

STARBUCKS – A NEW CHAPTER WITH BRIAN NICCOL



There's something brewing at Starbucks—and it's not just the coffee.

Appointed on August 13, right in the middle of summer, Brian Niccol officially took the helm of the coffee giant on Monday, September 9. But his arrival hasn't been without controversy. As the new CEO of Starbucks, Niccol faces the enormous task of steering the company out of turbulent waters while adjusting to a role that comes with unique challenges—one of them being his choice of residence.

With Brian Niccol now at the helm of Starbucks, investors may find this to be a prime opportunity to get in on the coffee giant's turnaround story. Niccol, known for his impressive track record of reviving Chipotle, brings extensive experience to a company facing significant challenges but also brimming with potential. Despite some controversy—like his weekly commute from Newport Beach to Seattle via company jet, which contradicts Starbucks' push for environmental sustainability—the bigger focus is on Niccol's ability to navigate the financial and operational fires currently plaguing the brand.

Starbucks has set ambitious goals, including cutting its carbon footprint in half by 2030, while aiming to revamp its global stores to be more eco-friendly. Yet, the company's current struggles extend far beyond Niccol's commute. Investors should pay close attention as we break down the challenges and opportunities that make Starbucks a compelling stock to watch!

FACING A HEATED SITUATION

The situation at Starbucks isn't just about hot coffee anymore—it's also about cooling profits. Beneath the familiar sight of paper cups and misspelled names, Starbucks is struggling with a decline in foot traffic, and it's beginning to hurt where it counts: the bottom line. In the first three months of this year, Starbucks' sales dropped by 4%, and the number of visitors fell by 6%. These figures are even more concerning in markets like China, where fierce competition is chipping away at the company's dominance. The United States isn't faring much better either.

Adding fuel to the fire, the company has been facing boycott calls across social media, particularly since the Gaza conflict began. Accused of supporting Israel—a claim the company has firmly denied—Starbucks has been caught in the crossfire of political controversy.

In this boiling environment, Starbucks needed someone with a cool head to take charge, and Niccol seems to fit the bill. His mission: to bring Starbucks back to its winning ways.

THE COMEBACK KING

Turning around a struggling business is nothing new for Brian Niccol. Before joining Starbucks, Niccol successfully led Chipotle Mexican Grill out of a crisis. Back in 2018, Chipotle was reeling from food safety scandals that had seriously tarnished its reputation. Under Niccol's leadership, things quickly turned around. He introduced new safety protocols, revamped the company's ordering system, introduced fresh ingredients, and expanded the chain's reach with new locations. The results? Simply put, spectacular.

Under Niccol's watch, Chipotle's profits skyrocketed. According to Starbucks, the chain's profits "multiplied by seven," and revenues "nearly doubled." And if that wasn't impressive enough, Chipotle's stock surged by nearly 800% during his tenure. What's even more remarkable is that Niccol managed this while also "increasing wages" and "enhancing benefits" for employees—a rare feat in the fast-food industry, where cost-cutting often takes priority over employee well-being.

Now, as Niccol takes on the challenge at Starbucks, many are wondering if he can repeat this success. But this time, he faces an additional hurdle: working with the Workers United union, which is pressing for a collective bargaining agreement.

AN IMPRESSIVE TRACK RECORD

Before he became known for his magic touch at Chipotle, Brian Niccol had already built a formidable career in the fast-food industry. A graduate in engineering, Niccol held strategic roles in major companies like Taco Bell, where he served as CEO, and Pizza Hut, where he was in charge of marketing and innovation. His experience doesn't stop there—Niccol spent a decade at Procter & Gamble, working with major consumer brands like Pampers, Ariel, Gillette, and Mr. Clean.

It's not just his résumé that's raising eyebrows—it's also his paycheck. Niccol's predecessor, Laxman Narasimhan, pocketed a hefty \$28 million in 2022, but Niccol could earn nearly four times that amount. According to the Financial Times, Niccol's salary could reach a jaw-dropping \$113 million annually, potentially making him one of the highest-paid CEOs in the United States. But with a turnaround as critical as this one, Starbucks clearly believes Niccol is worth every penny.

A WARM WELCOME FROM THE MARKET

When Starbucks announced Niccol's appointment, the stock market took notice. The company's shares soared by 24%, adding roughly \$20 billion to Starbucks' market cap. It's rare for a CEO appointment to create such an immediate boost in value, but Niccol's track record made investors feel optimistic. Given Starbucks' recent struggles, it's easy to see why his arrival sparked so much enthusiasm.



