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| Starbucks Financial Analysis |
| BSAD102 |
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**STARBUCKS CORPORATION (SBUX)**

**ABOUT STARBUCKS**

Starbucks Corporation is a specialty retailer that purchases and roasts whole coffee beans and sells them, along with a variety of freshly brewed coffees and other beverages and food items in its retail shops. It also produces and sells bottled coffee drinks and a line of premium ice creams. Starbucks also sells coffee and tea products and licenses its trademark through other channels. The business segments of the Company are United States, International, and Global Consumer Products Group (CPG). As of September 30, 2007 the company operated 8,505 retail stores. Starbucks Corporation was founded in 1985 and is based in Seattle Washington.

Even though Starbucks reported decreased net income and liquidity ratios in FY2008, in 2009 they beat the Street's estimates on earnings and revenue, and raised guidance. The company also unveiled a plan to place its Seattle's Best coffee in 9,000 Subway stores. It reported a rise in customer visits and customer spending per visit. And its Via instant coffee, a new product for Starbucks, was doing better than expected. Also, they increased their EPS outlook for 2010; corporate restructurings and store closings in 2009 have increased operational efficiencies. Stock prices have also hit 52-week highs more than once in November, 2009. Based on these facts, together with Starbucks’ past performance and their performance compared to others in their industry, along with the following financial analyses I performed, I would recommend purchasing stock in Starbucks. I have created several graphs to represent my findings of Starbucks’ financials. These graphs are located in the Charts and Graphs section of this report.

**FINANCIAL ANALYSIS AND STOCK RECOMMENDATION**

**TREND ANALYSIS**

A 5 year trend analysis of the income statement shows a steady increase in revenues, earnings and operating income for every year from the base year, except for 2008. Starbucks’ revenue increased in 2008, but both operating income and net earnings decreased 52.2% and 53.1% respectively, from the prior year. The decrease from 2007-2008 is due to many factors including the weakened economy that has decreased consumer spending. Starbucks has also been affected by the increases in the price of coffee and transportation. However, in previous years there were healthy increases in revenues, operating income, and earnings. During the 5-year period analyzed, revenues increased by $5.1B, but Starbucks’ direct operating costs increased by $4.4B during that same time period.

**LIQUIDITY**

Starbuck’s liquidity ratios may cause some concern if viewed apart from other factors. Starbucks’ Quick Ratio

three-year average is .27 and the Current Ratio three-year

average is .79. However, there is indication that

liquidity is improving as the end of the 2nd quarter 2009 shows a Quick Ratio of .65 and a Current Ratio of 1.10 (Reuters Report). This is due to the fact that Starbucks increased their inventory and decreased accounts receivable; and they paid off notes payable/short term debt of $226M. Inventory turnover has increased steadily which indicates that Starbucks is moving their inventory. There was a slight decrease in receivables turnover, which indicates that Starbucks might want to reevaluate its credit policies. This decrease could also be due to the weakened economy. Taken overall though, it appears that Starbucks will be able to meet its current obligations when their healthy cash flows are taken into account.

**PROFITABILITY**

Return on equity showed a decline from 2007 to 2008, but the three year average return on equity is 23.32%. The decline in return on equity was due to the decline in net income from 2007 to 2008. Return on assets also decreased in the period from 2007 to 2008, and the three-year average for ROA is 11.38%. Even with this decrease in earnings power from prior years, Starbucks still shows strong earnings power. With sales of $10.3B and Net Income of $315.5M, Starbucks was able to show a profit, even in the economic downturn. Most recent current quarter financial reports show Starbucks increased net income and operating income from the previous quarter despite a decline in revenues. Stockholder’s equity increased from 2007 to 2008, and retained earnings increased by 164% from 2004 to 2008. Starbucks is making money for their shareholders.

**LONG-TERM SOLVENCY**

Starbucks’ Debt to Equity Ratio was at .51 times for 2008, which is a decrease from .55 times in 2007. Starbucks’ slightly increased liabilities during this time period and there was also a slight increase in total equity. At this time, Starbucks’ is still strong, despite the slight increase in financial risk.

**ADEQUACY OF CASH FLOWS**

Cash flow yield increased from 2.0 times to 4.0 times from 2007 to 2008. This indicates a strong cash generating ability by Starbucks’ operations. Even though cash flows to sales and cash flows to assets decreased they are still strong enough to show adequate cash flows. Free cash flow also showed a slight decrease but Starbucks still generated

free cash flows of over $2B in 2008. Over a three year period – from 2006 to 2008 – cash flow per share increased from 1.48 to 1.73. Cash flows for 1Q and 2Q show strong cash flow yields of 28.6 times and 6.7 times, cash flow adequacy ratios of 31% and 42%, and free cash flow of $952M in 1Q-2009 and $1.36B in 2Q-2009.

**MARKET STRENGTH**

Starbucks does not pay a dividend so there is no dividend yield. The P/E ratio for 2008 was 20.8. Their P/E ratio as of November 2009 is 42.10. The market P/E ratio is 25.8 as of 11/15/2009 (moneycentral.msn.com), so for 2008 Starbucks’ P/E ratio was above the market average. This indicates that investors are expecting more growth in the future for Starbucks. The P/E ratio for similar industries is 23.12, which gives Starbucks the edge when comparing it to similar companies.

**COMPETITOR ANALYSIS**

Starbuck’s direct competitors include Dunkin’ Donuts, Panera Bread, McDonald’s, and Nestle Corp. Starbucks’ gross margin for 2008 was higher than the industry average (54.67% compared to 32.72%). The industry average for revenues is 1.34B, and Starbucks revenues were 9.87B Starbucks has a higher P/E ratio than the industry average (42.10 compared to 23.11) which indicates that investor confidence in the company is high in comparison to Starbuck’s competitors.