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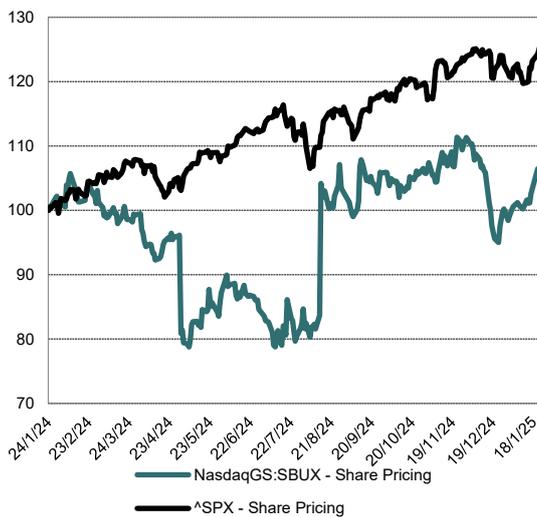
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Basic Issuer Information

Issuer	Starbucks Corporation
Equity Ticker	NASDAQ: SBUX
Corporate Ticker	Starbucks Corporation
Credit Rating (M/S/F)	Baa1 / BBB+ / WD
Country of Risk	United States
Sector	Consumer Discretionary

1Y Price (rebase to 100)



Company Description

Starbucks Corporation is a global coffeehouse chain that offers high-quality coffee, with a focus of creating a “third place” for customers to relax, socialize and work. The company operates in 84 countries, serving a variety of beverages and food items. Starbucks was founded in 1971 and is based in Seattle, Washington.

Key Financials

(US\$b)	FY22A	FY23A	FY24A	FY25E
Revenue	32.3	36.0	36.2	37.6
Gr Rate (%)	11.0	11.5	0.6	3.9
EBIT	4.62	5.87	5.41	5.01
Margin (%)	14.3	16.3	15.0	13.3
Current Ratio	0.8	0.8	0.8	0.7
Debt/Capital (%)	157.4	148.0	140.5	142.1
DSCR	2.1	2.5	3.0	2.3

Growing Challenges Brewing at Starbucks

Recommendations

We are initiating coverage of Starbucks Corporation (NASDAQ: SBUX) and have given an overall issuer profile rating of “underweight”.

We are underweight Starbucks bonds relative to its peer group bonds, reflecting our view that Starbucks credit risk is poised to deteriorate compared to similarly rated issuers within the quick service restaurant space. We recommend a relative value trade that aims to isolate issuer-specific credit risk while remaining broadly neutral to interest rate movements.

Recent Developments

- Launch of the Triple Shot Reinvention Strategy that aims to “deliver long-term, sustainable growth and outsized returns to partners, customers, and shareholders”.
- Increased unionization of Starbucks workers; Starbucks Union strikes on Christmas Eve, 2024.
- Appointment of former CEO and Chairman of Chipotle Mexican Grill Brian Niccol as the new CEO of Starbucks, replacing Laxman Narasimhan.

Key Credit Considerations

Despite its strengths, Starbucks faces significant structural and operational challenges that impair its credit outlook.:

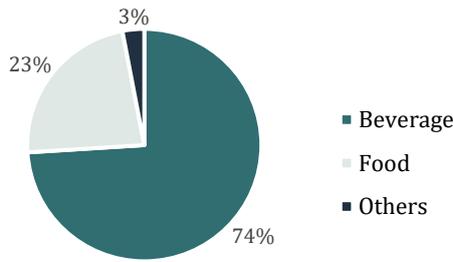
Credit Positives

- Starbucks has a diversified business profile across multiple geographical regions, lowering its exposure to risks arising from disruption in any single market.
- The recent management change brings experienced leadership, which offers some comfort regarding the company’s strategic direction and the possibility for it to improve cash flow, though execution risks remain.
- SBUX has historically strong credit metrics and has made attempts to deleverage, giving it a decent credit record.

Credit Negatives

- However, COVID-19 has accelerated a shift toward out-of-café and value-driven consumption, eroding Starbucks’ traditional in-store appeal and diminishing consumers’ willingness to pay a premium for branding.
- Starbucks trails competitors like Luckin Coffee in digital capabilities, which are critical drivers of sales, and as Chinese brands expand, Starbucks faces increasing competition both within China and in international markets.
- Furthermore, Starbucks’ lease-heavy operating model, combined with typically large store formats, limits operational flexibility and increases potential financial losses in the event of store closures or underperformance.

Figure 1. Retail sales mix by product type for company-operated stores (2024)



Source: Company Filings

Figure 2. Company-Operated and Licensed Stores Breakdown (2024)



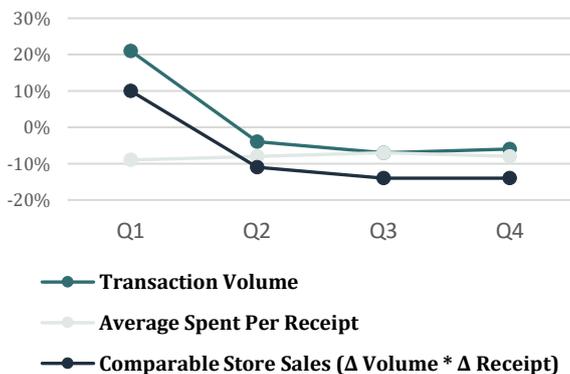
Source: Company Filings

Figure 3. Revenue Breakdown across N.A. and International Segment by Stores 2024 (millions)



Source: Company Filings

Figure 4. Comparable Store Sales in China (FY24)



Source: Company Filings

Company Overview

Starbucks Corporation is a retail coffee company founded in 1971 and headquartered in Seattle, Washington. The company offers three main products: beverages, food products, and miscellaneous items like cups, bottles, and single-serve coffees (Figure 1).

Starbucks generates its revenue through a mix of company-operated and licensed stores, totaling 40,199 stores as of September 29, 2024 (Figure 2). Of these, 52% are company-operated, while 48% are licensed stores. The company earns a margin on products sold by licensed operators along with a royalty fee. This licensing arrangement enables Starbucks to retain strict control over its branding, operations, and product offerings while leveraging the local expertise and market knowledge of the operators.

However, licensed stores generate significantly less revenue compared to company-operated stores. This discrepancy is evident in international markets, where a larger percentage of stores are licensed. Furthermore, international stores generally earn less revenue than their North American counterparts due to differing market dynamics and consumer spending behaviors.

In FY24, company-operated stores contributed 82% of total net revenues, while licensed stores accounted for 12%. Figure 3 further details the breakdown. Starbucks is listed on the NASDAQ and currently has a market capitalization of USD 107.86 billion.

Revenue by Business Segments

Starbucks has three operating segments: 1) North America, 2) International, and 3) Channel Development. The company's Channel Development segment includes products like whole bean coffee, single-serve products, and other branded products sold externally to company-operated and licensed stores.

For FY24, the North America segment contributed 75% of total net revenue, while the International segment contributed 20% and the Channel Development segment contributed 5%. The revenue mix has been generally consistent in the past ten years, with the North America segment's contributions ranging from 68-75%.

Recent Earning Review

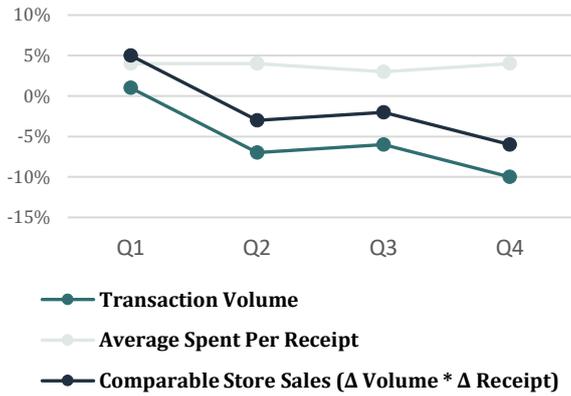
For Q4 of FY24, SBUX saw a decline of 25.4% YoY in net income. This was largely driven by a contraction in the North America segment, where operating income plummeted by 21.7% YoY due to falling revenues, increased operating expenses and depreciation expenses.

Also noteworthy was the China market's performance in the quarter, where comparable store sales plunged by 14%. This was driven by a rise in competition from companies like Luckin Coffee, which has steadily captured greater market share in China over the past five years (Figure 4).

Meanwhile, comparative store sales for the North America segment also fell 6%, driven by a 10% fall in transaction volume, partially offset by a 4% increase in the average ticket (Figure 5).

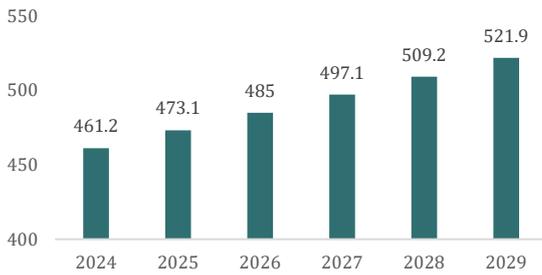
Despite these challenges, the Board of Directors announced a cash dividend of \$0.61 per share to shareholders on December 11, 2024, marking the 59th consecutive quarter of dividend payouts. This demonstrates the company's commitment to delivering consistent returns to its shareholders. Over the past three years, the company maintained an average dividend payout ratio of approximately 67.0%, indicating that a significant proportion of its earnings is distributed as dividends.

