better manage its supply chain, expand its loyalty program and increase mobile ordering and e-commerce capabilities. SBUX will drive future growth with its ongoing expansion in China and the Asia Pacific region. We believe SBUX's successful operating history and incredible brand equity combined with new digital and growth initiatives will drive significant increases in Return on Capital, increasing Economic Profit and creating greater shareholder value.

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Company Overview

Starbucks Corp. (SBUX-US) is the world's largest specialty coffee retailer operating more than 28,200 locations in over 75 countries. Starbucks produces and sells its roasted beans along with coffee, accessories, snack foods, and teas. Starbucks operates over 13,900 stores in the U.S. and licenses over 13,400 stores internationally. Starbucks also markets and sells its coffee in grocery stores and through other foodservice operators. SBUX licenses its brand for other coffee-based food and beverage products including bottled tea and coffee drinks (bottled Frappuccino made by PepsiCo), ice cream (made by Nestlé's Dreyer's Grand Ice Cream), and coffee-flavored liqueur (made by Fortune Brands).

Starbucks generates revenue through company-operated and royalty fees from licensed international locations. Starbucks sells its packaged coffee and tea products along with ready-to-drink tea and coffee beverages through grocery, specialty retail stores, and warehouse clubs. Starbucks also earns revenue from licensing deals with partners that produce and sell its Starbucks and Seattle's Best coffee branded ready-to-drink products. Starbucks foodservice operations supplies coffee to, airlines and hotels, coffee distributors, and other foodservice outlets. In 2017, Starbucks announced the closing of its mall-based Teavana Tea retail stores by the spring of 2018, that sold loose teas, teapots, and other tea-related products. Pushback from some Teavana landlords will keep some stores open longer.

Starbucks operates and reports revenue through the following geographically based business segments: Americas (including the United States, Canada, and Latin America accounts for 70% of revenues), China/Asia Pacific (14% of revenues), Starbucks' Channel Development (9% of revenue) includes its consumer-package goods (CPG) and foodservices business including roasted whole bean and ground coffee, Tazo Tea, ready to drink beverages, K-Cups, and other retail branded products. Europe, Middle East and Africa (EMEA 5% of revenue). The balance is reported under All Other Segments (2% of revenue). Starbucks reports revenue by geographic segments with the United States its largest market (74% of revenue), Canada, China, Japan and the UK (20% of revenue) and all other countries (6% of revenue).

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Starbucks Corporation (SBUX-US)

