

Starbucks Corp SBUX ★★★

28 Nov 2025 05:28, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment¹
86.70 USD 26 Nov 2025	84.00 USD 28 Nov 2025 05:24, UTC	1.03	98.59 USD Bil 26 Nov 2025	Wide	Large Blend	Medium	Exemplary	3 Sep 2025 05:00, UTC

Sector	Industry
Consumer Cyclical	Restaurants

Business Description

Starbucks is one of the most widely recognized restaurant brands in the world, operating more than 40,000 stores across more than 80 countries at the end of March 2025. The firm operates in three segments: North America, international markets, and channel development (grocery and ready-to-drink beverage). The coffee chain generates revenue from company-operated stores, royalties, sales of equipment and products to license partners, ready-to-drink beverages, packaged coffee sales, and single-serve products.

outpacing 4% foodservice growth. We're sanguine about deeper loyalty engagement among its 34 million US 90-day active users through greater personalization rather than broad discounting.

We don't believe brand-building efforts will crimp international expansion. Indeed, we expect the segment to grow units by 7% over the next five years as it targets underpenetrated, fast-growing coffee markets, especially in Asia, while its China JV should free up resources and focus.

Business Strategy & Outlook Ari Felhandler, Equity Analyst, 28 Nov 2025

Starbucks has fallen victim to a competitive restaurant landscape, as its value proposition has been missing the mark with consumers. As such, we see the firm's strategic pivot as prudent, with an emphasis on customer experience, a warm atmosphere, an efficient service model, effective advertising, and product innovation. In our view, these moves should help restore brand clout, support its premium standing, and revive comparable sales growth. This underpins our view that Starbucks will return to positive comp sales growth in fiscal 2026, following two years of low-single-digit declines in North America (74% of revenue). We also see the brand edging out competitors globally, with comps rising 4.7% and nudging ahead of global foodservice growth of 4.6%.

Underscoring our conviction, the firm is investing in interior remodels and a service model that adds in-store labor to enhance hospitality and accelerate service, which we believe is poised to lure consumers to its stores and defend against low-quality chains and higher-end specialty shops. The additional staffing, paired with more innovative order sequencing and a streamlined menu, should help reduce wait times to under four minutes--below Technomic's 2024 estimated five-minute average and Intouch Insight's 5.5-minute "ideal" threshold. These changes improve processes and capacity while layering in automation to address a key consumer pain point, ensure product quality, and enhance the customer experience. Further, Starbucks is shifting dollars from discounting to marketing, focusing on menu development like protein add-ons, pausing near-term price increases, and moving to a more personalized, tiered loyalty program. We posit these initiatives should generate excitement around the brand and, in turn, aid traffic and justify its premium pricing.

We don't expect the reset to be painless, with North American operating margins averaging 16% over the next five years, roughly 200 basis points below the previous five years, amid higher labor costs. That said, we think funding these plans will be aided by efficiency initiatives, lower discounting, and a slower pace of unit growth until traffic recovers.

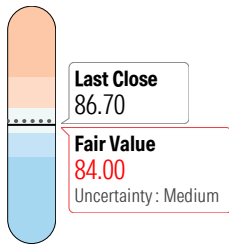
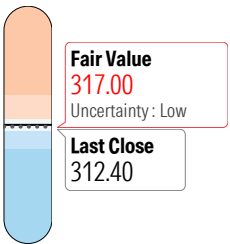
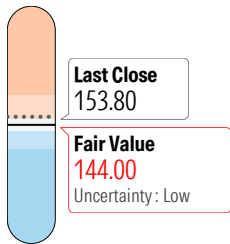
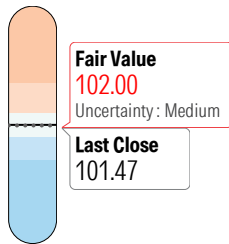
Bulls Say Ari Felhandler, Equity Analyst, 28 Nov 2025

- Persistent menu development and daypart expansion should strengthen Starbucks' value proposition and boost traffic.
- Starbucks' shift to a more personalized loyalty membership program, with richer rewards for higher-

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Competitors

	Starbucks Corp SBUX	McDonald's Corp MCD	Yum Brands Inc YUM	Restaurant Bra...ernational Inc QSR
				
Economic Moat	Wide	Wide	Wide	Narrow
Currency	USD	USD	USD	CAD
Fair Value	84.00 28 Nov 2025 05:24, UTC	317.00 4 Sep 2025 19:59, UTC	144.00 19 Aug 2025 13:34, UTC	102.00 21 Aug 2025 17:39, UTC
1-Star Price	113.40	396.25	180.00	137.70
5-Star Price	58.80	253.60	115.20	71.40
Assessment	Fairly Valued 27 Nov 2025	Fairly Valued 27 Nov 2025	Fairly Valued 27 Nov 2025	Fairly Valued 27 Nov 2025
Morningstar Rating	★★★ 28 Nov 2025 05:28, UTC	★★★ 26 Nov 2025 22:25, UTC	★★★ 26 Nov 2025 22:28, UTC	★★★ 27 Nov 2025 23:12, UTC
Analyst	Ari Felhandler, Equity Analyst	Kristoffer Inton, Senior Equity Analyst	David Swartz, Senior Equity Analyst	David Swartz, Senior Equity Analyst
Capital Allocation	Exemplary	Standard	Standard	Standard
Price/Fair Value	1.03	0.99	1.07	0.99
Price/Sales	2.66	8.54	5.38	3.57
Price/Book	—	—	—	7.07
Price/Earning	39.23	26.12	30.35	22.97
Dividend Yield	2.83%	2.27%	1.82%	3.37%
Market Cap	98.59 Bil	222.48 Bil	42.70 Bil	35.05 Bil
52-Week Range	75.50—117.46	276.53—326.32	122.13—163.30	83.32—102.75
Investment Style	Large Blend	Large Value	Mid Blend	Large Value

frequency guests, could support greater loyalty and more consistent traffic.

- According to the National Coffee Association, US coffee consumption is at a 20-year high, while increasing per-capita coffee consumption trends in new markets stand to buoy continued growth despite intense competitive pressure.

Bears Say Ari Felhandler, Equity Analyst, 28 Nov 2025

- Cost pressures stemming from ongoing labor inflation, persistent unionization efforts, and contracting arabica supply may threaten further gross margin gains or volumes.
- Intensifying competition from energy drinks could pressure Starbucks' ready-to-drink sales.
- Heightened spending on labor, advertising, and corporate restructuring threatens to crimp near-term margins.

Economic Moat Ari Felhandler, Equity Analyst, 28 Nov 2025

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We assign Starbucks a wide economic moat rating, anchored by the strength of its intangible assets and cost advantage. Despite the restaurant industry's low barriers to entry and minimal switching costs, which make it notoriously competitive, Starbucks boasts one of the most widely recognized consumer brand names, leading the global coffee and tea market with a 33% share, ahead of Dunkin' (12%), Tim Hortons (6%), and Luckin (4.5%). We surmise that Starbucks' strong brand standing is reinforced by pricing power, attractive unit economics, successful international replication, and a formidable retail presence. Moreover, we believe that Starbucks' scale enhances its procurement capabilities while allowing the firm to better leverage marketing and technology investments across its sales base. Indeed, our view is corroborated by returns on invested capital, including goodwill, of 22% on average, which have outstripped our 8.4% weighted average cost of capital over the past decade. We expect the firm to continue to produce outsize economic rents over a 20-year horizon.

In breaking down brand strength, we surmise that Starbucks has become synonymous with delivering a café experience that consumers trust, offering consistently high-quality, customizable, handcrafted beverages across 40,000-plus locations globally. Admittedly, Starbucks has faced traffic headwinds more recently, but so has the broader restaurant industry, as consumers have grappled with price increases in the aftermath of the pandemic. We don't see this as a verdict on the firm's long-term brand health, but macroeconomic pressures and rectifiable execution issues tied to former management. Since emerging as an early mover in coffee's "second wave," which underscored experience and higher-quality offerings, Starbucks has upheld its positioning. It has done so by reinvesting through cycles, rolling out differing formats, flexing to consumer tastes, elevating convenience, and continuously reinforcing its perceived premium value proposition. As such, we posit that Starbucks has amplified the clout of its logo, which functions as a symbol of social currency that people carry on the go, despite the onslaught from lower-priced competitors and the coffee industry's "third wave" of boutique competition (which began gaining traction in the early 2000s). As coffee remains a habitual, affordable luxury, we surmise that Starbucks' depth of customization by professional baristas builds attachment—a preference for a personalized beverage that drives differentiation from less customizable at-home options and other more generalized restaurant operators.