Figure 5. Comparable Store Sales in the North America Segment (FY24)



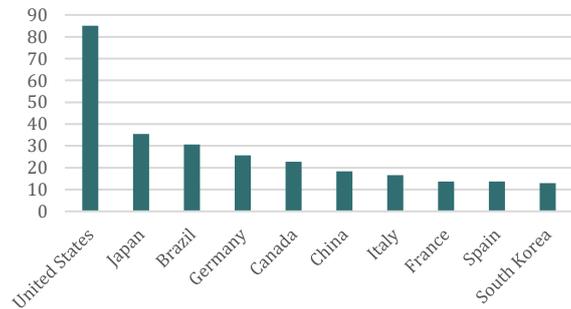
Source: Company Filings

Figure 6. Coffee Industry Market Size (USD, Bn)



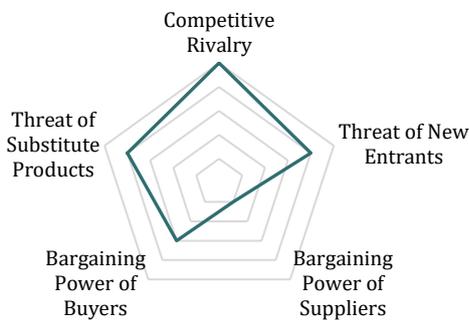
Source: Statista Markets Insight, 2024

Figure 7. Coffee Revenue by Country (USD, Bn)



Source: Statista Markets Insight, 2024

Figure 8. Porter's 5 Forces Analysis



Source: Team Analysis

Ownership & Management

Brian Niccol is the CEO of Starbucks Corporation. He assumed the position on 9 September 2024, taking over the reins from the interim CEO and current CFO Rachel Ruggeri. Prior to his appointment as the CEO of Starbucks, Brian Niccol was the former Chairman and CEO of Chipotle Mexican Grill, Inc from 2020-2024 and 2018-2024 respectively. Niccol is also currently serving on the board of directors of Walmart Inc.

Niccol is Starbucks's third CEO in less than three years, underscoring the flurry of executive changes amid the company's challenges.

Industry Outlook

Global Coffee Consumption

The global coffee market size is estimated to be USD 461.3 billion in 2024 and is expected to reach USD521.9 billion by 2028. This market is expected to grow at a CAGR of approximately 2.10% from 2024 to 2028 (Figure 6). This steady growth is driven by rising consumer demand for specialty coffee, increasing urbanization, and growing disposable incomes in emerging markets.

The United States records the highest coffee market revenue worldwide at approximately USD 85 billion, followed by Japan and Brazil (Figure 7). In contrast, China recorded USD 18.3 billion in coffee revenue but remains a region with a significant projected CAGR of 21.6% in the next five years.

Porter's 5 Forces

Starbucks operates in the highly competitive and dynamic coffee industry. Porter's 5 Forces framework was used for in-depth analysis (Figure 8).

The coffee industry is marked by intense competition among leading firms such as Dunkin' Donuts, Tim Hortons, Luckin Coffee and McCafé (Figure 9). Key players are aggressively innovating their menus and enhancing customer experiences to meet evolving consumer preferences and defend market share. Additionally, strong brand perception remains critical, as consumers become more discerning in their discretionary spending decisions.

Furthermore, Starbucks operates in an industry with a constant threat of new market entrants. Newer coffee chains in the U.S. such as Dutch Bros and Biggby Coffee have been expanding fast and consolidating their market share, owing to competitive price offerings and their strategic focus on a drive-thru business model (Figure 10). In recent years, competition overseas has intensified as local chains began to overtake Starbucks in their respective markets, with Luckin being a stark example in China (Figure 11).

The bargaining power of suppliers in the coffee industry is relatively low, especially for companies that roast coffee in-house. Starbucks sources their coffee from diverse suppliers across the globe, primarily from Latin America, Africa and Asia Pacific. With over 70 countries producing coffee beans, companies have the flexibility to switch suppliers and negotiate favorable terms. On the other hand, the bargaining power of consumers is moderate in the coffee industry. Retail coffee chains generally have some influence over the pricing and variety of their products.

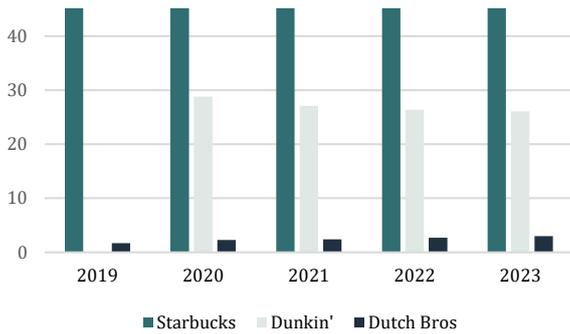
Lastly, the threat of substitutes in the coffee industry is significant. Consumers face minimal switching costs and can easily choose alternative beverages such as houji tea, matcha, or other specialty drinks that offer different flavors and experiences. The widespread availability of these alternatives, combined with the relative generic nature of standard coffee offerings, makes it easier for consumers to switch in search of better value or variety.

Figure 9. Key players in the industry



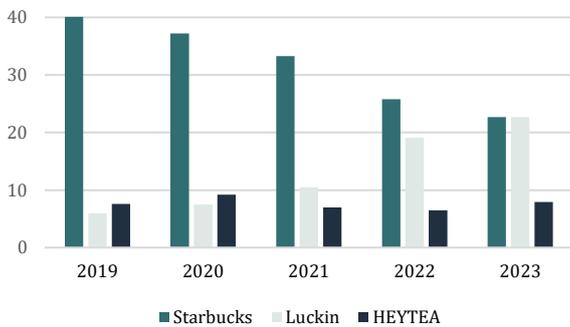
Source: Team Analysis

Figure 10. Chained Café Market Share (%) (U.S.)



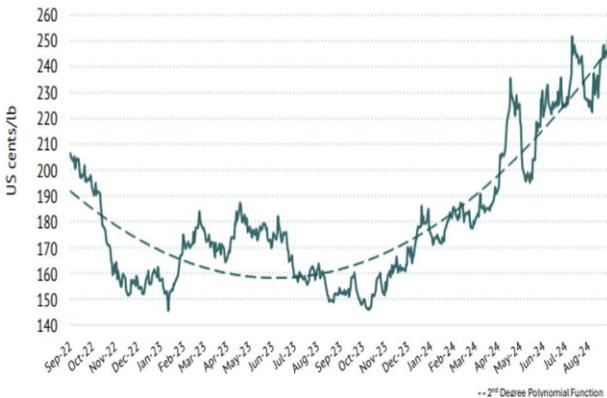
Source: Euromonitor International

Figure 11. Chained Café Market Share (%) (China)



Source: Euromonitor International

Figure 12. ICO Composite Indicator Price



Source: International Coffee Organization

The rise of quick, on-the-go coffee chains

The coffee market has seen a significant shift in consumer preferences, accelerated by the COVID-19 pandemic. With heightened demand for convenience, many coffee chains have rapidly expanded online ordering and drive-through services, making digital integration a core part of the quick on-the-go coffee experience. Luckin Coffee stands out as a leading example of this “fast coffee” model, leveraging in-app transactions and convenient pick-up options to drive cost efficiency and high sales volume. This digital-first approach has inspired a wave of tech-enabled coffee start-ups adopting similar business models.

Conversely, established premium brands like Starbucks, Tim Hortons and Dunkin’ Donuts are now compelled to adapt to this evolving quick coffee trend, often struggling to balance the need for speed and convenience with maintaining their traditional brand values.

Strong demand amid surging bean prices

According to the International Coffee Organization (ICO), coffee bean prices reached an all-time high in August 2024, representing a 54.6% increase compared to August 2023 (Figure 12). The sharp rise has significantly impacted the coffee industry. Factors such as escalating geopolitical tensions in the Middle East, tight global supply conditions and climate change have all contributed to upward pressure on prices. Despite these supply challenges and price increases, global coffee demand has continued to grow steadily.

Financial Analysis

Overview

Based on our financial analysis and modelling of Starbucks, we anticipate declining profitability, increasing pressure on liquidity, and a highly leveraged capital structure. Starbucks’ elevated debt-to-capital ratio, in particular, warrants caution and raises concerns about the company’s financial flexibility under adverse conditions.

Profitability Ratios

Based on our analysis of Starbucks’ financial projections, the company is expected to face declining profitability, with operating margins falling from 16.8% in FY21 to a projected 9.4% by FY30, and net profit margins halving over the same period. This erosion suggests growing cost pressures and weakening earnings resilience.

Liquidity Ratios

Liquidity indicators have also deteriorated sharply, with the current ratio dropping from 1.20 in FY21 to just 0.32 by FY30, reflecting an increasing reliance on short-term liabilities without adequate liquid asset buffers.

Capital Structure and Leverage

In terms of capital structure, Starbucks remains highly leveraged, with its debt-to-capital ratio consistently exceeding 140% and in fact, rising to 165.7% by FY30, indicating a capital base dominated by debt. Coupled with a rising debt-to-EBIT ratio, this points to growing financial risk and limited balance sheet flexibility.

Coverage Ratios

Coverage ratios also reflect strain, with interest coverage falling from 12.3x in FY19 to below 7x by FY30, and DSCR weakening to 1.7x, suggesting that the company may face increasing difficulty in servicing its debt if earnings continue to underperform.

Overall, these projections signal weakening credit quality and increasing risk of liquidity or refinancing pressures in the coming years.