Hotels Restaurants & Leisure

Financial Data

Report Basis	LTM	LTM	LTM	LTM	LTM	LTM	NTM	5 Yr	3 Yr	Current
Reported Period Ending	03/31/2013	03/30/2014	03/29/2015	03/27/2016	04/02/2017	04/01/2018	03/31/2019	Average	Average	Trend
Net Sales Revenue	\$14,023.2	\$15,666.9	\$17,692.4	\$20,153.6	\$21,973.5	\$23,465.9	\$25,888.5	\$19,790.5	\$21,864.3	\$24,677.2
Sales Growth	11.33%	11.72%	12.93%	13.91%	9.03%	6.79%	10.32%	10.88%	9.91%	8.56%
Sales Growth Trend	11.84%	11.57%	12.45%	13.52%	10.98%	7.69%	8.91%	11.24%	10.73%	8.30%
Operating Cash Flow (EBITDAR)	\$3,542.4	\$4,389.8	\$5,022.8	\$5,885.6	\$6,627.1	\$6,908.9	\$7,663.5	\$5,766.9	\$6,473.9	\$7,286.2
EBITDAR Margin	25.26%	28.02%	28.39%	29.20%	30.16%	29.44%	29.60%	29.04%	29.60%	29.52%
EBITDAR Growth	13.76%	23.92%	14.42%	17.18%	12.60%	4.25%	10.92%	14.47%	11.34%	7.59%
Net Operating Profit Before Tax (NOPBT)	\$2,127.9	\$2,793.4	\$3,220.2	\$3,748.9	\$4,353.3	\$4,424.8	\$4,942.1	\$3,708.1	\$4,175.7	\$4,683.5
NOPBT Margin	15.17%	17.83%	18.20%	18.60%	19.81%	18.86%	19.09%	18.66%	19.09%	18.97%
NOPBT Growth	18.37%	31.28%	15.28%	16.42%	16.12%	1.64%	11.69%	16.15%	11.39%	6.67%
Cash Operating Income Tax	\$689.3	\$0.0	\$1,008.7	\$1,209.0	\$1,425.5	\$1,200.8	\$1,037.8	\$968.8	\$1,278.4	\$1,119.3
Economic Tax Effective Rate	32.39%	0.00%	31.33%	32.25%	32.74%	27.14%	21.00%	24.69%	30.71%	24.07%
Net Operating Profit After Tax (NOPAT)	\$1,438.6	\$2,922.5	\$2,211.5	\$2,540.0	\$2,927.9	\$3,224.1	\$3,904.3	\$2,765.2	\$2,897.3	\$3,564.2
NOPAT Margin	10.26%	18.65%	12.50%	12.60%	13.32%	13.74%	15.08%	14.16%	13.22%	14.61%
NOPAT Growth	16.78%	103.16%	-24.33%	14.85%	15.27%	10.12%	21.10%	23.81%	13.41%	15.61%
Cash & Equivalents	\$2,166.6	\$2,452.1	\$2,511.9	\$2,355.0	\$3,856.2	\$2,833.2	\$3,085.7	\$2,801.7	\$3,014.8	\$2,959.4
Total Assets	\$8,502.8	\$10,097.0	\$12,190.7	\$12,519.4	\$14,227.9	\$17,553.5	\$19,117.7	\$13,317.7	\$14,766.9	\$18,335.6
Non - Interest Bearing Liabilities (NIBLs)	\$2,114.0	\$2,526.7	\$3,424.6	\$3,659.6	\$3,818.7	\$5,326.6	\$5,801.3	\$3,751.2	\$4,268.3	\$5,563.9
Net Assets	\$6,382.7	\$7,568.3	\$8,764.1	\$8,858.0	\$10,402.8	\$12,220.4	\$13,309.4	\$9,562.7	\$10,493.7	\$12,764.9
Economic Asset Adjustments	\$3,144.1	\$2,337.4	\$2,952.6	\$3,952.7	\$5,357.3	\$7,203.1	\$7,845.0	\$4,360.6	\$5,504.4	\$7,524.0
Net Operating Assets	\$9,526.8	\$9,905.7	\$11,716.7	\$12,810.7	\$15,760.1	\$19,423.5	\$21,154.4	\$13,923.3	\$15,998.1	\$20,288.9
Debt & Debt Equivalents	\$4,269.4	\$5,966.7	\$6,524.8	\$8,157.8	\$10,471.0	\$14,010.7	\$15,259.2	\$9,026.2	\$10,879.8	\$14,635.0
Equity & Equivalents	\$5,321.4	\$4,945.1	\$6,000.7	\$5,094.6	\$5,605.0	\$4,711.2	\$5,131.0	\$5,272.9	\$5,136.9	\$4,921.1
Total Capital - Financing Sources	\$9,590.8	\$10,911.8	\$12,533.5	\$13,254.4	\$16,076.0	\$18,721.9	\$20,390.2	\$14,299.1	\$16,016.8	\$19,556.1
Capital Adjustments	(\$575.7)	(\$1,581.3)	(\$1,523.7)	(\$1,208.6)	(\$1,146.2)	(\$272.8)	(\$297.1)	(\$1,146.5)	(\$875.9)	(\$285.0)
Net Capital Financing Sources	\$9,015.1	\$9,330.5	\$11,009.8	\$12,043.8	\$14,929.8	\$18,449.1	\$20,093.1	\$13,152.6	\$15,140.9	\$19,271.1
Net Working Capital	\$1,061.3	\$720.2	\$472.6	\$449.0	\$487.8	\$734.7	\$800.2	\$572.9	\$557.2	\$767.4
