

ALTRIOUS
CAPITAL MANAGEMENT

**STARBUCKS (SBUX)
RECOMMENDATION: BUY**

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July 2018

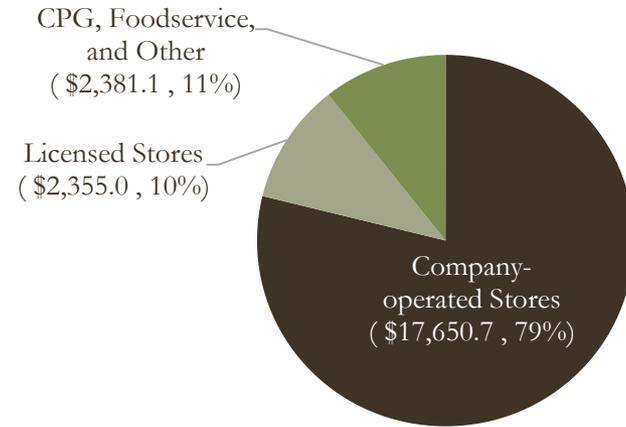


Company Overview

Starbucks (NASDAQ:SBUX) Company Profile

- 27,000 stores across 75 countries; 6.7% 5-yr growth
- Largest markets are United States and China
- Ownership models: company-operated and licensed
- Brands include Starbucks, Teavana, Seattle's Best Coffee, Evolution Fresh, and Ethos

Revenue Sources (millions)



Trading Statistics

Current Price	\$ 51.90
52 Week High	\$ 61.94
52 Week Low	\$ 47.37
P/E (TTM)	16.9x
P/E (FWD)	19.4x
Yield	2.8%
YTD Return	-9.6%

Financial Data (FY 2017)

Revenue	\$23,465M
EPS	\$ 3.09
Gross Margin	59.6%
Operating Margin	17.4%
Profit Margin	12.9%
ROA	20.1%
ROE	50.9%

Starbucks Share Price

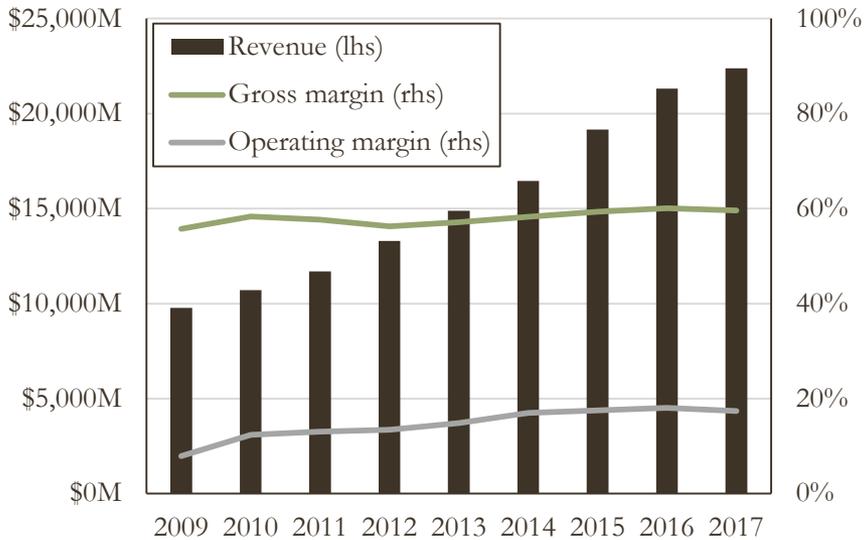




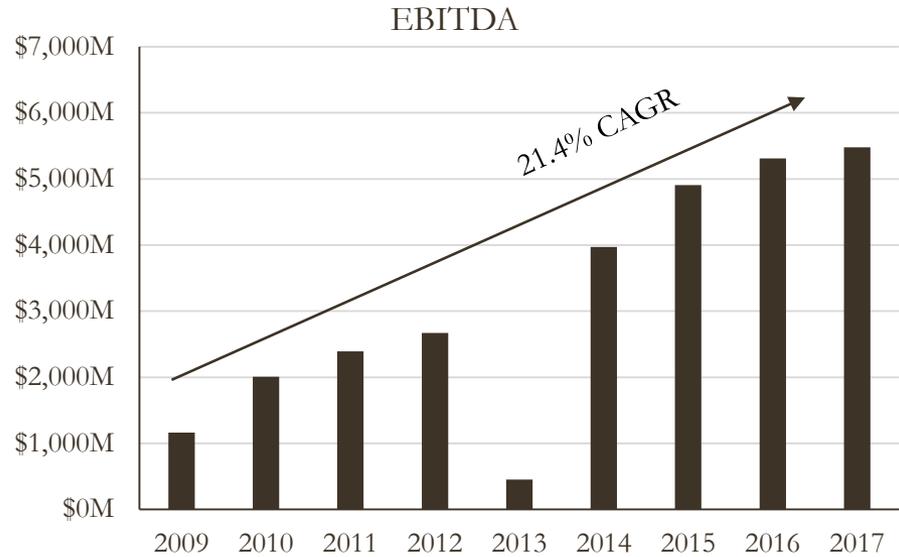
Company Overview: Selected Financials

Strong revenue and EBITDA growth, steady margins

Strong revenue growth coupled with steady margins



Consistent YOY EBITDA growth



Company Overview: Store Portfolio

Portfolio split between Reserve, larger core brand



Roastery

- Fully immersive experience
- Tea and coffee bars, Princi bakery



Reserve Store

- Marketplace-style premium experience
- Tea and coffee bars, Princi bakery



Reserve Bar

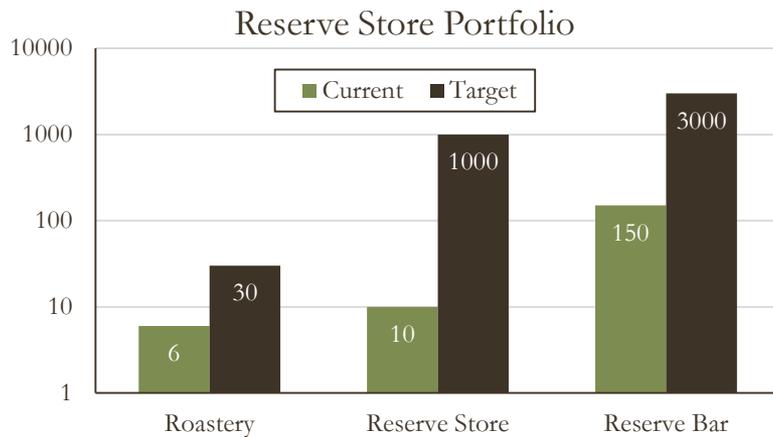
- Reserve Store experience w/o Princi
- Tea and coffee bars, Starbucks food



