

Research on the Investment Value of Starbucks Based on SWOT, Financial and Valuation Methods

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Abstract. Even though the global economy is not optimistic, the coffee industry still maintains a growth trend. Whether Starbucks, one of the top retailer of coffee, can remain competitive in the future and bring benefits to investors is the focus of this article. This article studies the investment value of Starbucks based on SWOT, financial analysis and P/E valuation methods. After comparative analysis with similar companies, Starbucks' current investment value is still underestimated and it has good development momentum. In the fog of "insolvency", Starbucks is still deeply trusted by investors. Considerable PEG ratio and GPA shows that Starbucks currently has a relatively undervalued stock price and nice asset utilization capabilities, indicating that the company has investment value. This research not only provides a reference for investors, but also provides value for Starbucks to learn itself.

Keywords: Starbucks; SWOT; Financial Analysis; Valuation; Investment value.

1. Introduction

Under the impact of the COVID-19 epidemic, the global economy has been in a downward trend in recent years. In 2024, there will still be many pressures on world economic development, which will be on a medium-to-low growth track. Even though the impact of the epidemic is gradually fading, international investment growth still faces greater downward pressure [1]. In this context, investors who want to find an investment company with profit prospects need to conduct a series of scientific analyzes of the investment value of the company.

In recent years, coffee industry sales have generally shown a growth trend around the world. Coffee has gradually appeared in people's daily lives. As a leading company in the coffee sales industry worldwide, Starbucks has always had good performance. Even though the global macroeconomic situation is not optimistic, Starbucks continues to expand stores around the world. Starbucks is an enterprise with a unique brand culture in the eyes of consumers. Both the quality of Starbucks products and the unique consumption experience are highly sought after by the public. Even though the general market environment is not optimistic, Starbucks still has the confidence to expand its stores on a large scale. Whether Starbucks can deliver expected revenue to investors is worth researching. This article uses the SWOT model, P/E valuation method and financial statement analysis to evaluate the current investment value of Starbucks. This study provides investors with some investment clues and has important practical significance.

Regarding Starbucks' core competitiveness, Shuhong Xu used SWOT analysis to conduct strategic countermeasure research and believed that Starbucks should reshape its advantages to improve its operating status [2]. Nan Wang and Chenyang Xu conducted a financial risk analysis on Starbucks based on the ESG report, indicating that although Starbucks is insolvent, its financial risks have not increased [3].

Regarding value investment, Ye Kuang conducted a valuation analysis on Wuliangye's financial statements, financial indicators and PE ratio to obtain Wuliangye's investment value [4]. Yahui Guo used SWOT analysis and financial statement analysis to conduct a fundamental analysis of the investment value of Hengrui Pharmaceuticals [5].

On the basis of existing literature, the research of this article integrates SWOT analysis, financial analysis and P/E valuation analysis method to analyze the investment value of Starbucks. It plays an important supplementary role to the literature and has certain academic significance.

2. Method

2.1. SWOT

SWOT is a method that can objectively analyze a company's situation from multiple perspectives. This method can draw a general portrait of the enterprise in multiple dimensions by analyzing its strengths, weaknesses, opportunities, and threats. It not only analyzes the company itself, but also judges the company's situation from the perspective of market, policy and competition.

2.2. Financial Statement Analysis

Financial statement analysis analyzes the company's status through the financial statement data released by the company. It usually includes trend analysis, ratio analysis, comparative analysis, factor analysis, etc. This article uses trend analysis and comparative analysis to analyze the company's financial data. Trend analysis method analyzes trends by comparing corporate financial data with previous periods. The rule of comparative analysis is to analyze the current situation of the enterprise in the market by comparing the relevant data with similar enterprises.

2.3. P/E Valuation

P/E valuation method is one of the important methods to analyze the market value of an enterprise. IN order to conduct a comprehensive and accurate valuation of the company's market value, this article mainly uses the price-earnings ratio valuation method to analyze the financial data of Starbucks and competing companies. In the P/E valuation method, the P/E ratio is equal to the market price of a stock divided by its earnings per share. Since earnings per share are calculated differently over time, the P/E ratio is divided into static P/E ratio, dynamic P/E ratio and rolling P/E ratio. This method is suitable for companies that have no losses and have relatively stable development, and fully considers factors other than financial data [6].

