

Starbucks

UBS Evidence Lab inside: How's Starbucks Positioned in China Now?

China survey highlights solid SBUX demand & brand strength; Focus is on US

Starbucks' China business is positioned for recovery, w/ the reopening of ~95% of stores, sss improvement from lows, and we think competitor pressure is potentially easing given Luckin's challenges. But we anticipate a gradual recovery and negative comps through FY20. Takeaways from a recent UBS Evidence Lab survey of 1K+ coffee drinkers in China highlight expectations for a rapidly expanding coffee market and strong demand for SBUX. Brand strength and customer preference remain favorable, even as some perception scores lag Luckin. But w/ a focus on the US as the primary driver for shares, w/ expect upside is limited given concerns that comps could be down significantly in the coming months. We're reducing estimates given weaker US demand and closure of non-drive-through locations (~40% of US system). We reduce our PT to \$73 from \$95 on lowered estimates & valuation multiple. We believe SBUX maintains strong liquidity (~\$5BN cash plus revolver capacity), global brand strength, & an intact attractive LT growth algorithm, that result in a balanced risk/reward at ~24x FY21E EPS.

Survey indicates Starbucks brand remains well positioned in China

Based on the survey, SBUX maintains strong coffee positioning, w/ most customer scores & brand metrics ranking favorably to peers. Atmosphere, food/coffee selection & quality, and overall preference were key reasons customers visit more. SBUX showed solid y/y improvement in loyalty program perception. Although most SBUX perception scores improved relative to the 2019 survey, Luckin led SBUX on several brand metrics, incl value & app ease. Additionally, LK's customer overlap w/ SBUX nearly doubled y/y.

SBUX app download/usage metrics down on COVID-19 impact, but LK more so

Recent developments at Luckin could highlight a potential easing of competitive pressures for SBUX, and validate its business model & positioning. Analysis of Luckin & Meituan (LK's delivery partner) app download share remain significant. But recent data suggest the COVID-19 impact drove a more significant pullback for LK's w/ly active user share (WAU) than SBUX. We expect solid contribution from SBUX's growing loyalty program & mobile sales support cont. download & usage expansion.

Valuation: Lowering multiple and price target on COVID-19 impact

Our \$73 PT (was \$95) represents ~15x (was 17x) our NTM est. EBITDA in 12 months.

Equities

Americas
Restaurants

12-month rating **Neutral**

12m price target **US\$73.00**
Prior: US\$95.00

Price (07 Apr 2020) **US\$68.71**

RIC: SBUX.O **BBG:** SBUX US

Trading data and key metrics

52-wk range	US\$99.11-56.33
Market cap.	US\$81.8bn
Shares o/s	1,191m (COM)
Free float	97%
Avg. daily volume ('000)	13,181
Avg. daily value (m)	US\$974.5
Common s/h equity (09/20E)	(US\$7.22bn)
P/BV (09/20E)	NM
Net debt / EBITDA (09/20E)	2.0x

EPS (UBS, diluted) (US\$)

	09/20E			
	From	To	% ch	Cons.
Q1	0.79	0.79	0	0.79
Q2E	0.45	0.35	-22	0.41
Q3E	0.75	0.23	-69	0.43
Q4E	0.79	0.61	-22	0.69
09/20E	2.78	1.99	-28	2.38
09/21E	3.48	3.01	-13	3.14
09/22E	3.79	3.28	-14	3.43

Dennis Geiger, CFA

Analyst
 dennis.geiger@ubs.com
 +1-212-713 9313

Jerry Liu

Analyst
 jerry.liu@ubs.com
 +852-2971 7493

Ryan Kidd

Associate Analyst
 ryan.kidd@ubs.com
 +1-212-713-4708

Highlights (US\$m)	09/17	09/18	09/19	09/20E	09/21E	09/22E	09/23E	09/24E
Revenues	22,139	24,719	26,509	24,575	28,514	30,253	32,538	34,941
EBIT (UBS)	4,165	4,458	4,560	3,386	4,929	5,278	5,766	6,265
Net earnings (UBS)	2,779	3,376	3,486	2,351	3,508	3,747	4,092	4,473
EPS (UBS, diluted) (US\$)	1.90	2.42	2.83	1.99	3.01	3.28	3.64	4.03
DPS (US\$)	1.05	1.32	1.44	1.64	1.89	2.17	2.49	2.87
Net (debt) / cash	(1,242)	(502)	(8,410)	(9,209)	(10,875)	(12,556)	(14,112)	(15,587)
Profitability/valuation	09/17	09/18	09/19	09/20E	09/21E	09/22E	09/23E	09/24E
EBIT margin %	18.8	18.0	17.2	13.8	17.3	17.4	17.7	17.9
ROIC (EBIT) %	73.0	132.1	345.7	230.5	293.7	232.5	206.4	194.2
EV/EBITDA (core) x	16.2	13.9	16.8	17.8	13.3	12.3	13.0	12.2
P/E (UBS, diluted) x	30.0	23.1	26.8	34.5	22.8	21.0	18.9	17.0
Equity FCF (UBS) yield %	3.1	11.1	3.1	3.5	3.8	4.1	4.7	5.2
Net dividend yield %	1.8	2.4	1.9	2.4	2.7	3.2	3.6	4.2

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of US\$68.71 on 07 Apr 2020 18:39 EDT

China recovery underway for Starbucks

Starbucks' China business is positioned for recovery, w/ the reopening of stores, sss improvement from lows, and we think competitor pressure is potentially easing given Luckin's recently disclosed challenges. Following the peak of COVID-19 and 80% store closures in China, SBUX is in the midst of an aggressive recovery plan. On 3/5, SBUX reported Feb. China sss down 78%, primarily due to temporary store closures, reduced operating hours and severely reduced customer traffic. In the last fiscal week of Feb, avg. transactions per store improved +6% sequentially and total weekly gross sales in China grew 80%, reflecting the reopening of stores.

As of 3/18, 90% of stores in China were already reopened under modified hours and conditions, w/ 95% of stores targeted to be open by the end of F2Q20. Although too soon to project a recovery curve, management noted an improvement in sales with each passing week. We anticipate a gradual rather than a V-shaped recovery, and expect comps remain negative through FY20, while longer-term comp and unit growth targets appear achievable.

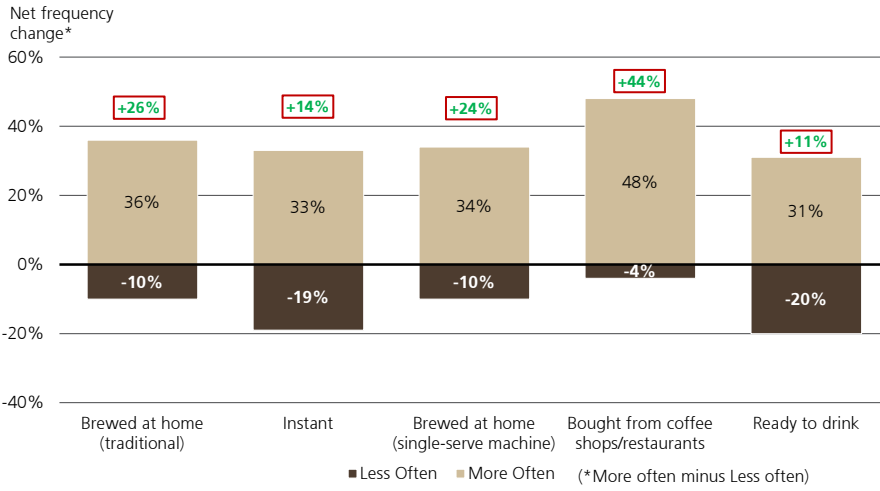
UBS Evidence Lab coffee survey reflects SBUX's still strong positioning in China

UBS Evidence Lab surveyed over 1K consumers in China who drink coffee at least once a month to assess growth potential, the competitive environment, and brand strength and positioning. As the survey took place from January to February 2020, during the rapid acceleration of COVID-19 in China, we believe it provides useful insights as China recovers and investors assess opportunities in a more normalized environment.

Survey results largely support Starbucks' positioning as an engaging brand with high-quality products, attractive loyalty program, and positive in-store atmosphere & experience. Results indicate strong brand loyalty and benefits from menu innovation and investment to drive increased visits and sales. Starbucks' focus on its loyalty program and delivery programs also appear to be resonating with customers. And the brand appears well positioned relative to large peers on factors considered most important in selecting a coffee shop. We note improving results from the 2019 survey across many brand attributions.

Figure 1: Coffee consumption intent appears healthy across the retail coffee market in China, with restaurants/coffee shops being the most likely channel to see improvement.