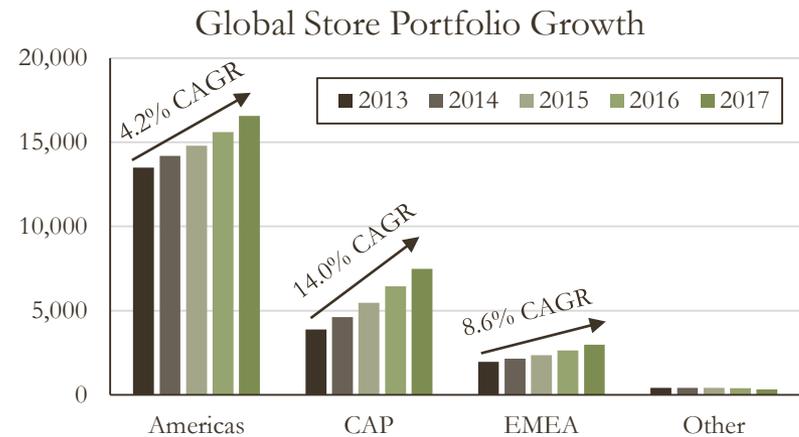
Core Store

- Traditional Starbucks layout
- Tea and coffee, Starbucks food

Large growth potential for Reserve brand



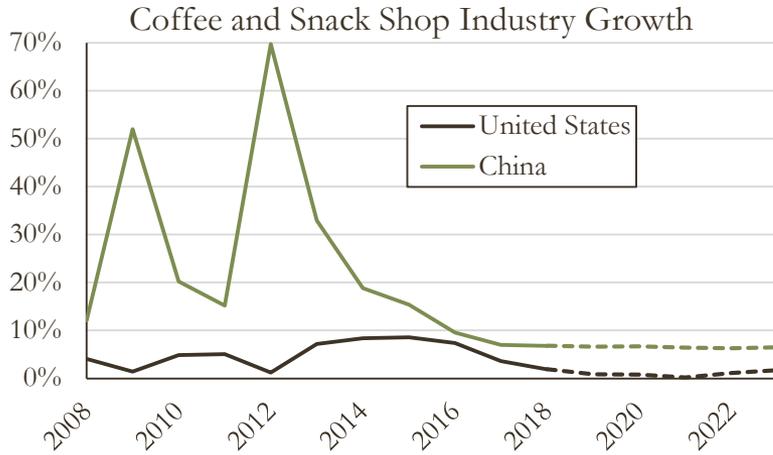
Consistent store growth, led convincingly by China



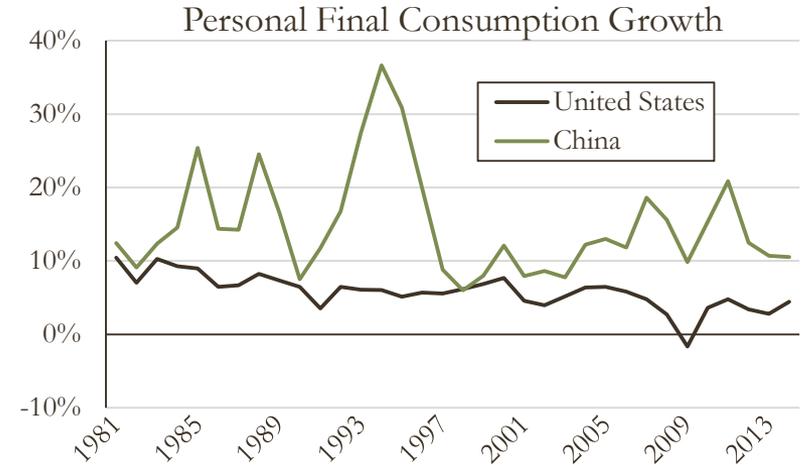
Coffee and Snack Shop Industry: Tale of Two Markets

Large growth potential exists in China, despite stagnant US market

Industry is mature in US, but growing in China



Consumption growing >2x faster in China than US



Shift in consumer preference toward third-wave coffee



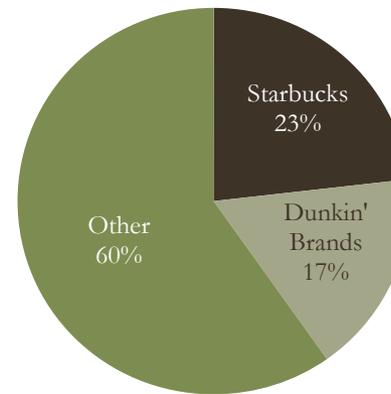
Competition and Risks

Fighting third wave movement in US, tea culture in China

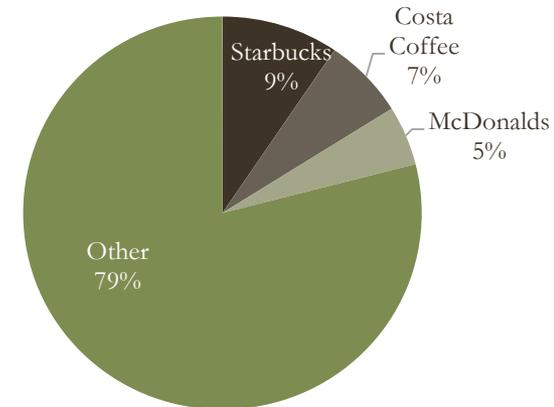
Dunkin' is next largest, third wave poses greatest threat

- Dunkin' Donuts is largest domestic competitor
- Small, third wave coffee shops present greater competition in US
- Reserve brand aims to embody third wave, provide premium coffee experience
- JAB Holding Company portfolio includes third wave coffee pioneers

US Cafe Market Share



China Cafe Market Share



Teahouses present China challenge, lack SBUX scale

- Middle-class Chinese accepting coffee culture, preferring cafes to slower, expensive tea houses
- Risk of competition from tea chains mitigated by SBUX scale and digital accessibility





Investment Thesis

Thesis

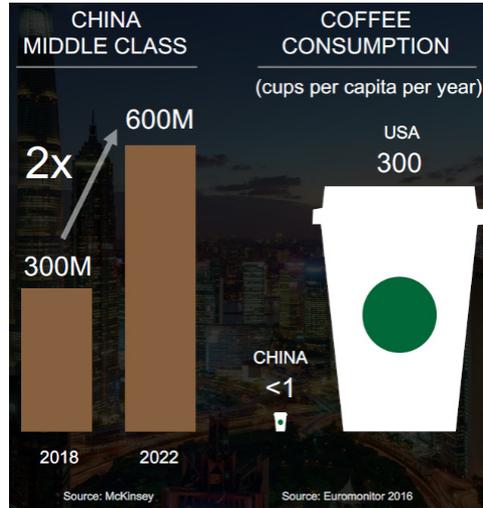
- 1 Long runway for growth in China, driven by shifts in demographics and consumer preferences
- 2 Digital integration shown to be effective in China, presents model for success in US
- 3 Initiatives taken to streamline and build partnerships have yielded a leaner, more agile brand

1. Potential in China

Demographic shifts, mobile penetration present growth potential

Middle class expansion as driver of coffee consumption

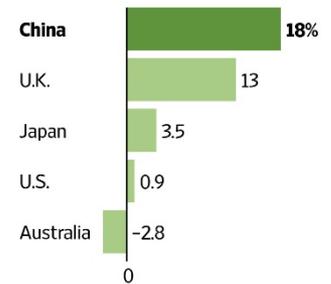
- GDP per capita growth of 6-6.5%
- Middle class expected to double by 2022
- Huge potential for growth in coffee consumption
 - 400 cups of tea are consumed per capita per year



Coffee Time

Coffee consumption in China is still relatively low, but expected to grow.

Forecast change in cups per capita consumption, 2014-2019



Source: Euromonitor International
THE WALL STREET JOURNAL.

