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Investment Analysis Group
(SBUX) 10.18.2002



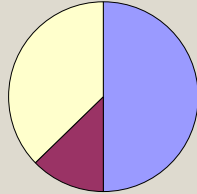
Mission Statement

- “Establish Starbucks as the premier purveyor of the finest coffee in the world while maintaining our uncompromising principles as we grow.” [Starbucks]



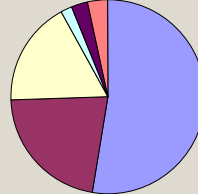
About "Them"

A = L + S/E



- Assets
- Liabilities
- Stockholders Equity

Revenues vs Expenses



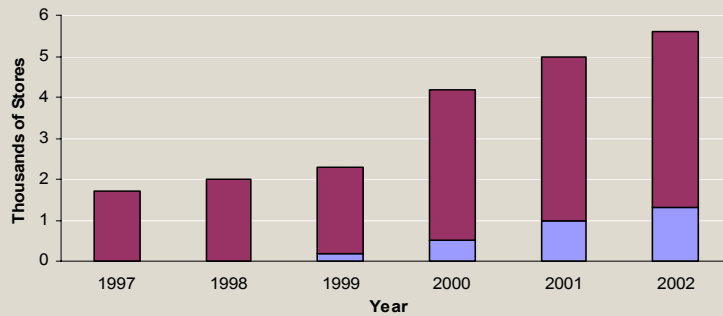
- Net Revenues
- Cost of Sales and occupancy costs
- Store Operating
- Other Operating
- General & Administration
- Depreciation and Amortization



Coffee Craze

Global Store Expansion: 1997-2002

International Outlets Total Stores

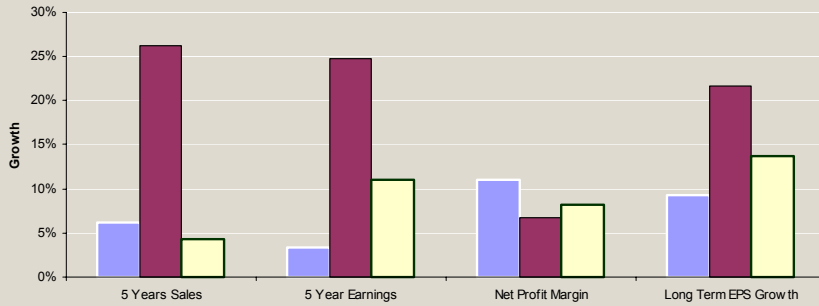




Friends or Foes

Comparables for Fast Food Companies (Fiscal 2001)

■ McDonalds ■ Starbucks ■ Wendys



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To Invest or Not Invest?

Comparables for Returns on Stocks

■ McDonalds ■ Starbucks ■ Wendys



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| S.W.O.T. Analysis

- Low advertising expenses
- Good relationships with coffee suppliers, and farms ownerships
- Low employee turnover rate compared to fast food chain turnover rates
- Fresh Ideas & Innovations



| S.W.O.T. Analysis

- Lack of corporate power structure
- Rapid expansion in United States
- Alienation of certain customers
- High operating costs and cost of goods sold



S.W.O.T. Analysis

- Market development in Latin America
- Structured expansion tactics both domestic and international
- Large number of distribution channels
- Improve consumer's perception of coffee



S.W.O.T. Analysis

- Coffee bean prices are volatile
- Domestic and foreign competitors
- Lawsuits against "fair purchases"



Valuable Moves

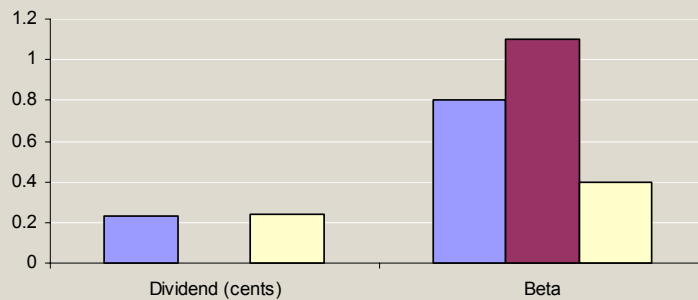
- Continue growth in international stores (Controlled Growth)
- Expansion to Latin America? (New Growth)
- Increase awareness to Americans about coffee consumption (Internal growth, sales & marketing)
- Develop more specialty goods (Diversification)
- Target key distribution channels (Supplier relationship)
- Provide premium coffee beans (In-bound logistics)