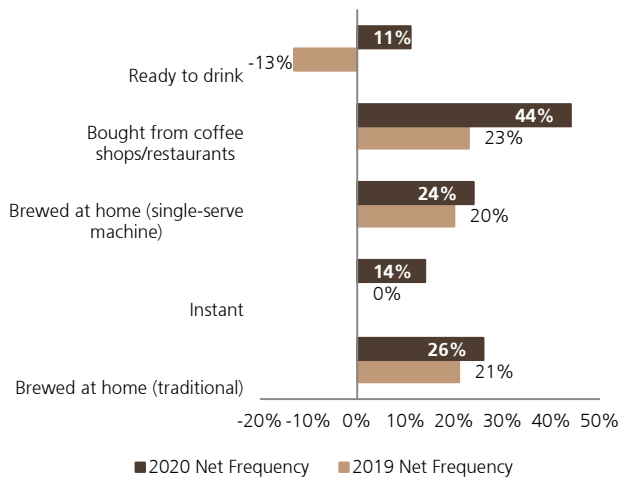
Drinking coffee more often or less often over the next 12 months



Source: UBS Evidence Lab

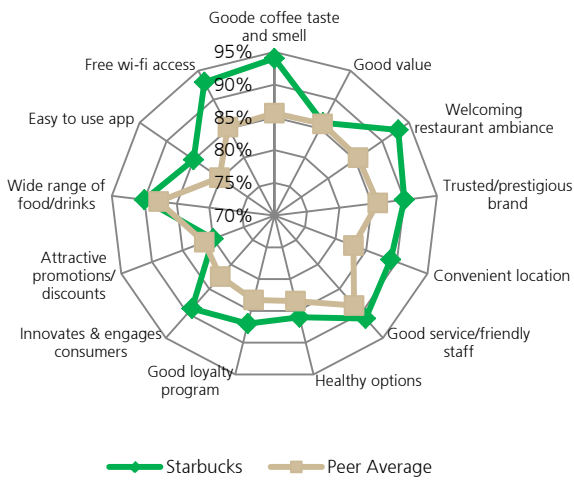
Figure 2: Respondent's intentions to drink coffee significantly shifted for "Ready to drink" (24 pct pt chg) and "Bought from coffee shops" (21pct pt chg) categories

Drinking coffee over the next 12 months - Net Frequency Change



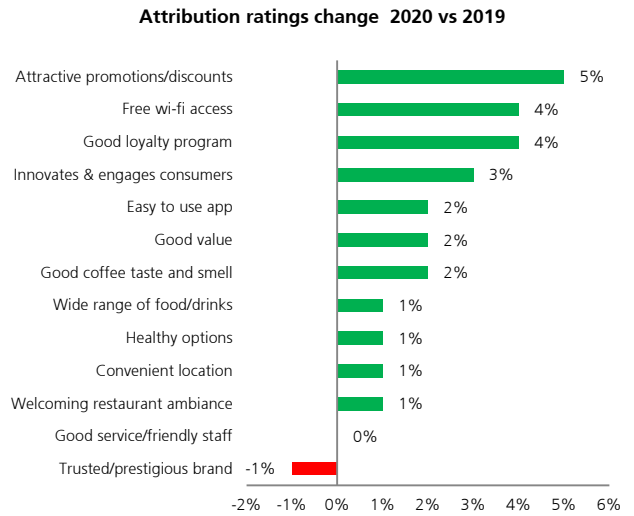
Source: UBS Evidence Lab

Figure 3: Consumers in the UBS Evidence Lab coffee survey continue to rate Starbucks highly relative to peers on most attributes...



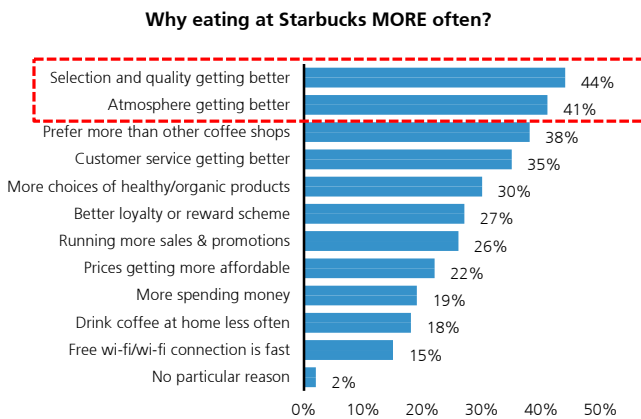
Source: UBS Evidence Lab

Figure 4: ... with improvement across nearly all attributes relative to the 2019 survey.



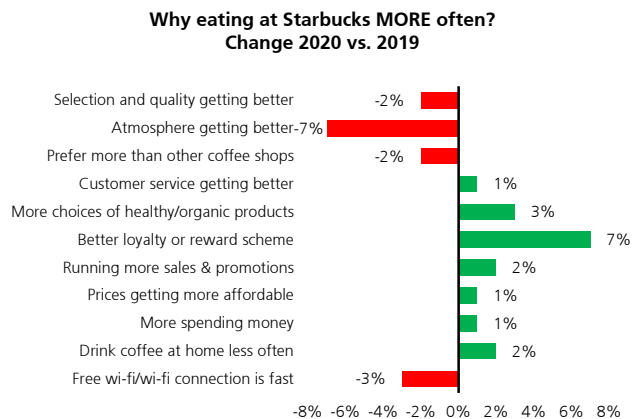
Source: UBS Evidence Lab

Figure 5: Among those consumers visiting Starbucks "more often", strong atmosphere and selection quality were top factors driving increased visits...



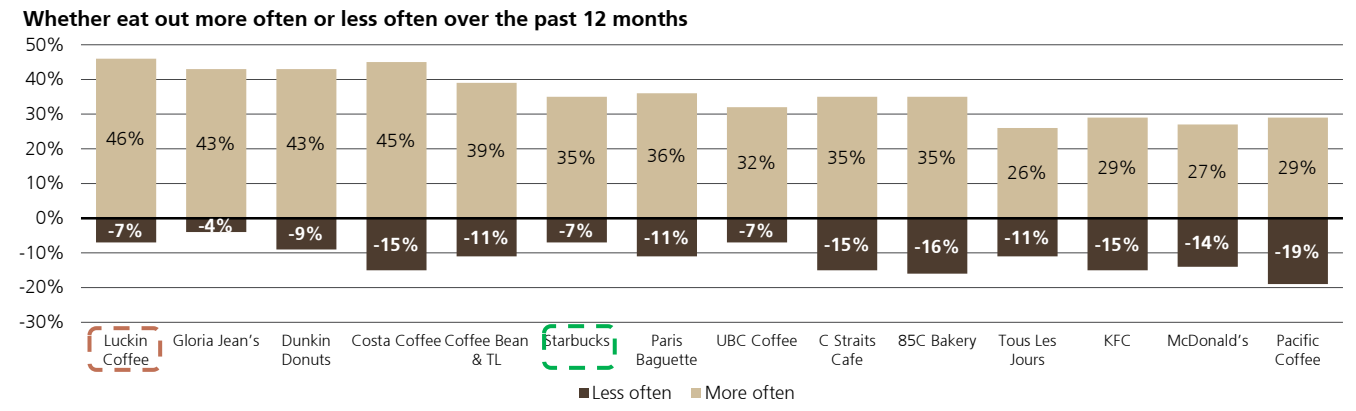
Source: UBS Evidence Lab

Figure 6: ... though these factors declined some y/y relative to 2019. We note the improvement for loyalty/rewards, following changes to the program.



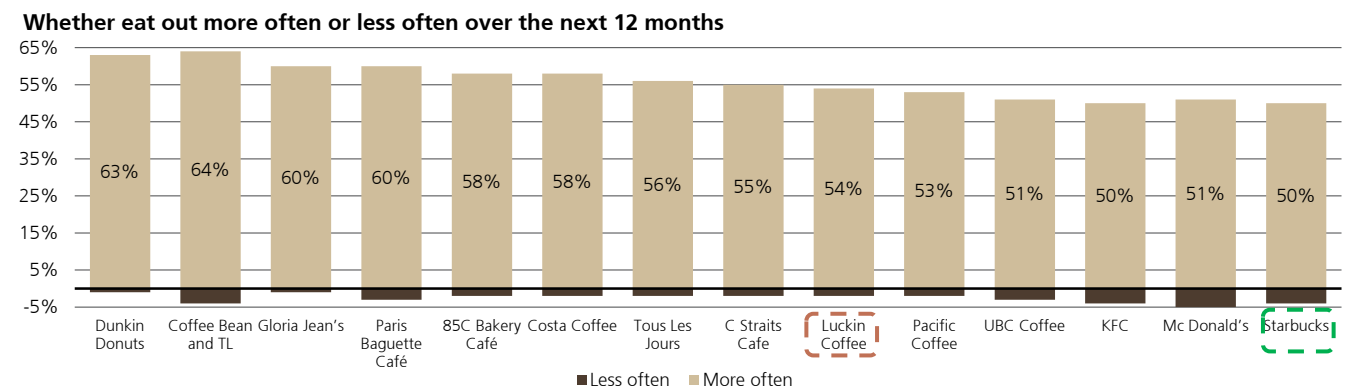
Source: UBS Evidence Lab

Figure 7: Over the last 12 months, survey respondents increased net visit frequency to SBUX more than other brands, though Luckin led by almost 10%.



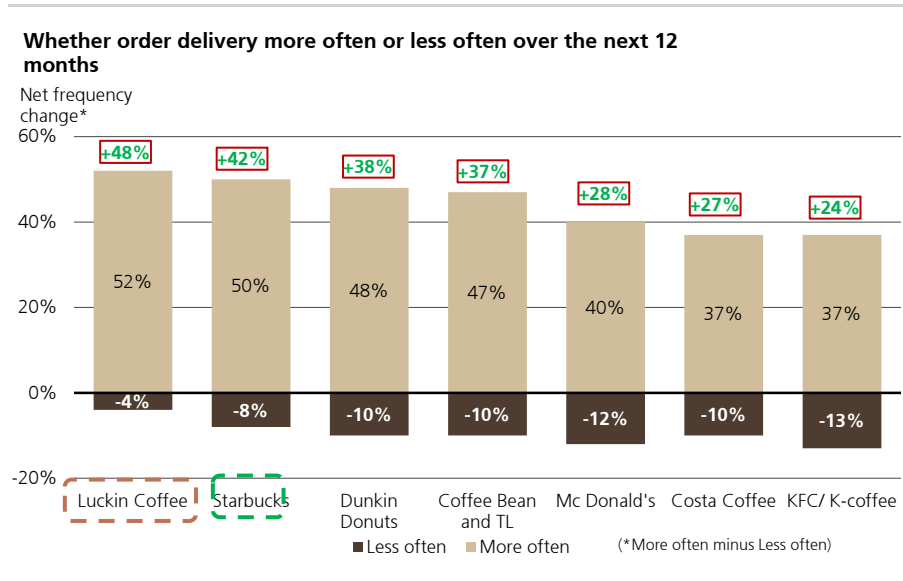
Source: UBS Evidence Lab

Figure 8: In the next 12 months, survey respondents planned to increase net visit frequency to Luckin more than SBUX.