Mobile penetration opens door to brand interaction

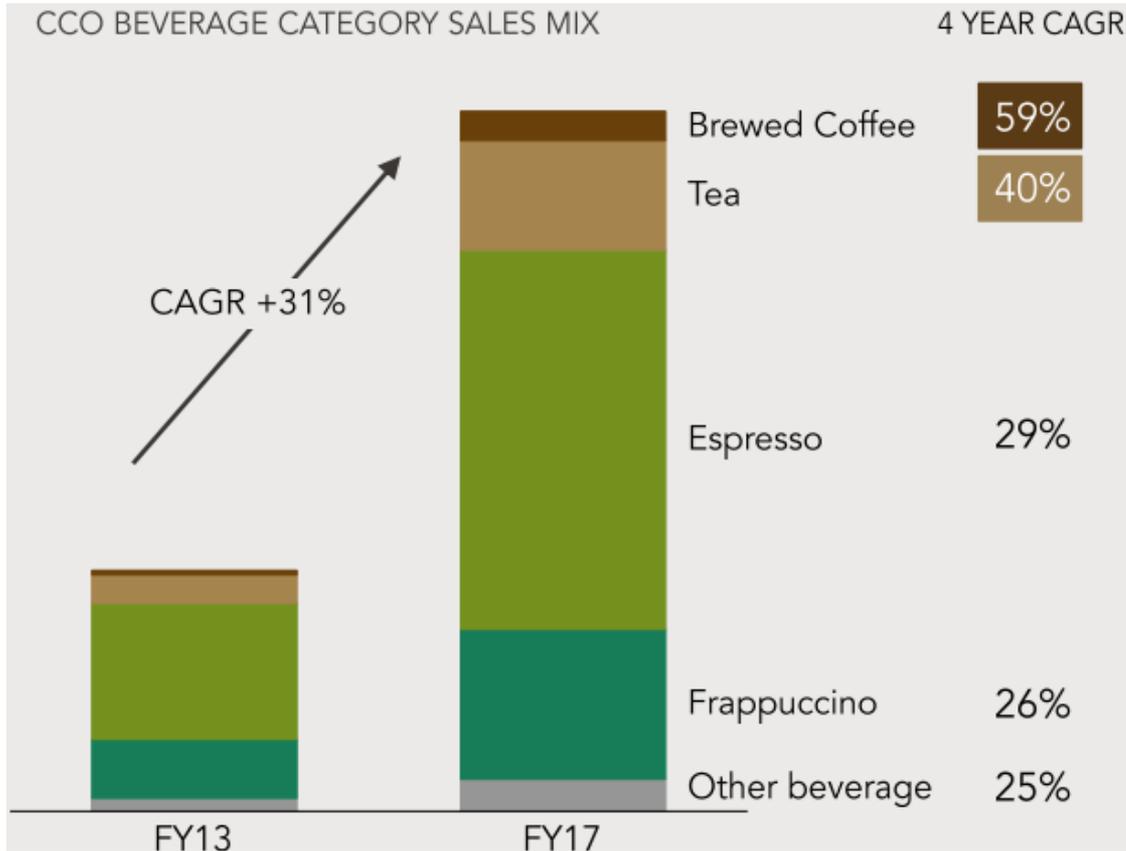
- 75% of payments made in China conducted via mobile
- Chinese make 80x more mobile payments than Americans
- 772M internet users in China, >2x US users



Source: iResearch

1. Potential in China

Coffee is fastest growing segment in China, espresso is largest



1. Potential in China

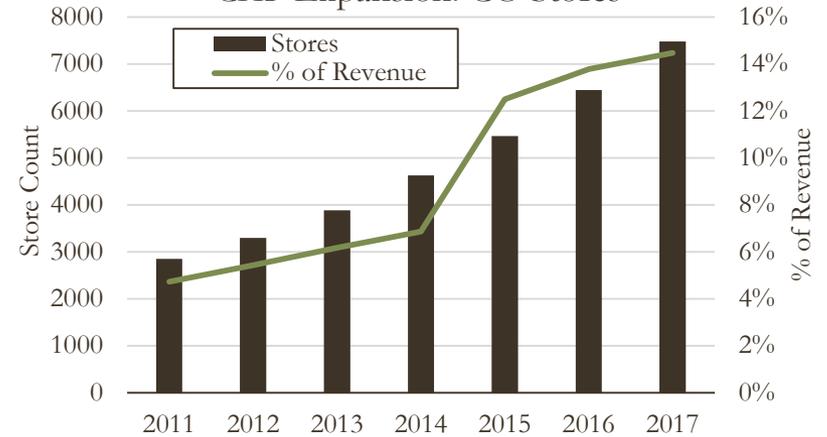
Strategic initiatives drive recent, future growth in China

East China consolidation key to driving growth

- More than double CO store count in China
- Plans to double CO store count to 6,000 by 2022, expanding into 100 new cities
- Currently opening a new China store every 15 hours

China is fastest growing segment, leading CAP

CAP Expansion: CO Stores



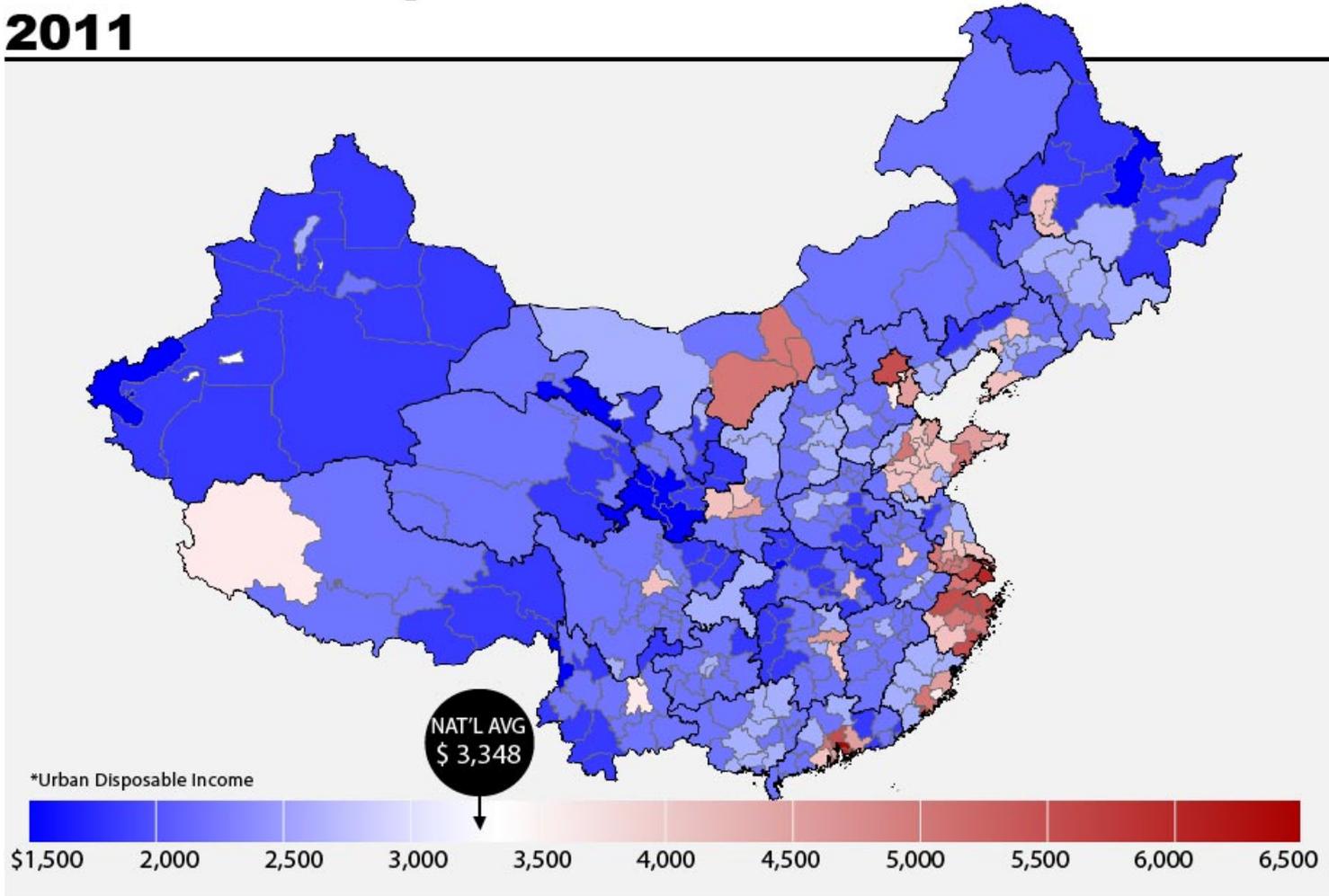
Shanghai Roastery unveiled December 4, 2017