Ultimately, we posit that a strong brand is evidenced by the firm's ability to command pricing power, reflected in comparable sales growth. In the US, Starbucks' average check has grown about 6% annually over the last decade through fiscal year 2024 (more than offsetting roughly 3.7% aggregate inflation in food, coffee, and labor), while traffic has edged down only around 0.5% per year on average. We believe this underscores Starbucks' ability to trade consumers into larger sizes and premium products, which tend to come with a higher price tag, while keeping its offerings fresh with new flavors, formats, and food across dayparts. We see evidence of the firm's ability to stay on top of consumer trends through the mix shift to cold from warm beverages, with the former now representing around 75% of total beverage sales, up from 35% in 2013. Starbucks is also winning over folks who aren't

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traditional coffee drinkers, exemplified by the launch of its refreshers line, which was the largest first-week product launch in company history. Further, more than 60% of US beverages are customized now, with add-ons and modifiers, including cold foam, sauces, and syrups, resulting in over \$1 billion in sales annually (equating to around 5% of consolidated sales by our estimates). In this vein, we suspect consumers tend to stick with their favorite flavor pairings, even amid price hikes, rather than switch to competitors' offerings.

In this context, Starbucks stands out with a markedly higher average transaction value than its peers, reinforcing its premium standing and indicating that consumers are willing to pay a higher price for the perceived value Starbucks offers. As such, Starbucks' calendar 2024 US average transaction totaled \$9.34, ahead of the US coffee and tea shop \$6.76 average, including Dutch Bros (\$8.44), Caribou (\$7.13), Tim Hortons (\$4.95), and Inspire Brands' Dunkin' (\$4.68), according to Euromonitor and our estimates.

Its proven ability to increase average check size while holding customer traffic is also evidenced in superior unit economics, and we expect this will persist, fueling new unit development appetite, a testament to brand strength. We look to structurally higher average unit volumes, which enable a firm to more effectively spread unit-level costs. Starbucks stands out in this regard, with 2024 US average company-owned unit volumes reaching \$2.1 million, once again outpacing Dutch Bros (under \$2 million), Dunkin' US (around \$1.3 million), and Tim Horton's (\$1.2 million). When paired with nearly 17% restaurant-level margins and assuming buildout costs around \$1.3 million per new store, we estimate stout 35% cash-on-cash returns and a payback period of around 3-4 years on average, below the 4-6 year average in the quick-service restaurant space, based on existing company-owned store data, despite near-term margin softness. This stands to attract the strongest operators that want to expand and invest in Starbucks units as opposed to other brands, a vital factor for upholding the firm's premium positioning.

Internationally, Starbucks proves its concept travels well, building global recognition while adapting to local tastes and preferences, which is far from easy. Indeed, Starbucks counts over 22,000 international stores in more than 80 countries, exceeding its US footprint, averaging an impressive 8.5% growth annually over the last five years. This puts Starbucks in the number three spot, behind only McDonald's (29,000) and KFC (28,000), and well ahead of coffee-heavy peers like Dunkin' (4,100), which operates in roughly 40 countries. The firm's ability to resonate across cultures underscores brand clout, driving coffee habits in tea-first markets like China and holding its own in café-saturated markets like Italy (where its model was inspired) helped by world-renowned recognition that draws locals and tourists alike.

Starbucks' brand reach doesn't stop at the coffeehouse door. It follows shoppers into the retail aisle, which we see as a testament to consumers' affinity for the brand. As such, Starbucks holds the number one dollar share in the \$20 billion US retail coffee market (fresh and instant coffee), with a 12.5% slice,

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besting no-moat Smucker's Folgers (7.4%), narrow-moat Kraft Heinz's Maxwell House (4.4%), narrow-moat Keurig Dr Pepper's Green Mountain (3.1%), and Dunkin' (2.7%). Starbucks' leadership also extends to the \$7 billion US ready-to-drink (RTD) coffee segment, with the firm chalking up a 35% share, ahead of narrow-moat Monster (11.5%), Stok (6.5%), and Dunkin' (3%). Supporting its positioning, we view the firm's 2018 Global Coffee Alliance distribution agreement with wide-moat Nestle, the world's largest packaged food company, as a testament to Starbucks' brand strength and a driver of further international retail growth and brand awareness, enabled by Nestle's distribution network in 185 countries and its deep, long-standing retail relationships. Further, we see the firm benefiting from its bottling agreement with wide-moat PepsiCo, which dates back to 1994. From where we sit, the biggest hurdle to gaining traction on the retail shelf is securing premium shelf placement, and these category behemoths have a proven ability to do so. At the same time, their larger case sizes support lower costs versus competitors. Additionally, both retail and RTD coffee exhibit relatively limited value-oriented private-label penetration, approximating a low-single-digit percentage share of the RTD category in the US and abroad, while the retail category ranges from high-single- to low-double-digit share. This lags the high-teens to low-20s share private label has amassed in the broader US food and beverage space, suggestive of the strong brands in the aisle.

Lastly, Starbucks' comparatively low advertising expense as a percentage of revenue underscores the power of its brand. Over the past five years, the firm has spent an average of 1.5% of total revenue on advertising, and evidence suggests its licensing royalty related to advertising sits around 1% of total gross revenue. By contrast, Dunkin' applies a 5% advertising fee on franchisees' gross sales, while McDonald's exceeds 4% and Restaurant Brands' ranges from 2% to 5%.

In addition to Starbucks' strong brand, we believe the firm has also built a cost advantage. Although the firm doesn't report systemwide sales, it stands out as one of the world's largest restaurant chains, regardless of specialty, with around \$41 billion in system sales in 2024 (according to Euromonitor). On that basis, we place Starbucks near the top, behind just McDonald's (\$131 billion in systemwide sales), Yum Brands (\$65 billion), and Restaurant Brands (\$44 billion). In turn, we believe the firm's scale enables it to secure favorable pricing by leveraging volume discounts across its purchases for both company-operated and licensed stores, including milk and syrups, paper and plastic packaging, and equipment like coffee machines and ovens. Additionally, with large average unit volumes and a concentrated urban store base, we suspect the firm benefits from lower last-mile delivery costs. Beyond this, we surmise the firm's ability to spread technology and menu development investments across its sprawling sales base is a key factor that allows it to defend its footing against smaller peers, boosting its value perception and generating stronger operating profitability and returns on this deployed capital. Zeroing in on technology, Starbucks has rolled out initiatives that enhance its stores with AI-based labor scheduling, inventory counting, demand forecasting, and tools for baristas, along with a Microsoft Azure-based platform that digitally links in-store machines, allowing them to receive new

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drink recipes and brewing instructions. In addition, its Siren System resembles new equipment that has significantly reduced service times in high-traffic stores. Most notably, we point to the early rollout of mobile order and pay in the early 2010s and a loyalty program that now totals more than 34 million 90-day active users in the US. For context, that outstrips Chipotle's 20 million 12-month active users. We contend that the ability to leverage these insights and engage consumers directly gives the firm the power to drive traffic at scale. Further upgrades are coming in 2026, including a more personalized tiered system and continued international deployment, which will make the program even more useful for the brand. As a testament to its strength, management has noted that loyalty members spend 2-3 times more than non-users and account for about 60% of North American traffic. Ultimately, Starbucks' ability to invest rigorously through the cycle to improve service and operations helps defend its standing.

Fair Value and Profit Drivers Ari Felhandler, Equity Analyst, 28 Nov 2025

We've lowered our fair value estimate for Starbucks to \$84 per share from \$87, largely after cutting our midcycle North American segment operating margin assumption to 19%, about 180 basis points lower than before, to reflect a service model with structurally higher labor costs than we previously anticipated. Additionally, we've reduced our 2026 North American comparable sales forecast to 3.5% (from 6.5% previously) to reflect continued industry pressure as the firm scales its initiatives more broadly. Our revised valuation implies a fiscal 2026 enterprise value/EBITDA of 18 times.