More Comparables

Dividend & Beta

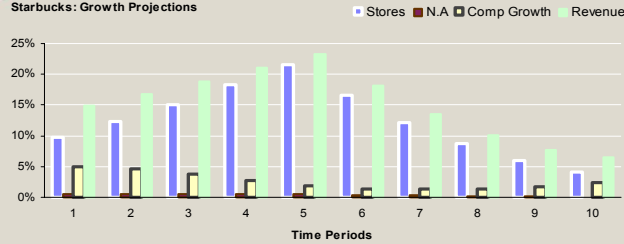
■ McDonalds ■ Starbucks □ Wendys



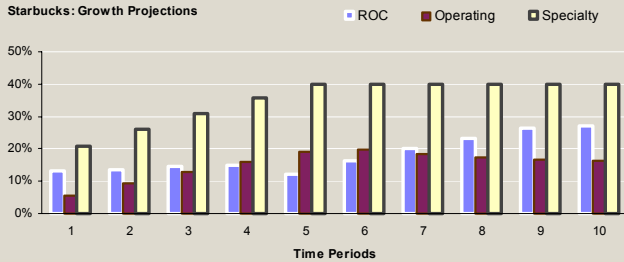
Payout Ratio: McDonalds (17.80%) Wendys (10.10%)



Starbucks: Growth Projections



Starbucks: Growth Projections



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Store Projections

STORES	1998	1999	2000	2001	2002	Hyper Growth Phase					Transitional Phase				
						1	2	3	4	5	6	7	8	9	10
North America	93%	89%	85%	80%	75%	73%	68%	62%	56%	50%	46%	43%	41%	38%	35%
Company	1,622	2,038	2,446	2,971	3,498	3,845	4,229	4,651	5,115	5,625	5,995	6,255	6,434	6,555	6,636
Licensed	133	179	530	809	1,078	1,204	1,345	1,503	1,679	1,875	2,020	2,122	2,194	2,242	2,275
International	7%	11%	15%	20%	22%	27%	32%	38%	44%	50%	54%	57%	59%	61%	62%
Company	66	104	173	295	384	547	779	1,109	1,580	2,250	2,879	3,410	3,824	4,130	4,348
Licensed	65	177	352	634	928	1,312	1,856	2,625	3,712	5,250	6,683	7,886	8,821	9,511	10,001
OVERALL	1,886	2,498	3,501	4,709	5,886	6,908	8,209	9,887	12,085	15,000	17,577	19,673	21,272	22,438	23,260
STORE GROWTH															
North America	-	26%	20%	21%	18%	10%	10%	10%	10%	10%	7%	4%	3%	2%	1%
Company	-	35%	196%	53%	33%	12%	12%	12%	12%	12%	8%	5%	3%	2%	1%
Licensed	-	58%	66%	71%	30%	42%	42%	42%	42%	42%	28%	18%	12%	8%	5%
International	-	172%	99%	80%	46%	41%	41%	41%	41%	41%	27%	18%	12%	8%	5%
Licensed	-	32%	40%	35%	25%	17%	19%	20%	22%	24%	17%	12%	8%	5%	4%
OVERALL	-	32%	40%	35%	25%	17%	19%	20%	22%	24%	17%	12%	8%	5%	4%
COMP GROWTH [Negative Log-List]															
Q1	5%	3%	7%	10%	2%										
Q2	7%	6%	10%	6%	7%										
Q3	7%	6%	10%	3%	8%										
Q4	3%	8%	10%	2%	3%										
Fiscal Year	6%	5.75%	9.25%	5.25%	5.00%	3.801%	2.757%	1.900%	1.241%	0.767%	0.586%	0.542%	0.590%	0.745%	1.069%

