

# Analysis on the Value of Enterprise Investment of Starbucks and Luckin

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**Abstract.** Since the COVID-19 pandemic, the black swan event has dealt a severe blow to the global economy and dramatically reshuffled the coffee industry. It is crucial to consider the way to survive for many coffee companies. Based on the current situation of Chinese coffee market, this paper uses DCF model to conduct valuation analysis on two representative enterprises, Starbucks and Luckin. Starbucks, as the world's leading brand of freshly ground coffee, has a sound operating and financial position. Luckin, as an emerging coffee company, is expanding rapidly with increasing sales and strong profitability in the future. Based on the discounted cash flow and the calculation of residual value, this study finally obtains the internal earnings per share, which help investors make the decision whether to invest. According to the analysis, Starbucks' stock is currently overvalued and not a good choice to buy. Luckin's stock is suitable for medium - to long-term investment, and investors with a certain risk tolerance to buy. These results shed light on guiding further exploration of the future development of coffee enterprises and the investment direction of investors.

**Keywords:** COVID-19, DCF, Chinese market, Starbucks, Luckin.

## 1. Introduction

Coffee is widely accepted and recognized for its complex flavor and special effects of refreshing, supplemented by health care. It has become a popular drink around the world and has a wide range of consumer groups in China. Many studies have shown that coffee contains a large number of bioactive ingredients (e.g., chlorogenic acid, caffeine, diterpenoids, trigonelline), which have antibacterial, anti-inflammatory and antioxidant effects. It can reduce the risk of diseases such as diabetes, cancer, and depression [1]. In the post-COVID-19 era, global economic growth has slowed down, and tourism, services, aviation and other industries have been dealt a fatal blow. Chinese economic development also presents a complicated pattern. The coffee industry is no exception, which also suffered a big impact. Coffee, tea and cocoa are the world's top three non-alcoholic beverages. 2.25 billion cups of coffee are consumed daily by people worldwide. Even if coffee is not widespread in China, it is generating the world's fastest growth in this populous country with a small coffee market. Coffee is the first of the top three beverages consumed worldwide, and it has become the second-largest raw material commodity traded internationally after petroleum. Coffee futures are second only to petroleum futures in popularity on the international futures market. Coffee culture has been pursued and predilected by many individuals as people's needs for material possessions have been ever more demanding. It has become an emblem of a high-quality of life [2]. Three categories dominate the Chinese coffee market: instant coffee, ready-to-drink coffee, and freshly ground coffee. Freshly ground coffee's market ratio in China is expanding year by year. The market ratio of freshly ground coffee in mainland China in 2020 was 36.5%, while the market ratio in the United States and Japan was 87.0% and 63.1%, respectively. Compared with the mature coffee market in other countries or regions, the market occupancy of freshly ground coffee in China still has a large room for improvement [3].

In 2020, global consumption of raw coffee beans totaled 16,6346,000 bags. If a bag of 60kg is calculated, it is equivalent to the 7.8 billion people in the world consuming 1.3kg per capita in 2020, which is equivalent to the global average of 130 cups of coffee per capita in 2020. There are 22 countries that consume more than 1 million bags of coffee beans, accounting for 84.8% of the global total. Among coffee importers, the European Union, the United States and Japan are the top three

countries in terms of coffee consumption, while Brazil, Indonesia and Ethiopia are the top three countries among coffee exporters. In 2020, China consumed a total of 144,000 tons of coffee beans, equivalent to only 10 cups per capita. Compared with Europe, America, Japan and South Korea and other major coffee consumers, there is still a large penetration space [3]. It also means that Chinese coffee market has a powerful growth trend and enormous profit space, and the market has great potential. According to statistic, it is shown that coffee marketing is still a profitable business in China.

During the COVID-19 pandemic, the coffee retail industry has been in trouble, showing a downward trend, and offline retail has been hit the hardest. Since consumers are unable to go out, 83.3% of retail coffee shops have been closed, and turnover has been cut in half. Starbucks, which has a strong ability to resist risks, also closed 50% of its retailers at one point, with sales down 78% year-on-year [4]. The flow rate of individual cafes with weak capital chains and chain retailers with small brands has been severely reduced. The operating revenue has declined significantly, but the fixed operating costs (e.g., labor, rent and inventory) still exist. Some landlords have reduced rents owing to the pandemic, but coffee beans, milk and other raw materials are heavily overstocked. To maintain the freshness of these materials and increase the operating costs, directly lead to insolvency, cash flow fracture, a serious threat to the survival of enterprises.