Following Starbucks' deal with Boyu Capital, we've carved out the China segment from its international arm and made an enterprise value adjustment of around \$12.4 billion, near Starbucks' reported value for the China business (\$13 billion). Our calculation reflects cash proceeds from the sale (\$2.4 billion), our valuation of Starbucks' retained interest (\$2.0 billion), and our estimate of the net present value of licensing economics payable to the firm (\$7.9 billion). Our assumptions are underpinned by 4% comp and 9% unit growth rates on average over the next decade, with the business reaching \$10.6 billion in revenue and 19,000 units by 2035 from \$3.2 billion and 8,000 units in 2025, a bit shy of Starbucks' 20,000 target. We assume a 6% royalty rate that feeds into our licensing estimate, encompassing royalties paid to Starbucks, as well as around 30 basis points reflecting margins on product and equipment sales. Overall, this adjustment was offset by the removal of China revenues and slightly higher operating expenses, as we assume the rest of the international portfolio carries weaker unit economics and has a greater mix of product and distribution costs from licensed stores. We plan to refine our modeling of the transaction as more details emerge.

We hold a positive view of Starbucks' long-term prospects, with mid-single-digit company-wide comparable sales and unit growth over our forecast. We expect comparable sales growth to be fueled by continued investment in menu innovation across beverages and dayparts, customer service initiatives, advertising, and technology, including deeper loyalty engagement, which should support

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both traffic and pricing gains. On the unit side, we see international to lead growth with roughly 6% annual expansion, outpacing the 2% we forecast for the more mature North American segment. By 2035, we project North America will operate around 22,300 stores (up from 18,311 in 2025), while international approaches nearly 27,000 (from 14,668).

In profitability, we see meaningful room for restaurant-level margin improvement as comparable sales and the broader industry backdrop recover from persistent traffic pressure. In North America (which we expect will represent 69% of operating income in fiscal 2026), our implied unit-level margin estimate rises to 19.1% in 2035 from 11.7% in 2025, on technology initiatives aimed at saving labor hours and waste, such as AI inventory tracking, and operating leverage. That said, we project modest upside beyond prepandemic levels (around 18%), given traffic remains in a mid-teens rate below 2020, and we expect the firm to continue investing in labor to maintain its competitive standing and support its brand positioning.

Risk and Uncertainty Ari Felhandler, Equity Analyst, 28 Nov 2025

We assign a Starbucks a Medium Uncertainty Rating.

Starbucks operates in an intensely competitive restaurant landscape where customers face virtually no switching costs. In particular, we surmise the firm's focus on beverages heightens this pressure, with more players entering the space, given the category's attractive margin profile. We see well-resourced players investing behind menu expansion and new concepts, such as McDonald's and Chick-fil-A, while rapidly expanding challengers, including Dutch Bros, 7Brew, Blank Street, and Luckin, are also vying for share.

When the economic backdrop sours, we think consumers are especially likely to reel in purchases on the morning daypart, trading down to at-home consumption or shunning the category altogether. Meanwhile, the firm relies on coffee as a key input. Since coffee is a commodity, prices can be affected by changes in weather and the implementation of tariffs, which could pressure margins and/or strain our traffic forecast, depending on how the firm moves to offset such pressures.

From an environmental, social, and governance perspective, we posit risks related to labor and supply chain are most pertinent. We don't expect scrutiny around wage rates, scheduling practices, and staffing levels to subside, especially if unionization efforts gain momentum. Although only a mid-single-digit percentage of its company-owned US footprint has unionized, unfavorable bargaining outcomes or strikes could raise labor costs, undermine the execution of management's initiatives, or hurt the brand's public image. On the environmental side, Starbucks relies on the supply of arabica beans for its coffee, which are sourced from regions that face long-term challenges due to climate change.

Capital Allocation Ari Felhandler, Equity Analyst, 28 Nov 2025

Our Capital Allocation Rating for Starbucks is Exemplary. We believe the firm has a sound balance

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sheet, solid investment efficacy, and an appropriate shareholder distribution strategy.

In our view, Starbucks' balance sheet remains solid despite a temporarily elevated leverage profile. In this context, the firm's debt stood at 3.4 times EBITDA at the end of fiscal 2025, above its prior four-year average of 2.3 times, which reflects depressed profitability levels as it invests to steady its competitive standing rather than the assumption of outsize debt. Over the next five years, we expect Starbucks' leverage to ease back toward 2.4 times in 2030.

We continue to view CEO Brian Niccol's Back to Starbucks plan as a prudent strategy that reinforces the firm's premium position and supports its long-term competitive standing by placing a greater emphasis on the customer experience. For context, Niccol took the helm after four consecutive quarters of global comparable sales declines in fiscal 2024, including a 7% drop in the fourth quarter. We surmise weak performance wasn't unique to Starbucks but reflected a challenging consumer backdrop following steep cumulative price increases. That said, we posit prior management's shift to discounting and an emphasis on efficiency came at the expense of bolstering the brand and its value proposition. Against this backdrop, the firm is now deploying \$500 million into incremental labor hours, order-sequencing technology, training, and labor-pooling with the intent of enhancing the customer experience by elevating service standards and allocating additional headcount to improve throughput. As a result, the firm estimates that about 80% of orders were completed in four minutes or less by the end of fiscal 2025, up from 50% at the end of fiscal 2024. Additionally, we see Starbucks prudently investing behind its brand through its remodeling initiative that aims to give stores a warmer, more inviting coffeehouse feel, expecting to complete 1,000 remodels by the end of fiscal 2026. We think this is important for drawing consumers into stores and bolstering the brand's appeal as a "third place" destination, complementing its pickup and drive-thru prowess. At the same time, we don't expect these investments to come at the expense of consumer-valued menu innovation, which we view as critical to supporting its value proposition and raising average ticket in the long run. We think this is prudently complemented by the rollout of digital menu boards that highlight different items or promotions at various times throughout the day. Further, elevated advertising investment, reaching 2.3% of revenue (\$870 million) in fiscal 2025 from the prior five-year average of 1.3%, strikes us as critical to touting the firm's recent improvements to consumers. We forecast continued investment in advertising, averaging 1.8% of revenue over the next 10 years. We surmise the firm is taking the proper steps to free up capital by trimming corporate overhead, working to lower buildout costs, slowing capital-intensive efficiency measures in favor of tack-on tech and equipment upgrades, and pruning stores that are unprofitable or unable to meet this elevated operating standard, while moderating unit growth in the near term.

We're also sanguine about management's decision to form a joint venture for its China business with Boyu Capital, selling a 60% stake at a \$4 billion valuation. In the face of intense competition, we surmise tapping Boyu's local expertise should better align product innovation and consumer engagement initiatives with local tastes, similar to pursuits by Yum Brands, McDonald's, and, most recently,

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Restaurant Brands with Burger King in China. Though ambitious, we surmise Boyu's regional real estate experience could help Starbucks make progress toward 20,000 stores over time from around 8,000 in fiscal 2025. All in, we believe the deal should help stabilize profitability, allow Starbucks to refocus on North America and other growth markets, and still benefit from the attractive growth prospects that should emulate from China.

Distributions to shareholders look appropriate, in our view. We forecast Starbucks to grow its dividend at a high-single-digit rate annually on average over the next decade, settling around a 53% payout ratio in the back half of our forecast, which is roughly in line with peers. We also model buybacks averaging about 3% of shares outstanding per year after fiscal 2026, following a brief pause to prioritize investment in the underlying business. We see this as a sensible use of capital when executed at a discount to our fair value estimate.

