

Starbucks (SBUX US)

FUNDAMENTAL VIEW ¹

As of 27 Aug 2024

- SBUX operates and licenses Starbucks care locations. Management has historically targeted 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.
- Elliott Management has taken a stake at SBUX. Specific plans have not been reported, but we see potential for Elliott to lobby for a more shareholder friendly capital allocation approach. We remain cautious around SBUX credit.

RISKS & CATALYSTS

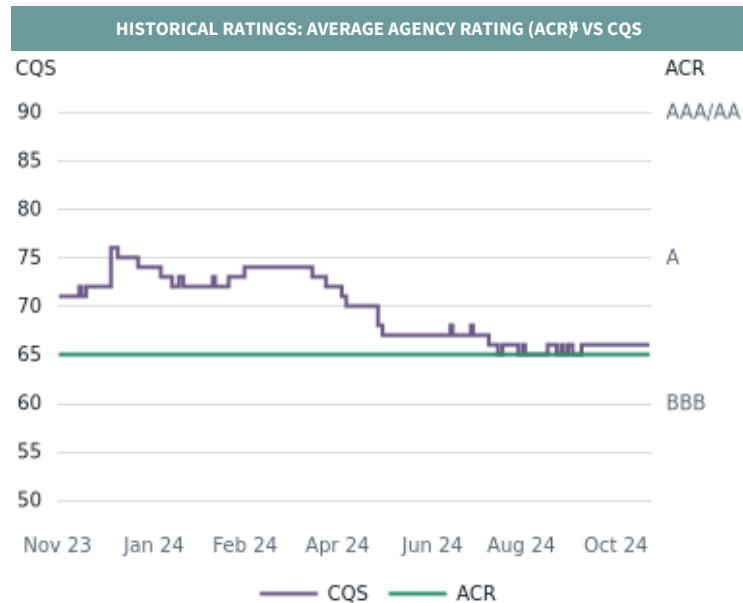
As of 27 Aug 2024

- In response to the activist attacks, SBUX announced an unexpected change in CEO and hired Brian Niccol, a veteran of the quick service restaurant industry with a successful track record at Taco Bell and Chipotle.
- Lower discretionary spending in the U.S. could continue to weigh on SBUX's sales outlook. We view its premium-priced beverage offerings as having significant risk of consumer trade down into more value-oriented options.
- SBUX faces activist pressure from both Elliott and Starboard Value. While specific plans have not been reported, we see potential for activists to call for more assertive shareholder rewards or to push for new approaches to the locations in China, where SBUX has consistently reported weak results (China locations represent ~10% of total company operating income).

CREDIT QUALITY SCORE (CQS)²

As of 16 Oct 2024

CURRENT CQS



KEY METRICS

As of 27 Aug 2024

| \$ MN | Y20 | Y21 | Y22 | Y23 | LTM 3Q24 |
|--------------------------------|--------|--------|--------|--------|----------|
| Revenue | 23,518 | 29,061 | 32,250 | 35,976 | 36,476 |
| EBITDA | 3,636 | 6,775 | 6,385 | 7,252 | 7,376 |
| EBITDA Margin | 15.5% | 23.3% | 19.8% | 20.2% | 20.2% |
| EBITDA-Capex to Revenue | 9.1% | 18.3% | 14.1% | 13.7% | 12.9% |
| Total Debt | 16,348 | 14,616 | 15,044 | 15,400 | 15,575 |
| Net Debt | 11,997 | 8,160 | 12,226 | 11,848 | 12,395 |
| 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 | 13.6x |

BUSINESS DESCRIPTION

As of 27 Aug 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.

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