Figure 13. Starbucks's Historical Financials

	FY19A	FY20A	FY21A	FY22A	FY23A	FY24A
Profitability ratios						
Operating Margin	15.4%	6.6%	16.8%	14.3%	16.3%	15.0%
Net profit Margin	13.6%	3.9%	14.5%	10.2%	11.5%	10.4%
Leverage ratios						
Debt-to-capital ratio	226.2%	144.7%	129.1%	157.6%	148.1%	140.5%
Debt-to-EBIT ratio	2.74	16.17	4.84	5.16	4.19	4.77
Coverage ratios						
ICR	12.3	3.6	10.4	9.6	10.7	9.6
DSCR	12.3	0.9	3.3	2.1	2.5	3.0
Liquidity ratios						
Current	0.92	1.06	1.20	0.77	0.78	0.75
Quick	0.67	0.85	1.00	0.53	0.59	0.56
Cash flow ratio						
FCF/debt	29%	0%	19%	11%	15%	13%

Figure 14. Starbucks's Projected Financials

	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
Profitability ratios						
Operating Margin	13.3%	12.6%	11.9%	11.2%	10.3%	9.4%
Net profit Margin	9.1%	8.6%	8.1%	7.7%	6.9%	6.3%
Leverage ratios						
Debt-to-capital ratio	142.1%	145.0%	148.4%	152.3%	158.3%	165.7%
Debt-to-EBIT ratio	5.30	5.48	5.68	5.86	6.12	6.47
Coverage ratios						
ICR	7.8	7.5	7.4	7.8	6.7	6.8
DSCR	2.3	2.3	3.9	2.0	1.7	3.8
Liquidity ratios						
Current	0.70	0.63	0.61	0.47	0.37	0.32
Quick	0.48	0.40	0.36	0.25	0.15	0.06
Cash flow ratio						
FCF/debt	11%	12%	12%	11%	11%	10%

Figure 15. Starbucks's Free Cash Flow Margin

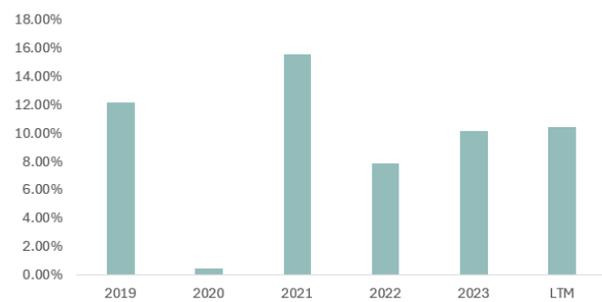
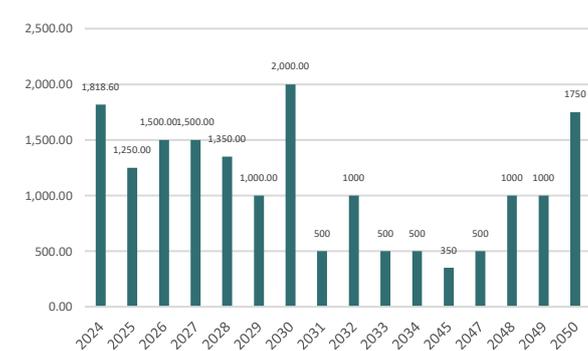


Figure 16. Starbucks's Debt Maturity Schedule



Capital Structure

Capital Stack Overview

Starbucks' capital structure is currently entirely debt-funded, with negative book equity due to years of aggressive share repurchases. This leaves the company with no meaningful equity cushion in its capital stack.

Of Starbucks' outstanding debt, 100% comprises senior unsecured obligations, with no secured or subordinated instruments. These include a series of fixed-rate senior unsecured notes across varying maturities, as well as a short-term commercial paper program that allows Starbucks to issue up to USD \$3.0 billion of short-term debt. Starbucks also has access to a committed revolving credit facility, which supports its liquidity.

The absence of secured or junior debt means that there is no structural subordination within the capital structure and all debt ranks *pari passu*. In a potential default, all creditors share equal exposure.

Starbucks' capital strategy has relied heavily on debt to finance shareholder returns. While this has been historically manageable, it has left the firm with limited financial flexibility and increased sensitivity to interest rate and refinancing risk. The capital structure thus suggests a high dependence on stable cash flows and market access to refinancing to sustain its debt obligations.

Debt Maturity

Starbucks faces a staggered debt maturity profile, with notable concentrations in the near term. The company has significant repayments scheduled between FY25-27, including \$1,250 million in August 2025 notes, and a combined \$1,500 million maturing across two tranches in February and June 2026. To add on, another \$1,500 million of notes will mature across two tranches in 2027. Together this near-term debt represents a substantial portion of outstanding liabilities and may require refinancing or robust cash flow for repayment.

Beyond FY27, maturities are more dispersed, with another debt wall in 2030 amounting to \$2,000 million. From there, debt obligations tapers towards ultra-long-dated notes.

Recent Developments

Triple Shot Reinvention Strategy

In November 2023, Starbucks introduced its "Triple Shot Reinvention with Two Pumps". The plan has five pillars: 1) Elevating the brand through better run stores, product innovation and accelerated renovations, 2) Strengthening digital capabilities and capacity by doubling the 75M global Starbucks Rewards Members by 2028, 3) Accelerating store expansion to 55,000 globally by 2030, 4) Improving operating efficiency to unlock US\$3 billion in savings, and 5) Improving the Starbucks Partner culture and experience.

These initiatives aim to drive growth by expanding profit margins and growing store count. It focuses on improving customer experience by enhancing digital capabilities, upgrading stores, and introducing purpose-driven formats like pick-up, drive-through, and delivery-only outlets.

Following the plan's launch, Starbucks initially saw a steady rise in operating margins, increasing from 14-14.5% to a peak of 18.2% in Q2 2024, driven by strategic pricing, better sales leverage, and productivity improvements. However, margins later declined due to weaker consumer demand in a challenging economic environment and the growing impact of unionization efforts. Rising labour costs

Figure 17. Starbucks' Total Dividend paid VS EBITDA

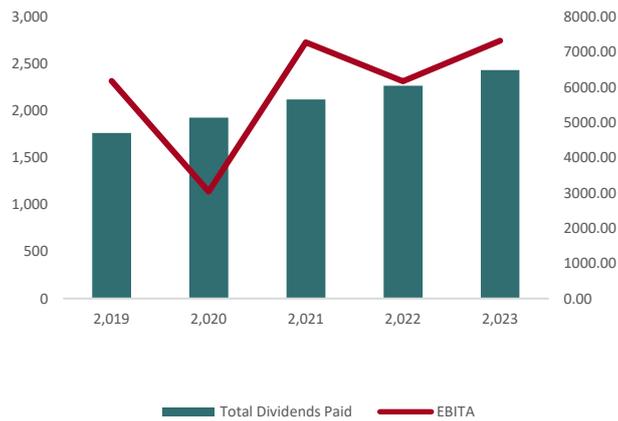
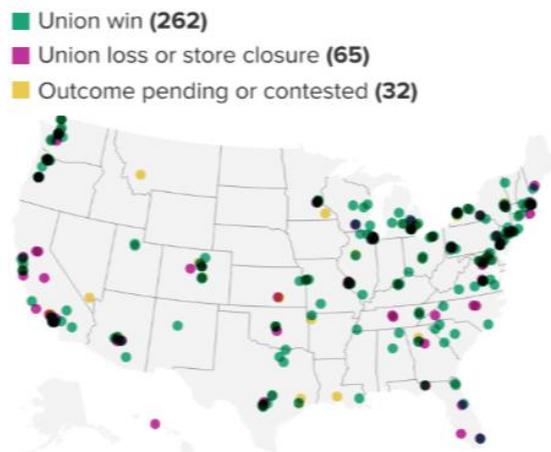


Figure 18. Starbucks Union Vote in the U.S.



Source: CNBC

Figure 19.

CEO Changes in Starbucks	
Kevin Johnson	April 2017 – March 2022
Howard Schultz	March 2022 – March 2023
Laxman Narasimhan	March 2023 – August 2024
Brian Niccol	September 2024 - Present

Figure 20.

Brian Niccol's Past Experiences	
2024 - Present	Starbucks CEO
2018 – 2024	CEO and Chairman of Chipotle Mexican Grill Spearheaded digital transformation, revived brand after food safety issues and declining sales
2015-2018	Taco Bell (Yum! Brands) CEO

from union negotiations, including higher wages, better benefits, and changes in working conditions, have put pressure on Starbucks' profitability over the last three quarters, making it more difficult to meet their margin expansion targets.

Labour Union Action

Starbucks workers began organizing union efforts in 2021, with the first unionized location in Buffalo, New York. This ignited a nationwide movement, and by early 2022, 17 more stores had unionized as workers demanded better wages, consistent scheduling, and improved working conditions. Despite resistance from Starbucks—including firing organizers, cutting hours, and other union-busting tactics—over 330 stores voted to unionize by the end of 2022. The movement gained significant momentum, with 54 stores unionized by May, representing over 1,500 workers.

By early 2024, Starbucks entered labour negotiations with Workers United, representing over 425 stores and 10,500 workers. The discussions focused on key issues such as wages, staffing, and healthcare, with Starbucks offering credit-card tipping to unionized workers as a gesture of goodwill. In March 2024, the Strategic Organizing Centre, a labour group, withdrew its campaign to nominate directors to Starbucks' board after seeing progress in the negotiations. Workers secured a master contract, store-specific agreements, and back pay for previously withheld benefits.

