

Starbucks (SBUX US)

FUNDAMENTAL VIEW ¹

As of 23 May 2024

- SBUX operates and licenses Starbucks care locations. Management targets lease-adjusted leverage of under 3x and has expressed support for the current high-BBB ratings profile.
- Recent results showed headwinds from lower traffic across the company's locations in the U.S. amid weaker consumer spending. SBUX also reported weak results in its second-largest market, China, due to increased competition in the market.
- Management slashed its F2024 outlook. We still see a path for SBUX to maintain stable leverage metrics over the medium-term, but prefer playing the restaurant space via McDonald's where we see stronger buffers against weaker restaurant traffic.

RISKS & CATALYSTS

As of 23 May 2024

- SBUX has more direct exposure to labor challenges than wholly franchised peers due to its concentration of company operated cafes. Despite significant wage investments, SBUX has had to contend with an unionization campaign across a portion of its U.S. cafes. However, union growth has slowed and management noted improved employee retention following the latest wage increases.
- Lower discretionary spending in the U.S. could weigh on SBUX's sales growth. Recent results showed lower traffic on a YoY basis due primarily to fewer visits from occasional or non-rewards members. SBUX U.S. business has also faced localized boycotts related to its labor disputes and its conduct of business in the Middle East.
- SBUX's China locations accounted for 10+% of operating income pre-pandemic and management considered it the strongest growth region. However, increased competition and weak spending data have impacted cafes across the region in recent periods.

CREDIT QUALITY SCORE (CQS)²

As of 21 Jun 2024

CURRENT CQS

67

CQS OUTLOOK ³
NEGATIVE
STABLE
POSITIVE
HISTORICAL RATINGS: AVERAGE AGENCY RATING (ACR)⁴ VS CQS

KEY METRICS

As of 23 May 2024

\$ MN	Y20	Y21	Y22	Y23	LTM 2Q24
Revenue	23,518	29,061	32,250	35,976	36,530
EBITDA	3,636	6,775	6,385	7,252	7,406
EBITDA Margin	15.5%	23.3%	19.8%	20.2%	20.3%
EBITDA-Capex to Revenue	9.1%	18.3%	14.1%	13.7%	13.2%
Total Debt	16,348	14,616	15,044	15,400	15,590
Net Debt	11,997	8,160	12,226	11,848	12,826
Net Leverage	3.3x	1.2x	1.9x	1.6x	1.7x
Lease Adjusted Debt to EBITDAR	5.0x	2.9x	3.1x	2.8x	2.8x
EV / EBITDA	31.0x	20.4x	17.1x	16.1x	15.7x

BUSINESS DESCRIPTION

As of 23 May 2024

- SBUX is a leading coffee roaster and retailer. The company operates and licenses over 38,000 Starbucks locations worldwide where it sells premium coffee beverages as well as other specialty drinks and prepared foods. Slightly over half the locations are company operated (52%) and the rest are licensed to third party operators.
- In F2023, SBUX generated \$36.0 bn in revenue and \$7.3 bn in adjusted EBITDA. SBUX has three reporting segments: N. America (74% of F2023 revenue), which covers cafes in the U.S. and Canada; International (21%), which includes China, Japan, Latin America, and EMEA; and Channel Development (5.9%) which includes revenue from other branded products sold outside retail locations.
- SBUX is prioritizing International development, particularly within China. Currently, 43% of the total cafes are in the U.S., but the company is guiding to an ambitious unit expansion strategy that emphasizes unit growth across China. Long-term, SBUX is targeting 55,000 cafes globally by 2030.

GLOSSARY

¹ The **Fundamental View** is our current assessment of credit quality and our expectation of how credit quality will trend over the next year or longer.

² The **Credit Quality Score (CQS)** is a number between 5 and 100. It is a medium-term credit score for corporates and financial institutions that utilizes a combination of sector fundamental scores and equity market signals. Values of CQS above 50 generally indicate investment grade credit quality.

³ The **Credit Quality Score (CQS) Outlook** is the near-term (3 month) outlook for the CQS, based on its trend, volatility and distance from the adjacent CQS risk bucket.

⁴ The **Agency Composite Rating (ACR)** is the average senior unsecured rating from one or more major rating agencies.

Quantitative scores provided by CreditSights Analytics, LLC. Scores are shown are for the lesser of (1) 2 years and (2) date of CreditSights inception of quantitative coverage.