1. Potential in China

Per capita income higher in urban areas, East China

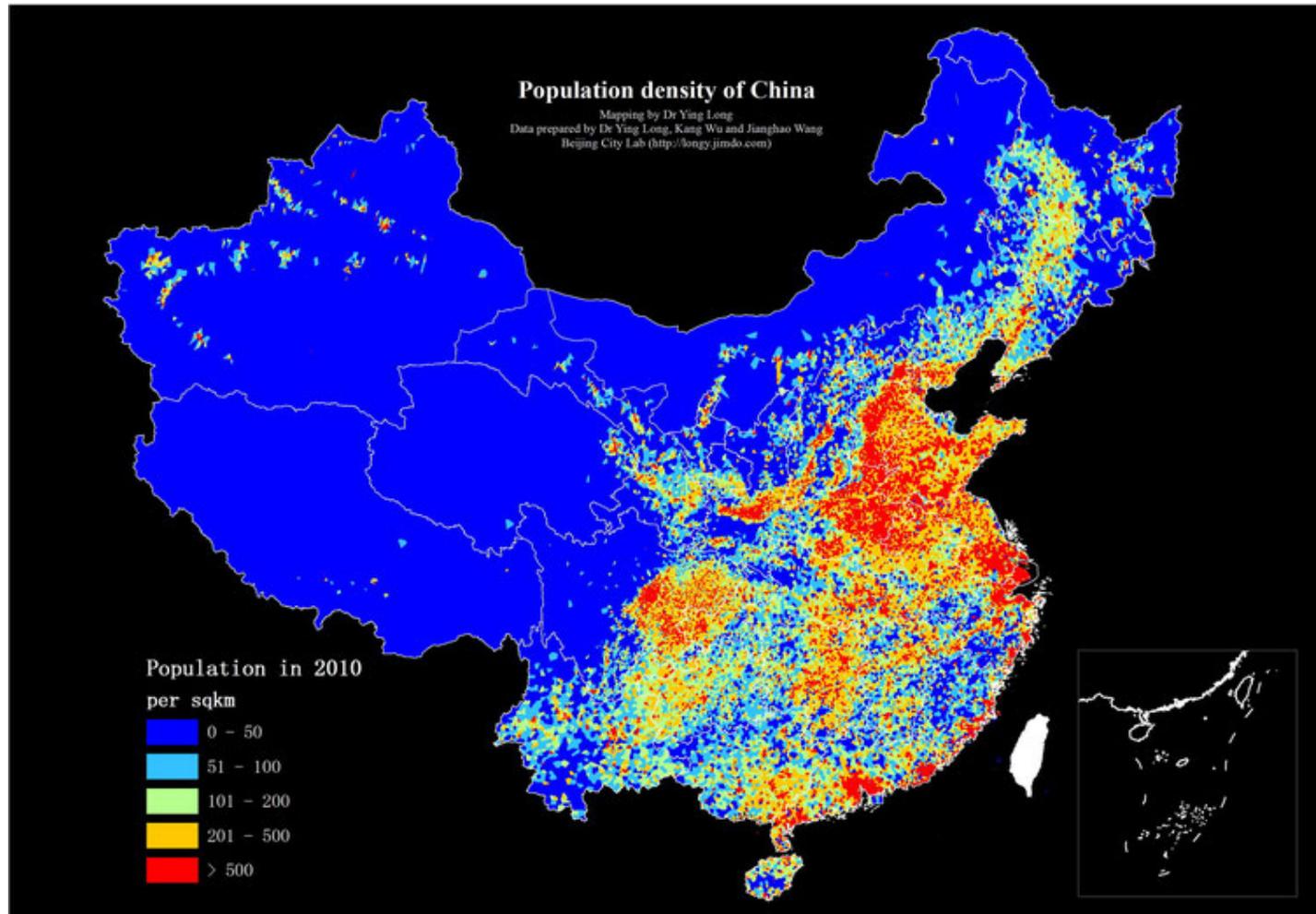
China's Per Capita Urban Income* 2011



A VERSION OF THIS MAP FIRST APPEARED ON FOREIGN POLICY.COM DATA: CHINA 2010 POPULATION CENSUS, STATISTICAL YEARBOOK FOR URBAN AND REGIONAL ECONOMY

1. Potential in China

Population concentrated around urban, Eastern cities



1. Potential in China

CO locations concentrated around dense, high-income areas

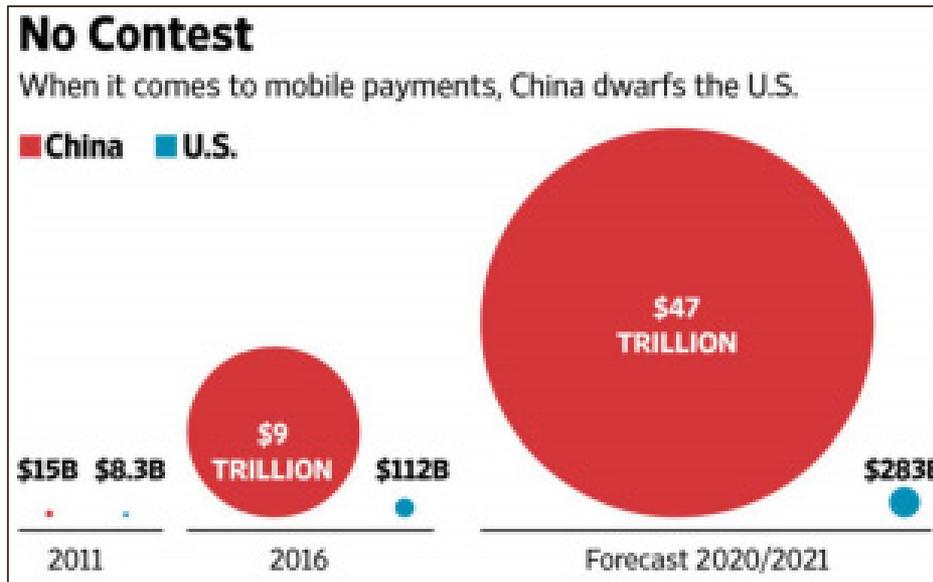


2. Digital integration as driver of US growth

China's digital model provides roadmap for US adoption

Mobile engagement drives personalization engine in China

- 75% of payments in China are conducted through mobile
- \$9T of China mobile payments is 80x \$112B in US
- My Starbucks Rewards and Say it With Starbucks engage 7M mobile customers

