

STARBUCKS CORPORATION



Founded in 1971, Starbucks is a global brand in the quick service retail sector, specializing in the sale of high-margin specialty coffee. The company operates 22,519 stores around the world, often the ubiquitous meeting lounge for socializing amongst friends or office for entrepreneurs. For the fiscal year ending 2014, Starbucks generated revenue of \$16.44 billion and net income of \$2.07 billion, with an extremely impressive gross margin of 58.54% and pre-tax operating margin of 18.7%. As of September 2015, its stock had appreciated 48% on a year-over-year basis.

Unlike many competitors, Starbucks is benefitting from favorable branding with millennial customers, and has a strong presence in social media and technology oriented platforms, notably mobile-payment systems. Under Howard Schultz, who purchased the company from its founders in the 1980s and returned as CEO in 2008, the company has bounced back from an overly aggressive expansion strategy in the late 90's and early 2000's, and same-store sales are up 7% for the third quarter of 2015,* compared with 2% for

competitor Dunkin' Donuts. An additional 1,500 new locations are slated to open this year.

Notably, Moody's upgraded Starbucks from A3 to A2 credit on September 15, 2015, reflecting the company's "global brand strength, dominant position in the US specialty coffee segment, global diversification, significant scale, and balanced financial policy."

In aggregate, we believe this performance will continue drive faster cap rate compression for Starbucks real estate relative to the QSR sector as a whole, above what occurred from 2014 to 2015. Cap rates for Starbucks over the past two years have compressed about 19% faster than its peers in the QSR space as a whole. We anticipate the spread in cap rates between those assets occupied by Starbucks versus other QSR tenants will continue to widen as credit and unit-level performance remain a factor for the passive net lease investor.

*Starbucks' fiscal year ends in September, so the third quarter ends in June.

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Starbucks Pricing Trends

- As a tenant, Starbucks cap rates have compressed slightly more than QSR as a sector from 2014 to 2015.
- Stores with lower lease terms have compressed more, although they constitute a smaller percentage of total sales and exhibit greater pricing volatility.

Starbucks CAP Rate Avg.		All QSR
2014	5.98%	6.42%
2015	5.54%	6.05%
BPS CAP Chg		-0.37

Starbucks 9+ Years Remaining		Starbucks <5 Years Remaining	
2014*	5.35%	2014	6.96%
2015	4.91%	2015	5.89%
BPS CAP Chg		BPS CAP Chg	
-0.44		-1.07	

The graph below visualizes compression trends.

Note: The -69 bps figure is the difference between the average of the first five sales and the last five sales, and thus differs from the whole year averages above.