Analyst Notes Archive

Starbucks Earnings: Better Service Lifts Sales, and Improving China Results Bode Well for Stake Sale

Dan Su, CFA, Equity Analyst, 30 Oct 2025

Starbucks' sales grew 5% in the fiscal fourth quarter on 1% global comparable-store sales growth and store expansion. Adjusted operating profit fell 31% as the margin declined 500 basis points to 9.4%. Management is scheduled to provide a 2026 outlook at a January investor event. Why it matters: Starbucks' flat comparable sales in the core US market was an improvement after six consecutive quarters of declines, which we attribute to stepped-up investments in store service, menu innovation, and marketing to reinforce its competitive standing for the longer term. Management remains committed to investing more in store staffing, renovation, and new food and beverages (including protein-enriched coffee) to boost the chain's appeal. We expect the firm to roll out Green Apron Service nationwide after positive results from 650 pilot stores. The 2% comp sales lift in China was led by strong traffic growth, as digital engagement and beverage innovation came to fruition. Improving China results should position Starbucks well in negotiations for a stake sale that is rumored to value the China operations at as much as \$4 billion. The bottom line: We plan to maintain our \$87 fair value estimate for wide-moat Starbucks; this is underpinned by our 10-year forecasts for 8% annual sales growth and a 15% average operating margin. The shares look fairly valued. After rightsizing the store base with closures in the US, the firm is prudent to prioritize store revamps in the near future, in addition to developing new stores that cost less to build. Internationally, we expect the firm to open more regular and flagship stores to drive growth. Despite ongoing challenges, we expect a sharper consumer focus to reinforce Starbucks' brand strength and fuel a traffic recovery in the medium term. This, coupled with better investment discipline and cost savings, should drive low-teens operating profit growth annually.

Starbucks Earnings: Focus on Services and Cost-Cutting to Fuel Turnaround; Shares Not Cheap

Dan Su, CFA, Equity Analyst, 30 Jul 2025

Starbucks Corp SBUX ★★★ 28 Nov 2025 05:28, UTC

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86.70 USD 26 Nov 2025	84.00 USD 28 Nov 2025 05:24, UTC	1.03	98.59 USD Bil 26 Nov 2025	Wide	Large Blend	Medium	Exemplary	 3 Sep 2025 05:00, UTC

Starbucks' sales grew by 4% in the third quarter of fiscal 2025 as a global comparable store sales decline of 2% was more than offset by store expansion. Operating profit dropped 38% as operating margin fell 680 basis points to 9.9%. Why it matters: Even as consumer belt-tightening in the core US market pressured transactions (down 4%), the firm remains steadfast in its investments in service, innovation, and marketing to reinforce long-term consumer connections. Starbucks' customer service commitment is evidenced by the rollout of the Green Apron Service to boost barista hospitality nationwide in August. We expect part of the \$500 million in labor cost budgeted for this project over the next year will be funded by savings. The 2% comparable sales lift in China was a sequential improvement from flat, which we attribute to effective digital marketing and successful zero-sugar offerings. These efforts should boost the firm's position as it screens for local partners to drive store base expansion. The bottom line: We don't plan any material changes to our \$87 per share fair value estimate for wide-moat Starbucks, or to our 10-year forecasts for 8% annual sales growth and a 15% average operating margin, both of which are consistent with the respective averages achieved in the past decade. Following a 4% pop in after-hours trading on July 29, 2025, shares don't strike us as particularly attractive. We'd wait for a better entry point as the stock may come under pressure amid economic or competitive headwinds. Despite ongoing challenges, we expect a sharper focus on consumer engagement will bolster Starbucks' brand strength and fuel a traffic recovery in the midterm, thereby driving low-teens operating profit growth annually. Coming up: We think Starbucks remains on track to expand its store base by 70% over the next decade, from 2024's level (a 6% increase annually), but expect efforts to rightsize the US footprint will slow the pace of expansion in the near term.

Starbucks Earnings: Turnaround in Early Stage as Q2 Disappoints; Shares Slightly Undervalued Dan Su, CFA,Equity Analyst,30 Apr 2025

Starbucks grew sales by 2% in the second quarter as its global comparable sales decline of 1% was more than offset by store expansion. Adjusted operating margin fell 450 basis points to 8.2%. Why it matters: Despite higher marketing and labor spending, weak traffic drove same-store sales down 2% in the core US market. Flat comp sales in China improved sequentially on more effective brand messaging, but demand headwinds persisted. Management is prudent to focus on staff hospitality and a streamlined consumer experience (including shorter wait times), but we expect Starbucks' planned switch to higher store staffing (versus equipment automation) to achieve its goals will drive choppy profits in the coming quarters. We expect the coffee chain to refrain from price increases in 2025 but to leverage zero-based budgeting, procurement savings, and productivity initiatives to offset green coffee cost inflation and higher store investments. The bottom line: We don't plan any material changes to our \$87 per share fair value estimate for wide-moat Starbucks. Shares look undervalued after a 6% fall in after-hours trading as the market prices in prolonged weakness versus our forecast for comparable sales and margins to rebound in 2026. While we plan to trim our 2025 estimates following two soft quarters, our 10-year forecast for 8% annual sales growth and a 15% average operating margin remains

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in place. Both metrics are consistent with averages achieved over the past decade. Despite current challenges, we think stepped-up investments in consumer experience should reinforce Starbucks' brand strength and drive a traffic turnaround in the medium term, fueling low-teens annual growth in operating profits. Coming up: We expect Starbucks to slow the pace of store openings and focus instead on store renovation and operational enhancement. Over the next decade, however, we think Starbucks remains on track to grow its store base by 70% from 2024, a 6% annual increase.

Starbucks: Cathy Smith Named New Finance Chief; No Change to Our Exemplary Capital Allocation Rating

Dan Su, CFA, Equity Analyst, 4 Mar 2025

Wide-moat Starbucks announced the appointment of Cathy Smith as the new chief financial officer. Smith, who is currently the finance chief at the soon-to-go-private department store chain no-moat Nordstrom, will likely join over the next month. She will replace Rachel Ruggeri, who is leaving the firm after having served as the finance chief since 2021. We are maintaining our \$87 per share fair value estimate, leaving shares rich. While we remain constructive about management's efforts to right the ship, we posit investors are overly optimistic about the firm's near-term recovery amid industrywide traffic challenges, promotional activity, and competition from at-home coffee. We see Smith as a strong finance leader to partner with CEO Brian Niccol and steer the coffee chain through turnaround efforts to revive store traffic growth and reinforce its competitive edge. We expect Smith to leverage her experience as the finance chief at large retail companies including Nordstrom, Target, and Walmart (international division), to help shape and implement investment strategies. Moreover, as Starbucks reviews its growth prospects in international markets, including in China where the firm is rumored to be evaluating refranchising options amid intense local competition, Smith's international experience could prove helpful. We don't expect the new CFO appointment to bring any material changes to Starbucks' long-term growth and capital allocation priorities, and our Exemplary Capital Allocation Rating remains in place. With Brian Niccol at the helm, we expect Starbucks to remain focused on the "Back to Starbucks" plan unveiled in September. The plan aims to provide quality, handcrafted, and coffee-forward products to restore the firm's appeal as a third place, and simultaneously reduce operational complexity. We continue to expect the firm to expend 7% of sales in capital expenditure and another 7% in selling, marketing, and payroll expenses over the 10-year forecast period.

Starbucks Earnings: Initiatives Support Gradual Sequential Traffic Improvement Amid Tough Landscape

David Swartz, Senior Equity Analyst, 29 Jan 2025

Given that wide-moat Starbucks' turnaround is in its early stages amid a challenging restaurant landscape, expectations were tempered going into its fiscal 2025 first-quarter report. Although its sales of \$9.4 billion were flat and exceeded our \$9.3 billion estimate, its earnings per share of \$0.69 fell \$0.03 short. We don't anticipate making a material change to our \$86 fair value estimate, leaving shares as rich. While we remain optimistic about management's efforts to bolster its brand positioning through

Starbucks Corp SBUX ★★★

28 Nov 2025 05:28, UTC

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in-store investments, process improvements, and menu innovation, we posit investors are overly optimistic about the firm's near-term recovery amid industrywide traffic challenges, heightened promotional activity, and competition from the grocery channel. Domestically, Starbucks' 4% comparable sales decline aligned with our expectation as traffic declines sequentially moderated to 8% in the quarter (from 10%). We surmise a milder decline was supported by strategic initiatives (like eliminating fees for nondairy milk customizations) following prior challenges in engaging its core consumer base. Additionally, nonloyalty member traffic increased, which we attribute to the early impact of a shift toward external advertising, and discounted transactions declined 40% year over year. We view this shift toward brand positioning over discounting as a prudent strategy that reinforces Starbucks' premium positioning. Alongside efforts to reduce wait times, streamline the menu by eliminating 30% of its offerings, and enhance store environments with renovations (among others), we continue to expect US comparable sales growth to average around 4% over the next decade. In the quarter, growth initiatives pressured profitability, with the operating margin down 380 basis points to 11.9%, below our 12.6% estimate. While investments to maximize efficiency will likely weigh on near-term margin performance, we continue to see expansion to around 18% in 2034 from 15% in 2024.