After the normalization of the epidemic, more capital enters the coffee track to compete. Leading brands in the industry (e.g., Starbucks and Luckin) are still accelerating their expansion, adding offline retailers and accelerating the chain process. KFC, McDonald's have launched their coffee brands to increase the size of the track. Saturnbird Coffee, Sexy tea, Naixue and other cross-border launch of coffee drinks. Tims, a Canadian national brand, has also opened retailers in China. The epidemic makes the original coffee industry reshuffle, market competition intensifies. Consumers pay more attention to quality and taste; coffee brand effect is enhanced [4]. With a growth rate of 38.9% from the previous year, the market size for freshly ground coffee in China is expected to reach ¥87.6 billion in 2021. The market for freshly ground coffee in China is anticipated to grow to ¥190 billion by 2024. Driven by supply and demand, Chinese freshly ground coffee industry is still in a rapid development stage [3]. This article selects two representative coffee companies: Starbucks and Luckin. By analyzing some financial indicators and other data of the two companies and combining with the differences between Chinese and American markets, this study analyzes and forecasts the coffee industry and provides some ideas for investors and stock purchase.

Founded in 1971 in Seattle, Starbucks is a small retailer selling coffee beans, tea and spices. Starbucks was purchased by the company's current president, Howard Schultz, in 1987. He has helped Starbucks reach a number of landmarks. As the first successful professional coffee company, Starbucks went public in June 1992. Its listing quickly boosted the growth of its coffee business and the development of its brand. Starbucks' distinct corporate culture and guiding principles have earned it the title of Most Admired Company in Fortune for several years. Starbucks has achieved economies of scale through expansion, acquired the necessary capital for growth through equity financing, accelerated operational efficiency by improving customer experience, and brought substantial returns to employees through employee stock ownership plans [5].

Luckin Coffee opened the first retailer in October, 2017 and went public on NASDAQ on May 18, 2019. Luckin's shares rose by more than a half, bringing its total market value to \$4.8 billion. Luckin Coffee announced that it will have 4,507 directly operated retailer in 2020. Luckin is set to overtake Starbucks as Chinese largest coffee chain. By June 2022, it has more than 7,000 retailers in China [6]. A brief 89-page analysis on Luckin was published on February 1, 2020 by renowned research firm Muddy Waters Research. It claimed that Luckin had been engaging in fraudulent trades since the third quarter of 2019 to exaggerate retailer performance and create the appearance of profits. On April 2, 2020, Luckin disclosed financial fraud of ¥2.2 billion. On April 3, 2020, CSRC strongly condemned Luckin for financial fraud [7]. Based on the analysis of Luckin's financial data (gross margin, revenue per retailer, price/volume relationship and inventory), the conclusion is that the company's financial reporting is faulty, if not fraudulent, probably using too aggressive accounting methods to overshoot future growth [8].

Nowadays, Chinese current coffee industry is in a rising stage with huge market development potential. The competition among coffee chains is becoming increasingly fierce. Multinational coffee chains such as Starbucks and Costa noticed China to be the biggest overseas market next to the home market. Chinese local coffee brands (e.g., Luckin and Lucky Cup) are also accelerating their market layout by increasing offline retailers and accelerating the chain process. These companies are competing fiercely in the Chinese market. Most of them are using the same marketing strategy, e.g., speed up the retailer opening to grab market occupancy and expand market scale. The rivalry between these two bands is as classic as McDonald's and KFC. Therefore, by collecting data and integrating previous studies, this article investigates the financial operation conditions of Starbucks and Luckin from the perspective of coffee industry and company analysis, evaluates the value of the enterprises based on DCF model, tries to figure out why the two enterprises were successful. Then, it makes a market analysis based on the development status of Chinese coffee market. It has certain enlightenment for the development of domestic coffee chain enterprises, and has certain guidance for the capital flow of investors and shareholders.

## 2. Data & Method

The data of the two companies came from the financial data published on the official website of the company, and the calculation and analysis were carried out in combination with the formulae. At the time of writing, Starbucks' annual report for fiscal year 2022 is available, but since Luckin did not publish that year's annual report, Starbucks is using the most recent data, while Luckin is using 2021 earnings data.

