

Financial analysis of starbucks corporation research paper sample

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(Professor Name)

Financial Analysis: Starbuck Corporation

Our analysis of a company listed on US Stock Exchange is based on Starbucks. The concerned industry is of Speciality Eateries.

About the Company:

Starbucks Corporation is a leading marketer and retailer of coffee, having its outlets in 60 countries around the world. The stock of the company is listed on NASDAQ Stock Exchange with the tick symbol of "SBUX". Apart from selling coffee, the company is also involved in tea, beverages and variety of fresh food items. Today, Starbucks is a leading and most recognized coffee brand in the world. The most popular brand of Starbucks, K- Cup sources 72% of the total revenue for the company alone.

Basic Fundamentals:

Current Market price: \$79. 82

Market Capitalization: \$60. 02 Billion

Revenue: \$ 13. 29 Billion(2012)

Profit: \$ 1. 38 Billion(2012)

Beta: 0. 79

52 Week Change: 72. 33%

Trend In Market value of Share Price: (Initial Analysis)

At the time of writing, Starbuck Corporation Stock was trading at \$81. 26 with a 1. 57% rise in price compared to previous closing day. The stock price have followed an increasing trend restraining our analysis to one year. From

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the level of \$42, the stock is now trading at the level of \$79.82, with 52 week range of 49.56-82.50. The Stock has been 6000% higher when compared to the price of its Initial Public Offering.

Starbucks Corporation- Strengths and Interesting Performance over the years:

As for the Brand- "Starbucks", people see it as a big luxury brand in coffee industry. This indeed is a significant strength for Starbucks as this ideology gives it a competitive edge over other brands in the industry as people associate it with high quality and a company with popular existence. Thus its indeed important for our analysis to find out the real strengths of Starbucks Brand that make it so popular among both Consumers and Shareholders and also why we should consider Starbucks in our portfolio.

Sound Financial Numbers: The company in its recent annual report of 2012, declared a Total Revenue of \$13.3 billion which was 14% more than previous year. During our 4 year of trend analysis of the company, the revenues of the company has shown an increasing trend on account of recent 7% growth in comparable stores sales and in particular to 50% increase in revenue by Channel Development. Since primary strategy of the company is to expand its operations at a rate higher than its competitors, it was really important to analyze how the existing stores are performing apart from looking up performance of newly opened stores.

Reviewing comparable store sales growth of the company since 2008 that was hovering in -3%, the company in its SEC Filing declared that this decrease was on account of increase in value per transaction which was offset by decrease in total number of transactions. The condition went more

worse when this multiple was reduced to -6%. However, the current scenario seems better with now store sales growth at 8% during 2011 and 7% during 2012.

Most interesting and appreciated attribute of Starbucks Management was reduction in Common Size Factor Percentage of Selling and Distribution Expenses to Sales Ratio. As of 2012, the company reduced this percentage from 37.08% to 35.38% which was the main driver for increase in operating as well as net income. The graph below indicates how Starbucks has improved its revenue/share since 2008.

Operating Income of the company was \$2 Billion as compared to \$1.7 billion in 2011. As a result, the operating margins of the company improved from 14.8% to 15% during 2012. The expansion was result of increased revenue and absence of charges relating to closure expenses of Seattle's Best Coffee Store. The ever improving operating margins of the company where the company has made a big leap from 4.9% operating margins in 2008 to 15% margin in 2012 indicates efficiency of management where they have shifted their focus to cost management and strong pricing strategy. Even though, US market is suffering from tight consumer spending, Starbucks have managed to maintain growth in its fundamentals which was clear indication that profitability through consumer satisfaction was the core criteria of company's policy. Also The company also outmatches its nearest competitors with 24.54% return on investment and 29.16% return on equity.

The cash flow statement was also another indicator of Financial Soundness of the company. Most Importantly, company have maintained a good ratio

among Cash Flow from Operations and Cash Flow on Capital Expenditures. Owing to efficient management and reducing Selling and Administrative Expenses to Sales Ratio, Starbucks Corporation has managed to produce a healthy Cash Flow from Operations with a steady growth in numbers every year. While Cash Flow From Operations has increased from \$1259 in 2008 to \$1750 during 2012, the reducing-constant trend in capital expenditures of the company was another contributor to financial soundness.