Starbucks Earnings: We Expect to Lower Fair Value Estimate on Poor Medium-Term Outlook Sean Dunlop, CFA, Director, 31 Oct 2024

Wide-moat Starbucks is headed in the right direction, but it looks like it will take a substantial amount of time and capital to get there. Consistent with the views expressed in our Oct. 22 note after the firm previewed its fourth-quarter earnings, we are disappointed to see that US traffic fell by a striking 10% and expect costly remedial measures as we move into fiscal 2025. We expect to lower our \$95 fair value estimate by a high-single-digit percentage, leaving shares looking slightly expensive as reported results aligned with the earnings preview. While we're encouraged by CEO Brian Niccol's efforts to port best practices from his time at Taco Bell and wide-moat Chipotle to the beleaguered coffee chain, it's challenging not to see those priorities in terms of dollars and cents. During the earnings call, Niccol mentioned an increase in marketing to non-Starbucks Rewards members, store remodels to prioritize the in-cafe experience, the rollout of Clover Vertica machines to all stores by fiscal year-end 2025, an acceleration of the rollout of Siren equipment and processes, an increase in barista hours during peak hours, investments in order sequencing for mobile orders, and a manager conference in 2025. While these will be partially funded by targeted operational savings, the rollback of brand-dilutive and ineffective promotional activity, and a pullback on store development, we envision a large step-up in capital and operating expenditure in the medium term that is unlikely to be offset by comparable-store sales growth for a handful of years. Ultimately, we expect this approach to pay dividends slowly in the form of a return to more maintainable, traffic-led growth by fiscal 2026, but it has become clear that we had underestimated the scope of Starbucks' operational and store estate issues. Consistent with our earlier note, we expect margins to trough in fiscal 2025 around 12% before gradually recovering as

Starbucks Corp

SBUX

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28 Nov 2025 05:28, UTC

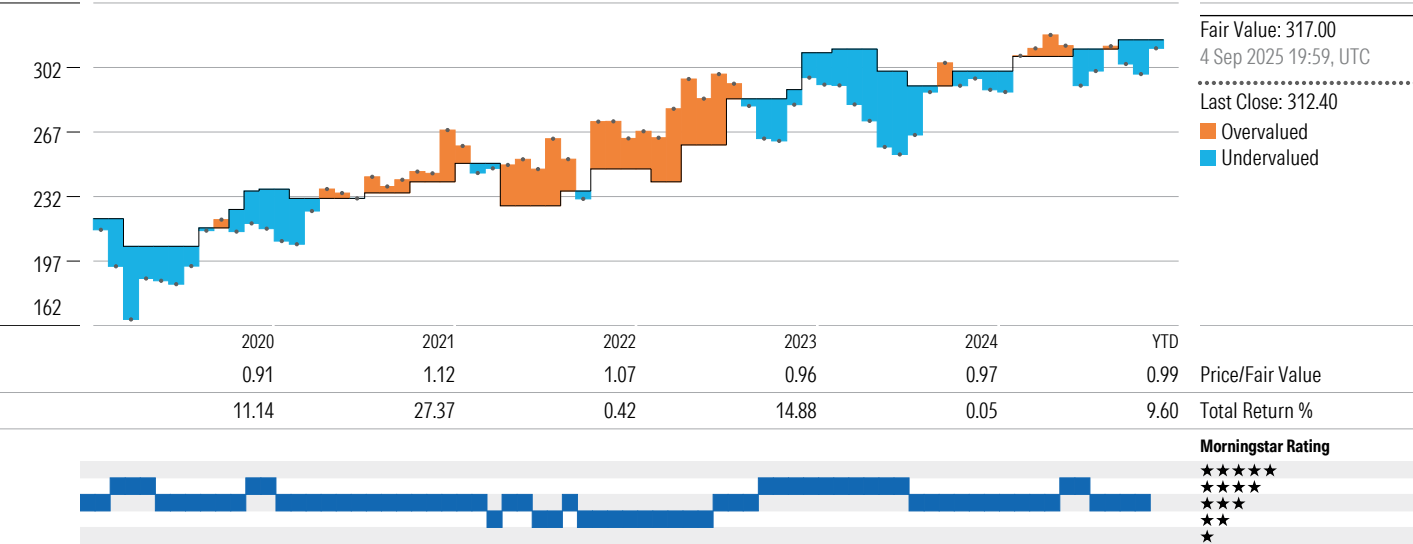
Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment¹
86.70 USD	84.00 USD	1.03	98.59 USD Bil	Wide	Large Blend	Medium	Exemplary	
26 Nov 2025	28 Nov 2025 05:24, UTC		26 Nov 2025					3 Sep 2025 05:00, UTC

stores return to transaction-led growth. ■■■

Starbucks Corp SBUX ★★★ 28 Nov 2025 05:28, UTC

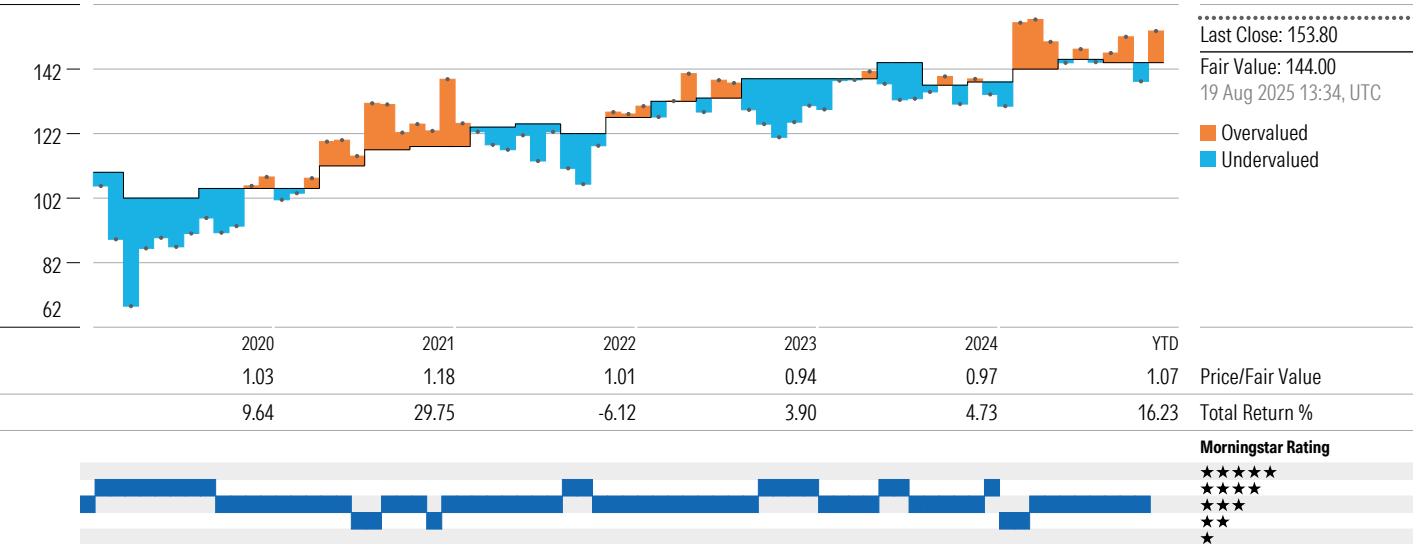
Competitors Price vs. Fair Value

McDonald's Corp MCD



Total Return % as of 26 Nov 2025. Last Close as of 26 Nov 2025. Fair Value as of 4 Sep 2025 19:59, UTC.