Discounted cash flow model (DCF) is a valuation model with the most rigorous and relatively complex theoretical framework, which is represented by the cash inflow and outflow of enterprises' economic activities. It plays an enormous role in both sides of academic and practical fields. In the 1950s Franco Modigliani and Merton Miller, two Nobel laureates, assumed that the value of a firm's economic assets equal to the value of the claims on those assets. There are many kinds of DCF models, where the most used one is McKinsey Model. The concept is founded on the idea that firm value is equal to the discounted present value of all future free cash flows at a suitable cost of capital rate [9]. The ability to generate future earnings is the core of an enterprise's worth. The market will only acknowledge its value once it has this capability. Therefore, the DCF approach is always the primary choice for determining enterprise value in academics.

The DCF model can be divided into the several parts: estimate the cost of capital, calculate the free cash flow and the terminal value. The weighted average cost of capital (WACC) is what firms view as the lowest required rate of return on their investment. In the discounted cash flow theory, what determines the value of an enterprise is its free cash flow. The discount rate is the total cost of capital for an organization, and it should include the cost of all sources of funding as well as the rate of return for each shareholder. That discount rate is the weighted average cost of capital [10]. Future cash flow risks should be included in the cost of financing for discounted cash flows. The WACC formula currently used is as follows:

$$WACC = \frac{E}{V}r_E + \frac{D}{V}(1 - T_c)r_D \quad (1)$$

Here, E is the market value of equity, D is the market value of debt, V is the market value of the enterprise,  $r_E$  is the cost of equity capital,  $r_D$  is the cost of debt capital, and  $T_c$  is the income tax rate. The most used formula for cost of equity capital is the capital asset pricing model (CAPM) as:

$$r_E = r_f + \beta(r_M - r_f) \quad (2)$$

Here,  $r_E$  is the required return on asset,  $r_f$  is the risk-free interest rate,  $r_M$  is the required return on the market portfolio, and  $\beta$  is the asset's "beta", refers to the company or related company specific risk. The present value of free cash flow (FCF) in the enterprise value period can be predicted as:

$$EV = \sum_{t=1}^{\infty} \frac{FCF_t}{(1+WACC)^t} \quad (3)$$

Here, EV is the estimated valuation of the enterprise,  $FCF_t$  is the free cash flow generated by the enterprise's assets at time t, WACC is the weighted average cost of capital, and t is the number of years during which the enterprise's value can be clearly predicted. The present value of the cash flow (FCF) of the terminal value is calculated as:

$$TV = \frac{FCF(1+g)}{WACC-g} \quad (4)$$

Here, FCF is the current year's free cash flow, TV is the present value of the final period, WACC is the weighted average cost of capital, and g is the expected growth rate of the perpetuities.

The DCF valuation model is a complex valuation model. Its theoretical framework is quite disciplined. This concept may, in theory, be used by any kind of business. The drawback is that it takes a long time since the input key variables are prone to a lot of subjectivity and ambiguity, creating assumptions about the company's future profitability, risks, and long-term development while doing a thorough analysis of the company's fundamental business circumstances and major value drivers. Minor mistakes in key input variables are extremely perceptible. On this basis, valuation analysis always uses the DCF model, with the multiplication-based valuation model being employed to assess the results' level of logic. The most significant presumptions and uncertainties must be taken into consideration when applying the discounted cash flow approach. Therefore, the valuation results of this method have extraordinary reference value. In this paper, the DCF valuation model is advised if the enterprise value is determined based on the long-term development tendency. The financial information used in the discounted free cash flow method is also readily available, which can be used in conjunction with already-existing balance sheets, income statements, and income statements.