In Starbucks' Q2 2024 earnings report, management acknowledged that these concessions had a direct impact on the company's operating margins. The increased labour costs, coupled with the commitment to improving working conditions, added pressure to the company's profitability.

On December 20, 2024, the Starbucks Union in the United States began a five-day strike which expanded to over 300 stores, with the union calling for strikes across 12 major cities over issues of wages, staffing and schedules. The strike began after talks between Starbucks and the union hit an impasse.

Change in Leadership

In August 2024, Starbucks appointed Brian Niccol as its new CEO to tackle financial and operational challenges that had emerged under Laxman Narasimhan's leadership. Following this announcement, Starbucks' stock saw a rise of 25%.

Prior to this announcement, Starbucks had been struggling with declining store traffic, caused by operational inefficiencies and increasing labour costs, which were impacting profit margins. The company was experiencing a global decline in key metrics such as comparable sales growth, while also losing market share to emerging competitors. Additionally, international growth was slowing, particularly in China, its second-largest market, due to changing consumer behaviour and increased competition from digital-savvy rivals like Luckin Coffee.

Niccol, renowned for his strong work ethic, was hired as part of a strategic effort to turn Starbucks around. His impressive track record includes growing Chipotle's market capitalisation sevenfold in just six years. He successfully guided Chipotle through its recovery from a foodborne illness crisis and the pandemic, positioning it for sustained growth by investing in digital initiatives and adopting a long-term approach. This aligns with Starbucks' "triple long shot" strategy, making Niccol the ideal candidate to address the company's financial challenges, revitalize its internal culture, and restore its competitive edge.

Figure 21. Starbucks' Diversified Business Model

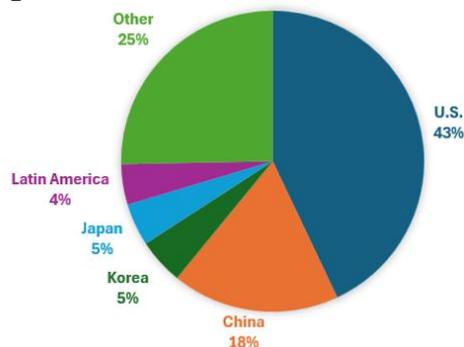


Figure 22. Starbucks Reinvention Strategy



Source: Starbucks

Figure 23. Starbucks Historical Comparisons

	2020	2021	2022	2023	2024
Profitability Ratios (%)					
EBITDA Marg.	7.8	16.9	14.4	15.4	14.2
Net Profit Margin	3.9	14.5	10.2	11.5	10.4
Leverage Ratios					
Debt-to-Capital Ratio (%)	144.5	129.1	157.4	148.0	140.5
Debt/ EBITDA (x)	4.6	2.7	2.8	2.5	2.6
Coverage Ratios (x)					
ICR	12.7	18.6	17.9	17.9	17.4
DSCR					
Liquidity Ratios (x)					
Current	1.1	1.2	0.8	0.8	0.8
Quick	0.8	1.0	0.5	0.5	0.5
Cash Flow Ratios (%)					
FCF/Debt	NM	20.5	8.8	14.6	9.7
Dividend Payout Ratio (%)					
DPR	207.2	50.5	69.0	59.0	68.7

Source: Capital IQ

Figure 24. Peer Comparisons (Consumer Discretionary / Restaurants)

	SBUX	MCD	QSR	WEN	YUM	BROS
Profitability Ratios (%)						
EBITDA Marg.	18.6	53.4	31.5	22.8	36.4	16.2
Net Profit Margin	10.4	31.8	16.0	8.8	21.1	2.5
Leverage Ratios						
Debt-to-Capital Ratio (%)	140.5	110.7	76.0	94.0	274.9	55.2
Debt/ EBITDA (x)	2.6	3.5	6.4	8.1	4.4	4.1
Coverage Ratios (x)						
ICR	17.4	10.4	3.9	3.3	4.7	8.6
DSCR						
Liquidity Ratios (x)						
Current	0.8	0.8	1.0	2.1	1.4	1.9
Quick	0.5	0.6	0.8	1.8	1.1	1.6
Cash Flow Ratios (%)						
FCF/Debt	9.8	15.4	10.6	7.8	12.4	NM
Dividend Payout Ratio (%)						
DPR	68.7	58.3	80.0	105.7	48.2	NA

Source: Capital IQ

Issuer Credit Analysis

Positives

1. Diversified Business Model Reduces Concentration Risk

Starbucks operates in 84 countries with over 40,199 stores as of FY24, reducing its reliance on any single market (Figure 17). This geographical diversity helps Starbucks hedge against local economic downturns and country-specific risks.

The company has demonstrated consistent credit strength, maintaining a robust financial position that enables it to support both shareholder returns and debt obligations. Starbucks' free cash flow allows it to fund share buybacks and dividends, with \$2.43 billion returned to shareholders in FY2023 through dividends. Starbucks' ability to consistently increase dividends for 12 consecutive years highlights its capacity to generate stable and growing cash flow, further strengthening its credit profile (Figure 18).

In addition to its retail stores, Starbucks has grown its presence in the consumer-packaged goods (CPG) segment, selling branded products like ready-to-drink beverages, coffee pods, and packaged coffee through grocery stores and online channels (Figure 19). This multi-channel strategy diversifies Starbucks' revenue streams and reduces reliance on in-store sales. With the global trend toward e-commerce and at-home consumption, this channel diversification provides some buffer against potential store-level sales declines.

2. Leadership Transition Provides Some Execution Comfort

As alluded to above, Starbucks has developed the Triple Shot Reinvention Strategy which details how management intends to “deliver long-term, sustainable growth and outsized returns to partners, customers, and shareholders”. The strategy sheds light on how Starbucks' management intends to drive both top-line and bottom-line growth.

Starbucks' refreshed strategy targets five key areas: brand repositioning through diversified store formats and product innovation; strengthening digital infrastructure and loyalty programs to boost customer retention and sales volume; accelerating global store expansion to meet rising demand and mitigate geographic concentration; enhancing operational efficiency to unlock up to USD 3 billion in cost savings; and reinforcing partner (employee) engagement through improved benefits. Together, these pillars aim to drive top-line growth, margin expansion, and better customer lifetime value. Niccol, who brings prior success in executing digital and brand transformations at Taco Bell, adds credibility to Starbucks' shift towards a more agile, technology-enabled model.

However, the success of this strategy is highly dependent on effective and timely execution. Starbucks faces structural challenges including intense competition, evolving consumer behavior, and a lease-heavy store model that may limit flexibility. Repositioning itself while remaining brand coherence and cost discipline will be complex, especially across diverse markets. These factors introduce significant execution risk and could weigh on financial outcomes if not properly managed.

3. Strong Historical Credit Metrics and Deleveraging

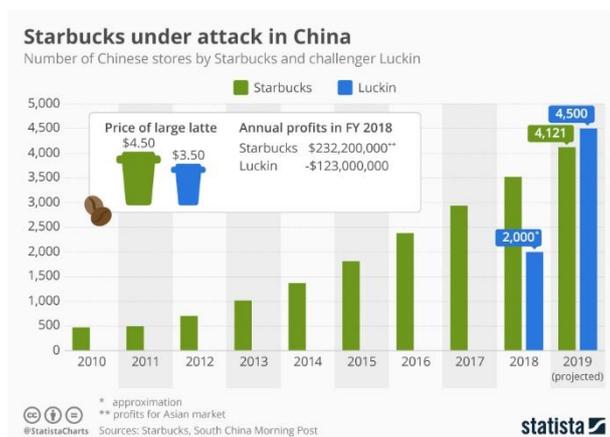
A key credit positive for Starbucks lies in its sustained improvement in credit coverage and deleveraging efforts post-pandemic. Since 2020, Starbucks has meaningfully reduced its debt/EBITDA ratio from 4.6x to 2.6x, reflecting active debt management. Concurrently, interest coverage has remained robust, with an ICR consistently above 17x from 2021 to 2024—signaling that earnings comfortably

Figure 25. Luckin Coffee's Growing Threat to Starbucks



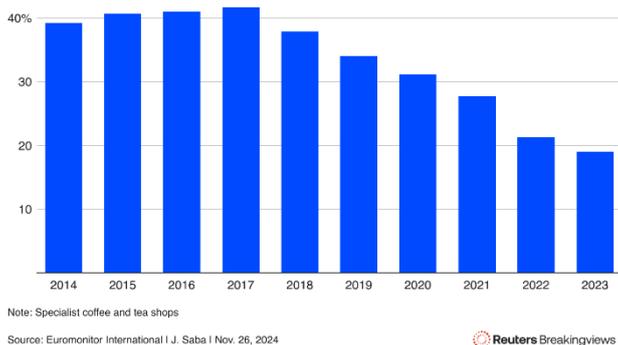
Source: Luckin Coffee

Figure 26: Starbucks VS Luckin Number of Stores in China



Source: Statista

Figure 27: Starbucks' Shrinking Market Share in China
Starbucks' market share in China is shrinking



Source: Reuters

cover interest obligations. These improvements are encouraging and may possibly indicate a growth in resilience if operating conditions were to remain the same or even ease.