Yum Brands Inc YUM



Total Return % as of 26 Nov 2025. Last Close as of 26 Nov 2025. Fair Value as of 19 Aug 2025 13:34, UTC.

Starbucks Corp

SBUX

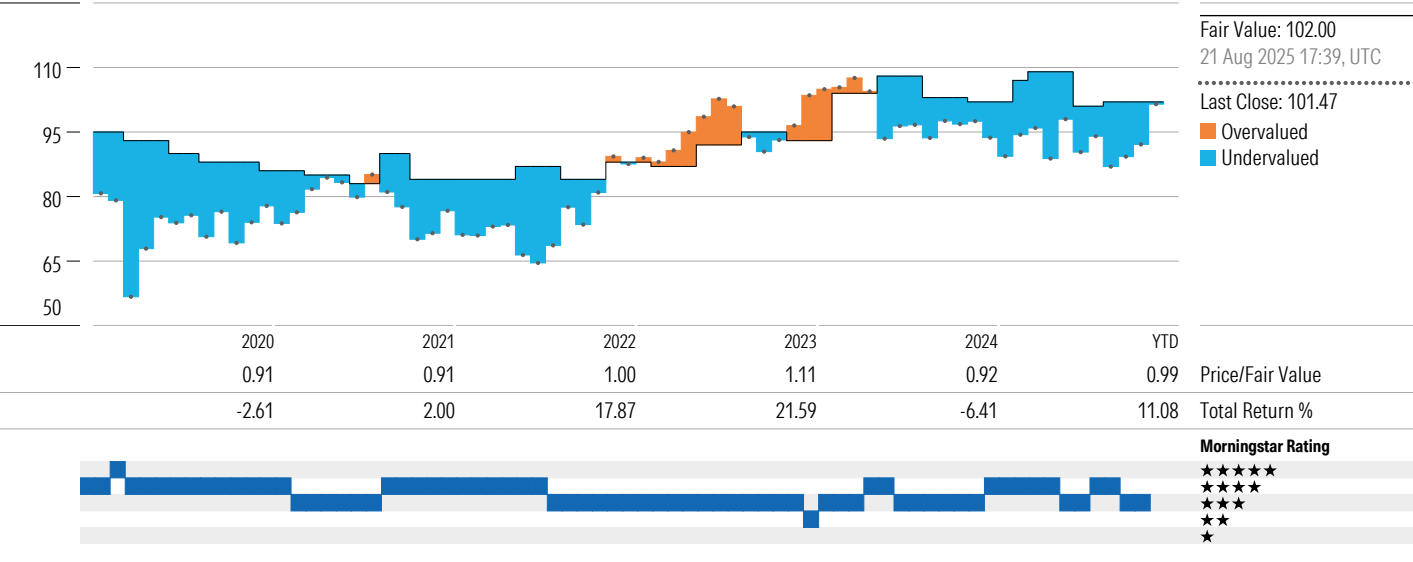
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28 Nov 2025 05:28, UTC

Competitors Price vs. Fair Value

Restaurant Brands International Inc

QSR



Total Return % as of 27 Nov 2025. Last Close as of 27 Nov 2025. Fair Value as of 21 Aug 2025 17:39, UTC.

Starbucks Corp SBUX ★★★

28 Nov 2025 05:28, UTC

Last Price 86.70 USD 26 Nov 2025	Fair Value Estimate 84.00 USD 28 Nov 2025 05:24, UTC	Price/FVE 1.03	Market Cap 98.59 USD Bil 26 Nov 2025	Economic Moat™ Wide	Equity Style Box Large Blend	Uncertainty Medium	Capital Allocation Exemplary	ESG Risk Rating Assessment¹ 3 Sep 2025 05:00, UTC
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Morningstar Valuation Model Summary

Financials as of 27 Nov 2025

Fiscal Year, ends 30 Sep	Actual			Forecast				
	2023	2024	2025	2026	2027	2028	2029	2030
Revenue (USD Mil)	35,976	36,176	37,184	35,056	37,804	41,036	44,443	47,876
Operating Income (USD Mil)	5,503	5,108	3,581	3,650	4,430	5,271	6,226	7,317
EBITDA (USD Mil)	7,321	7,001	4,708	5,231	6,441	7,440	8,481	9,686
Adjusted EBITDA (USD Mil)	7,321	7,001	4,708	5,231	6,441	7,440	8,481	9,686
Net Income (USD Mil)	4,125	3,761	1,856	2,504	3,273	3,924	4,595	5,375
Adjusted Net Income (USD Mil)	4,125	3,761	1,856	2,504	3,273	3,924	4,595	5,375
Free Cash Flow To The Firm (USD Mil)	3,827	2,954	2,145	1,927	3,089	3,682	4,259	5,050
Weighted Average Diluted Shares Outstanding (Mil)	1,151	1,137	1,140	1,140	1,123	1,095	1,062	1,030
Earnings Per Share (Diluted) (USD)	3.58	3.31	1.63	2.20	2.91	3.58	4.33	5.22
Adjusted Earnings Per Share (Diluted) (USD)	3.58	3.31	1.63	2.20	2.91	3.58	4.33	5.22
Dividends Per Share (USD)	2.16	2.32	2.44	2.48	2.61	2.74	2.88	3.11

Margins & Returns as of 27 Nov 2025

	3 Year Avg	Actual			Forecast					5 Year Avg
		2023	2024	2025	2026	2027	2028	2029	2030	
Operating Margin %	13.1	15.3	14.1	9.6	10.4	11.7	12.9	14.0	15.3	13.4
EBITDA Margin %	17.5	20.3	19.4	12.7	14.9	17.0	18.1	19.1	20.2	17.9
Adjusted EBITDA Margin %	—	20.3	19.4	12.7	14.9	17.0	18.1	19.1	20.2	17.9
Net Margin %	9.0	11.5	10.4	5.0	7.1	8.7	9.6	10.3	11.2	9.4
Adjusted Net Margin %	9.0	11.5	10.4	5.0	7.1	8.7	9.6	10.3	11.2	9.4
Free Cash Flow To The Firm Margin %	8.2	10.6	8.2	5.8	5.5	8.2	9.0	9.6	10.5	8.6

Growth & Ratios as of 27 Nov 2025

	3 Year CAGR	Actual			Forecast					5 Year CAGR
		2023	2024	2025	2026	2027	2028	2029	2030	
Revenue Growth %	4.9	11.6	0.6	2.8	-5.7	7.8	8.6	8.3	7.7	5.2
Operating Income Growth %	-6.9	24.2	-7.2	-29.9	1.9	21.4	19.0	18.1	17.5	15.4
EBITDA Growth %	3.6	19.1	-4.4	-32.8	11.1	23.1	15.5	14.0	14.2	6.2
Adjusted EBITDA Growth %	-8.5	19.1	-4.4	-32.8	11.1	23.1	15.5	14.0	14.2	15.5
Earnings Per Share Growth %	-16.9	26.5	-7.7	-50.7	34.9	32.7	23.0	20.8	20.6	26.2
Adjusted Earnings Per Share Growth %	-16.9	26.5	-7.7	-50.7	34.9	32.7	23.0	20.8	—	26.2

Valuation as of 27 Nov 2025

	Actual			Forecast				
	2023	2024	2025	2026	2027	2028	2029	2030
Price/Earning	27.2	25.6	53.2	39.4	29.8	24.2	20.0	—
Price/Sales	3.1	2.7	2.7	2.8	2.6	2.4	2.2	—
Price/Book	-14.0	-12.9	-12.2	-11.7	-10.1	-8.3	-6.9	—
Price/Cash Flow	—	—	—	—	—	—	—	—
EV/EBITDA	18.1	17.1	25.9	23.3	18.9	16.4	14.4	—
EV/EBIT	24.1	23.4	340.0	33.4	27.5	23.1	19.6	—
Dividend Yield %	2.2	2.7	2.8	2.9	3.0	3.2	3.3	—
Dividend Payout %	60.3	70.2	149.8	113.1	89.5	76.4	66.4	59.5
Free Cash Flow Yield %	—	—	—	—	—	—	—	—