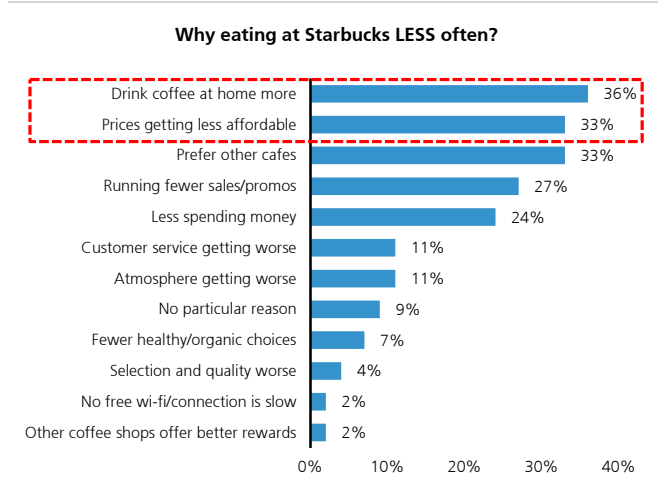
Source: UBS Evidence Lab

Figure 9: In the next 12 months, survey respondents planned to increase net frequency deliveries with Luckin and SBUX more than other coffee brands.



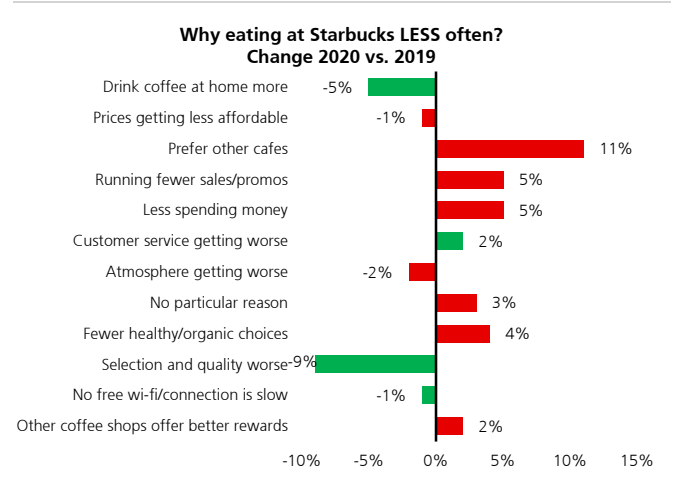
Source: UBS Evidence Lab

Figure 10: For those consumers visiting Starbucks less, most commonly cited factors include 'drinking coffee at home more' and 'less affordable prices'...



Source: UBS Evidence Lab

Figure 11: ... while changes were skewed negatively (specifically 'prefer other cafes') for many attributes versus 2019.

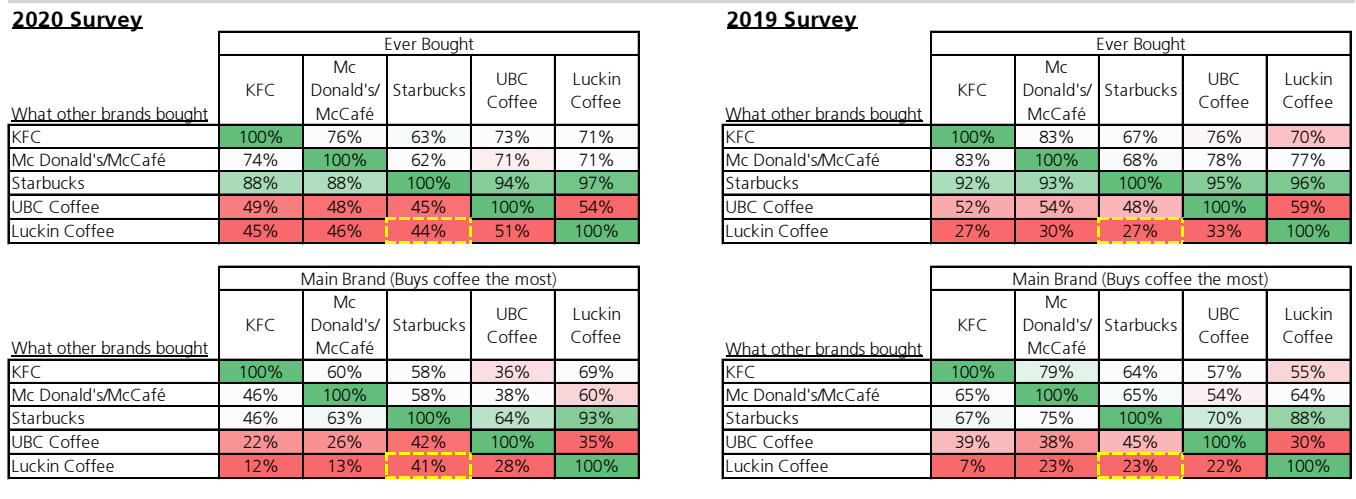


Source: UBS Evidence Lab

Survey highlights growing customer overlap between Starbucks and Luckin

Survey results for rapidly growing competitor Luckin Coffee reflect increased visits supported by promoted/discounted menu offerings and mobile app usage. Respondents noted value, promos and affordability as reasons for higher visit frequency, while results suggest Luckin lags peers (and notably Starbucks) on ambiance and food selection. We also note that Starbucks's customer overlap with Luckin increased meaningfully from the 2019 survey.

Figure 12: Starbucks' customer overlap with Luckin appears to have increased significantly from the 2019 survey.



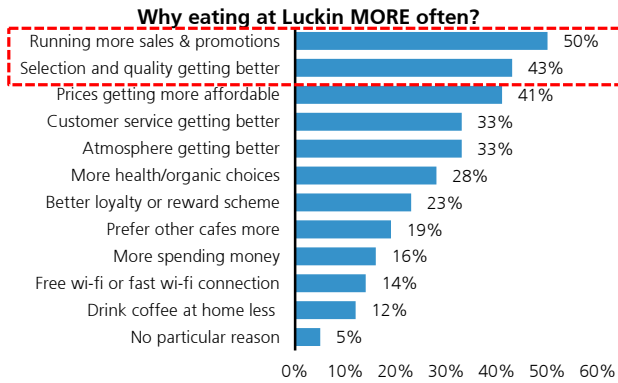
Source: UBS Evidence Lab

Figure 13: Consumers often assigned more positive attributes to Luckin, a significant improvement from the 2019 survey. 'Good value', and 'easy to use app' showed particular strength.



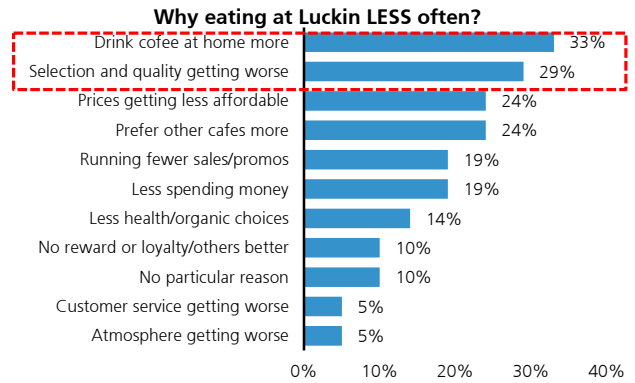
Source: UBS Evidence Lab

Figure 14: Among those consumers eating "more often" at Luckin, more sales/promos and improved selection/quality were top factors driving increased visits...



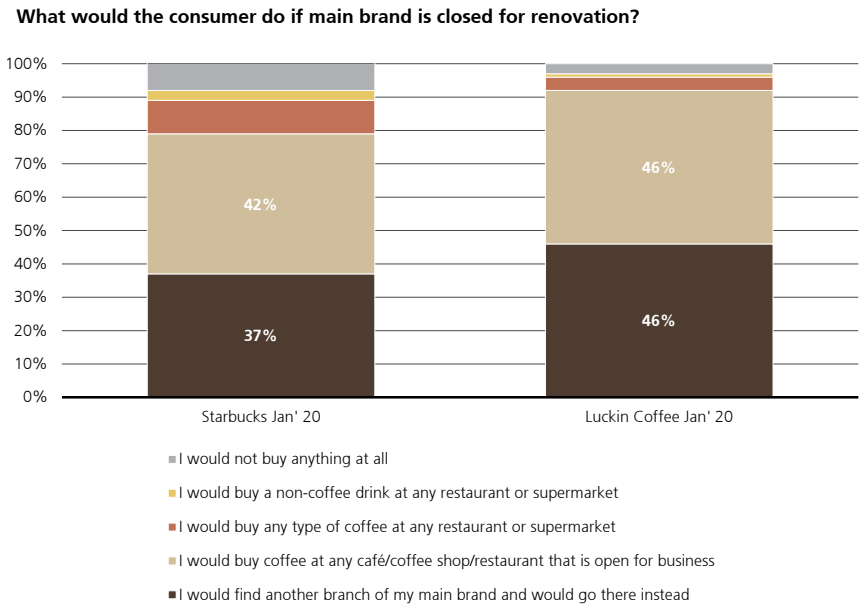
Source: UBS Evidence Lab

Figure 15: ... while drinking coffee at home and preferring other cafes were the most commonly cited factors driving decreased visits



Source: UBS Evidence Lab

Figure 16: In the survey, 37% of respondents said they would visit another Starbucks location if their main brand (Starbucks) were closed for renovation, vs. 46% if a Luckin were closed (as main brand). This could potentially indicate a closing gap between Luckin and Starbucks' brand loyalty.