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Revenue Projections

REVENUE GROWTH	1998	1999	2000	2001	2002	Hyper Growth Phase					Transitional Phase				
						1	2	3	4	5	6	7	8	9	10
Retail	1,103	1,423	1,824	2,230	2,784	3,146	3,566	4,069	4,686	5,457	6,427	7,228	7,858	8,347	8,742
Specialty	206	263	354	419	489	820	1,254	1,829	2,597	3,638	4,284	4,818	5,239	5,565	5,828
Total	1,309	1,687	2,178	2,649	3,272	3,965	4,821	5,898	7,283	9,095	10,711	12,046	13,096	13,911	14,570
		29%	29%	22%	24%	21%	22%	22%	23%	25%	18%	12%	9%	6%	5%

REVENUE BREAKDOWN

Retail	84%	84%	84%	84%	85%	79%	74%	69%	64%	60%	60%	60%	60%	60%	60%
Specialty	16%	16%	16%	16%	15%	21%	26%	31%	36%	40%	40%	40%	40%	40%	40%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

STORE COUNT

Old Stores	1,886	2,498	3,501	4,709	5,886	6,908	8,209	9,887	12,085	15,000	17,577	19,673	21,272	22,438
New Stores	612	1,003	1,208	1,177	1,022	1,300	1,679	2,198	2,915	2,577	2,096	1,599	1,165	822
Total	1,886	2,498	3,501	4,709	5,886	6,908	8,209	9,887	12,085	15,000	17,577	19,673	21,272	22,438

STORE MARGIN

Old Stores	75.50%	71.35%	74.35%	80.00%	85.20%	84.16%	83.02%	81.81%	80.57%	85.34%	89.35%	92.48%	94.81%	96.47%
New Stores	24.50%	28.65%	25.65%	20.00%	14.80%	15.84%	16.98%	18.19%	19.43%	14.66%	10.65%	7.52%	5.19%	3.53%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%



Operating Expense Projections

	1998	1999	2000	2001	2002	Hyper Growth Phase					Transitional Phase				
						1	2	3	4	5	6	7	8	9	10
Revenue	1,309	1,687	2,178	2,649	3,272	3,965	4,821	5,898	7,283	9,095	10,711	12,046	13,096	13,911	14,570
COGS	570	731	942	1,099	1,372	1,713	1,936	2,195	2,505	2,884	3,359	3,956	4,449	4,837	5,138
Depreciation	81	108	142	177	219	265	322	394	487	608	716	805	876	930	974
SG&A	496	633	815	1,027	1,269	1,537	1,869	2,286	2,823	3,526	4,152	4,670	5,077	5,393	5,648
Other (Specialty)	43	51	78	83	115	140	170	208	257	320	377	424	461	480	513
OPERATING INCOME	118	163	200	252	297	310	524	814	1,211	1,757	2,107	2,191	2,234	2,262	2,297

GROWTH

Revenue	-	29%	29%	22%	24%	21%	22%	22%	23%	25%	18%	12%	9%	6%	5%
COGS	-	28%	29%	17%	25%	25%	13%	13%	14%	15%	16%	18%	12%	9%	6%
Depreciation	-	33%	32%	25%	24%	21%	22%	22%	23%	25%	18%	12%	9%	6%	5%
SG&A	-	28%	29%	26%	24%	21%	22%	22%	23%	25%	18%	12%	9%	6%	5%
Other (Specialty)	-	18%	53%	19%	24%	21%	22%	22%	23%	25%	18%	12%	9%	6%	5%
OPERATING INCOME	-	36%	23%	26%	18%	4%	69%	56%	49%	45%	20%	4%	2%	1%	2%

MARGIN ANALYSIS

Revenue	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
COGS	44%	43%	43%	41%	42%	43%	40%	37%	34%	32%	31%	33%	34%	35%	35%
Depreciation	6%	6%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%
SG&A	38%	38%	37%	39%	39%	39%	39%	39%	39%	39%	39%	39%	39%	39%	39%
Other (Specialty)	3%	3%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%
OPERATING MARGIN	9%	10%	9%	10%	9%	8%	11%	14%	17%	19%	20%	18%	17%	16%	16%