Operating Performance / Profitability as of 27 Nov 2025

Fiscal Year, ends 30 Sep	Actual			Forecast				
	2023	2024	2025	2026	2027	2028	2029	2030
ROA %	11.7	14.0	12.0	5.8	7.9	9.9	11.4	12.8
ROE %	-37.7	-51.6	-50.5	-23.0	-29.8	-33.9	-34.3	-34.6
ROIC %	21.8	26.6	23.3	16.3	16.3	19.0	21.4	23.7

Starbucks Corp SBUX ★★★

28 Nov 2025 05:28, UTC

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Financial Leverage (Reporting Currency)		Actual			Forecast				
Fiscal Year, ends 30 Sep		2023	2024	2025	2026	2027	2028	2029	2030
Debt/Capital %		12.8	12.4	14.3	14.4	14.8	15.3	16.0	16.6
Assets/Equity		-3.7	-4.2	-4.0	-3.7	-3.4	-3.0	-2.7	-2.6
Net Debt/EBITDA		1.6	1.8	2.7	2.6	2.3	2.3	2.2	2.1
Total Debt/EBITDA		2.1	2.2	3.4	3.2	2.8	2.6	2.5	2.4
EBITDA/ Net Interest Expense		15.6	15.9	11.0	13.1	14.3	16.3	15.5	15.2
Forecast Revisions as of 27 Nov 2025		2026		2027		2028			
Prior data as of 4 Aug 2025		Current	Prior	Current	Prior	Current	Prior		
Fair Value Estimate Change (Trading Currency)		84.00	86.83	—	—	—	—		
Revenue (USD Mil)		35,056	41,496	37,804	46,652	41,036	50,567		
Operating Income (USD Mil)		3,650	4,945	4,430	6,050	5,271	7,094		
EBITDA (USD Mil)		5,231	7,114	6,441	8,520	7,440	9,814		
Net Income (USD Mil)		2,504	3,639	3,273	4,469	3,924	5,263		
Earnings Per Share (Diluted) (USD)		2.20	3.31	2.91	4.05	3.58	4.91		
Adjusted Earnings Per Share (Diluted) (USD)		2.20	3.31	2.91	4.05	3.58	4.91		
Dividends Per Share (USD)		2.48	2.25	2.61	2.43	2.74	2.82		

Key Valuation Drivers as of 27 Nov 2025

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	5.5
Weighted Average Cost of Capital %	8.4
Long-Run Tax Rate %	23.0
Stage II EBI Growth Rate %	5.1
Stage II Investment Rate %	25.0
Perpetuity Year	20

Additional estimates and scenarios available for download at <https://pitchbook.com/>.

Discounted Cash Flow Valuation as of 27 Nov 2025

	USD Mil
Present Value Stage I	32,133
Present Value Stage II	26,071
Present Value Stage III	38,018
Total Firm Value	96,221
Cash and Equivalents	3,220
Debt	16,075
Other Adjustments	11,678
Equity Value	95,044
Projected Diluted Shares	1,140
Fair Value per Share (USD)	84.00

Starbucks Corp SBUX ★★★

28 Nov 2025 05:28, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment¹
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ESG Risk Rating Breakdown

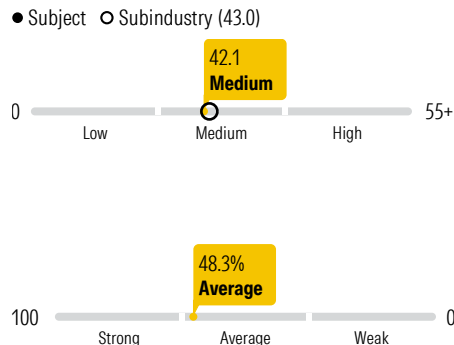
Exposure

Company Exposure¹	42.1
- Manageable Risk	39.2
Unmanageable Risk²	2.9

Management

Manageable Risk	39.2
- Managed Risk³	18.9
Management Gap⁴	20.3

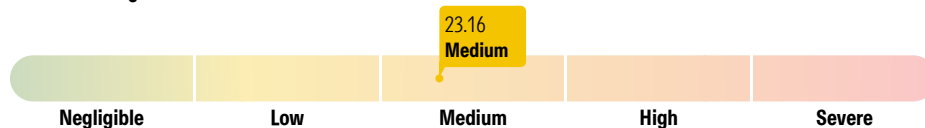
Overall Unmanaged Risk **23.2**



- Exposure represents a company's vulnerability to ESG risks driven by their business model
- Exposure is assessed at the Subindustry level and then specified at the company level
- Scoring ranges from 0-55+ with categories of low, medium, and high-risk exposure

- Management measures a company's ability to manage ESG risks through its commitments and actions
- Management assesses a company's efficiency on ESG programs, practices, and policies
- Management score ranges from 0-100% showing how much manageable risk a company is managing

ESG Risk Rating



ESG Risk Ratings measure the degree to which a company's value is impacted by environmental, social, and governance risks, by evaluating the company's ability to manage the ESG risks it faces.

1. A company's Exposure to material ESG issues 2. Unmanageable Risk refers to risks that are inherent to a particular business model that cannot be managed by programs or initiatives 3. Managed Risk = Manageable Risk multiplied by a Management score of 48.3% 4. Management Gap assesses risks that are not managed, but are considered manageable 5. ESG Risk Rating Assessment = Overall Unmanaged Risk = Management Gap plus Unmanageable Risk

ESG Risk Rating Assessment⁵



ESG Risk Rating is of Sep 03, 2025. Highest Controversy Level is as of Nov 08, 2025. Sustainability Subindustry: Restaurants. Sustainability provides Morningstar with company ESG ratings and metrics on a monthly basis and as such, the ratings in Morningstar may not necessarily reflect current Sustainability scores for the company. For the most up to date rating and more information, please visit: sustainalytics.com/esg-ratings/.

Peer Analysis 03 Sep 2025

Peers are selected from the company's Sustainability-defined Subindustry and are displayed based on the closest market cap values

Company Name	Exposure	Management	ESG Risk Rating
Starbucks Corp	42.1 Medium 0 —●— 55+	48.3 Average 100 —●— 0	23.2 Medium 0 —●— 40+
McDonald's Corp	43.6 Medium 0 —●— 55+	37.6 Average 100 —●— 0	28.3 Medium 0 —●— 40+
Yum Brands Inc	41.3 Medium 0 —●— 55+	47.8 Average 100 —●— 0	22.9 Medium 0 —●— 40+
First Watch Restaurant Group Inc	42.1 Medium 0 —●— 55+	25.3 Average 100 —●— 0	32.2 High 0 —●— 40+
Restaurant Brands International Inc	44.5 Medium 0 —●— 55+	44.8 Average 100 —●— 0	25.9 Medium 0 —●— 40+

Appendix

Historical Morningstar Rating

Starbucks Corp SBUX 26 Nov 2025 22:29, UTC

Dec 2025 —	Nov 2025 ★★★★	Oct 2025 ★★★★	Sep 2025 ★★★★	Aug 2025 ★★★★	Jul 2025 ★★★★	Jun 2025 ★★★★	May 2025 ★★★★	Apr 2025 ★★★★	Mar 2025 ★★	Feb 2025 ★★	Jan 2025 ★★
Dec 2024 ★★★★	Nov 2024 ★★	Oct 2024 ★★★★	Sep 2024 ★★★★	Aug 2024 ★★★★	Jul 2024 ★★★★★	Jun 2024 ★★★★★	May 2024 ★★★★★	Apr 2024 ★★★★★	Mar 2024 ★★★★★	Feb 2024 ★★★★	Jan 2024 ★★★★
Dec 2023 ★★★★	Nov 2023 ★★★★	Oct 2023 ★★★★★	Sep 2023 ★★★★	Aug 2023 ★★★★	Jul 2023 ★★★★	Jun 2023 ★★★★	May 2023 ★★★★	Apr 2023 ★★★★	Mar 2023 ★★★★	Feb 2023 ★★★★	Jan 2023 ★★★★
Dec 2022 ★★★★	Nov 2022 ★★★★	Oct 2022 ★★★★★	Sep 2022 ★★★★★	Aug 2022 ★★★★★	Jul 2022 ★★★★★	Jun 2022 ★★★★★	May 2022 ★★★★★	Apr 2022 ★★★★★	Mar 2022 ★★★★★	Feb 2022 ★★★★★	Jan 2022 ★★★★
Dec 2021 ★★★★	Nov 2021 ★★★★	Oct 2021 ★★★★	Sep 2021 ★★★★	Aug 2021 ★★★★	Jul 2021 ★★	Jun 2021 ★★★★	May 2021 ★★★★	Apr 2021 ★★★★	Mar 2021 ★★★★	Feb 2021 ★★★★	Jan 2021 ★★★★
Dec 2020 ★★★★	Nov 2020 ★★★★	Oct 2020 ★★★★	Sep 2020 ★★★★	Aug 2020 ★★★★	Jul 2020 ★★★★★	Jun 2020 ★★★★★	May 2020 ★★★★★	Apr 2020 ★★★★★	Mar 2020 ★★★★★	Feb 2020 ★★★★★	Jan 2020 ★★★★