Source: UBS Evidence Lab

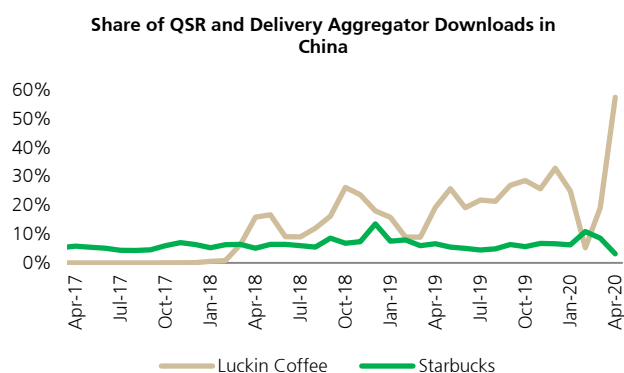
UBS Evidence Lab China app analysis indicates download share and usage growth for SBUX thus far in 2020

We utilized the UBS Evidence Lab app strategy monitor which tracks download activity for 22 online food delivery apps in the iOS store in China. Rankings analysis is iPhone only & downloads analysis aggregates across the iOS store (iPhone and iPad). The UBS Evidence Lab also monitors usage data for a subset of leading apps across both the iOS and Android stores. For this report, we focused on mobile app performance of the Starbucks app relative to the Luckin Coffee app, as well as leading aggregators which have partnered with both brands.

App downloads

The app download analysis indicates a decline in QSR/delivery aggregator download share from Starbucks and Luckin's apps in F2Q20, followed by a significant spike for Luckin in the beginning of April. One explanation for part of the recent spike could be that Luckin app users are scrambling to cash in on a "free drink" promotion in response to the brand's ongoing investigation. Through the beginning of April, Luckin led QSR competitors in download share for 2020. We anticipate continued digital enhancements should well position Starbucks' app near & long-term.

Figure 17: Starbucks app download share declined in F2Q, while Luckin's spiked following a decline in January...



Note: iOS only, relative to QSR Delivery, QSR In-Store, and restaurant delivery aggregator apps
Source: UBS Evidence Lab, Sensor Tower

Figure 18: ... as Luckin also holds a sizable share of downloads among larger QSR and restaurant delivery aggregator apps in China.

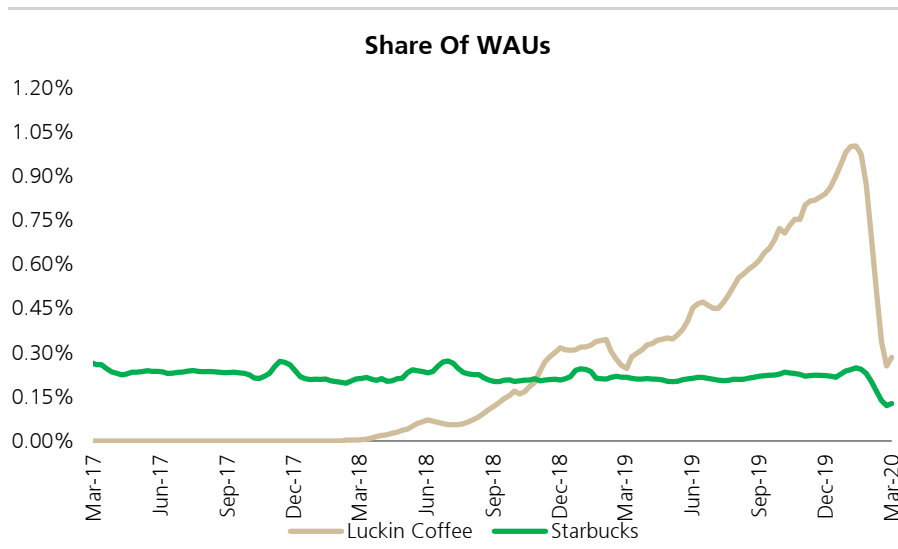
Service	Share of downloads					
	2020	2019	2018	2017	2016	2015
Meituan Delivery	22%	20%	22%	24%	24%	21%
Luckin Coffee	21%	22%	13%	0%	0%	0%
E Le Me	21%	22%	30%	51%	58%	45%
KFC Delivery	15%	14%	14%	11%	9%	17%
Starbucks In-Store	8%	6%	7%	6%	5%	4%
Pizza Hut Delivery	4%	6%	7%	4%	2%	5%
McDonald's Delivery	4%	4%	6%	4%	2%	3%
Hai Di Lao Hot Pot	3%	4%	1%	0%	0%	0%

Note: iOS only, relative to QSR Delivery, QSR In-Store, and restaurant delivery aggregator apps
Source: UBS Evidence Lab, Sensor Tower

App usage

China app usage analysis indicates Starbucks app share of weekly active users (WAU) slightly declined, most likely attributed to COVID-19 impacts. Luckin's app share of WAUs accelerated most of F1Q20, but ended with a sharp decline in March and remained above Starbucks.

Figure 19: Trends in the weekly active user (WAU) share illustrate a slight decline in Starbucks app usage and steep decline in Luckin app usage, most likely attributed to COVID-19 impacts.

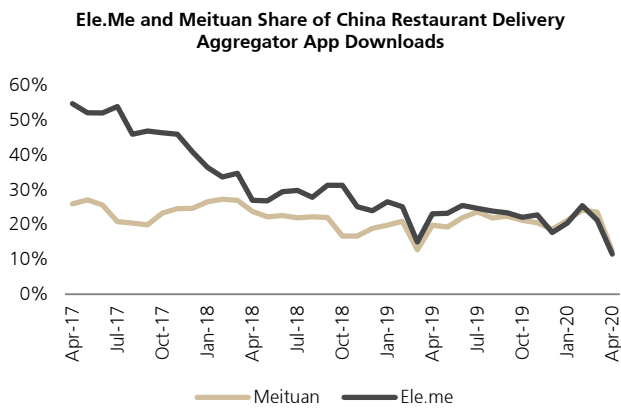


Note: Share relative to WAU of all apps (iOs & Android) in China
Source: UBS Evidence Lab, Quest Mobile

Ele.me and Meituan share top spot in restaurant delivery download share; Meituan leads in usage

Starbucks and Luckin have leaned on their respective delivery partnerships to earn incremental business and market share. Alibaba's food delivery service, Ele.me, has consistently declined since 2015, losing its leading spot to Luckin's partner, Meituan, thus far in 2020. WAU share for each app was down in F2Q20 after steady growth in 2019, as Meituan continues to hold a higher relative share of app usage.

Figure 20: Ele.me (SBUX) and Meituan (LK) are roughly even in leading app download share thus far in 2020...



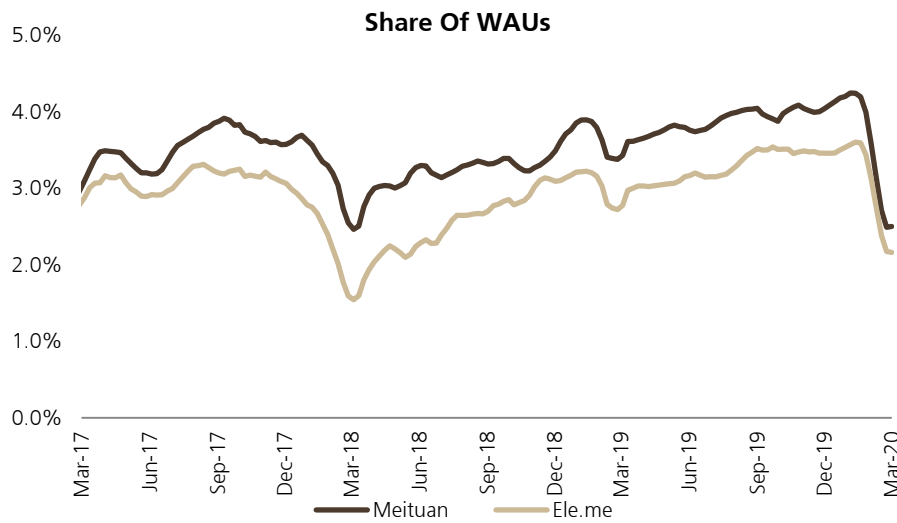
Note: iOS only, relative to QSR Delivery, QSR In-Store, and restaurant delivery aggregator apps
Source: UBS Evidence Lab, Sensor Tower

Figure 21: ... though Meituan now has a slight edge over Ele.Me

Service	Share of downloads					
	2020	2019	2018	2017	2016	2015
Meituan Delivery	50.7%	47.2%	42.4%	31.6%	28.7%	29.7%
E Le Me	48.8%	52.3%	56.5%	67.5%	70.0%	65.2%
Daojia	0.2%	0.2%	0.1%	0.2%	0.7%	2.6%
Pao Tui Kuai Che	0.2%	0.1%	0.1%	0.1%	0.0%	0.0%
Sherpa's	0.1%	0.1%	0.0%	0.1%	0.0%	0.0%
JuJu Knight	0.0%	0.1%	0.5%	0.1%	0.0%	0.0%

Note: iOS only, relative to QSR Delivery, QSR In-Store, and restaurant delivery aggregator apps
Source: UBS Evidence Lab, Sensor Tower

Figure 22: WAU share for leading aggregators Ele.me and Meituan declined in F2Q20 following steady growth in 2019.