Leases – JV - ROC

	2002	Hyper Growth Phase					Transitional Phase				
		1	2	3	4	5	6	7	8	9	10
JV Income	42	59	84	118	168	237	302	356	398	429	451
Operating Lease Expense [000s]	170561	185709	185666	179957	169427	159333	154912				
Commitment		185709	185666	179957	169427	159333	154912				
PV		176866	168405	155454	139388	124842	525,502				
Cost of Debt	5%										
EBIT	295										
Reported Debt	5.8										
Reported Interest Expense	0										
Number of Years embedded in Yr	5										
Debt Value of Leases [mil]	1,290										
Restated Operating Income	360										
Restated Revenue 2002	3987	4831	5874	7187	8873	11081	13050	14677	15957	16950	17752

	2002	Hyper Growth Phase					Transitional Phase				
		1	2	3	4	5	6	7	8	9	10
EBIT(1-t)	121	157	182	231	271	291	477	682	893	1102	1175
JV Income	42	59	84	118	168	237	302	356	398	429	451
Adjusted After-Tax Operating Margin	4.98%	5.46%	5.51%	5.92%	6.03%	5.81%	7.27%	8.62%	9.86%	11.01%	11.16%
Capital Turnover Ratio	2.368	2.368	2.368	2.368	2.368	2.368	2.368	2.368	2.368	2.368	2.368
ROC	12%	13%	13%	14%	14%	14%	17%	20%	23%	26%	26%



Free Cash Flow to Firm Model

Scenario **1** [1=Neutral, 2=Best Case, 3=Worst Case]

	2002	Hyper Growth Phase					Transitional Phase				
		1	2	3	4	5	6	7	8	9	10
Restated Revenues [mil]	3,272	3,758	4,392	5,221	6,320	7,797	9,210	10,459	11,514	12,408	13,218
EBIT Margin	9%	10%	9%	10%	9%	5%	9%	13%	16%	19%	20%
Tax	41%	41%	41%	41%	41%	41%	41%	41%	41%	41%	41%
EBIT (1-t)	121	149	166	204	235	174	349	546	753	963	1071
IRR [Retail]	211%	54%	67%	75%	86%	124%	110%	67%	43%	29%	24%
Reinvestment Needs	255	81	111	153	203	214	385	368	325	284	258
FCF [000s]	(134,029)	68,497	54,405	51,024	32,057	(40,890)	(36,421)	177,742	427,808	678,996	812,876
Adj. FCF	(92,145)	127,250	136,820	166,630	194,222	186,586	252,834	519,973	812,306	1,095,517	1,252,791
Adj. Terminal											1,252,791
Cash	220,549										
Restated Debt	6										
Current Price	\$ 22.50										

	Terminal Multiple					Price Difference					
	13x	14x	15x	16x	17x	13x	14x	15x	16x	17x	
6.85%	\$29.83	\$31.55	\$33.27	\$34.98	\$36.70	6.85%	32.60%	40.22%	47.85%	55.48%	63.10%
7.85%	\$27.32	\$28.88	\$30.45	\$32.01	\$33.57	7.85%	21.42%	28.37%	35.32%	42.27%	49.22%
8.85%	\$25.05	\$26.47	\$27.90	\$29.32	\$30.75	8.85%	11.32%	17.65%	23.99%	30.33%	36.66%
9.85%	\$22.99	\$24.29	\$25.59	\$26.89	\$28.19	9.85%	2.17%	7.95%	13.73%	19.51%	25.30%
10.85%	\$21.12	\$22.31	\$23.50	\$24.69	\$25.87	10.85%	-6.13%	-0.85%	4.44%	9.72%	15.00%



Recommendation

- Good Earnings Visibility
- LT Buy
- Market has mixed ST sentiments
- Accumulate at \$20



Starbucks

Questions?