Cost of Net Working Capital	\$60.1	\$53.8	\$32.9	\$23.6	\$26.2	\$37.2	\$40.6	\$34.7	\$29.0	\$38.9
% of Revenue	0.43%	0.34%	0.19%	0.12%	0.12%	0.16%	0.16%	0.18%	0.13%	0.16%
Operational Capital	\$7,263.4	\$7,569.7	\$8,539.0	\$9,544.2	\$11,244.3	\$13,297.0	\$14,481.9	\$10,038.8	\$11,361.8	\$13,889.5
Cost of Operational Capital	\$374.3	\$447.7	\$444.3	\$462.5	\$581.5	\$747.5	\$814.1	\$536.7	\$597.2	\$780.8
% of Revenue	2.67%	2.86%	2.51%	2.29%	2.65%	3.19%	3.14%	2.70%	2.71%	3.17%
Productive Capital	\$8,394.4	\$8,707.7	\$10,678.2	\$11,684.4	\$13,347.8	\$18,318.9	\$19,951.3	\$12,547.4	\$14,450.4	\$19,135.1
Cost of Productive Capital	\$415.4	\$516.1	\$534.7	\$572.0	\$700.3	\$964.5	\$1,050.5	\$657.5	\$745.6	\$1,007.5
% of Revenue	2.96%	3.29%	3.02%	2.84%	3.19%	4.11%	4.06%	3.29%	3.38%	4.08%
Total Operating Capital	\$8,061.3	\$8,236.9	\$10,089.4	\$11,463.4	\$13,002.6	\$17,763.6	\$19,346.5	\$12,111.2	\$14,076.5	\$18,555.1
Cost of Total Operating Capital	\$400.7	\$491.9	\$505.5	\$551.3	\$684.4	\$937.1	\$1,020.6	\$634.0	\$724.3	\$978.9
% of Revenue	2.86%	3.14%	2.86%	2.74%	3.11%	3.99%	3.94%	3.17%	3.28%	3.97%
Non - Operating Capital	\$1,465.4	\$1,668.8	\$1,627.3	\$1,347.3	\$2,757.5	\$1,659.9	\$1,807.8	\$1,812.2	\$1,921.6	\$1,733.9
Cost of Non - Operating Capital	\$93.6	\$94.6	\$90.9	\$76.1	\$114.8	\$134.6	\$146.5	\$102.2	\$108.5	\$140.5
% of Revenue	0.67%	0.60%	0.51%	0.38%	0.52%	0.57%	0.57%	0.52%	0.49%	0.57%
Total Capital	\$9,526.8	\$9,905.7	\$11,716.7	\$12,810.7	\$15,760.1	\$19,423.5	\$21,154.4	\$13,923.3	\$15,998.1	\$20,288.9
Cost of Total Capital	\$494.3	\$586.5	\$596.4	\$627.3	\$799.3	\$1,071.7	\$1,167.2	\$736.2	\$832.8	\$1,119.4
% of Revenue	3.52%	3.74%	3.37%	3.11%	3.64%	4.57%	4.51%	3.69%	3.77%	4.54%
Cost of Capital (WACC)	5.19%	6.04%	5.52%	5.12%	5.59%	6.09%	6.09%	5.67%	5.60%	6.09%
Capital Structure										
Debt & Debt Equivalents	\$4,269.4	\$5,966.7	\$6,524.8	\$8,157.8	\$10,471.0	\$14,010.7	\$15,259.2	\$9,026.2	\$10,879.8	\$14,635.0
Debt & Debt Equivalents % of Market Value	9.09%	9.67%	8.39%	8.64%	10.96%	14.69%	14.69%	10.62%	11.44%	14.69%
Preferred Equity	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Preferred Equity % of Market Value	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Market Value of Common Equity	\$42,672.6	\$55,709.8	\$71,283.5	\$86,261.9	\$85,097.6	\$81,370.2	\$88,621.2	\$75,944.6	\$84,243.2	\$84,995.7
Common Equity % of Market Value	90.91%	90.33%	91.61%	91.36%	89.04%	85.31%	85.31%	89.38%	88.56%	85.31%
Total Economic Market Value (MV)	\$46,942.0	\$61,676.5	\$77,808.2	\$94,419.7	\$95,568.6	\$95,380.9	\$103,880.4	\$84,970.8	\$95,123.1	\$99,630.7
Total %	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Excess Cash	\$1,465.4	\$1,668.8	\$1,627.3	\$1,347.3	\$2,757.5	\$1,659.9	\$1,807.8	\$1,812.2	\$1,921.6	\$1,733.9
Economic Enterprise Value	\$45,476.6	\$60,007.7	\$76,181.0	\$93,072.4	\$92,811.1	\$93,721.0	\$102,072.6	\$83,158.6	\$93,201.5	\$97,896.8
Average Capital	\$9,034.4	\$9,172.8	\$10,170.1	\$11,526.8	\$13,486.8	\$16,689.5	\$19,271.1	\$12,209.2	\$13,901.0	\$17,980.3
Capital Δ	(\$38.7)	\$315.4	\$1,679.3	\$1,034.0	\$2,886.0	\$3,519.3	\$1,644.0	\$1,886.8	\$2,479.8	\$2,581.6