Negatives

1. Eroding In-Store Value Proposition Amid Changing Consumer Preferences

Starbucks has historically positioned itself as a “third place” between home and work—a premium in-store experience that commands pricing power through ambience, personalization, and brand prestige. However, the COVID-19 pandemic catalyzed a major shift in consumer behavior toward convenience, value, and digital ordering. This change has persisted post pandemic, with customers increasingly favoring grab-and-go models, delivery, and drive-thru over prolonged in-store visits. As a result, Starbucks’ ability to extract a premium for its in-store service offering has weakened. The rise in price conscious consumption patterns has also introduced pressure to discount, further diluting the brand’s premium identity.

While Starbucks has made efforts to adapt, including reconfiguring store formats and offering more efficient service channels, the shift undermines a core pillar of its differentiation strategy. Brands that have historically focused on speed, affordability and digital ordering, such as Luckin Coffee, are increasingly well positioned to capture new customer preferences. This evolving consumer landscape poses a structural challenge to Starbucks’ revenue model, as it struggles to reconcile its premium brand positioning with the growing demand for lower-cost, off-premise consumption. The long-term consequence may be margin compression, reduced pricing power, and a need for continuous capital investment in store redesigns and service innovations, all of which weigh on financial flexibility. This calls into question within Starbucks’ traditional strengths can sustain competitiveness in a value-oriented coffee landscape.

2. Lagging Digital Capabilities Undermine Competitive Positioning

While Starbucks began its venture into the digital space early on, its digital ecosystem is no longer industry leading, especially in key growth markets like China. Competitors such as Luckin Coffee have built fully digital-first business models that offer seamless in-app ordering, AI-driven promotions, and operational efficiencies that support faster order fulfilment and lower unit costs. These capabilities enable Luckin and similar competitors to operate at scale with high transaction volumes and low labor requirements, placing pressure on Starbucks’ traditional model of labor-intensive service. Starbucks risks being perceived as lagging behind its relatively more nimble competitors.

This underperformance in digital integration is particularly concerning in a market where consumer tech adoption is rapid and digital loyalty is a key driver of customer retention. Without a stronger digital moat, Starbucks faces the risk of declining frequency, weaker loyalty, and greater susceptibility to price-based competition. Over time, this could erode market share and compress operating margins, especially in digitally advanced and price sensitive markets like China and Southeast Asia.

3. Lease-Heavy Store Network Constrains Flexibility

Starbucks’ operating model is heavily reliant on long-term lease commitments across its global network of stores, many of which are larger-format outlets designed to facilitate the in-store café experience. While this model has historically supported the brand’s positioning as a premium, welcoming “third place”, it introduces significant rigidity in today’s more dynamic retail environment. As

Figure 28: Starbucks' cafes tend to be large and expensive



Image Source: Investopedia

consumer demand continues shifting toward smaller, more efficient pick-up and delivery-only models, Starbucks' fixed real estate footprint becomes a structural disadvantage.

Lease obligations represent a significant portion of Starbucks' financial commitments, increasing the risk of negative leverage during downturns. Unlike asset-light competitors, Starbucks cannot easily pivot away from physical retail exposure without incurring write-downs, renegotiation costs, or long-term inefficiencies. Additionally, large-format stores require higher labor costs and more complex operational management. This further weighs on margins.

In markets where urban foot traffic is volatile, the lease-heavy model limits Starbucks' ability to downsize or reconfigure quickly. Store closures become costly, and adapting to changing traffic flows requires incremental capital investment. While the real estate footprint once served as a brand asset, it now acts as a potential financial and operational liability in an increasingly flexible, omni-channel coffee market.

Issuance Analysis

Pair Trade: Starbucks 2.55% 11/15/2030 vs McDonald's 3.6% 07/01/2030

We recommend a long position in McDonald's 3.6% 07/01/2030 bond (CUSIP: 58013MFQ2) and a short position in Starbucks 2.55% 11/15/2030 bond (CUSIP: 855244AZ2) as part of a relative value credit trade.

Selection Rationale

These two bonds were selected due to their close maturity dates—July 2030 for McDonald's and November 2030 for Starbucks. This ensures similar durations and minimizes interest rate exposure. Both bonds are senior unsecured and denominated in USD, providing a clean basis for credit spread comparison.

Due to resource and time constraints, our analysis focused primarily on Starbucks, and we were unable to conduct an extended, in-depth review of McDonald's credit profile. However, McDonald's was selected as the long leg of the trade given its consistently stronger credit ratings, stable cash flows, and market perception as a lower-risk issuer compared to Starbucks.

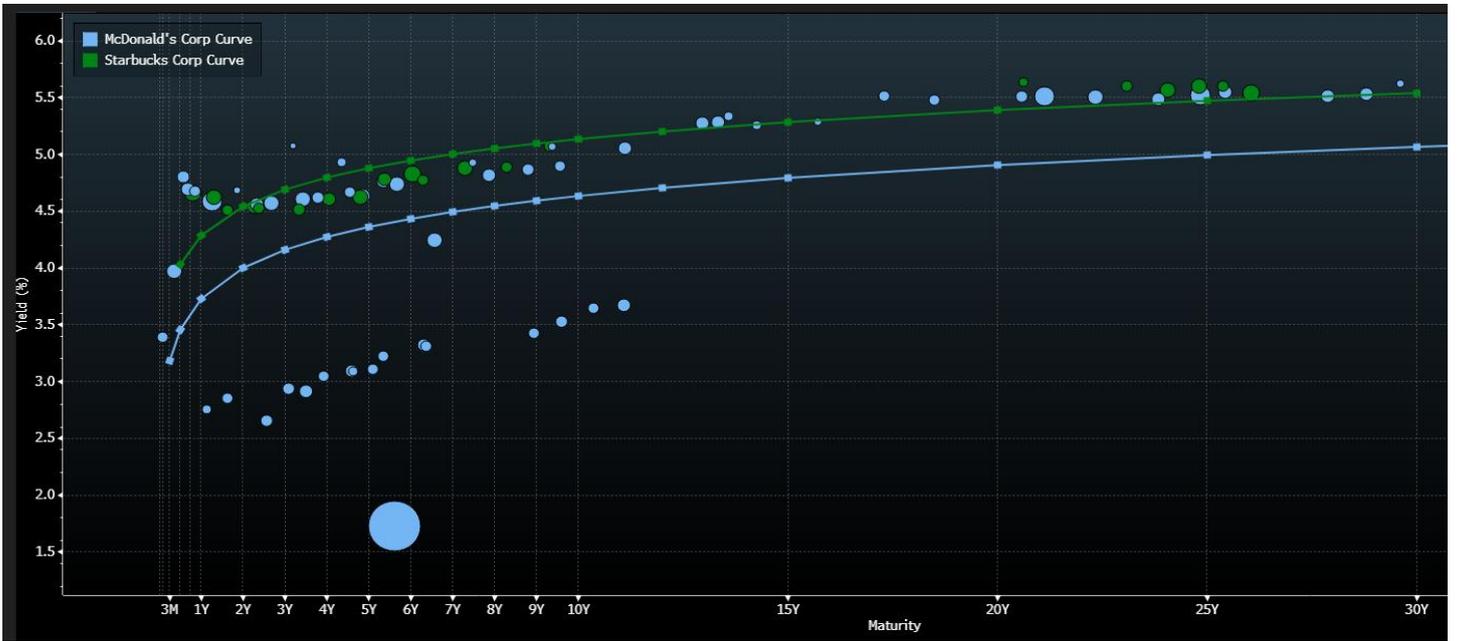
Background

As of the latest pricing, the McDonald's bond trades at an approximate YTM of 4.44%, while the Starbucks bond trades at 4.6%, resulting in a yield differential of 16 basis points. This spread reflects the market's perception of McDonald's as the stronger credit, consistent with its A-rating and resilient business model, compared to Starbucks' slightly lower credit quality and BBB+ rating.

Thesis

We believe that the yield differential of 16 basis points does not adequately reflect the difference in credit strength of the two corporations. By going long on the McDonald's bond and short on the Starbucks bond, the trade isolates issuer-specific credit risk and positions for the yield spread to widen further. This divergence could result from a relative deterioration in Starbucks' credit outlook due to slowing in-store traffic, weaker global discretionary trends or margin compression. Because the bonds have similar durations, movements in interest rates are expected to affect both instruments similarly, helping to neutralize interest rate risk and ensure the trade expresses a pure credit view.

Overall, this is a targeted relative value strategy that leverages current market inefficiencies between two fundamentally different credit profiles.