Apart from earning high profits driven by increasing revenue, StarBuck surely knows how to keep its shareholders happy. The Earning per Share Ratio has been in increasing trend with EPS being \$1. 72 during 2012. At present, company has dividend yield of 1. 10% while the latest dividend pay out was \$ 0. 84.

Strong Growth Prospects:

Starbucks with approx 18000 stores in over 60 countries is the most valuable coffee chain globally. The company has been continuously investing to expand its stores. Although as of now, 75% of total share from revenue comes from US Market only, Starbucks has now moved to Asian Countries expecting better consumer response. During 2012, company opened its 700th Store in china under its expansion plans for Asia Pacific Region. Also, during the calendar year of 2012, company in an alliance with Tata Group, India opened their new stores in Delhi and Mumbai under a joint venture of 50: 50 Ratio with TATA Group.

Apart from their expansion plans in Asia, company also announced to open new stores in Scandinavia and new retail store locations in SanFransisco and

Seattle.

Considering the trend in comparable same store sales growth during past 3 years, it is most likely that their expansion plans will shine their fundamentals among the eateries industry. A healthy comparable sales growth ensures that its top line growth overshadows the overhead costs. Also, the urge to retain and expand customer base through offering ever-changing menu to adapt as per the taste of the customer is a strength and reason behind StarBuck's Success.

Ratio Summary:

In terms of analyzing the financial statements, the ratios tells us the same and more clear picture of current scenario of Starbucks Corporation. In terms of Solvency Ratios, the Debt/ Total Capital Ratio which is at 9. 7% is in line with Eateries Industry and thus on healthy terms.

Further, the Current and Quick Ratios, confirms strong liquidity of the company and assure that company can indeed serve its short-term obligations. Company during 2012 had a healthy current ratio of 1. 9 and quick ratio of 1. 1.

- Current Ratio: 1. 7

- Quick Ratio: 1. 1

Activity ratios:

Activity/Asset Management Ratios are also indicating good financial health of the company. To discuss a few, Accounts Receivable Turnover Period is also consistent for the company with the industry level at 12 days(Approx). Also the company is most efficient in managing its inventory as its Cost of Goods

Sold tied up in inventory was only 69 days although the Process Period of Inventory has increased over last 4 years of our analysis.

- Total Assets Turnover: 1. 7
 - Fixed Assets Turnover: 5. 3
 - Inventory Turnover: 5. 1
 - Accounts Receivables Turnover: 30. 8
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Profitability Analysis

- Return on Assets: 15. 05%
- Return on Capital: 21. 37%
- Return On Equity: 28. 73%
- Net Margin: 10. 4%

Margin Analysis:

- Gross Margin: 57. 07%
- EBITDA Margin: 18. 83%
- SG & A Margin: 35. 29%

Cash Flow Ratios:

Fundamental valuation:

Fundamental Comparison:

Starbucks:

Competitor: Comparison with Dunkin Donuts

For many years, Starbucks had earned monopoly profits by dominating

coffee chain business. However, now the company is facing some real competition from other old established Dunkin Donuts that has achieved growth through high customer satisfaction and some innovative strategies to incorporate changing consumer taste. Dunkin Donuts which is both a coffee retailer as well as donuts manufacturer has posed threat to market supremacy of Starbucks Corporation.

Our Rating: Buy

Future Multiples:

Earning Estimates:

PE Ratio:

Earning Estimate:

Why Starbucks is a lucrative Investment?

Although Dunkin Donuts is turning out to be a major competitor for Starbucks but the fundamental valuation and future growth prospects tell us the whole story and success mantra of Starbucks Corporation. Apart from strong fundamental valuation, Starbucks have lucrative growth prospects in Asia. Recent report of Starbucks reveals that company is investing heavily in China and India and has plans to open new stores. Starbucks recorded 29% growth in Asia-Pacific region during third quarter of this year and this makes the region second largest market in coming years. Also, sole reliance on coffee business was always considered to be weakness for company's growth prospects, however, recently company filed for trademark on a beverage making machine called Fizzio which is also an indication for optimistic future prospects of the company.

Thus, i believe that Starbucks Corporation is a strong buy for the investors as apart from strong growth prospects in Asia, the company has huge opportunity coming up in soft drink industry that will boost its sales as well as profitability. In other words, the big brand name of Starbucks will help the company to introduce soft drinks at high margins and thus resukting in huge profits. Thus, the above factors and valuation indicate that this stock an attractive option for investment.

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