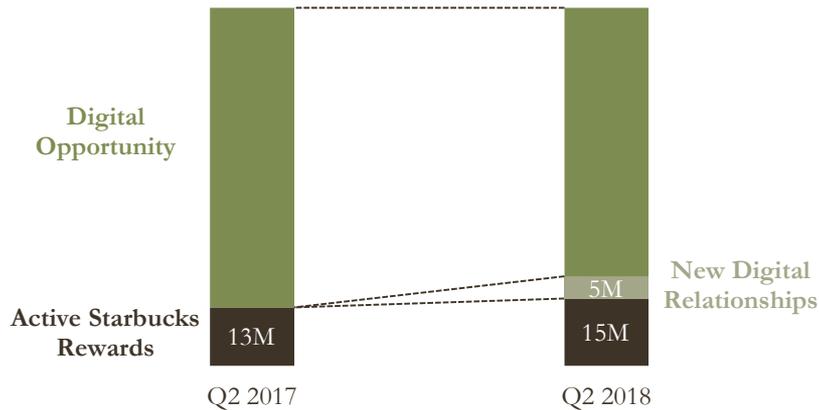


2. Digital integration as driver of US growth

US market is primed for digital payment growth

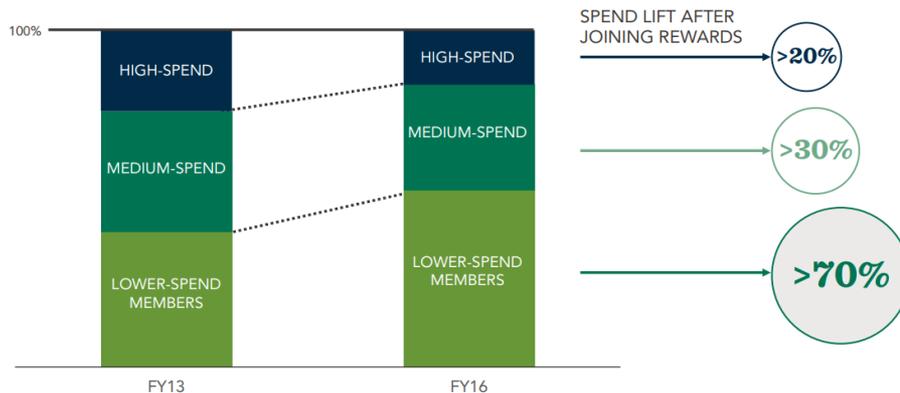
Digital strategy will drive US comps through acquisition, personalization

Growth in Digital Relationships



- 20M digital relationships in US
- 5M new digital relationships built through Wi-Fi email sign-ups, mobile order & pay
- Launching digital acquisition programs in FY 2019
 - Stars for Everyone, multi-tier redemptions
- End goal of solidifying relationships through personalization engine

NUMBER OF ACTIVE U.S. MEMBERS BY SPEND LEVEL (%)



- 20% of monthly customers are Rewards members
- Customers spend 20-70% more on average after joining Starbucks Rewards
- Incrementality is largest for previously lower-spend members

3. Streamlining initiatives have repositioned brand

Realigning store portfolio and ownership model

- Closing underperforming stores and segments
 - Closing ~150 company operated stores/year
- Transitioned select international markets to licensed model
- Acquired full ownership of East China joint venture