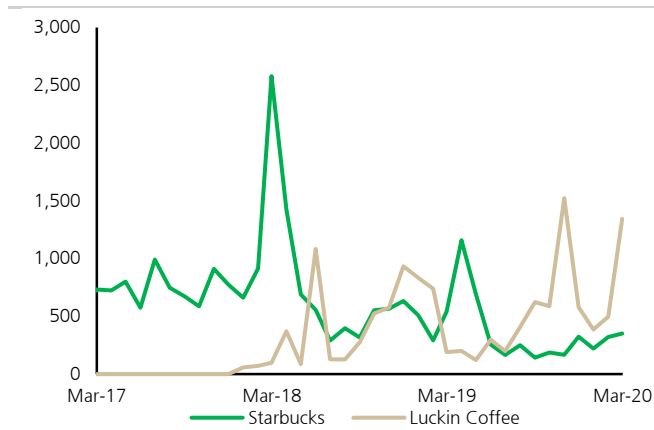


Note: Share relative to WAU of all apps (iOS & Android) in China
Source: UBS Evidence Lab, Quest Mobile

UBS Evidence Lab WeChat Data

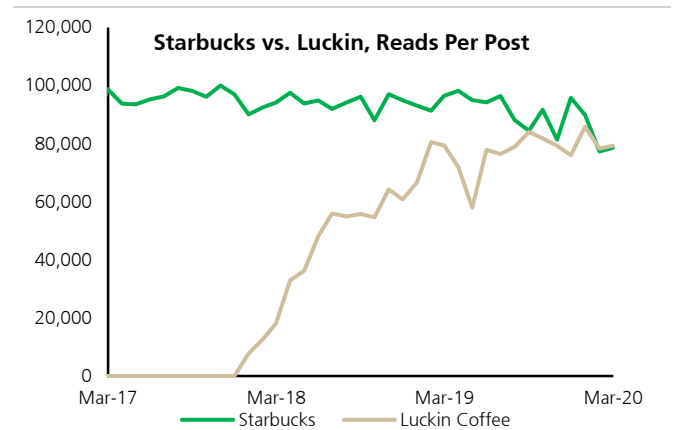
UBS Evidence Lab has collected interaction data from 320+ brands that have 230K+ posts and a combined 4.2bn+ interactions, tracking post-level data from WeChat official accounts of leading brands. Metrics are based on the aggregation of official WeChat accounts for a given brand. Key metrics include posts and interactions (reads and likes). Posts and interactions metrics are based on the date of the posts and are presented across multiple timescales including monthly and quarterly. Comparing SBUX and Luckin's WeChat key metrics over the last two years, Luckin has steadily grown to match SBUX's level of reads and likes.

Figure 23: Starbucks vs. Luckin, Likes Per Post



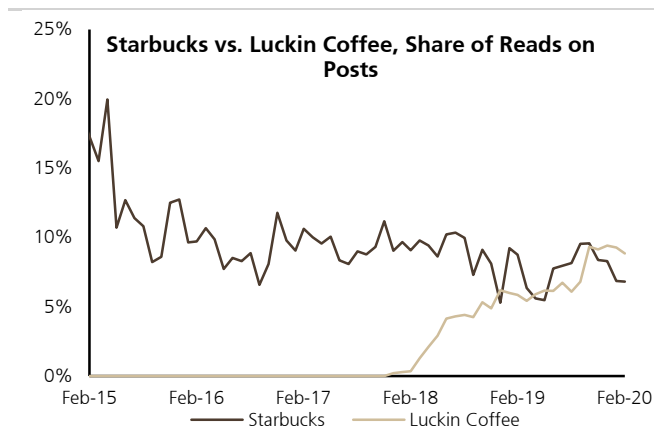
Source: UBS Evidence Lab, WeChat

Figure 24: Starbucks vs. Luckin, Reads Per Post



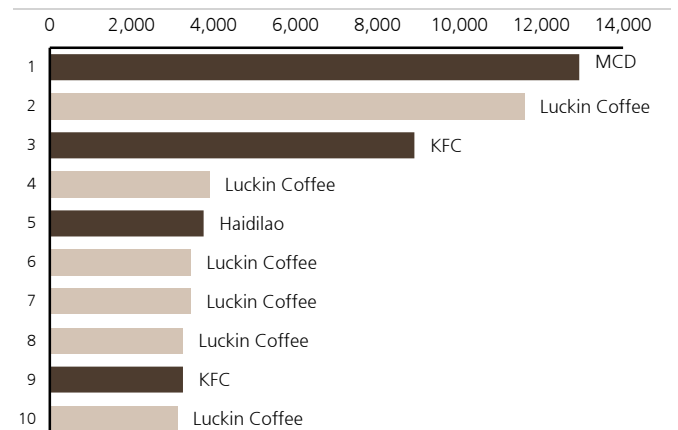
Source: UBS Evidence Lab, WeChat

Figure 25: Starbucks vs. Luckin Coffee, share of reads on posts relative to competitive set