3. Results and Discussion

3.1. SWOT Analysis Results

3.1.1. Strengths

(1) Brand influence: Starbucks is the premier roaster, marketer and retailer of specialty coffee in the world, formed in 1985. Starbucks has always been purposeful. Its primary goal is to maintain Starbucks' position as one of the most recognized and respected brands in the world and work together to create a positive impact on the world. At present, the brand influence that Starbucks has built over the past four decades has been deeply rooted in people's hearts.

(2) Business model: Starbucks can adopt flexible investment and cooperation business models around the world based on different market conditions in various regions. Starbucks fully occupies a favorable location in the city center, attracts customer flow, which make Starbucks has strong competitiveness.

(3) Experience: Starbucks occupies a place in the coffee retail industry with its unique consumption experience, thoughtful customer experience and strict quality assurance [2]. Most customers are attracted by Starbucks' comfortable environment and experience, especially the elite group who are particularly keen to choose Starbucks for office work.

3.1.2. Weaknesses

(1) High price: In order to stand out in the fierce competition, local Chinese coffee companies such as Luckin Coffee and Cotti Coffee have adopted low-price promotions to seize the market. It's helpful to expand their competitiveness. However, Starbucks still keeps price higher. The price disadvantage forces companies to find new ways to gain more consumers.

(2) Poor innovation performance: As one of the largest multinational corporations, Starbucks continues to expand stores around the world. But Starbucks' product innovation speed cannot keep up with its expansion speed. The single product makes it difficult for Starbucks to achieve localization and has certain disadvantages compared with local coffee shops.

3.1.3. Opportunities

Around the world, coffee is very popular among consumers in various countries for its rich flavor and unique effects. According to statistics from the International Coffee Organization, the coffee production and manufacturing industry has maintained a certain growth trend despite fluctuations in the past five years. Under the assumption that the world economy continues to grow at a growth rate of 3%, ICO predicts that the coffee sales industry will grow by 2.2% in 2023-2024. With continued growth, the coffee industry has optimistic development prospects.

According to the "New Wave of Chinese Coffee - China Coffee Industry Development Report in 2022", the scale of China's coffee industry reached 381.7 billion yuan in 2021 and is expected to exceed 1 trillion yuan in 2025. China's coffee market is still in an early stage and has strong development potential [8]. Starbucks attaches great importance to the development of the Chinese market. In the coffee industry, Starbucks has good development opportunities with its own corporate culture and global expansion strategy.

3.1.4. Threats

The coffee industry has been growing continuously since it entered the Chinese market in the 1980s. Globally, Starbucks Corporation faces stiff competition. Its main competitors are McDonald's coffee, Nestle Coffee, Keurig Dr Pepper Inc, etc. Starbucks' competitors in China include Luckin Coffee, Cotti Coffee, etc.

Over the past forty years, international coffee brands have rapidly seized the market in China, and local coffee brands have continued to increase. According to QiChacha data, there are 215,600 coffee-related companies in China. Over the past ten years, the number of registrations of coffee-related companies has continued to grow with an increase rate of no more than 30%. The number of coffee-related company registrations in 2020 decreased by 18.85% year-on-year to 22,200. Due to the rise of live streaming in recent years, the number of registered coffee-related companies in China will reach 60,000 in 2023, an increase of 67.96% compared with 2022 [7]. So many competitors pose a considerable threat to Starbucks.

In addition, the rapid expansion of China's milk tea drinks in the market share will also pose a certain threat to the coffee industry. In the face of fierce competition, Starbucks, which attaches great importance to the development of China, faces huge challenges.

3.2. Financial Analysis Results

An in-depth analysis of Starbucks' financial statement data in recent years can help investors clearly understand the company's basic operating conditions. Figure 1 shows the changes in Starbucks' revenue, costs, profits and total assets in the past four years. It is not difficult to see that while the company's operating costs are rising year by year, the company's revenue and profits are continuing to grow. The significant growth trend demonstrates the success of Starbucks' global market strategy and also confirms the effectiveness of its localization strategy in different cultural backgrounds. Starbucks is not only expanding its business scope, but also constantly optimizing its supply chain, effectively controlling costs, significantly improving operational efficiency, and ensuring that every revenue can be efficiently converted into net profit [9].