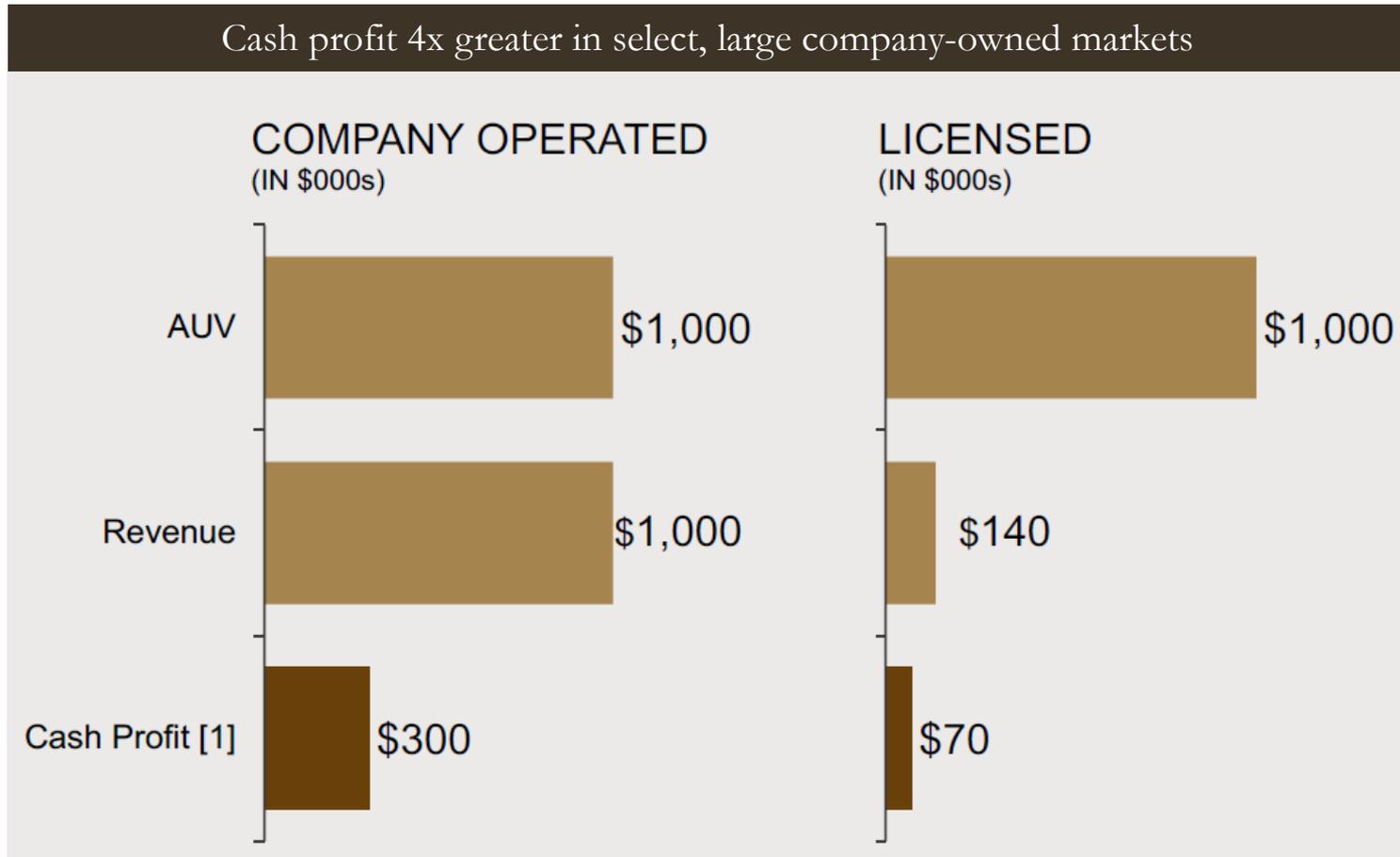
Building a lean, profitable brand

- Divested of Tazo to focus on Teavana
- Established partnership with Nestle



3. Streamlining initiatives have repositioned brand

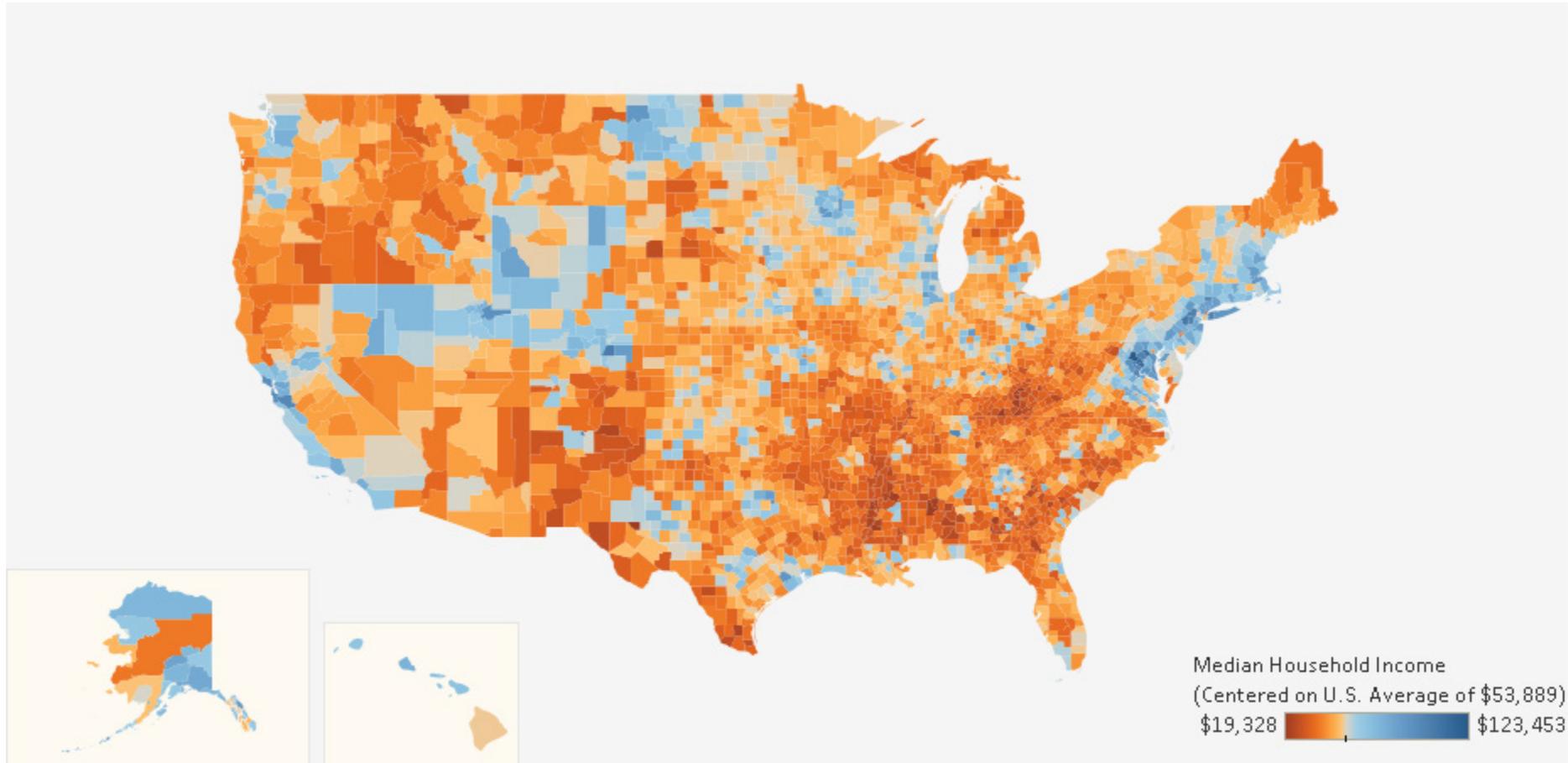
Company-operated stores are preferable in suitable markets



[1] Cash Profit is pre-tax

3. Streamlining initiatives have repositioned brand

Pockets of underpenetrated, high-income areas in south and west



3. Streamlining initiatives have repositioned brand

Opportunity to expand out of oversaturated cities, tap rural markets



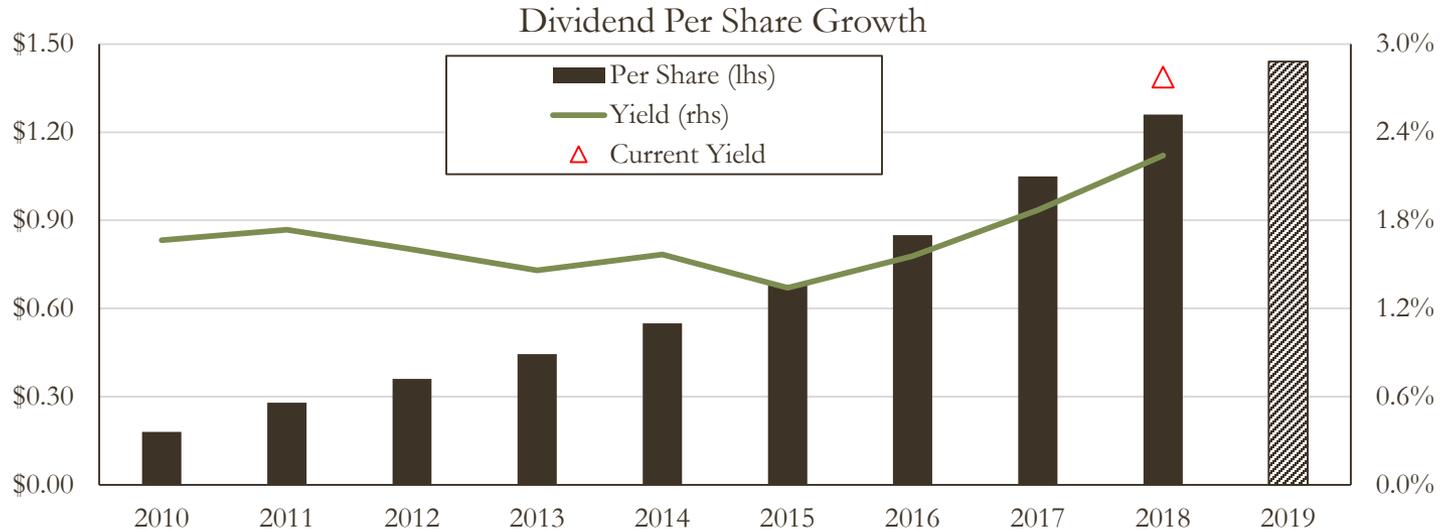


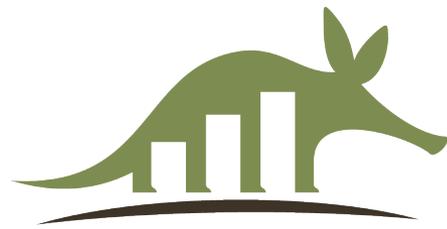
Eight years of growing shareholder returns