Source: Company Data, Financial statements and Tigress Research

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Company Report – Research Update

Starbucks Corporation (SBUX-US)

Hotels Restaurants & Leisure

Financial Analysis

Report Basis	LTM	LTM	LTM	LTM	LTM	LTM	NTM	5 Yr	3 Yr	Current
Reported Period Ending	03/31/2013	03/30/2014	03/29/2015	03/27/2016	04/02/2017	04/01/2018	03/31/2019	Average	Average	Trend
Return on Market Value (NOPAT / MV)	3.06%	4.74%	2.84%	2.69%	3.06%	3.38%	3.68%	3.34%	3.04%	3.53%
Return on Enterprise Value (NOPAT / EV)	3.16%	4.87%	2.90%	2.73%	3.15%	3.44%	3.75%	3.42%	3.11%	3.59%
Return on Capital (NOPAT / Average Capital)	15.92%	31.86%	21.74%	22.04%	21.71%	19.32%	21.04%	23.33%	21.02%	20.18%
Cost of Capital (WACC)	5.19%	6.04%	5.52%	5.12%	5.59%	6.09%	6.09%	5.67%	5.60%	6.09%
Economic Return Spread	10.74%	25.83%	16.23%	16.92%	16.11%	13.23%	14.40%	17.66%	15.42%	13.82%
Capital Charge	\$468.7	\$553.7	\$561.0	\$589.6	\$754.6	\$1,016.7	\$1,107.3	\$695.1	\$787.0	\$1,062.0
Economic Profit (EP)	\$969.9	\$2,368.9	\$1,650.4	\$1,950.3	\$2,173.3	\$2,207.4	\$2,404.1	\$2,070.0	\$2,110.3	\$2,305.7
Economic Profit Improvement (EPI)	\$186.3	\$1,399.0	(\$718.5)	\$299.9	\$223.0	\$34.1	\$196.7	\$247.5	\$185.7	\$115.4
EP Growth	23.77%	144.23%	-30.33%	18.17%	11.43%	1.57%	8.91%	29.02%	10.39%	5.24%
Economic Profit Margin on Sales	6.92%	15.12%	9.33%	9.68%	9.89%	9.41%	9.29%	10.68%	9.66%	9.35%
Economic Profit Per Share	\$0.64	\$1.58	\$1.10	\$1.30	\$1.48	\$1.52	\$1.66	\$1.40	\$1.43	\$1.59
GAAP Earnings Per Share	\$1.01	\$0.11	\$1.72	\$1.71	\$2.03	\$3.08	\$2.58	\$1.73	\$2.27	\$2.83
Excess Cash Per Share	\$0.98	\$1.10	\$1.08	\$0.92	\$1.90	\$1.19	\$1.30	\$1.24	\$1.33	\$1.24
Performance Drivers										
Sales Growth	11.33%	11.72%	12.93%	13.91%	9.03%	6.79%	10.32%	10.88%	9.91%	8.56%
Sales Growth Trend (ROC Sales Growth)	11.84%	11.57%	12.45%	13.52%	10.98%	7.69%	8.91%	11.24%	10.73%	8.30%
EBITDAR Margin	25.26%	28.02%	28.39%	29.20%	30.16%	29.44%	29.60%	29.04%	29.60%	29.52%
EBITDAR Growth	13.76%	23.92%	14.42%	17.18%	12.60%	4.25%	10.92%	14.47%	11.34%	7.59%
NOPBT Margin	15.17%	17.83%	18.20%	18.60%	19.81%	18.86%	19.09%	18.66%	19.09%	18.97%
NOPBT Growth	18.37%	31.28%	15.28%	16.42%	16.12%	1.64%	11.69%	16.15%	11.39%	6.67%
NOPAT Margin	10.26%	18.65%	12.50%	12.60%	13.32%	13.74%	15.08%	14.16%	13.22%	14.41%
NOPAT Growth	16.78%	103.16%	-24.33%	14.85%	15.27%	10.12%	21.10%	23.81%	13.41%	15.61%
Economic Profit Margin on Sales (EP / Sales)	6.92%	15.12%	9.33%	9.68%	9.89%	9.41%	9.29%	10.68%	9.66%	9.35%