It is worth noting that Starbucks' total revenue in 2022 and 2023 exceeds total assets. Starbucks has been insolvent in recent years. However, this is not due to poor management of Starbucks itself. The truth is that Starbucks is returning capital to shareholders [10]. This move by Starbucks not only received high recognition from the market, but also highlighted Starbucks' confidence in its own sustainable development capabilities.

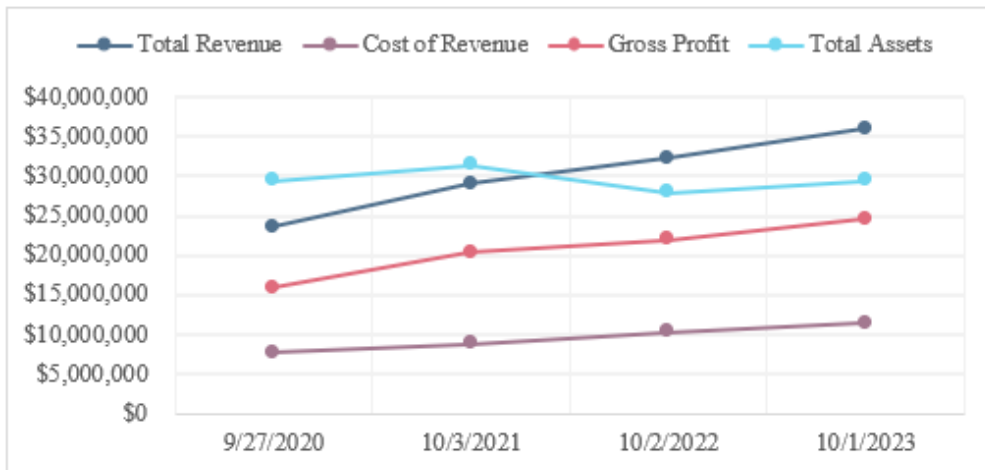


Fig. 1 Starbucks’ revenue, costs, profits and total assets in the past four years.

Figure 2 shows the GPA trends of Starbucks, Keurig Dr Pepper and McDonald’s. Starbucks' GPA has exceeded 50% in 2020, and has continued to grow to 83.4% in recent years. This data shows that Starbucks has an asset utilization rate that far exceeds that of similar companies - Keurig Dr Pepper and McDonald’s. Starbucks can effectively use existing assets to obtain greater profits. Apart from that, Starbucks' GPA has a stronger upward trend than Keurig Dr Pepper and McDonald’s.

In the first quarter reports of fiscal year 2024 announced by Starbucks, it was mentioned that as of December 31, 2023, Starbucks' operating income reached US\$9.4 billion (excluding the impact of exchange rate changes), a year-on-year increase of 8.16%. It recorded a net profit of US\$1.024 billion, a year-on-year increase of 19.78% [11]. Generally speaking, enterprise growth, liquidity and profitability can effectively reflect the value of an enterprise [12]. In such an increasingly competitive environment, Starbucks can still achieve a growth rate, demonstrating the success of Starbucks' strategy and the positive trend of its future prospects.