Focus on increasing shareholder returns

- Announced plan to return \$25B cash through FY 2020 through dividends and buybacks
- 20% dividend hike scheduled for Q4 2018
- Financed through debt and cash generated from Nestle agreement

Consistent dividend growth since 2010





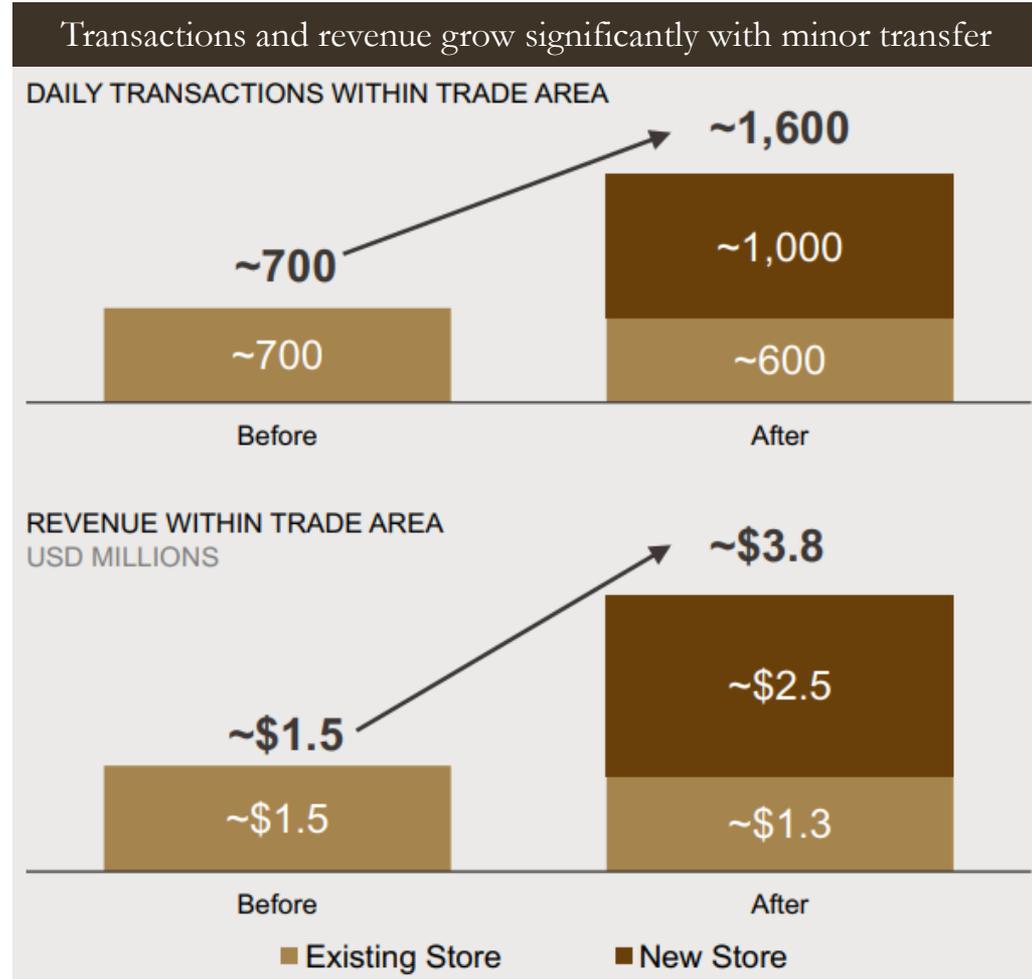
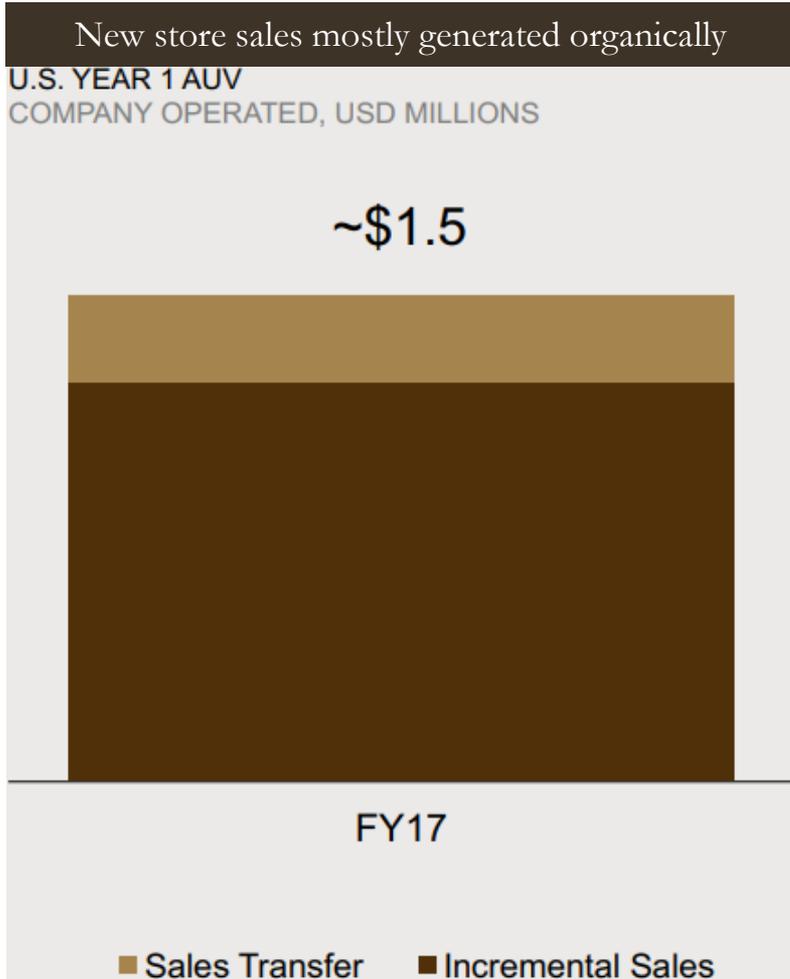
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APPENDIX