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Starbucks Corporation												
NASDAQ: SBUX												
Year Ended 29 September (USD million)												
	FY19A	FY20A	FY21A	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
Consolidated Statement of Earnings												
Company Operated Stores	21,544	19,165	24,607	26,576	29,462	29,766	30,189	31,161	32,295	33,672	35,138	36,700
Licensed Stores	2,875	2,327	2,684	3,656	4,513	4,505	5,373	5,780	6,221	6,675	7,145	7,630
Others	2,089	2,026	1,770	2,019	2,001	1,905	2,035	2,074	2,114	2,155	2,197	2,240
Total Net Revenues	26,509	23,518	29,061	32,250	35,976	36,176	37,597	39,015	40,631	42,503	44,480	46,570
Product and Distribution Costs	8,527	7,695	8,739	10,317	11,409	11,181	11,919	12,482	13,132	13,873	14,664	15,510
Store Operating Expenses	10,494	10,764	11,931	13,562	14,720	15,287	16,102	16,895	17,783	18,804	19,951	21,171
Other Operating Expenses	371	430	360	462	539	566	531	552	578	607	639	673
Depreciation and Amortization Expenses	1,377	1,431	1,442	1,448	1,363	1,513	1,488	1,548	1,618	1,700	1,787	1,880
General and Administrative Expenses	1,824	1,680	1,933	2,032	2,441	2,523	2,546	2,614	2,690	2,772	2,859	2,951
Restructuring and Impairments	136	279	170	46	22	-	-	-	-	-	-	-
Total Operating Expenses	22,729	22,279	24,574	27,867	30,495	31,069	32,586	34,091	35,800	37,756	39,900	42,184
Income from Equity Investees	298	323	385	234	298	301	-	-	-	-	-	-
Gain from sale of assets	-	-	-	-	91	-	-	-	-	-	-	-
Operating Income	4,078	1,562	4,872	4,618	5,871	5,409	5,010	4,924	4,830	4,747	4,580	4,386
Net gain resulting from divestiture of certain operations	623	-	865	-	-	-	-	-	-	-	-	-
Interest income and other, net	97	40	90	97	81	123	88	88	88	88	88	88
Interest expense	(331)	(437)	(470)	(483)	(550)	(562)	(645)	(654)	(650)	(611)	(684)	(648)
Earnings before income taxes	4,466	1,164	5,357	4,232	5,402	4,970	4,453	4,358	4,268	4,224	3,984	3,825
Income Tax expense	872	240	1,157	949	1,277	1,207	1,024	1,002	981	971	916	879
Net earnings including noncontrolling interest	3,595	925	4,200	3,283	4,125	3,763	3,430	3,357	3,287	3,253	3,068	2,946
Net earnings/(loss) attributable to noncontrolling interests	(5)	(4)	1	2	0	1	-	-	-	-	-	-
Net earnings attributable to Starbucks	3,599	928	4,199	3,282	4,125	3,761	3,430	3,357	3,287	3,253	3,068	2,946
EPS - Basic	2.95	0.79	3.57	2.85	3.60	3.32	3.05	3.02	2.98	2.98	2.83	2.75
EPS - Diluted	2.92	0.79	3.54	2.83	3.58	3.31	3.04	3.00	2.97	2.97	2.82	2.74
Weighted average shares outstanding:												
Basic	1221.2	1172.8	1177.6	1153.3	1146.8	1133.8	1123	1113	1103	1093	1083	1073
Diluted	1233.2	1181.8	1185.5	1158.5	1151.3	1137.3	1127	1117	1107	1097	1087	1077
Consolidated Balance Sheets												
ASSETS												
Cash And Equivalents	2,687	4,351	6,456	2,818	3,552	3,286	2,500	1,864	1,165	351	(781)	(1,971)
Short-term investments	71	281	162	365	402	257	257	257	257	257	257	257
Accounts Receivable, net	879	883	940	1,176	1,184	1,214	1,291	1,339	1,395	1,459	1,527	1,599
Inventories	1,529	1,551	1,604	2,177	1,806	1,777	2,171	2,273	2,392	2,527	2,671	2,825
Prepaid expenses and other current assets	488	740	595	484	360	313	641	671	705	743	785	830
Total Current Assets	5,654	7,806	9,756	7,019	7,303	6,847	6,860	6,405	5,913	5,337	4,460	3,540
Long-term Investments	220	206	282	279	247	276	276	276	276	276	276	276
Equity investments	396	479	269	311	440	464	464	464	464	464	464	464
Property, Plant & Equipment, Net	6,432	6,241	6,370	6,561	7,387	8,666	8,940	9,231	9,532	9,836	10,141	10,446
Operating lease, right of use asset	-	8,134	8,236	8,016	8,413	9,286	9,789	10,187	10,601	11,034	11,486	11,958
Deferred income taxes, net	1,766	1,790	1,875	1,800	1,770	1,767	1,767	1,767	1,767	1,767	1,767	1,767
Other long term assets	480	569	579	554	547	617	617	617	617	617	617	617
Other intangible assets	782	552	350	156	121	101	101	101	101	101	101	101
Goodwill	3,491	3,597	3,677	3,284	3,218	3,316	3,316	3,316	3,316	3,316	3,316	3,316
Total non-current assets	13,566	21,568	21,636	20,960	22,142	24,492	25,269	25,958	26,673	27,410	28,167	28,944
Total Assets	19,220	29,375	31,393	27,978	29,446	31,339	32,129	32,363	32,587	32,747	32,627	32,484
LIABILITIES												
Accounts Payable	1,190	998	1,212	1,441	1,544	1,596	1,630	1,705	1,791	1,889	1,996	2,110
Accrued Liabilities	1,754	1,161	1,973	2,137	2,145	2,195	2,320	2,427	2,549	2,688	2,841	3,004
Accrued payroll and benefits	665	696	772	762	828	787	933	976	1,025	1,081	1,142	1,207
Income taxes payable	1,292	98	348	-	-	-	-	-	-	-	-	-
Current portion of operating lease liability	-	1,249	1,251	1,246	1,275	1,463	1,508	1,569	1,633	1,699	1,769	1,842
Stored value card liability and current portion of deferred revenue	1,269	1,457	1,596	1,642	1,700	1,781	1,956	2,030	2,114	2,211	2,314	2,423
Short term debt	-	439	-	175	34	-	-	-	-	-	-	-
Current portion of long term debt	-	1,250	999	1,749	1,819	1,249	1,500	1,500	600	1,750	2,000	500
Total current liabilities	6,169	7,347	8,151	9,152	9,345	9,070	9,847	10,207	9,711	11,318	12,062	11,086
Long-Term Debt	11,167	14,660	13,617	13,120	13,548	14,320	14,320	14,320	15,220	13,970	13,470	14,770
Operating lease liability	-	7,662	7,738	7,515	7,925	8,772	9,213	9,587	9,977	10,385	10,810	11,254
Deferred revenue	6,744	6,599	6,463	6,280	6,102	5,964	5,964	5,964	5,964	5,964	5,964	5,964
Other long term liabilities	1,371	907	738	611	514	656	656	656	656	656	656	656
Total non-current liabilities	19,282	29,827	28,556	27,525	28,088	29,711	30,152	30,526	31,816	30,974	30,899	32,644
Total liabilities	25,451	37,174	36,707	36,677	37,433	38,781	39,999	40,733	41,528	42,292	42,961	43,729
SHAREHOLDERS' DEFICIT												
Common Stock	1	1	1	1	1	1	1	1	1	1	1	1
Additional Paid In Capital	41	374	846	205	38	323	323	323	323	323	323	323
Retained deficit	(5,771)	(7,816)	(6,316)	(8,450)	(7,256)	(7,344)	(7,771)	(8,272)	(8,842)	(9,446)	(10,235)	(11,146)
Accumulated other comprehensive income/(loss)	(503)	(365)	147	(463)	(778)	(429)	(429)	(429)	(429)	(429)	(429)	(429)
Total Shareholders' deficit	(6,232)	(7,805)	(5,321)	(8,707)	(7,995)	(7,449)	(7,876)	(8,377)	(8,947)	(9,552)	(10,341)	(11,252)
Noncontrolling interests	1	6	7	8	7	7	7	7	7	7	7	7
Total deficit	(6,231)	(7,799)	(5,315)	(8,699)	(7,988)	(7,442)	(7,869)	(8,370)	(8,940)	(9,544)	(10,333)	(11,244)
Total Liabilities And Shareholders' Equity/(Deficit)	19,220	29,375	31,393	27,978	29,446	31,339	32,130	32,364	32,588	32,748	32,628	32,485
Check	-	-	-	-	-	-	-	-	-	-	-	-