### 3. Results & Discussion

#### 3.1. Starbuck

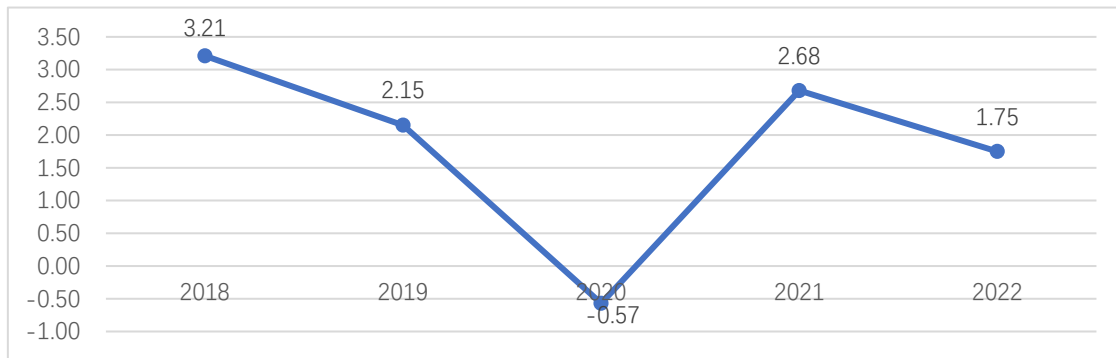
Seen from the Table. 1, the total asset turnover of Starbucks is generally in a flat state, indicating that its sales capacity is in a stable state and its operation is stable. A negative return on equity since the end of 2019 indicates that the company has been in a state of negative profit growth and a state of loss. However, the revenue of the enterprise is basically in the trend of growth, which indicates that the business situation of the enterprise is very good.

**Table 1.** Total asset turnover and return on equity of Starbucks in 2018-2022

Fiscal Year Ended	2018	2019	2020	2021	2022
Net revenues/billion	24.72	26.50	23.51	29.06	32.23
Total assets/billion	24.16	19.22	29.38	31.39	27.98
Total asset turnover/%	102.32%	137.88%	80.02%	92.58%	115.19%
Equity/billion	1.18	-6.23	-7.81	-5.32	-8.71
Net profit/billion	4.52	3.60	0.93	4.20	3.28
ROE/%	383.05%	-57.78%	-11.91%	-78.95%	-37.66%

As shown in the Fig. 1, from 2018 to 2020, the NCF of Starbucks presents a downward trend. Cash flow initially declined, then rose briefly after bottoming out in 2020, followed by another decline after 2021. When COVID-19 broke out, the world was in a downward economic cycle, with the overall trend of economic growth slowing down. While the situation in China has eased, the coronavirus has spread around the world. This black swan event has dealt a severe blow to the global real economy, supply chain and physical retail. Therefore, although Starbucks has opened online platforms (e.g., Wechat mini program and Starbucks Delivers) to support contactless delivery methods (e.g., food delivery), the overall impact of the epidemic on offline retailers is difficult to make up. Nowadays, the blow is long lasting and difficult to recover from. Table. 2 summarized the data calculated through

the financial report data. Overall, the free cash flow of Starbucks is relatively stable, showing a gradually slowing down trend. However, ascribed to the large changes in the data and their respective positive and negative, the average value is 7.61% based on the growth rate of net income in 2018-2022. It is employed as the projected growth rate of Starbucks' free cash flow over the following five years. With October 2, 2022 (the end of Starbucks' fiscal year 2022) as the base date and 7.61% as the natural growth rate, the cash flow of Starbucks in the next five years can be predicted, as shown in Table. 3.



**Figure 1.** Starbucks NCF changing trends

**Table 2.** Historical cash flow of Starbucks

Fiscal Year Ended	2018	2019	2020	2021	2022
Net income/billion	4.52	3.60	0.93	4.20	3.28
Depreciation/billion	1.31	1.45	1.50	1.52	1.53
NCF/billion	3.21	2.15	-0.57	2.68	1.75

**Table 3.** Starbucks estimated cash flow from 2023 to 2027

Fiscal Year Ended	2023e	2024e	2025e	2026e	2027e
NCF/billion	1.88	2.03	2.18	2.35	2.53

The discount rate is calculated by WACC, and the cost of equity capital is calculated by CAPM based on the Eq. (1) and Eq. (2), respectively. In the actual calculation process, the US 10-year Treasury bond yield is generally used to replace the risk-free rate of return. The September 2022 US 10-year Treasury yield is 3.83%, so  $r_f=3.83\%$ . The rate of return at which an asset is anticipated to generate returns in the future in the absence of the relative rate of return is known as the expected rate of return. The predicted return capital ratio of the market is often replaced by the return rate of the stock index. The average return rate of S&P 500 Index from 2018 to 2022 is used to calculate. It may be deduced through data analysis and computation that the market's anticipated rate of return is  $r_M=7.31\%$ . The beta coefficient is a measure of risk that compares the price changes of specific companies or stock funds to the performance of the whole stock market. In its 2022 annual report, Starbucks put the beta factor at  $\beta=0.88$ . Therefore, one can calculate the cost of equity capital  $r_E=6.89\%$ . After inquiry, the US 5/1 ARM mortgage rate in October 2022 is 5.20%, so the cost of debt capital  $r_D=5.20\% \times (1-25\%) \approx 3.90\%$ .