Economic Profit Growth	23.77%	144.23%	-30.33%	18.17%	11.43%	1.57%	8.91%	29.02%	10.39%	5.24%
Economic Return Spread (ROC-WACC)	10.74%	25.83%	16.23%	16.92%	16.11%	13.23%	14.95%	17.66%	15.42%	14.09%
Economic Return Ratio (ROC / WACC)	306.96%	527.85%	394.17%	430.76%	388.01%	317.11%	345.37%	411.58%	378.63%	331.24%
Economic Profit Momentum (ΔEP/Capital)	2.07%	14.99%	-6.53%	2.49%	1.49%	0.18%	0.98%	2.53%	1.39%	0.58%
Economic Profit Momentum Margin (ΔEP/Sales)	1.33%	8.93%	-4.06%	1.49%	1.01%	0.15%	0.76%	1.50%	0.88%	0.45%
Capital Growth	-0.43%	3.50%	18.00%	9.39%	23.96%	23.57%	8.91%	15.68%	18.98%	16.24%
Capital Turns	1.56X	1.68X	1.61X	1.67X	1.47X	1.27X	1.29X	1.54X	1.47X	1.28X
EVC Acceleration Margin	1.48%	9.98%	-4.59%	1.70%	1.11%	0.16%	0.84%	0.96%	0.94%	0.53%
EVC Acceleration Spread	2.17%	15.48%	-7.83%	2.95%	1.93%	0.25%	1.18%	1.28%	1.52%	0.83%
Risk Factors										
Free Cash Flow (NOPAT - Δ Capital)	\$1,477.3	\$2,607.2	\$532.1	\$1,505.9	\$41.8	(\$295.2)	\$2,260.2	\$878.4	\$417.5	\$982.5
Free Cash Flow Rate (FCF / Capital)	16.39%	27.94%	4.83%	12.50%	0.28%	-1.60%	11.25%	8.79%	3.73%	4.82%
Free Cash Flow Yield (FCF / MV)	3.15%	4.23%	0.68%	1.59%	0.04%	-0.31%	2.18%	1.25%	0.44%	0.93%
Total Debt / Total Capital	47.36%	63.95%	59.26%	67.73%	70.13%	75.94%	75.94%	67.40%	71.27%	75.94%
Total Debt / EBITDAR	120.52%	135.92%	129.90%	138.61%	158.00%	202.79%	199.12%	153.04%	166.47%	200.95%
Excess Cash	\$1,465.4	\$1,668.8	\$1,627.3	\$1,347.3	\$2,757.5	\$1,659.9	\$0.0	\$1,812.2	\$1,921.6	\$830.0
Financial Leverage ((Total Debt - Excess Cash) / Pension Leverage (Net Pension Liability / MV))	5.97%	6.97%	6.29%	7.21%	8.07%	12.95%	14.69%	8.30%	9.41%	13.82%
Equity Risk Index (S&P 500 = 1.00)	0.81	0.79	0.80	0.79	0.79	0.79	0.79	0.79	0.79	0.79
Stock Price Volatility	3.60	3.16	2.52	2.78	2.59	2.29	2.29	2.67	2.55	2.29
Sales Index (NL Sales)	9.55	9.66	9.78	9.91	10.00	10.06	10.16	9.88	9.99	10.11
Market Value Index (NL Market Value)	10.76	11.03	11.26	11.46	11.47	11.47	11.55	11.34	11.46	11.51
Size Index (NL Sales: MV)	10.15	10.34	10.52	10.68	10.73	10.76	10.86	10.61	10.73	10.81
Beta	0.71	0.69	0.69	0.69	0.69	0.69	0.69	0.69	0.69	0.69
TFP Adjusted Beta	0.81	0.79	0.80	0.79	0.79	0.79	0.79	0.79	0.79	0.79
Stock Price Volatility	3.60	3.16	2.52	2.78	2.59	2.29	2.29	2.67	2.55	2.29
Valuation Measures										
Total Economic Market Value (MV)	\$46,942.0	\$61,676.5	\$77,808.2	\$94,419.7	\$95,568.6	\$95,380.9	\$103,880.4	\$84,970.8	\$95,123.1	\$99,630.7