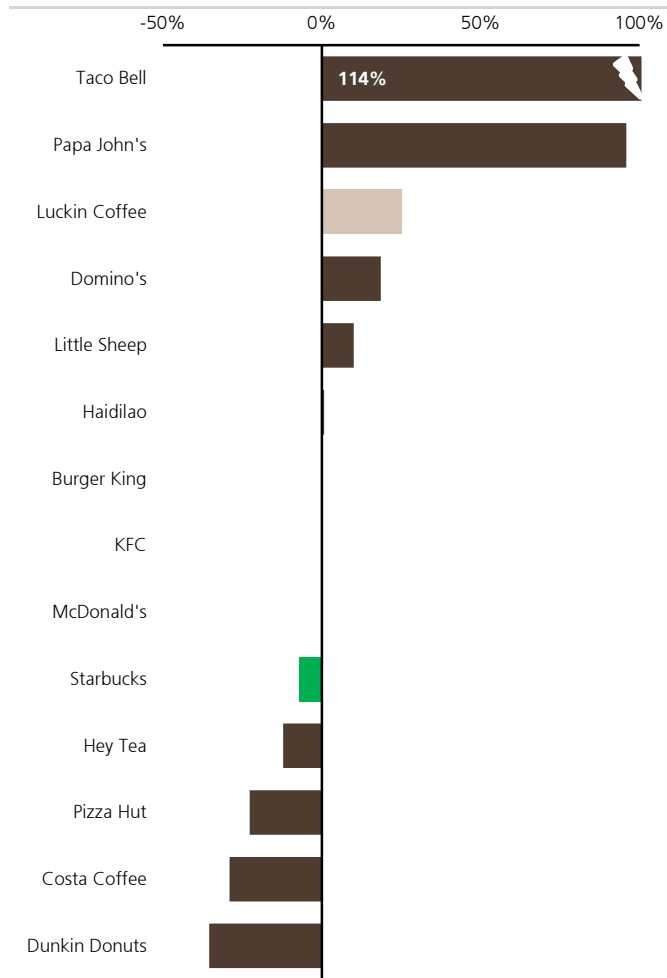
Source: UBS Evidence Lab, WeChat

Figure 26: Top posts in F2Q20 - Likes



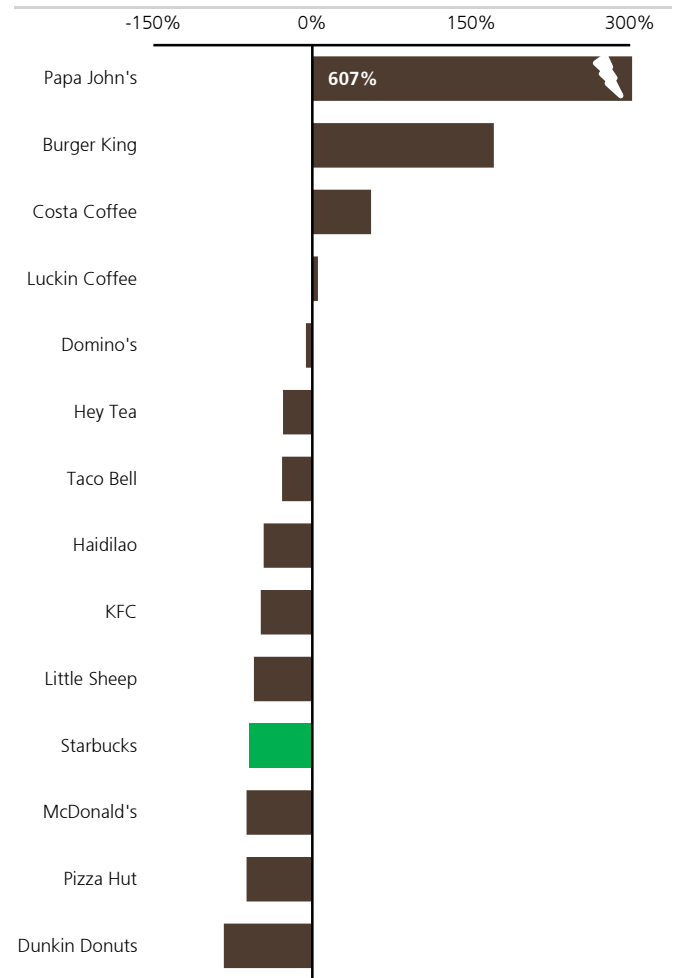
Source: UBS Evidence Lab, WeChat

Figure 27: Quarterly y/y change % - Reads per post as of F1Q20



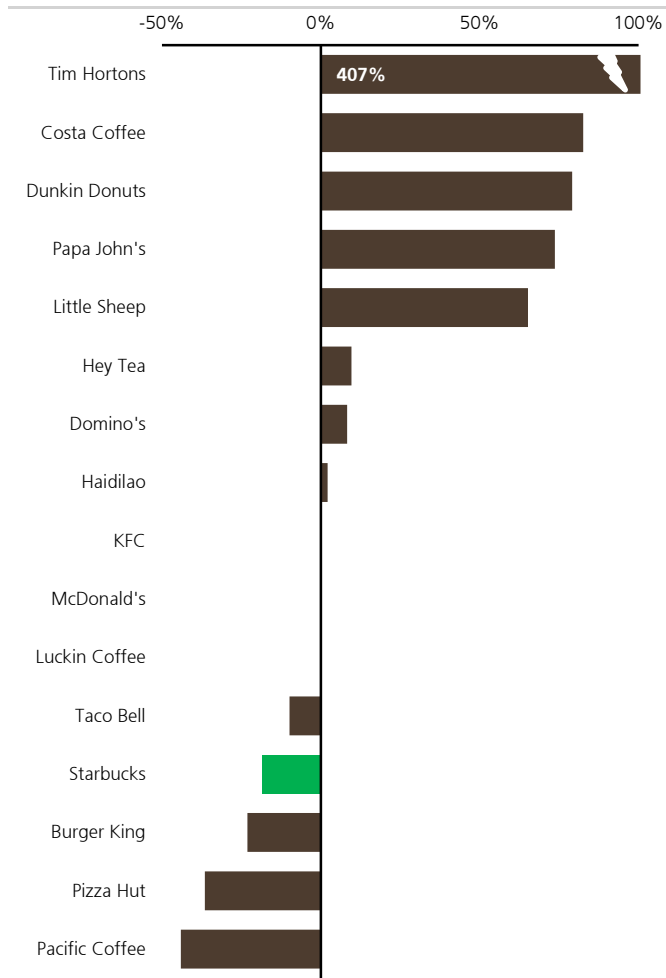
Source: UBS Evidence Lab, WeChat

Figure 28: Quarterly y/y change % - Likes per post as of F1Q20



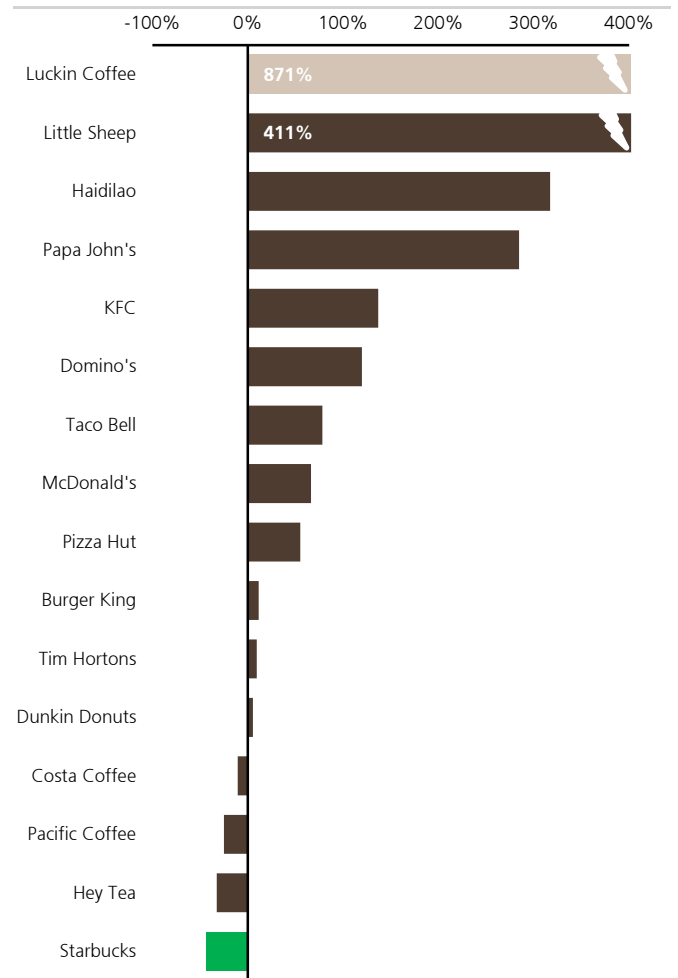
Source: UBS Evidence Lab, WeChat

Figure 29: Monthly y/y change % - Reads per post as of Feb20



Source: UBS Evidence Lab, WeChat

Figure 30: Monthly y/y change % - Likes per post as of Feb20

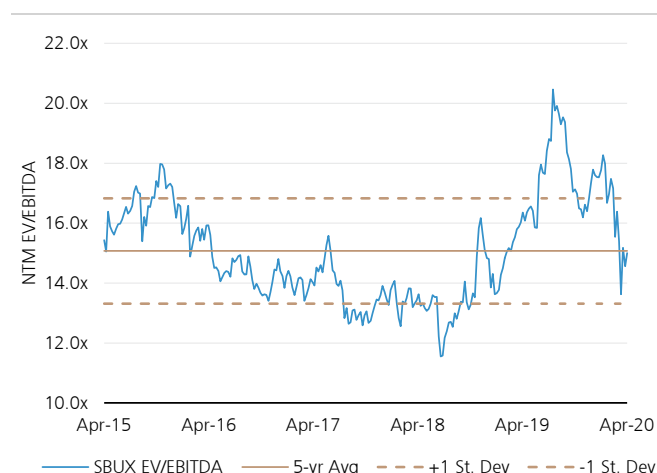


Source: UBS Evidence Lab, WeChat

Valuation: Lowering multiple and price target on COVID-19 impact

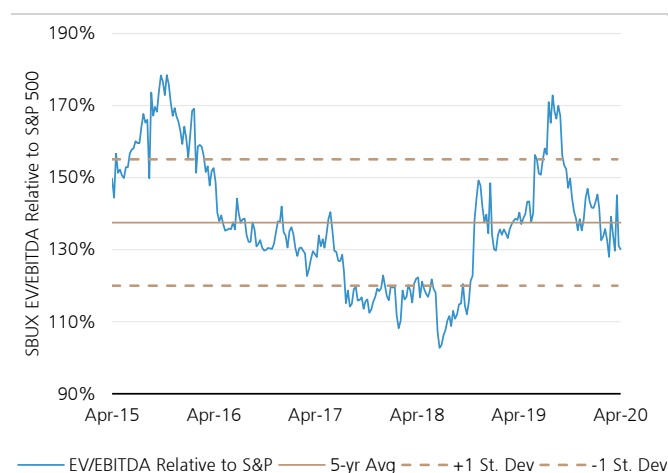
We utilize a 15x (from 17x) multiple on our lowered (by ~10%) NTM EBITDA estimates in 12 months to arrive at our \$73 (was \$95) price target. We lower our target multiple to reflect SBUX's 5 year historical average, a period encompassing stretches of both strong and somewhat pressured comp trends across its largest markets. We note the uncertainty surrounding COVID-19's impact to consumer demand and future SBUX earnings (~50% company-owned model) represent risks, while a significant drive-through mix in the US market should provide a benefit relative to other segments of the restaurant industry.

Figure 31: SBUX trades near its 5 year avg. of 15x on NTM EV/EBITDA.



Source: FactSet

Figure 32: Our 15x NTM EV/EBITDA target multiple represents a 30% premium to the S&P 500, relative to a 5 year avg. premium of ~38%.

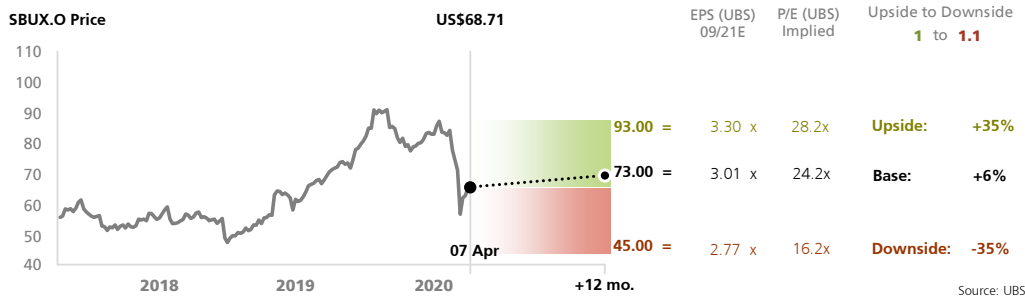


Source: FactSet

Figure 33: Select UBS estimate changes

Revenue Growth:	FY20E (Old)	FY20E (New)	Comments
Americas same-store sales	4.5%	-9.0%	We reduce our Americas estimates to now reflect ~40% of US store closures beginning in late March, as well as reduced customer demand.
International same-store sales	-13.8%	-16.5%	We reduce our International estimates to reflect impact of COVID-19 on European traffic and SBUX's updated China results.
Global unit growth	6.1%	4.6%	We reduce our global unit growth estimates to reflect what we believe is a near complete pause of development globally, beginning in late March. We estimate an acceleration in new builds coinciding with reduced mobility restrictions.
Margins:			
Store operating costs (% of co-owned sales)	50.4%	53.2%	Given the top-line pressures, and Starbucks' continued payment to in-store employees at closed stores, and payment of other employee benefits, we estimate significant labor deleverage.
G&A (\$MM)	\$1,728	\$1,553	We lower our G&A estimates to reflect opportunities for cost savings (e.g. reduced corporate travel, variable contracted expenses).

Source: UBS estimates



SBUX is trading at US\$68.71 (as of 7 April).

FY21 Value drivers	Americas sss	International sss	Global unit growth	G&A as % of sales	Operating margin
\$93 upside	17.0%	19.0%	7.3%	5.7%	17.9%
\$73 base	12.7%	14.0%	6.6%	6.1%	17.3%
\$45 downside	7.0%	7.0%	5.0%	6.5%	16.7%

Source: UBS

SBUX is trading at **US\$68.71** (as of 7 April).