Starbucks Corporation												
NASDAQ: SBUX												
Year Ended 29 September (USD million)												
	FY19A	FY20A	FY21A	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
Consolidated Statements of Cash Flow												
Operating Activities												
Net Earnings including noncontrolling interests	3,595	925	4,200	3,283	4,125	3,762	3,430	3,357	3,287	3,253	3,068	2,946
Adjustment to reconcile net earnings to net cash provided by operating activities												
Depreciation and amortization	1,449	1,503	1,524	1,529	1,450	1,592	1,488	1,548	1,618	1,700	1,787	1,880
Deferred Income Taxes, net	(1,495)	(26)	(146)	(38)	(59)	(14)	-	-	-	-	-	-
Income earned from equity method investees	(251)	(281)	(347)	(269)	(302)	(306)	-	-	-	-	-	-
Distributions received from equity method investees	217	228	336	231	223	333	-	-	-	-	-	-
Net gain resulting from divestiture of certain operations	(623)	-	(865)	-	-	-	-	-	-	-	-	-
Gain on sale of assets	-	-	-	-	(91)	-	-	-	-	-	-	-
Stock-based compensation	308	249	319	272	303	308	-	-	-	-	-	-
Goodwill impairments	11	-	-	-	-	-	-	-	-	-	-	-
Non-cash lease costs	-	1,198	1,249	1,498	1,366	1,315	-	-	-	-	-	-
Loss on retirement and impairment of assets	143	454	226	91	101	122	-	-	-	-	-	-
Other	45	25	-6	(68)	27	32	-	-	-	-	-	-
Cash provided by/(used in) changes in operating assets and liabilities												
Accounts receivable	(198)	(3)	(43)	(326)	(4)	18	(77)	(49)	(55)	(64)	(68)	(72)
Inventories	(173)	(11)	(50)	(641)	366	43	(394)	(103)	(118)	(135)	(144)	(154)
Prepaid expenses and other current assets	922	(318)	251	-	-	-	(328)	(30)	(34)	(38)	(42)	(45)
Income taxes payable	1,237	(1,215)	286	(150)	53	(62)	-	-	-	-	-	-
Accounts payable	32	(211)	190	346	100	28	35	75	86	98	107	114
Deferred revenue	(31)	31	(6)	(76)	(111)	(72)	175	74	84	97	103	109
Operating lease liability	-	(1,231)	(1,488)	(1,626)	(1,444)	(1,295)	(17)	38	39	41	43	45
Other operating assets and liabilities	(141)	281	358.7	340	(94)	291	272	150	171	195	214	228
Net cash provided by operating activities	5,047	1,598	5,989	4,397	6,009	6,096	4,582	5,060	5,077	5,147	5,068	5,051
Investing Activities												
Purchases of investments	(190)	(444)	(432)	(378)	(611)	(628)	-	-	-	-	-	-
Sales of investments	298	187	143	73	3	10	-	-	-	-	-	-
Maturities and calls of investments	60	74	346	67	617	768	-	-	-	-	-	-
Additions to property, plant and equipment	(1,807)	(1,484)	(1,470)	(1,841)	(2,334)	(2,778)	(1,762)	(1,839)	(1,919)	(2,004)	(2,092)	(2,185)
Proceeds from sale of assets	-	-	-	-	110	-	-	-	-	-	-	-
Net proceeds from the divestiture of certain operations	684	-	1,175	59	-	-	-	-	-	-	-	-
Others	(56)	(44)	(81)	(126)	(56)	(73)	-	-	-	-	-	-
Net cash used in investing activities	(1,011)	(1,712)	(320)	(2,146)	(2,271)	(2,699)	(1,762)	(1,839)	(1,919)	(2,004)	(2,092)	(2,185)
Financing Activities												
Net (payments)/proceeds from issuance of commercial paper	-	-	(297)	175	(175)	-	-	-	-	-	-	-
Net proceeds from issuance of short-term debt	-	1,407	215	37	115	124	-	-	-	-	-	-
Repayments of short-term debt	-	(968)	(350)	(37)	(79)	(158)	-	-	-	-	-	-
Net proceeds from issuance of long-term debt	1,996	4,728	-	1,498	1,498	1,995	1,500	1,500	1,500	500	1,500	1,800
Repayments of long-term debt	(350)	-	(1,250)	(1,000)	(1,000)	(1,825)	(1,250)	(1,500)	(1,500)	(600)	(1,750)	(2,000)
Proceeds from issuance of common stock	410	299	246	102	167	108	-	-	-	-	-	-
Cash dividends paid	(1,761)	(1,924)	(2,119)	(2,263)	(2,432)	(2,585)	(2,265)	(2,265)	(2,265)	(2,265)	(2,265)	(2,265)
Repurchase of common stock	(10,222)	(1,699)	-	(4,013)	(984)	(1,267)	(1,593)	(1,593)	(1,593)	(1,593)	(1,593)	(1,593)
Minimum tax withholdings on share-based awards	(112)	(92)	(97)	(127)	(89)	(100)	-	-	-	-	-	-
Other	(18)	(38)	-	(9)	(11)	(11)	-	-	-	-	-	-
Net cash used in financing activities	(10,057)	1,713	(3,651)	(5,638)	(2,991)	(3,718)	(3,607)	(3,857)	(3,857)	(3,957)	(4,107)	(4,057)
Effect of exchange rate changes on cash and cash equivalents	(49)	65	86	(250)	(14)	57	-	-	-	-	-	-
Net increase/(decrease) in cash and cash equivalents	(6,070)	1,664	2,105	(3,637)	733	(265)	(787)	(636)	(699)	(814)	(1,131)	(1,191)
CASH AND CASH EQUIVALENTS												
Beginning of period	8,756	2,687	4,351	6,456	2,818	3,552	3,286	2,500	1,864	1,165	351	(781)
End of period	2,687	4,351	6,456	2,818	3,552	3,286	2,500	1,864	1,165	351	(781)	(1,971)
Check	-	-	-	-	-	-	-	-	-	-	-	-
Ratios												
Profitability ratios												
Operating Margin	15.4%	6.6%	16.8%	14.3%	16.3%	15.0%	13.3%	12.6%	11.9%	11.2%	10.3%	9.4%
Net profit Margin	13.6%	3.9%	14.5%	10.2%	11.5%	10.4%	9.1%	8.6%	8.1%	7.7%	6.9%	6.3%
Leverage ratios												
Debt-to-capital ratio	226.2%	144.7%	129.1%	157.6%	148.1%	140.5%	142.1%	145.0%	148.4%	152.3%	158.3%	165.7%
Debt-to-EBIT ratio	2.74	16.17	4.84	5.16	4.19	4.77	5.30	5.48	5.68	5.86	6.12	6.47
Coverage ratios												
ICR	12.3	3.6	10.4	9.6	10.7	9.6	7.8	7.5	7.4	7.8	6.7	6.8
DSCR	12.3	0.9	3.3	2.1	2.5	3.0	2.3	2.3	3.9	2.0	1.7	3.8
Liquidity ratios												
Current	0.92	1.06	1.20	0.77	0.78	0.75	0.70	0.63	0.61	0.47	0.37	0.32
Quick	0.67	0.85	1.00	0.53	0.59	0.56	0.48	0.40	0.36	0.25	0.15	0.06
Cash flow ratio												
FCF/debt	29%	0%	19%	11%	15%	13%	11%	12%	12%	11%	11%	10%

		FY21A	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
Revenue Drivers											
NORTH AMERICA:											
Company-Operated Stores:											
Existing Stores											
Previous Year Revenue		14,779	18,737	21,214	23,936	24,430	24,458	25,249	26,070	27,083	28,130
Average Ticket Growth		13.0%	7.0%	6.0%	4.0%	2.0%	2.0%	0.0%	0.0%	0.0%	0.0%
Transaction Count Growth		7.0%	5.0%	3.0%	-5.5%	-4.0%	-1.0%	1.0%	1.5%	1.5%	1.5%
Comparable Store Sales		21.0%	12.0%	9.0%	-1.7%	-2.1%	1.0%	1.0%	1.5%	1.5%	1.5%
Total Revenue		17,882	20,986	23,123	23,525	23,922	24,697	25,501	26,461	27,489	28,552
New Stores											
Net Change in Stores		(248)	355	412	532	335	345	355	366	377	388
New Store Growth		-2.5%	3.6%	4.0%	5.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Total Stores		9,861	10,216	10,628	11,160	11,495	11,840	12,195	12,561	12,938	13,326
Estimated Added Revenue per New Store		NA	1.8	2.0	1.7	1.6	1.6	1.6	1.7	1.7	1.7
Total Added Revenue		394	628	813	905	536	552	568	622	641	660
Licensed Stores:											
Net Change in Stores		134	114	103	81	75	90	100	99	99	99
New Store Growth		2.0%	1.6%	1.5%	1.1%	1.0%	1.2%	1.3%	1.3%	1.3%	1.3%
Total Store		6,965	7,079	7,182	7,263	7,338	7,428	7,528	7,627	7,727	7,826
Previous Year Revenue		1,510	1,702	2,151	2,638	2,808	2,965	3,145	3,345	3,544	3,742
Increase in Product & Equipment sales and Royalty Revenues		151	487	487	170	158	180	200	199	199	199
Total Revenue from Licensed stores		1,661	2,189	2,638	2,808	2,965	3,145	3,345	3,544	3,742	3,941
Others:											
Other	Others	8	6	5	7	6	6	6	6	6	6
Offsets:											
Extra Week (FY21)		427	(427)	-	-	-	-	-	-	-	-
Foreign Currency Translation		76	-	-	-	-	-	-	-	-	-
TOTAL	Total Revenue	20,449	23,382	26,579	27,244	27,429	28,400	29,421	30,632	31,878	33,158
Actual Deviation	Actual Deviation	(1)	(11)	(9)	(235)						
INTERNATIONAL											
Company-Operated Stores:											
Existing Stores (China)											
Previous Year Revenue (For China)		2,583	3,675	3,008	3,168	3,139	3,037	3,066	3,192	3,356	3,562
Average Ticket Growth		-2.0%	-3.0%	-2.0%	-8.4%	-4.0%	-2.0%	0.0%	0.5%	1.0%	1.5%
Transaction Count Growth		19.0%	-22.0%	4.0%	0.0%	-3.0%	-1.0%	0.0%	0.5%	1.0%	1.5%
Comparable Store Sales		17.0%	-24.0%	2.0%	-8.4%	-6.9%	-3.0%	0.0%	1.0%	2.0%	3.0%
Total Revenue		3,022	2,793	3,068	2,902	2,923	2,947	3,066	3,224	3,423	3,669
Existing Stores (Excl China)											
Previous Year Revenue (Excl China)		1,803	2,195	2,354	2,626	2,552	2,695	2,846	3,034	3,234	3,447
Comparable Store Sales		14.6%	16.1%	8.8%	-4.0%	4.0%	4.0%	5.0%	5.0%	5.0%	5.0%
Total Revenue		2,066	2,548	2,561	2,521	2,654	2,802	2,988	3,185	3,396	3,619
New Stores											
Net Change in Stores (China)		654	661	785	790	380	399	419	440	462	485
New Store Growth		13.9%	12.3%	13.0%	11.6%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Total Store (China)		5,358	6,019	6,804	7,594	7,974	8,372	8,791	9,230	9,692	10,177
Net Change in Stores (Outside China)		92	104	142	103	136	144	153	162	171	182
New Store Growth		5.0%	5.4%	7.0%	4.8%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Total Stores (Outside China)		1,914	2,018	2,160	2,263	2,399	2,543	2,696	2,857	3,029	3,210
Total Change in Stores		746	765	927	893	515	543	571	601	633	666
Average Added Revenue per New Store		0.5	0.5	0.5	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Estimated Added Revenue for New Stores in China		340	351	100	237	114	120	126	132	138	145
Estimated Added Revenue for New Stores in Other Countries		48	55	64	31	41	43	46	49	51	55
Total Added Revenue		388	406	421	268	155	163	171	180	190	200
Licensed Stores:											
Net Change in Stores		543	644	885	654	715	758	803	852	903	957
New Store Growth		5.9%	6.6%	8.5%	5.8%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Total Store		9,735	10,379	11,264	11,918	12,634	13,392	14,195	15,047	15,950	16,907
Previous Year Revenue		817	981	1,505	1,916	2,112	2,327	2,554	2,795	3,051	3,322
Increase in Product & Equipment sales and Royalty Revenues		121	435	411	196	215	227	241	256	271	287
Others		-	187	-	-	-	-	-	-	-	-
Total Revenue from Licensed stores		938	1,603	1,916	2,112	2,327	2,554	2,795	3,051	3,322	3,609
Others:											
Other	Other	71	73	77	74	75	75	75	75	75	75
Offsets:											
Extra Week (FY21)		127	(127)	-	-	-	-	-	-	-	-
Foreign Currency Translation		310	(436)	(543)	(252)	-	-	-	-	-	-
TOTAL	Total Revenue	6,921	6,861	7,501	7,625	8,133	8,541	9,096	9,715	10,405	11,172
Actual Deviation	Actual Deviation	6,922	6,940	7,488	7,339						
		0	79	(13)							
CHANNEL DEVELOPMENT AND CORPORATE											
Channel Development Net Revenue											
		1,594	1,844	1,894	1,932	1,970	2,010	2,050	2,091	2,133	2,175
	% Change	-17.2%	15.7%	2.7%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Corporate											
	Corporate	98	96	25	73	64	64	64	64	64	64
TOTAL REVENUE	TOTAL REVENUE	29,061	32,250	35,976	36,873	37,597	39,015	40,631	42,503	44,480	46,570
	Total Revenue growth		11.0%	11.6%	2.5%	2.0%	3.8%	4.1%	4.6%	4.7%	4.7%