McDonald's Corp MCD 26 Nov 2025 22:25, UTC

Dec 2025 —	Nov 2025 ★★★★	Oct 2025 ★★★★	Sep 2025 ★★★★	Aug 2025 ★★★★	Jul 2025 ★★★★★	Jun 2025 ★★★★★	May 2025 ★★★★	Apr 2025 ★★★★	Mar 2025 ★★★★	Feb 2025 ★★★★	Jan 2025 ★★★★
Dec 2024 ★★★★	Nov 2024 ★★★★	Oct 2024 ★★★★	Sep 2024 ★★★★	Aug 2024 ★★★★	Jul 2024 ★★★★★	Jun 2024 ★★★★★	May 2024 ★★★★★	Apr 2024 ★★★★★	Mar 2024 ★★★★★	Feb 2024 ★★★★★	Jan 2024 ★★★★★
Dec 2023 ★★★★★	Nov 2023 ★★★★★	Oct 2023 ★★★★★	Sep 2023 ★★★★	Aug 2023 ★★★★	Jul 2023 ★★★★	Jun 2023 ★★	May 2023 ★★	Apr 2023 ★★	Mar 2023 ★★	Feb 2023 ★★	Jan 2023 ★★
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Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a

long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

When considering a company's moat, we also assess whether there is a substantial threat of value destruction, stemming from risks related to ESG, industry disruption, financial health, or other idiosyncratic issues. In this context, a risk is considered potentially value destructive if its occurrence would eliminate a firm's economic profit on a cumulative or midcycle basis. If we deem the probability of occurrence sufficiently high, we would not characterize the company as possessing an economic moat.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working capital accounts, and capital spending. Based on these projections, we calculate earnings before interest,

after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating is designed to capture the range of potential outcomes for a company's intrinsic value. This rating is used to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating is aimed at identifying the confidence we should have in assigning a fair value estimate for a given stock.

Our Uncertainty Rating is meant to take into account anything that can increase the potential dispersion of future

Morningstar Equity Research Star Rating Methodology



Research Methodology for Valuing Companies

outcomes for the intrinsic value of a company, and anything that can affect our ability to accurately predict these outcomes. The rating begins with a suggested rating produced by a quantitative process based on the trailing 12-month standard deviation of daily stock returns. An analyst overlay is then applied, with analysts using the suggested rating, historical rating data, and their own knowledge of the company to inform them as they make the final Uncertainty Rating decision. Ultimately, the rating decision rests with the analyst. Analysts take into account many characteristics when making their final decision, including cyclical factors, operational and financial factors such as leverage, company-specific events, ESG risks, and anything else that might increase the potential dispersion of future outcomes and our ability to estimate those outcomes.

Our recommended margin of safety—the discount to fair value demanded before we'd recommend buying or selling the stock—widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the potential dispersion of outcomes, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the Uncertainty Rating provides guidance in portfolio construction based on risk tolerance.

Our Uncertainty Ratings are: Low, Medium, High, Very High, and Extreme.

Margin of Safety		
Qualitative Analysis	★★★★★ Rating	★ Rating
Low	20% Discount	25% Premium
Medium	30% Discount	35% Premium
High	40% Discount	55% Premium
Very High	50% Discount	75% Premium
Extreme	75% Discount	300% Premium

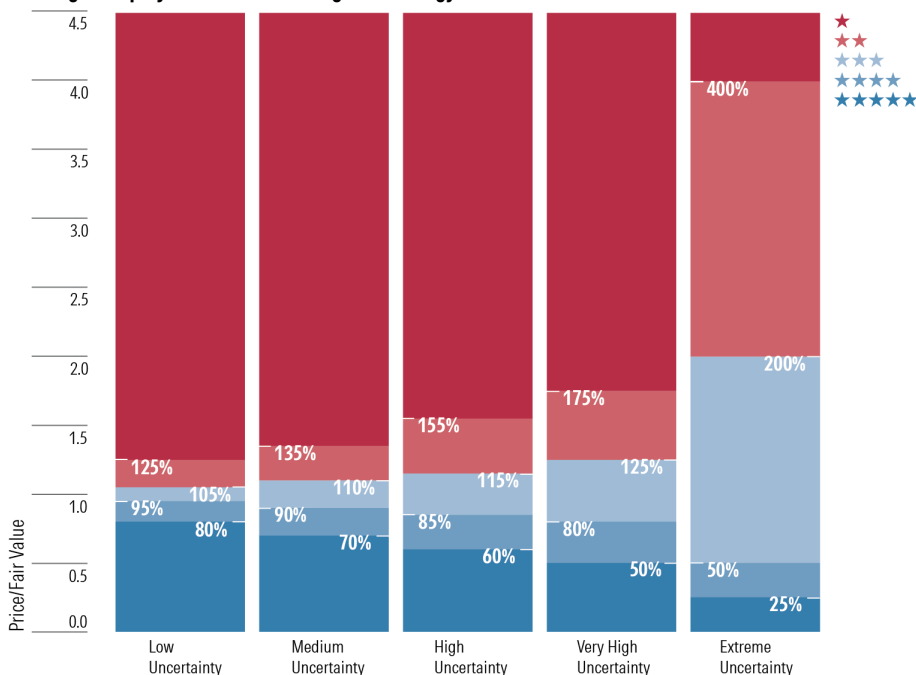
Our uncertainty rating is based on the interquartile range, or the middle 50% of potential outcomes, covering the 25th percentile–75th percentile. This means that when a stock hits 5 stars, we expect there is a 75% chance that the intrinsic value of that stock lies above the current market price. Similarly, when a stock hits 1 star, we expect there is a 75% chance that the intrinsic value of that stock lies below the current market price.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more details about our methodology, please go to <https://shareholders.morningstar.com>

Morningstar Equity Research Star Rating Methodology



Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multi-year time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments,

Research Methodology for Valuing Companies

and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

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Sustainalytics ESG Risk Rating Assessment: The ESG Risk Rating Assessment is provided by Sustainalytics; a Morningstar company.

Sustainalytics' ESG Risk Ratings measure the degree to which company's economic value at risk is driven by environment, social and governance (ESG) factors.

Sustainalytics analyzes over 1,300 data points to assess a company's exposure to and management of ESG risks. In other words, ESG Risk Ratings measures a company's unmanaged ESG Risks represented as a quantitative score.

Unmanaged Risk is measured on an open-ended scale starting at zero (no risk) with lower scores representing less unmanaged risk and, for 95% of cases, the unmanaged ESG Risk score is below 50.

Based on their quantitative scores, companies are grouped into one of five Risk Categories (negligible, low, medium, high, severe). These risk categories are absolute, meaning that a 'high risk' assessment reflects a comparable degree of unmanaged ESG risk across all subindustries covered.

The ESG Risk Rating Assessment is a visual representation of Sustainalytics ESG Risk Categories on a 1 to 5 scale. Companies with Negligible Risk = 5 Globes, Low Risk = 4, Medium Risk = 3 Globes, High Risk = 2 Globes, Severe Risk = 1 Globe. For more information, please visit sustainalytics.com/esg-ratings/

Ratings should not be used as the sole basis in evaluating a company or security. Ratings involve unknown risks and uncertainties which may cause our expectations not to occur or to differ significantly from what was expected and should not be considered an offer or solicitation to buy or sell a security.

Risk Warning

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