Niccol wasted no time getting started. One of his first moves as CEO was to publish an open letter to Starbucks' stakeholders, laying out his initial thoughts on the company and his vision for the future. It was a smart move—direct, transparent, and designed to reassure employees, customers, and investors that change was on the way. Niccol identified several areas where Starbucks needed to step up its game. He highlighted customer wait times as a major issue, noting that the experience had become inconsistent, especially in the U.S. His plan? A four-part strategy to get Starbucks back on track.

THE TURNAROUND PLAN



First on Niccol's agenda is empowering Starbucks' baristas. He believes that front-line employees should have the freedom to make decisions, especially when it comes to customer service. Bureaucracy, he said, often slows down the flow in restaurants, and baristas need to be equipped to handle special requests and ensure customer satisfaction. Niccol's aim is to make Starbucks "the best place to work" and make this as the principal competitive advantage, building on its reputation as a leader in retail employment.

Next, Niccol wants to ensure that Starbucks consistently meets customer expectations. Whether it's a handcrafted latte or a quick bite to eat, Niccol's goal is to deliver quality "on time, every time."

The third part of his plan is to restore Starbucks' in-store experience. The coffee chain was originally designed by founder Howard Schultz as a "third place" where people could spend time away from home and work. Niccol plans to bring that vision back by creating inviting spaces where customers can relax, with comfortable seating, thoughtful design, and a clear distinction between services for those who are staying and those who are grabbing their coffee to-go.

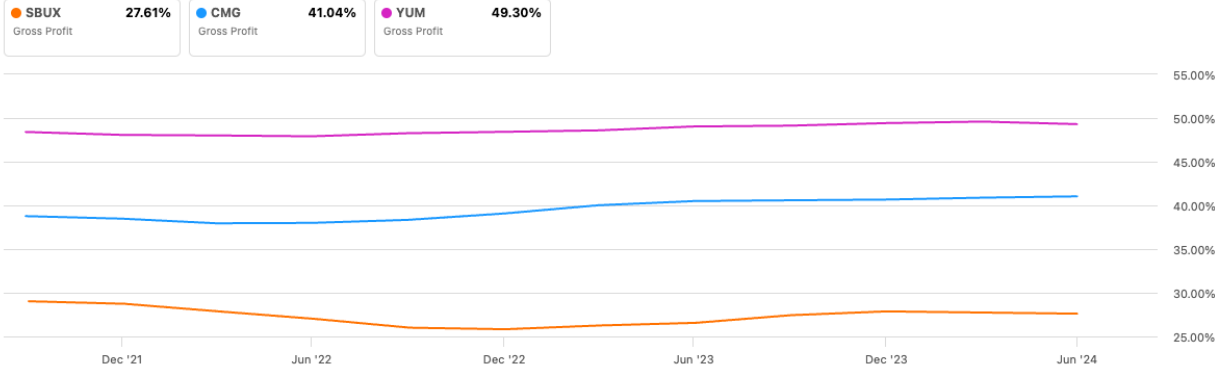
Finally, Niccol wants Starbucks to do a better job of telling its story. The company has traditionally avoided large-scale advertising, but Niccol plans to change that. He also wants to highlight Starbucks' unique assets—like its coffee farm in Costa Rica, which serves as a hub for research and innovation. By sharing more of its "farm-to-cup" story, Starbucks can recapture some of the authenticity that it may have lost over the years.

THE FINANCIALS

Now, let's get into the numbers—because that's what potential investors are really interested in. Starbucks, as a global brand, has strong financial foundations, but recent years have seen some bumps in the road.

Over the past year, Starbucks' stock price has seen fluctuations, largely tied to global economic uncertainty and internal leadership changes. At the time of Niccol's appointment, Starbucks was trading at around \$98 per share. Following the announcement, the stock jumped by 24%, marking one of the most significant single-day gains in the company's history. Starbucks' current market cap sits at approximately \$112 billion.

Also, in fiscal year 2023, Starbucks reported revenues of \$9.1 billion for its third quarter, a 0.6% year-over-year decline, marking its weakest performance in a decade, excluding the 2020 pandemic lockdowns. However, the company remains highly profitable, with a gross margin of 27% in June 2024, indicating that despite sales drops, Starbucks is still operating efficiently. For now, it's less than competition (with brands like Chipotle & Yum!), but it's steady!