	FY21A	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
Cost Drivers										
NORTH AMERICA:										
Net Revenues										
Company Operated Stores	18,737	21,214	23,905	24,259	24,458	25,249	26,070	27,083	28,130	29,211
Licensed Stores	1,702	2,151	2,659	2,747	2,965	3,145	3,345	3,544	3,742	3,941
Other	8	6	5	4	6	6	6	6	6	6
Total Net Revenues	20,448	23,371	26,570	27,010	27,429	28,400	29,421	30,632	31,878	33,158
Product and Distribution costs	5,454	6,677	7,530	7,478	7,735	8,094	8,473	8,914	9,372	9,848
% of net revenue	26.7%	28.6%	28.3%	27.7%	28.2%	28.5%	28.8%	29.1%	29.4%	29.7%
Store operating expenses	9,360	10,860	11,959	12,467	12,946	13,547	14,181	14,918	15,748	16,612
% of net revenue	45.8%	46.5%	45.0%	46.2%	47.2%	47.7%	48.2%	48.7%	49.4%	50.1%
Other operating expenses	166	202	264	281	254	263	273	284	296	307
% of net revenue	0.8%	0.9%	1.0%	1.0%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
Depreciation and amortization expenses	754	808	910	1,052	992	1,027	1,064	1,108	1,153	1,199
% of net revenue	3.7%	3.5%	3.4%	3.9%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%
General and administrative expenses	300	303	390	376	386	399	414	431	448	466
% of net revenue	1.5%	1.3%	1.5%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%
Restructuring and impairments	155	33	21	-						
Total Operating Expenses	16,189	18,884	21,074	21,654	22,313	23,331	24,405	25,655	27,017	28,433
Operating Income	4,259	4,487	5,496	5,355	5,115	5,069	5,016	4,978	4,861	4,725
Operating Margin	20.8%	19.2%	20.7%	19.8%	18.6%	17.8%	17.0%	16.2%	15.2%	14.2%
INTERNATIONAL										
Net Revenues										
Company Operated Stores	5,870	5,362	5,557	5,507	5,732	5,912	6,226	6,590	7,009	7,489
Licensed Stores	981	1,505	1,854	1,758	2,327	2,554	2,795	3,051	3,322	3,609
Other	71	73	77	74	75	75	75	75	75	75
Total Net Revenues	6,922	6,940	7,488	7,339	8,133	8,541	9,096	9,715	10,405	11,172
Product and Distribution costs	2,187	2,358	2,608	2,575	2,887	3,066	3,311	3,585	3,891	4,234
% of net revenue	31.6%	34.0%	34.8%	35.1%	35.5%	35.9%	36.4%	36.9%	37.4%	37.9%
Store operating expenses	2,571	2,702	2,761	2,819	3,156	3,348	3,602	3,886	4,204	4,558
% of net revenue	37.2%	38.9%	36.9%	38.4%	38.8%	39.2%	39.6%	40.0%	40.4%	40.8%
Other operating expenses	147	191	219	225	221	232	247	264	283	304
% of net revenue	2.1%	2.8%	2.9%	3.1%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%
Depreciation and amortization expenses	545	513	335	338	495	520	554	591	633	680
% of net revenue	7.9%	7.4%	4.5%	4.6%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%
General and administrative expenses	361	345	336	339	392	412	439	468	502	539
% of net revenue	5.2%	5.0%	4.5%	4.6%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%
Restructuring and impairments	-									
Total Operating Expenses	5,811	6,109	6,259	6,297	7,151	7,578	8,152	8,795	9,513	10,315
Income from equity investees	135	2	3	4	-	-	-	-	-	-
Operating Income	1,246	833	1,231	1,046	982	963	943	920	892	857
Operating Margin	18.0%	12.0%	16.4%	14.2%	12.1%	11.3%	10.4%	9.5%	8.6%	7.7%
CHANNEL DEVELOPMENT AND CORPORATE										
Net Revenues	1,594	1,844	1,894	1,770	2,035	2,074	2,114	2,155	2,197	2,240
Product and Distribution costs	1,011	1,194	1,250	1,075	1,297	1,322	1,348	1,374	1,401	1,428
% of net revenue	63.5%	64.8%	66.0%	60.8%	63.8%	63.8%	63.8%	63.8%	63.8%	63.8%
Other operating expenses	31	52	55	58	56	57	58	59	60	61
% of net revenue	2.0%	2.8%	2.9%	3.3%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%
Depreciation and amortization expenses	1	0	0	-	0	0	0	0	0	0
% of net revenue	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
General and administrative expenses	1,272	1,383	1,716	1,809	1,768	1,803	1,838	1,873	1,910	1,947
% of net revenue	79.8%	75.0%	90.6%	102.2%	86.9%	86.9%	86.9%	86.9%	86.9%	86.9%
Total Operating Expenses	2,316	2,629	3,021	2,943	3,122	3,182	3,244	3,307	3,371	3,436
Income from equity investees	250	232	296	298	269	269	269	269	269	269
Gain from sale of assets	-	-	91	-						
Operating Income	(472)	(554)	(740)	(875)	(818)	(839)	(861)	(883)	(905)	(928)
Operating Margin	-29.6%	-30.0%	-39.1%	-49.4%	-40.2%	-40.5%	-40.7%	-41.0%	-41.2%	-41.4%
Total										
Product and Distribution costs	8,652	10,229	11,389	11,129	11,919	12,482	13,132	13,873	14,664	15,510
% of total expense	35.6%	37.0%	37.5%	36.0%	36.6%	36.6%	36.7%	36.7%	36.8%	36.8%
Store operating expenses	11,931	13,562	14,720	15,287	16,102	16,895	17,783	18,804	19,951	21,171
% of total expense	49.1%	49.1%	48.5%	49.5%	49.4%	49.6%	49.7%	49.8%	50.0%	50.2%
Other operating expenses	345	445	537	564	531	552	578	607	639	673
% of total expense	1.4%	1.6%	1.8%	1.8%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%
Depreciation and amortization expenses	1,300	1,322	1,245	1,391	1,488	1,548	1,618	1,700	1,787	1,880
% of total expense	5.3%	4.8%	4.1%	4.5%	4.6%	4.5%	4.5%	4.5%	4.5%	4.5%
General and administrative expenses	1,933	2,032	2,441	2,523	2,546	2,614	2,690	2,772	2,859	2,951
% of total expense	7.9%	7.4%	8.0%	8.2%	7.8%	7.7%	7.5%	7.3%	7.2%	7.0%
Restructuring and impairments	155	33	21	-	-	-	-	-	-	-
% of total expense	0.6%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	24,316	27,623	30,354	30,894	32,586	34,091	35,800	37,756	39,900	42,184
Earnings Before Tax	5,357	4,232	5,402	4,970	4,453	4,358	4,268	4,224	3,984	3,825
Income Tax Expense	1,157	949	1,277	1,207	1,024	1,002	981	971	916	879
Tax percentage	21.6%	22.4%	23.6%	24.3%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%