Upside (US\$93): Our upside scenario valuation of \$93 assumes i) better than expected traffic growth, ii) significant margin flow through on sss improvement, and iii) ~17.5x multiple on our NTM estimated EBITDA in 12 months.

Base (US\$73): Our base case scenario of \$73 assumes i) strong sss growth in FY21, including 12.7% in the Americas and segment and 14% in international, ii) solid operating margin expansion, and iii) ~15x multiple on our NTM estimated EBITDA in 12 months.

Downside (US\$45): Our downside scenario valuation of \$45 assumes i) Americas and International sss of 7% for the year, ii) Only moderate operating margin expansion on less than expected sales leverage, and iii) ~11.5x multiple on our NTM estimated EBITDA in 12 months.

**UBS Evidence Lab is a sell-side team of experts, independent of UBS Research, that work across 12 practice areas and 45 specialized labs creating insight-ready datasets. The experts turn data into evidence by applying a combination of tools and techniques to harvest, cleanse, and connect billions of data items each month. Since 2014, UBS Research Analysts have utilized the expertise of UBS Evidence Lab for insight-ready datasets on companies, sectors, and themes, resulting in the production of over 6,000 differentiated UBS Research reports. UBS Evidence Lab does not provide research, investment recommendations, or advice, but provides insight-ready datasets for further analysis by UBS Research and by clients.*

This report uses the following UBS Evidence Lab asset: Brand Tracker [WeChat]

UBS Evidence Lab tracks post-level data from WeChat official accounts of leading brands. Metrics are based on the aggregation of posts on the WeChat official account of a given brand. Key metrics include reads, likes and posts, presented monthly and quarterly based on the date of the posts. Time series included in this analysis dates from January 2015.

This marks the 4th iteration of the UBS Evidence Lab Global Coffee Consumption Consumer Survey. The survey was conducted in January 2020 via an online methodology. In total 6,570 respondents participated in the survey (UK:1,094; France: 1,100; USA: 1,119; China: 1,064; Brazil: 1,120; Mexico: 1,073). The distribution of survey respondents was designed to mirror the population by using census data for gender, age and location. Respondents qualified to the survey on the basis of consuming coffee at least once a month (UK:1,036; France: 1,039; USA: 1,064; China: 1,010; Brazil: 1,065; Mexico: 1,020); the survey also includes a section answered only by coffee rejectors (UK:58; France: 61; USA: 55; China: 54; Brazil: 55; Mexico: 53). This report leverages the following UBS Evidence Lab asset: Global Coffee Consumption Consumer Survey. The margin of error is +/-0.83 for the total sample and +/-2.52 on a country level based on a 90% confidence level.

UBS Evidence Lab uses App Analytics by Sensor Tower, a leading provider of market intelligence and insights for the global app economy to help answer questions related to company performance and mobile app strategy. UBS Evidence Lab tracks daily rankings and downloads data for thousands of mobile applications in the iOS and Google Play store across more than 50 geographies. Daily download estimates are provided by an algorithm trained on this ranking data and the actual download numbers of 50,000+ apps. Rankings data is aggregated by week and download share estimates are aggregated by month. This report leverages the following UBS Evidence Lab asset: China QSR App Monitor.

UBS Evidence Lab uses App Analytics by Sensor Tower, a leading provider of market intelligence and insights for the global app economy to help answer questions related to company performance and mobile app strategy. UBS Evidence Lab tracks daily rankings and downloads data for thousands of mobile applications in the iOS and Google Play store across more than 50 geographies. Daily download estimates are provided by an algorithm trained on this ranking data and the actual download numbers of 50,000+ apps. Rankings data is aggregated by week and download share estimates are aggregated by month.

Starbucks (SBUX.O)

Income statement (US\$m)	09/17	09/18	09/19	09/20E	% ch	09/21E	% ch	09/22E	09/23E	09/24E
Revenues	22,139	24,719	26,509	24,575	-7.3	28,514	16.0	30,253	32,538	34,941
Gross profit	6,127	6,822	7,149	5,804	-18.8	7,629	31.4	8,098	8,674	9,320
EBITDA (UBS)	5,232	5,763	6,010	4,638	-22.8	6,240	34.6	6,697	7,285	7,886
Depreciation & amortisation	(1,067)	(1,306)	(1,449)	(1,252)	-13.6	(1,311)	4.8	(1,420)	(1,518)	(1,621)
EBIT (UBS)	4,165	4,458	4,560	3,386	-25.7	4,929	45.6	5,278	5,766	6,265
Associates & investment income	0	0	0	0	-	0	-	0	0	0
Other non-operating income	0	0	0	0	-	0	-	0	0	0
Net interest	183	67	(234)	(333)	-42.0	(373)	-12.1	(411)	(451)	(456)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	4,347	4,524	4,326	3,053	-29.4	4,556	49.2	4,867	5,315	5,809
Tax	(1,568)	(1,148)	(845)	(703)	16.8	(1,048)	-49.1	(1,119)	(1,222)	(1,336)
Profit after tax	2,780	3,376	3,481	2,351	-32.5	3,508	49.2	3,747	4,092	4,473
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	0	0	5	0	-91.3	0	-	0	0	0
Extraordinary items	0	0	0	0	-	0	-	0	0	0
Net earnings (local GAAP)	2,779	3,376	3,486	2,351	-32.5	3,508	49.2	3,747	4,092	4,473
Net earnings (UBS)	2,779	3,376	3,486	2,351	-32.5	3,508	49.2	3,747	4,092	4,473
Tax rate (%)	36.1	25.4	19.5	23.0	17.8	23.0	-0.1	23.0	23.0	23.0
Per share (US\$)	09/17	09/18	09/19	09/20E	% ch	09/21E	% ch	09/22E	09/23E	09/24E
EPS (UBS, diluted)	1.90	2.42	2.83	1.99	-29.6	3.01	51.5	3.28	3.64	4.03
EPS (local GAAP, diluted)	1.90	2.42	2.83	1.99	-29.6	3.01	51.5	3.28	3.64	4.03
EPS (UBS, basic)	1.94	2.47	2.90	2.04	-29.6	3.09	51.5	3.36	3.73	4.14
Net DPS (US\$)	1.05	1.32	1.44	1.64	13.9	1.89	15.0	2.17	2.49	2.87
Cash EPS (UBS, diluted) ¹	2.63	3.36	4.00	3.05	-23.8	4.14	35.8	4.52	4.99	5.50
Book value per share	3.78	0.87	(5.17)	(6.26)	-21.2	(7.29)	-16.4	(8.42)	(9.55)	(10.70)
Average shares (diluted)	1,461.48	1,394.60	1,233.18	1,181.98	-4.2	1,164.34	-1.5	1,143.07	1,124.94	1,108.58
Balance sheet (US\$m)	09/17	09/18	09/19	09/20E	% ch	09/21E	% ch	09/22E	09/23E	09/24E
Cash and equivalents	2,691	8,938	2,757	4,191	52.0	3,275	-21.9	2,844	2,538	1,063
Other current assets	2,593	3,556	2,897	2,777	-4.1	3,358	20.9	3,571	3,941	4,232
Total current assets	5,283	12,494	5,654	6,968	23.2	6,633	-4.8	6,415	6,479	5,295
Net tangible fixed assets	4,920	5,929	6,432	6,408	-0.4	6,997	9.2	7,578	8,059	8,439
Net intangible fixed assets	1,981	4,584	4,273	4,255	-0.4	4,255	0.0	4,255	4,255	4,255
Investments / other assets	2,182	1,149	2,861	11,186	290.9	11,206	0.2	11,226	11,246	11,266
Total assets	14,366	24,156	19,220	28,817	49.9	29,090	1.0	29,474	30,039	29,255
Trade payables & other ST liabilities	4,221	5,334	6,169	7,478	21.2	8,061	7.8	8,299	8,699	8,994
Short term debt	0	350	0	997	-	997	0.00	997	997	997
Total current liabilities	4,221	5,684	6,169	8,475	37.4	9,058	6.9	9,295	9,696	9,991
Long term debt	3,933	9,090	11,167	12,403	11.1	13,153	6.0	14,403	15,653	15,653
Other long term liabilities	755	8,206	8,115	15,162	86.8	15,162	0.0	15,162	15,162	15,162
Preferred shares	0	0	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	8,909	22,981	25,451	36,040	41.6	37,373	3.7	38,860	40,511	40,806
Common s/h equity	5,457	1,176	(6,231)	(7,223)	-15.9	(8,283)	-14.7	(9,386)	(10,472)	(11,551)
Minority interests	0	0	0	0	-	0	-	0	0	0
Total liabilities & equity	14,366	24,156	19,220	28,817	49.9	29,090	1.0	29,474	30,039	29,255
Cash flow (US\$m)	09/17	09/18	09/19	09/20E	% ch	09/21E	% ch	09/22E	09/23E	09/24E
Net income (before pref divs)	2,779	3,376	3,486	2,351	-32.5	3,508	49.2	3,747	4,092	4,473
Depreciation & amortisation	1,067	1,306	1,449	1,252	-13.6	1,311	4.8	1,420	1,518	1,621
Net change in working capital	90	6,914	1,649	(7)	-	(17)	-134.4	4	11	(16)
Other operating	133	(800)	(1,646)	543	-	188	-65.4	188	188	188
Operating cash flow	4,069	10,796	4,938	4,139	-16.2	4,990	20.6	5,358	5,809	6,265
Tangible capital expenditure	(1,519)	(1,976)	(1,863)	(1,294)	30.5	(1,900)	-46.8	(2,000)	(2,000)	(2,000)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	0	(1,311)	0	0	-	0	-	0	0	0
Other investing	584	318	168	8	-	0	-	0	0	0
Investing cash flow	(935)	(2,970)	(1,695)	(1,286)	24.1	(1,900)	-47.7	(2,000)	(2,000)	(2,000)
Equity dividends paid	(1,450)	(1,743)	(1,761)	(1,934)	-9.8	(2,196)	-13.5	(2,479)	(2,806)	(3,180)
Share issues / (buybacks)	(1,892)	(6,980)	(9,812)	(1,628)	83.4	(2,560)	-57.2	(2,560)	(2,560)	(2,560)
Other financing	(10)	(104)	(129)	(78)	39.27	0	-	0	0	0
Change in debt & pref shares	350	5,584	1,646	2,248	36.57	750	-66.64	1,250	1,250	0
Financing cash flow	(3,002)	(3,243)	(10,057)	(1,393)	86.1	(4,006)	-187.5	(3,789)	(4,116)	(5,740)
Cash flow inc/(dec) in cash	132	4,584	(6,814)	1,459	-	(916)	-	(431)	(306)	(1,475)
FX / non cash items	296	1,663	633	(26)	-	0	100.0	0	0	0
Balance sheet inc/(dec) in cash	428	6,247	(6,181)	1,434	-	(916)	-	(431)	(306)	(1,475)