Opening proximal stores adds incremental revenue

Case study: Fort Collins, CO

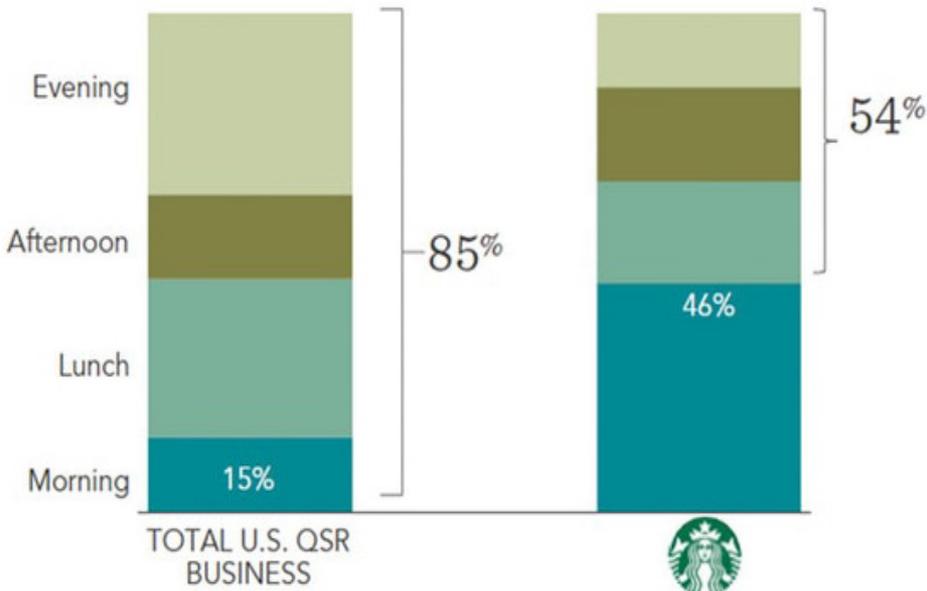


Dayparts spread more evenly in China than in US

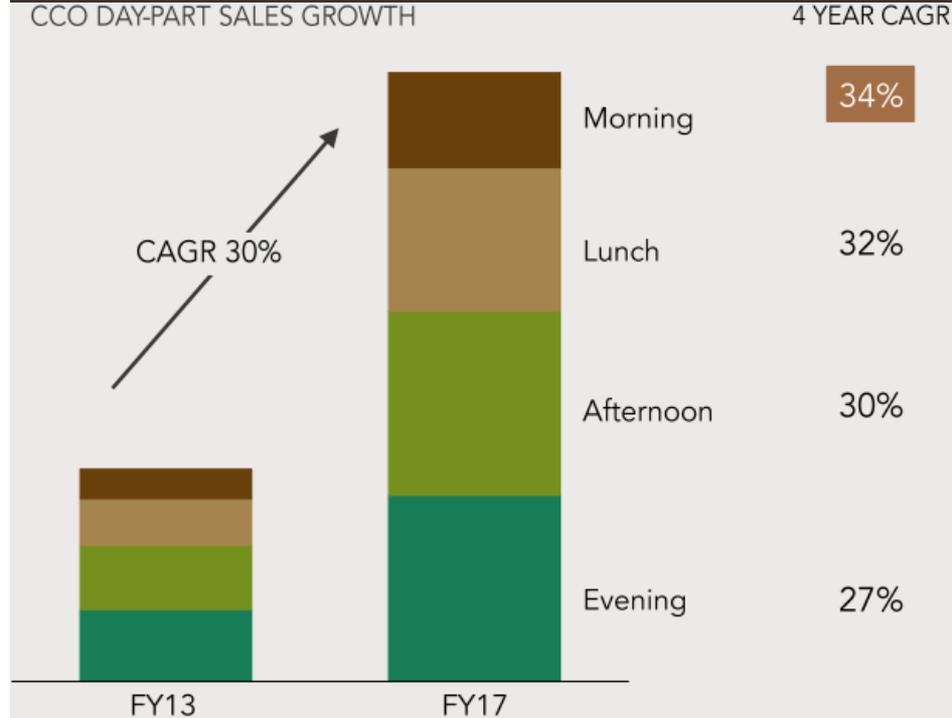
Opportunity to expand out of oversaturated cities, tap rural markets

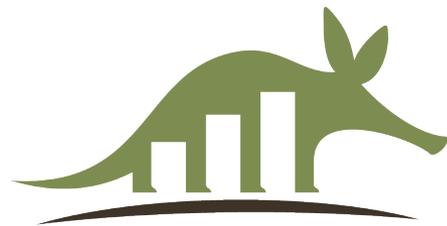
US traffic highly concentrated during morning daypart

Share of Consumer Dollar Spent by Daypart



China dayparts spread evenly, though morning is growing





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DISCLOSURE



Disclosure

Performance Reporting

Altrius Capital Management, Inc. (Altrius) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. Altrius has been independently verified for the periods January 31, 2001 – December 31, 2016 by ACA Verification Services. The verification reports are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS® standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS® standards. Verification does not ensure the accuracy of any specific composite presentation.

The Firm is defined as Altrius Capital Management, Inc. (Altrius), registered investment advisors with the Securities and Exchange Commission. Altrius was founded in 1997 and manages equity, fixed-income and balanced portfolios for high net worth individuals and families.

Composite Characteristics

The Disciplined Alpha Dividend Strategy is a subaccount from the Altrius Global Income Composite. As of 6/30/16, the name of the Disciplined Alpha Dividend Strategy was changed from the U.S. Large Cap Dividend Income Strategy. The composite and subaccount were created in December 2010 with a performance inception date of December 31, 2002. The subaccount strategy seeks long term capital appreciation and income by investing at least 80% of its assets in a diversified portfolio of income-producing equity securities paying higher than average dividends. 30 – 50 U.S. positions are chosen from a universe of stocks with market capitalizations generally greater than \$10 billion.

Accounts are included on the last day of the month in which the account meets the composite definition. Accounts no longer under management are withdrawn from the composite on the first day of the month in which they are no longer under management. Closed account data is included in the composite as mandated by the standards in order to eliminate a survivorship bias.



Disclosure

Benchmark

The benchmarks are the Russell 3000 Value Index, the DJ US Select Dividend Index and Morningstar US OE Large Value. Effective 10/1/2017, the benchmark was changed from the Russell 1000 Value Index to the Russell 3000 Value index. The volatility of the indices may be materially different from that of the performance composite. In addition, the composite's holdings may differ significantly from the securities that comprise the indices. The indices have not been selected to represent appropriate benchmarks to compare the composite's performance, but rather are disclosed to allow for comparison of the composite's performance to those of well-known and widely recognized indices. Economic factors, market conditions, and investment strategies will affect the performance of any portfolio, and there are no assurances that it will match or outperform any particular benchmark.

Performance Calculations

Valuations and returns are computed and stated in U.S. dollars. Results reflect the reinvestment of dividends and other earnings.

Gross of fee return is net of transaction costs and gross of management and custodian fees. Net-of-fees returns are calculated using actual management fees that were paid and are presented before custodial fees and but after management fees and all trading expenses. Returns can be net or gross of withholding taxes, depending on how taxes are recorded at the custodian. Some accounts pay fees outside of their accounts; thus, we enter a non-cash transaction in the performance system such that we can calculate a net of fees return. Prior to 1/1/10, cash was allocated to carve-out segments on a pro-rata basis based on beginning of period market values. Beginning 1/1/10, carve-out segments are managed separately with their own cash balance. Carve-out accounts represent 100% of composite assets for periods prior to 1/1/10.

The standard management fee for the Altrius Disciplined Alpha Dividend Strategy is 1.40% per annum on the first \$500,000 USD, 1.00% per annum on the next \$500,000 and 0.80% per annum thereafter. Additional information regarding Altrius Capital Management and Altrius Institutional Asset Management fees are included in its Part II Form ADV.

Internal dispersion is calculated using the asset-weighted standard deviation of all accounts included in the composite for the entire year; it is not presented for periods less than one year or when there were five or fewer portfolios in the composite for the entire year. The three-year annualized standard deviation measures the variability of the composite and the benchmark (Russell 1000 Value Index) returns over the preceding 36-month period.

There are no non-fee paying accounts in our composites. When a security is purchased or sold, the principal amounts tied to the transaction are net of trading costs; therefore the calculation and market values represent amounts net of trading costs. Dispersion is calculated using Asset Weighted Standard Deviation, gross of fees. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

** **Past performance does not guarantee future results.** The information provided in this material should not be considered an offer nor a recommendation to buy, sell or hold any particular security.*