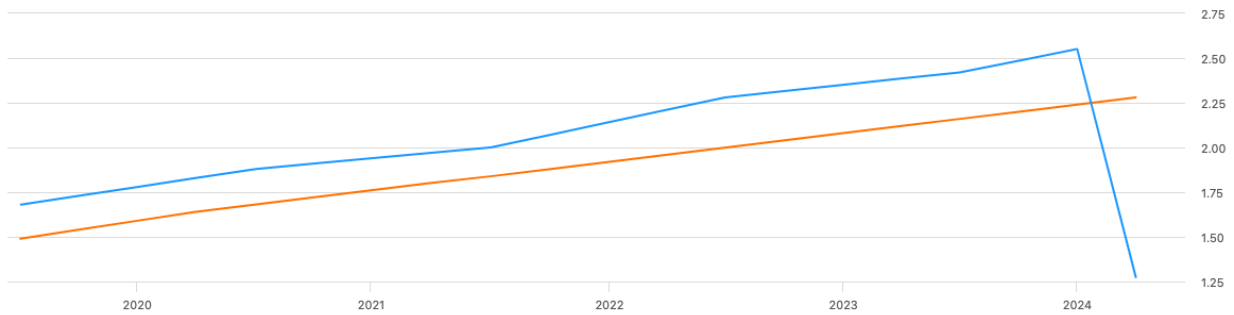


Starbucks operates over 38,000 stores across 80 countries. In Q3 2024 alone, it added 526 net new stores. While the U.S. remains its largest market, international sales, particularly in China, have taken a hit. Sales in China fell by 7% during the last quarter, largely due to economic slowdowns and increased competition.

About the earnings; Starbucks reported an EPS of \$0.93 in the most recent quarter, reflecting a 6% year-over-year decline. This decrease can be attributed to rising labor costs and supply chain challenges, issues that Niccol will need to address as part of his broader turnaround strategy.

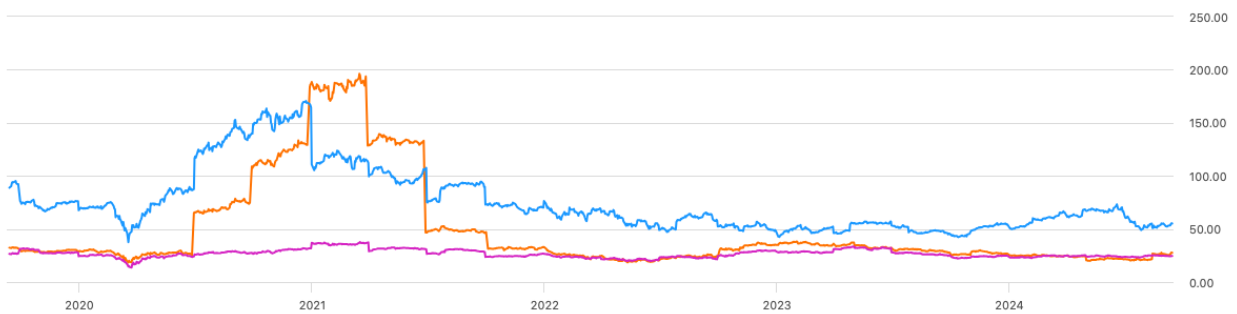
And for income-focused investors, Starbucks has consistently delivered reliable dividends. The company currently offers a dividend yield of 2.31%, with an annual payout of \$2.28 per share. This stability is one of the reasons why Starbucks remains attractive to long-term investors, even as it faces short-term challenges.

● SBUX	2.28	● YUM	1.28
Div/Share		Div/Share	



Last, Starbucks is actually trading at a P/E ratio of approximately 26, which is considered high compared to near-term earnings growth and which is quite stable for the last two years. This reflects the market's confidence in Niccol's ability to turn the company around and achieve future growth. However, for value investors, the stock may appear overvalued, given current performance trends.

● SBUX	27.59	● CMG	55.20	● YUM	24.48
P/E GAAP		P/E GAAP		P/E GAAP	



WHAT DOES THIS MEAN FOR STARBUCKS?

Niccol's turnaround plan seems like a solid first step toward reigniting growth at Starbucks. By addressing customer complaints about slow service and inconsistent quality, Niccol is tackling the most immediate issues. Investors can also expect to see more traditional advertising from Starbucks, a strategy Niccol successfully employed during his time at Chipotle. Rebranding Starbucks as a welcoming "third place" and sharing its unique stories will likely help the company stand out in an increasingly crowded market!

THE ROAD AHEAD



Of course, a turnaround of this magnitude won't happen overnight. Starbucks is a massive company, with over 38,000 stores in 80 countries. Changing the course of such a behemoth will take time. Niccol's plan is a strong start, but execution is everything.

In the U.S., customer satisfaction will be the immediate focus. However, China looms large as the next major challenge. With sales plummeting in that market, Niccol will have to shift his attention eastward soon. Yet, Starbucks isn't without its strengths. The company's brand, its loyalty program, and its diverse range of in-store experiences all give it a competitive edge. Starbucks still generates significant profits and offers a solid dividend to investors. Niccol's arrival marks the beginning of a new era at Starbucks. While the road ahead is filled with obstacles, there is also tremendous potential for a remarkable comeback. If you're excited about the arrival of this new CEO, keep an eye on this stock over the next few weeks!