According to Starbucks 2022 annual report, the total liabilities are 36.69 billion dollars, the total owners' equity is -8.71 billion dollars, and the total assets are 27.98 billion dollars. The income tax rate is 25%, so the WACC can be calculated as  $WACC=1.69\%$ , i.e., the discount rate is 1.69%. The constant growth rate is usually replaced by the GDP growth rate, so the GDP growth rate of the United States from 2017 to 2021 is respectively 2.3%, 2.9%, 2.3%, -3.4% and 5.7%, and the arithmetic average is 1.96%. Therefore, 1.96% is adopted as the constant growth rate in this article. The present value of Starbucks' anticipated cash flow and the company's intrinsic value may be computed using the parameters established above as listed in Table. 4. Therefore, the present value of Starbucks' estimated cash flow is \$10.40 billion. Enterprise subsequent terminal value  $TV=FCF_{2023} \times (1+g)/(WACC-g)$ , where the constant growth rate  $g=1.96\%$ . Subsequently, one can derive the results summarized in Table. 5. According to the annual report, Starbucks will issue 1.147

billion common shares in 2022, with an intrinsic value of -542.28 per share. Starbucks shares closed at \$84.26 in October 2022, according to Nasdaq. Because  $-542.28 \ll 84.26$ , Starbucks is currently overvalued and not a good choice to buy.

**Table 4.** Discounted cash flow of Starbucks estimated period

Fiscal Year Ended	2023e	2024e	2025e	2026e	2027e
NCF/billion	1.88	2.03	2.18	2.35	2.53
Discount rate/%	1.69%	1.69%	1.69%	1.69%	1.69%
Discounted cash flow/billion	1.85	1.96	2.07	2.19	2.32

**Table 5.** Starbucks Enterprise Value

Terminal value/billion	-699.32
Discount rate/%	1.69%
The present value of the ultimate value/billion	-632.42
Intrinsic value/billion	-622.02

### 3.2. Luckin

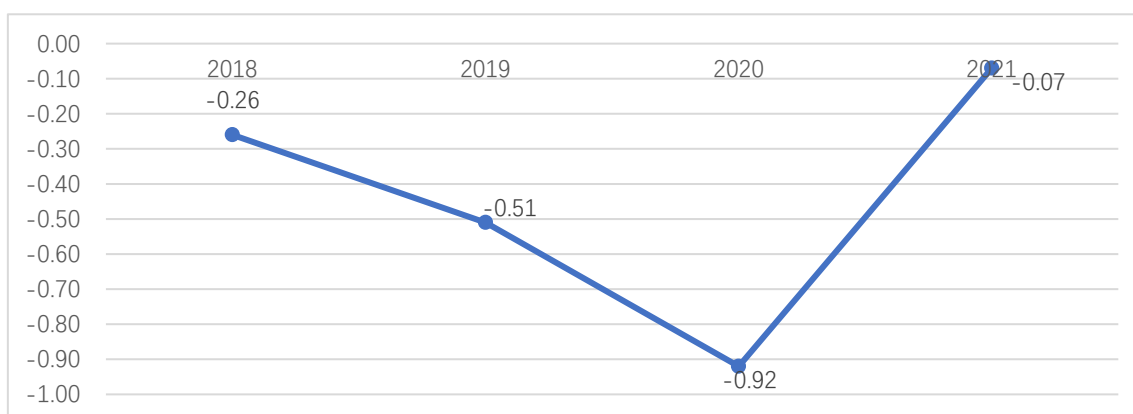
As listed in Table. 6, Luckin's total asset turnover has shown an upward trend, indicating its strong sales ability, excellent operation, and good benefit of asset investment. ROE in the first three years was at a high level, but a high ROE indicates the role of unstable factors or the suspicion of financial fraud. The negative return on equity in 2021 indicates a state of negative profit growth and a state of loss. However, the revenue of the enterprise is in the trend of growth, indicating that the business situation is good. The stock is suitable for investors with a certain amount of risk tolerance.