Economic Enterprise Value	\$45,476.6	\$60,007.7	\$76,181.0	\$93,072.4	\$92,811.1	\$93,721.0	\$102,072.6	\$83,158.6	\$93,201.5	\$97,896.8
Equity Market Value	\$42,672.6	\$55,709.8	\$71,283.5	\$86,261.9	\$85,097.6	\$81,370.2	\$88,621.2	\$75,944.6	\$84,243.2	\$84,995.7
Total Capital	\$9,526.8	\$9,905.7	\$11,716.7	\$12,810.7	\$15,760.1	\$19,423.5	\$21,154.4	\$13,923.3	\$15,998.1	\$20,288.9
Market Value Created MVC (MV - Capital)	\$37,415.2	\$51,770.8	\$66,091.6	\$81,609.0	\$79,808.5	\$75,957.4	\$82,726.1	\$71,047.5	\$79,125.0	\$79,341.7
MVC Margin (MVC / Sales)	266.81%	330.45%	373.56%	404.94%	363.20%	323.69%	319.55%	359.00%	361.89%	321.52%
MVC Spread (MVC / Capital)	392.74%	522.64%	564.08%	637.04%	506.39%	391.06%	391.06%	510.28%	494.59%	391.06%
Current EVC Value (EP / WACC)	\$18,697.6	\$39,245.9	\$29,917.2	\$38,126.4	\$38,844.0	\$36,234.8	\$39,463.7	\$36,502.8	\$37,679.5	\$37,849.2
Current Operations Value COV	\$27,732.0	\$48,418.7	\$40,087.3	\$49,653.1	\$52,330.9	\$52,924.2	\$58,734.8	\$48,711.9	\$51,580.5	\$55,829.5
Current Operations Value Per Share	\$18.38	\$32.31	\$26.61	\$33.19	\$35.56	\$36.51	\$39.57	\$32.82	\$35.03	\$38.06
Future Growth Value (MVC - EVA Value)	\$19,210.0	\$13,257.8	\$37,720.9	\$44,766.6	\$43,237.8	\$42,456.7	\$45,145.6	\$36,258.8	\$43,542.5	\$43,801.1
Future Growth Value Reliance (FGV / MV)	40.92%	21.50%	48.48%	47.41%	45.24%	44.51%	43.46%	42.67%	45.77%	43.96%
Share Price	\$28.48	\$39.29	\$40.92	\$60.32	\$58.39	\$57.89	\$57.89	\$51.36	\$58.87	\$57.89
Dividend Yield	1.33%	1.20%	1.42%	1.19%	1.54%	1.90%	1.90%	-11.28%	14.62%	-1.66%
Total Shareholder Return (TTM)	3.23%	39.16%	5.57%	48.62%	-1.66%	1.04%	0.00%	-11.28%	14.62%	-1.66%
MV to IC Ratio	4.93X	6.23X	6.64X	7.37X	6.06X	4.91X	4.91X	6.10X	5.95X	4.91X
EV / EBITDAR Multiple	12.84X	13.67X	15.17X	15.81X	14.00X	13.57X	13.32X	14.42X	14.40X	13.44X
EV / NOPBIT Multiple	21.37X	21.48X	23.66X	24.83X	21.32X	21.18X	20.65X	22.43X	22.32X	20.90X
EV / NOPAT Multiple	31.61X	20.53X	34.45X	36.64X	31.70X	29.07X	26.14X	30.07X	32.17X	27.47X
EV / EP Multiple	46.89X	25.33X	46.16X	47.72X	42.71X	42.46X	42.46X	40.17X	44.16X	42.46X
Future Growth Value (% of MV)	40.92%	21.50%	48.48%	47.41%	45.24%	44.51%	43.46%	42.67%	45.77%	43.96%
Current Operations Value (% of MV)	59.08%	78.50%	51.52%	52.59%	54.76%	55.49%	56.54%	57.33%	54.23%	56.04%
Market Value (COV + FGV %)	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Basic Shares Outstanding	1,508.8	1,498.6	1,506.2	1,495.9	1,471.6	1,449.5	1,484.4	1,484.4	1,472.3	1,466.9