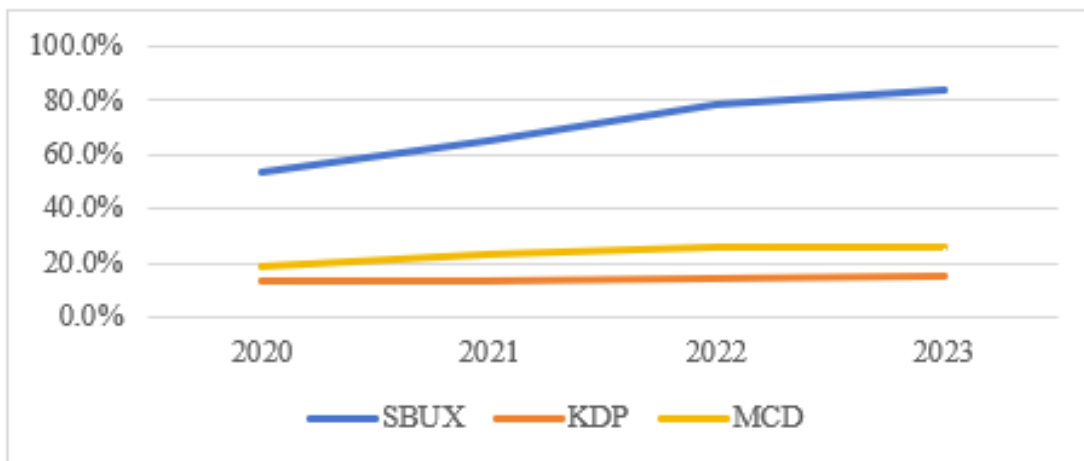


Fig. 2 GPA of Starbucks, Keurig Dr Pepper and McDonald’s.

3.3. P/E Valuation Results

The P/E valuation model collects current stock prices of each company and NTM EPS to calculate the P/E Ratio based on the formula. Compare the P/E Ratio of Starbucks with its competitors to conduct investment value analysis.

Table 1 lists the share price, TTM EPS, NTM EPS, TTM P/E Ratio, NTM P/E Ratio and PEG Ratio of Starbucks, Keurig Dr Pepper and McDonald's on March 25, 2024. Through comparison, we found that the static and dynamic P/E ratios of Starbucks and McDonald's are both slightly greater than 20, which are relatively similar. Keurig Dr Pepper's P/E Ratio is the lowest among the three, all below 20. This is partly due to the large difference in the stock prices of the three companies. A lower

P/E ratio usually indicates that the company's investment payback period is shorter and the investment risk is smaller. And a higher price-to-earnings ratio usually indicates the investors' recognition of the company's future growth ability to a certain extent. Starbucks has a P/E ratio of just over 20 because the company is in a stable growth phase. This shows that the company has a certain degree of investment risk among similar industries, but it may also have relatively high returns. Some investors are willing to pay relatively high prices now in order to profit from the company's future growth [13].

In addition, Starbucks' PEG Ratio is the lowest among industry competitors of different sizes. This shows that Starbucks' EPS growth rate is relatively high and the company's growth trend is considerable. Companies with lower PEG Ratios tend to have better growth prospects. This data shows that Starbucks is undervalued by the market, while McDonald's investment value is overvalued. Undervalued companies have higher development potential and are more favored by investors. Meanwhile, Starbucks has demonstrated extremely high asset utilization capabilities. It shows that Starbucks can rationally use various assets to obtain greater benefits.

Table 1. valuation data of Starbucks,Keurig Dr Pepper and McDonald's on 25th,March,2024.

Share price	\$90.67	\$30.48	\$278.62
TTM EPS	3.7	1.79	11.94
NTM EPS	4.22	1.91	12.4
TTM P/E	24.51	17.03	23.34
NTM P/E	21.49	15.96	22.47
PEG	1.53	2.38	5.83
GP/A	83.4%	15.5%	25.9%

4. Conclusion

The research results of this article show that Starbucks still has good development prospects in fierce competition. Starbucks has outstanding advantages in brand influence, customer experience and business model. Its corporate culture is full of humanistic sentiments and attaches great importance to environmental protection, which is favored by the public. These advantages allow it to still make up for the disadvantages of price and innovation capabilities and obtain very objective benefits when opportunities and threats coexist. Despite being insolvent, Starbucks was still able to gain and meet the trust and expectations of most investors, and was highly recognized by the capital market.

At the same time, Starbucks' high GPA shows its extremely high asset utilization ability. Starbucks can rationally use various assets to obtain greater benefits. A low PEG ratio also shows that Starbucks is still in a stage that is in line with investor expectations while Keurig Dr Pepper and McDonald's are generally overvalued by the market. Moreover, the high P/E ratio shows that the market still has high expectations for Starbucks' future development, and it has good investment potential.

Overall, among similar companies, although Starbucks has relatively high investment risks, it is still an undervalued company with strong growth potential. For investors, Starbucks has good investment value.

The capital market is unpredictable, and the future development of enterprises is still affected by many factors. It is uncertain. This article only analyzes a part of Starbucks' financial data and concludes that Starbucks has good investment value. Investors should conduct risk assessments to improve the safety of their investment behavior.

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