DISCLAIMER

Important Notice

This report ("Report") is for informational purposes only. Neither the information contained in this Report, nor any opinion expressed therein is intended as an offer or solicitation with respect to the purchase or sale of any security or as personalized investment advice. This Report is not intended to be distributed to anyone in any jurisdiction where the receipt of this Report by such person would be legally or regulatorily impermissible and any such distribution has not been authorized by CreditSights.

Except as expressly set forth herein, user shall not transfer, sell, license, sublicense, publish, transmit, redistribute or disseminate this Report or any other CreditSights research reports or any summary or portion thereof (collectively, the "Products") in any manner or in any media or release or otherwise provide access to the Products or any portion thereof to any other person without the prior written consent of CreditSights. Any such unauthorized distribution of such material is prohibited by law and can result in prosecution. In addition, user shall not alter, modify, adapt or create derivative works based on the Products or any portion thereof.

All proprietary rights in relation to the Products (including, without limitation, all copyrights, trademarks, trade secrets and other intellectual property rights) are and remain the sole and exclusive property of CreditSights and/or its third party licensors and nothing herein shall transfer any right to or interest in the Products, in any data included therein or component thereof, or in any proprietary rights pertaining thereto.

The Products contain information and data which are compiled from sources believed by CreditSights to be accurate and reliable and are presented for general information use only. However, CreditSights disclaims any and all liability with respect to the truth, accuracy or completeness of the information and data conveyed. Accordingly, the products are being provided to user on an "as is" basis, exclusive of any express or implied warranty or representation of any kind, including as to the accuracy, timeliness, completeness, or merchantability or fitness for any particular purpose of the Products and of any such information or data. Furthermore, CreditSights does not warrant that the Products will meet any user's requirements.

Investing in fixed income securities may involve certain risks, including the credit quality of individual issuers, possible prepayments, market or economic developments, inflation, and yield and price changes due to fluctuations in interest rates. When interest rates go up, bond prices typically drop, and vice versa; this effect can be more pronounced with longer term securities. Any fixed income security sold or redeemed prior to maturity may be subject to a loss.

Neither CreditSights nor its affiliates ("CreditSights Parties") will be responsible for or have any liability for any injuries or damages, including injuries or damages that may result from (i) the reliance of any person upon any information or opinion provided or (ii) any errors, inaccuracies, omissions in, or any other failure of, the Products, from whatever cause. To the fullest extent provided by law, CreditSights shall not be liable for direct, indirect or incidental, special or consequential damages resulting from the information in the Report and/or from decisions taken or not taken by an investor on the basis of such information, regardless of whether such damages were foreseeable or unforeseeable.

Any statements that are not factual in nature constitute only current opinions, which are subject to change without notice. CreditSights does not recommend the purchase or sale of financial products or securities, and does not give investment advice and does not provide any legal, auditing, accounting, appraisal, valuation or actuarial services. Recommendations made in a report may not be suitable for all investors and do not take into account any individual user's investment risk tolerance, return objectives, asset allocation, investment horizon, or any other factors or constraints. The Products are created for use by CreditSights clients and any other recipient who receives this report will be receiving it after it has been distributed to such clients, who may have traded based on information contained in the report; however, the Products are intended only to provide general and preliminary information to investors and shall not be construed as the basis for any investment decision. CreditSights may issue or may have issued other reports that are inconsistent with or may reach different conclusions than those represented in this Report, and all opinions are reflective of judgments made on the original date of publication. CreditSights is under no obligation to ensure that other reports are brought to the attention of any recipient of the Products.

Information included in any report that includes analysis of documents, agreements, controversies, or proceedings is for informational purposes only and does not constitute legal advice. To the extent the Products contain summaries of other documents, such as indentures, reference is made to such other documents for a complete statement of the terms thereof. No attorney client relationship is created between any reader and CreditSights as a result of the publication of any research report, or any response provided by CreditSights (including, but not limited to, the ask an analyst feature or any other analyst interaction) or as the result of the payment to CreditSights of subscription fees. The material included in a report may not reflect the most current legal developments.

Certain data appearing in this Report is owned by, and used under license from, certain third parties. Please see "Legal Notices" at www.creditsights.com for such information. Terms and conditions are also available at Terms & Conditions.

CreditSights, Inc. is an independent investment research provider whose affiliate, CreditSights Ltd, is authorized and regulated by the Financial Conduct Authority ("FCA"). CreditSights Products are not intended for use in the UK by Retail Customers, as defined by the FCA. CreditSights Risk Products, including its Credit Quality Scores and related information, to the extent incorporated in any Products, are provided by CreditSights Analytics, LLC, an affiliate of CreditSights.

If you have any questions regarding the contents of this Report, please contact CreditSights at legal@creditsights.com.