Source: Company Data, Financial statements and Tigress Research

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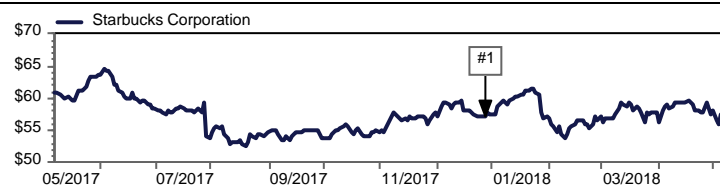
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Starbucks Corporation (SBUX-US)
Hotels Restaurants & Leisure
Ratings History

Starbucks Corporation (SBUX-US)				
Item #	Date	Research Action	Rating	Price
#1	12/27/2017	Initiation of Coverage	Buy	\$57.27


Tigress Research Methodology Overview

We employ proprietary quantitative valuation models combined with dynamic fundamental analysis based on the principles of Economic Profit to formulate timely and insightful investment ratings, analysis, strategies, and recommendations.

We make key adjustments to reported financial data eliminating GAAP-based accounting distortions and measuring all companies on a cash operating basis.

Our proprietary research framework is a multi-factor model that scores and ranks companies based on their risk-adjusted ability to create Economic Profit relative to their current market value focusing on three key components:

Business Performance: Measuring economic profitability, growth and operating efficiency.

Risk: Measuring business sustainability, volatility, strength, and consistency.

Valuation: Linking business performance to market value. Measuring value created relative to capital employed and enterprise multiples of economic profit and cash flow.

We score and rank 24 key measurements of performance, risk, and value into relative market and industry investment recommendations.

For more information on our research methodology, please review the *Tigress Investment Research Guide to Company Valuation and Analysis*.

Glossary of Key Terms and Measures

Excess Cash per Share: Excess Cash per Share is the amount of excess cash divided by basic shares outstanding. Excess Cash consists of all cash and short-term securities less operating cash needed to run the business. Operating Cash is 5% of TTM net sales revenue.

EBITDAR: Earnings Before Interest, Taxes, Depreciation, Amortization, and Restructuring and Rent Costs. This is especially important when comparing companies that use a significant amount of leased assets like restaurants and retailers.

NOPAT: Net Operating Profit after Tax represents a company's after-tax cash operating profit excluding financing costs.

Total Invested Capital: Total Invested Capital the total cash investment that shareholders and debt holders have made during the life of the company.

Return on Capital: Return on Capital equals NOPAT divided by Total Invested Capital. It is a key measure of operating efficiency. ROC quantifies how well a company generates cash flow relative to the capital invested in its business.

Cost of Capital: Is the proportionately weighted cost of each category of capital – common equity, preferred equity and debt.

Economic Profit: Economic Profit is the net operating income after tax less the opportunity cost of the total capital invested. It is the most important driver of shareholder value.

Current Operations Value: Current Operations Value is the portion of market value based on the discounted present value of the current earnings stream assuming it remains constant forever.

Future Growth Value: Future Growth Value is the portion of market value based on un-earned Economic Profit

For more information on the key terms and measures, please review the *Tigress Investment Research Guide to Company Valuation and Analysis*.

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Rating:	Meaning:	Rating Distribution (05/08/2018)			
		Companies Under Coverage		Relationship Companies Under Coverage*	
		#	%	#	%
Strong Buy:	Expect significant price gains in the price of the stock relative to its industry peer group and general market over the next 12 months.	16	14%	1	15%
Buy:	Expect out-performance for the price of the stock relative to its industry peer group and general market over the next 12 months.	50	43%	5	70%
Neutral:	Expect little or no outperformance opportunity over the next 12 months.	46	39%	1	15%
Underperform:	Expect underperformance for the price of the stock relative to its industry peer group and general market over the next 12 months.	5	4%	0	0%
Sell:	Expect price decline or significant relative market and industry underperformance over the next 12 months.	0	0%	0	0%
Not Rated	No Current Research Rating	NA	NA	65	NA

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Total 117 100% 72 100%

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Company:	Disclosure:
Starbucks Corporation (SBUX-US)	14

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