**Table 6.** Total asset turnover and return on equity of Luckin in 2018-2021

Fiscal Year Ended	2018	2019	2020	2021
Net revenues/billion	0.12	0.43	0.62	1.25
Total assets/billion	0.51	1.40	1.43	1.93
Total asset turnover/%	23.53%	30.71%	43.36%	64.77%
Equity/billion	-0.28	-0.73	-0.41	-0.57
Net profit/billion	-0.24	-0.45	-0.85	0.11
ROE/%	85.71%	61.64%	207.32%	-19.30%

**Table 7.** Historical cash flow of Luckin

Fiscal Year Ended	2018	2019	2020	2021
Net income/billion	-0.24	-0.45	-0.85	0.11
Depreciation/billion	0.02	0.06	0.07	0.18
NCF/billion	-0.26	-0.51	-0.92	-0.07



**Figure 2.** Luckin NCF changing trends

Table 7 can be calculated through the financial report data, and then Fig. 2 can be obtained. According to the results, Luckin's NCF has always been negative, but the sales revenue is growing

and the total asset turnover rate is also increasing, indicating that the company is still in the start-up stage and in fast development. Hence, the enterprises need to continue to put the money into production and operation to make more money. At this stage, enterprises need to invest a lot of money, form a certain scale of production and sales capacity, and strive to expand the market and seize market occupancy. The pandemic has also affected Luckin. Under the influence of the epidemic and financial fraud scandal, Luckin's net cash flow negative growth in 2020 increased, and the enterprise loss increased. However, in 2021, under the good operation of the enterprise, the negative net cash flow is small, and the enterprise is basically in the profit state. To sum up, Luckin's free cash flow is negative and in a state of fluctuation. Consequently, based on the free cash flow growth rate each year from 2018 to 2021, the average value is 28.05%, which can be used as the expected growth rate of Luckin's free cash flow in the next five years. With December 31, 2021 as the base date and 28.05% as the natural growth rate, Luckin's cash flow in the next five years can be predicted as shown in Table. 8.

**Table 8.** Luckin estimated cash flow from 2022 to 2026

Fiscal Year Ended	2022e	2023e	2024e	2025e	2026e
NCF/billion	-0.09	-0.11	-0.15	-0.19	-0.24

In the actual calculation process (similar to Sec. 3.1), the US 10-year Treasury bond yield is generally used to replace the risk-free rate of return. The December 2021 US 10-year Treasury note yield is 1.51%, so  $r_f=1.51\%$ . The rate of return at which an asset is anticipated to generate returns in the future in the absence of the relative rate of return is known as the expected rate of return. The predicted return capital ratio of the market is often replaced by the return rate of the stock index. Here, the average return rate of S&P 500 Index from 2017 to 2021 is used to calculate. Through data query and calculation, it can be concluded that the market expected rate of return is  $r_M=16.31\%$ . The beta coefficient is a measure of risk that compares the price changes of specific companies or stock funds to the performance of the whole stock market.  $\beta=-0.12$  was calculated using the S&P 500 Index and industry data.

Therefore, one can calculate the cost of equity capital  $r_E=-0.27\%$ . After searching, the US 5/1 ARM mortgage rate in December 2021 is 2.95%, so the cost of debt capital  $r_D=2.95\% \times (1-25\%) \approx 2.21\%$ . According to Luckin 2021 annual report, the total liabilities are 1.12 billion dollars, the total owners' equity is 0.81 billion dollars, and the total assets are 1.93 billion dollars. The income tax rate is 25%, hence the WACC can be calculated as  $WACC=0.08\%$ , so the discount rate is 0.08%. The constant growth rate is generally replaced by GDP growth rate, so the GDP growth rate of the United States from 2017 to 2021 is respectively 2.3%, 2.9%, 2.3%, -3.4% and 5.7%, and the arithmetic average is 1.96%. Therefore, 1.96% is adopted as the constant growth rate in this article. The present value of Luckin's anticipated cash flow and the company's intrinsic value may be computed as summarized in Table. 9 using the parameters above. Therefore, the present value of Luckin's estimated cash flow is \$-0.78 billion. Enterprise subsequent terminal value  $TV=FCF_{2023} \times (1+g)/(WACC-g)$ , where the constant growth rate  $g=1.96\%$ . The calculation results are given in Table. 10. According to the annual report, Luckin issued 265 million common shares in 2021 with an intrinsic value of \$15.32 per share. Luckin shares closed at \$9.44 in December 2021, according to Nasdaq. Since  $15.32 > 9.44$ , Luckin shares are currently undervalued by the market and should be bought. Based on Nasdaq, Luckin closed at \$9.44 per share in December 2021.