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.¹Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

Starbucks (SBUX.O)

	09/17	09/18	09/19	09/20E	09/21E	09/22E	09/23E	09/24E
Valuation (x)								
P/E (local GAAP, diluted)	30.0	23.1	26.8	34.5	22.8	21.0	18.9	17.0
P/E (UBS, diluted)	30.0	23.1	26.8	34.5	22.8	21.0	18.9	17.0
P/CEPS	21.2	16.3	18.5	22.0	16.2	14.8	13.4	12.2
Equity FCF (UBS) yield %	3.1	11.1	3.1	3.5	3.8	4.1	4.7	5.2
Net dividend yield (%)	1.8	2.4	1.9	2.4	2.7	3.2	3.6	4.2
P/BV x	15.1	64.2	NM	NM	NM	NM	NM	NM
EV/revenues (core)	3.8	3.2	3.8	3.4	2.9	2.7	2.9	2.7
EV/EBITDA (core)	16.2	13.9	16.8	17.8	13.3	12.3	13.0	12.2
EV/EBIT (core)	20.3	18.0	22.1	24.4	16.8	15.7	16.4	15.3
EV/OpFCF (core)	20.8	NM	NM	24.4	16.7	15.7	16.4	15.3
EV/op. invested capital	NM	NM	NM	NM	NM	NM	NM	NM
Enterprise value (US\$m)								
Market cap.	83,304	79,429	99,875	81,834	81,834	81,834	81,834	81,834
Net debt (cash)	1,290	872	872	872	872	872	13,334	14,849
Buy out of minorities	0	0	0	0	0	0	0	0
Pension provisions/other	0	0	0	0	0	0	0	0
Total enterprise value	84,595	80,301	100,747	82,706	82,706	82,706	95,167	96,683
Non core assets	0	0	0	0	0	0	(611)	(611)
Core enterprise value	84,595	80,301	100,747	82,706	82,706	82,706	94,556	96,072
Growth (%)								
Revenue	3.9	11.7	7.2	-7.3	16.0	6.1	7.6	7.4
EBITDA (UBS)	-0.6	10.2	4.3	-22.8	34.6	7.3	8.8	8.3
EBIT (UBS)	-1.6	7.0	2.3	-25.7	45.6	7.1	9.3	8.7
EPS (UBS, diluted)	-0.2	27.3	16.7	-29.6	51.5	8.8	11.0	10.9
Net DPS	31.3	25.7	9.1	13.9	15.0	15.0	15.0	15.0
Margins & Profitability (%)								
Gross profit margin	27.7	27.6	27.0	23.6	26.8	26.8	26.7	26.7
EBITDA margin	23.6	23.3	22.7	18.9	21.9	22.1	22.4	22.6
EBIT margin	18.8	18.0	17.2	13.8	17.3	17.4	17.7	17.9
Net earnings (UBS) margin	12.6	13.7	13.1	9.6	12.3	12.4	12.6	12.8
ROIC (EBIT)	73.0	132.1	345.7	230.5	293.7	232.5	206.4	194.2
ROIC post tax	46.7	NM	NM	NM	NM	NM	NM	NM
ROE (UBS)	49.0	101.8	(137.9)	(35.0)	(45.3)	(42.4)	(41.2)	(40.6)
Capital structure & Coverage (x)								
Net debt / EBITDA	0.2	0.1	1.4	2.0	1.7	1.9	1.9	2.0
Net debt / total equity %	22.8	42.7	(135.0)	(127.5)	(131.3)	(133.8)	(134.8)	(134.9)
Net debt / (net debt + total equity) %	18.5	29.9	NM	NM	NM	NM	NM	NM
Net debt/EV %	1.5	0.6	8.3	11.1	13.1	15.2	14.9	16.2
Capex / depreciation %	142.4	151.3	128.5	103.4	144.9	140.9	131.7	123.4
Capex / revenue %	6.9	8.0	7.0	5.3	6.7	6.6	6.1	5.7
EBIT / net interest	NM	NM	19.5	10.2	13.2	12.8	12.8	13.7
Dividend cover (UBS)	1.8	1.9	2.0	1.2	1.6	1.6	1.5	1.4
Div. payout ratio (UBS) %	54.1	53.3	49.7	80.5	61.1	64.5	66.8	69.3
Revenues by division (US\$m)								
Others	22,139	24,719	26,509	24,575	28,514	30,253	32,538	34,941
Total	22,139	24,719	26,509	24,575	28,514	30,253	32,538	34,941
EBIT (UBS) by division (US\$m)								
Others	4,165	4,458	4,560	3,386	4,929	5,278	5,766	6,265
Total	4,165	4,458	4,560	3,386	4,929	5,278	5,766	6,265

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Forecast returns

Forecast price appreciation	+6.2%
Forecast dividend yield	2.6%
Forecast stock return	+8.8%
Market return assumption	5.3%
Forecast excess return	+3.5%

Valuation Method and Risk Statement

Risks include but are not limited to: deteriorating macro-economic factors that could negatively impact consumer spending (rising unemployment, low wage growth, high gas prices, falling housing market); food safety incident at SBUX or another restaurant; increased competition including in the consumer packaged coffee/tea business; risks related to a franchise business models; significant commodity or labor cost inflation; changing consumer eating trends; ability to identify and secure appropriate sites for new restaurants; effect of changes to healthcare laws; failure of internal controls over financial reporting; adverse weather conditions; the negative impact on existing restaurants from opening new restaurants in existing markets; and the impact from new information or attitudes regarding diet and health could result in changes in regulations or consumer preferences. Our price target is based on an EV/EBITDA methodology on our NTM EBITDA estimates in 12 months.

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12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	48%	32%
Neutral	FSR is between -6% and 6% of the MRA.	40%	28%
Sell	FSR is > 6% below the MRA.	13%	20%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 March 2020.

1: Percentage of companies under coverage globally within the 12-month rating category.

2: Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3: Percentage of companies under coverage globally within the Short-Term rating category.

4: Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

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UBS Securities LLC: Dennis Geiger, CFA; Ryan Kidd. **UBS AG Hong Kong Branch:** Jerry Liu.

Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Starbucks ^{6, 7, 16}	SBUX.O	Neutral	N/A	US\$68.71	07 Apr 2020

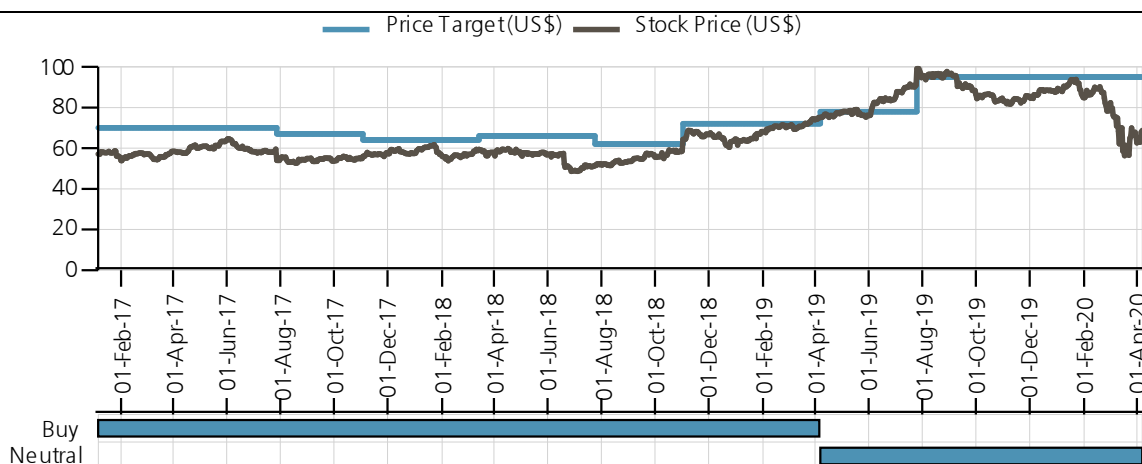
Source: UBS. All prices as of local market close.

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Starbucks (US\$)



Date	Stock Price (US\$)	Price Target (US\$)	Rating
2017-01-06	57.13	70.0	Buy
2017-07-28	54.0	67.0	Buy
2017-11-03	56.03	64.0	Buy
2018-03-15	59.37	66.0	Buy
2018-07-25	51.62	62.0	Buy
2018-11-02	64.32	72.0	Buy
2019-04-07	75.03	78.0	Neutral
2019-07-26	99.11	95.0	Neutral

Source: UBS; as of 07 Apr 2020

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