**Table 9.** Discounted cash flow of Luckin estimated period

Fiscal Year Ended	2022e	2023e	2024e	2025e	2026e
NCF/billion	-0.09	-0.11	-0.15	-0.19	-0.24
Discount rate/%	0.08%	0.08%	0.08%	0.08%	0.08%
Discounted cash flow/billion	-0.09	-0.11	-0.15	-0.19	-0.24

**Table 10.** Luckin Enterprise Value

Terminal value/billion	4.86
Discount rate/%	0.08%
The present value of the ultimate value/billion	4.84
Intrinsic value/billion	4.06

### 3.3. Comparison & suggestions

In terms of operating revenue, total assets, net profit and other indicators, Starbucks is much larger than Luckin, and it has self-financed its profit and loss. It is a very mature large-scale enterprise. Luckin is in its initial stage and is still expanding rapidly. Its financial data is not as impressive as that of Starbucks, but it has huge development potential. The total asset turnover ratio of Starbucks is high and steady, indicating that its enterprise operation is stable, its sales model is mature and stable, and its asset investment benefits are excellent. The rate at which Luckin's total assets were turned over increased steadily, indicating that the company's ability to sell products was continually strengthened.

From the perspective of net cash flow, Starbucks has good benefits and good profitability in the future. Luckin's net cash flow is negative and its revenue is smaller than its expenses, also consistent with the characteristics of a start-up. Starbucks' estimated rate of return is less than Luckin's and less than the market asset portfolio's expected rate of return, which is roughly 10%. Market expectations for its growth are lower than those of Luckin, which is seen as having faster growth and better returns than Starbucks. Starbucks'  $\beta$  is close to 1, indicating that the company's stock fluctuates roughly in line with the stock market. Nevertheless, the  $\beta$  coefficient of Luckin is negative, indicating that the volatility of the company's share price is negatively correlated with the volatility of the stock market. Besides, the absolute value is closer to 0 than that of Starbucks, indicating that the correlation between Luckin's stock price and the stock market is weaker than that of Starbucks. From the intrinsic value of the stock, Starbucks is not a good investment for investors. For Luckin, investors who want to hold stocks for the long term may consider buying Luckin shares when appropriate. Stocks are risky and the investors need to be careful.

## 4. Limitations & Prospects

This paper is limited to the author's cognitive level, educational background and academic level, it is impossible to have a more in-depth study of this topic. Meanwhile, the literatures are difficult to retrieve, which might miss some important information. All the data in this paper are collected and calculated by the network. Errors are inevitable in the calculation process. China is a big consumer and its coffee market is booming. Both companies are leaders in the field of freshly ground coffee, one is an established player, the other is a new player. The development routine of the Chinese coffee industry is still unknown. Nevertheless, as a market full of potential, anything can happen. In the future, freshly ground coffee, which meets daily needs, may be one of the best opportunities for the birth of a large chain brand.

## 5. Conclusion

Based on the current situation of the Chinese market, this paper analyzes the coffee industry and Starbucks and Luckin according to the DCF model, and reveals the good prospects for the development of the Chinese coffee market. According to the calculation results, investment advices are proposed. Starbucks is overvalued and not a good buy, while Luckin has greater investment prospects but it also has great risks. In the post-epidemic era, the development of the coffee industry also needs to start again. How to make strategic layout is a headache for the decision makers of the coffee giants. However, it is undeniable that the development prospect of Chinese coffee industry is very broad, and all kinds of capital have entered the market. The existing leading coffee enterprises

also need to think about how to ensure that they are not left behind in this great development tide. For consumers, more competition is not a bad thing. Nevertheless, it is worth noting that risks cannot be completely avoided when investors invest in stocks. There are numerous and complex factors affecting the stock market. Forecasting and evaluating the intrinsic value of an enterprise is a complicated task. The research results in this paper only provide reference for investors' investment. Overall, these results offer a guideline for the future development of coffee enterprises and the investment direction of investors.

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