Credit Summary: Starbucks Corporation (A-, stable)

Competitive advantages are strengthening, and credit metrics are expected to stabilize during heightened shareholder payouts.

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Contents

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Credit Rating Rationale

In June, Morningstar downgraded Starbucks Corporation's rating to A- from A following an increase to $25 billion from $20 billion in the company's fiscal 2018–20 cash return to shareholders program. Starbucks previously increased the program to $20 billion in May from $15 billion concurrent with its announcement of a global coffee alliance with Nestlé, the largest food and beverage company in the world. Starbucks expects to receive a pretax up-front payment of $7.15 billion and ongoing revenue from product sales and royalties. The additional net increase in Starbucks' cash return to shareholders will be debt-financed, which may weaken the company's credit pillars. Earlier in fiscal 2018, Starbucks lowered its long-term financial targets and announced that its growth rate would slow to high-single digits. Although the rate is lower than its previous target, it is still industry-leading. Starbucks' lease-adjusted leverage—pro forma for its recent debt issuances—is 2.8 times and below management's commitment not to exceed 3.0 times. Its lease-adjusted interest coverage is low-double digit. Free cash flow after dividends is very strong and forecast to average in excess of $1.0 billion. These measures are adequate for the rating category.

Starbucks' core operations are strong and its namesake brand's growing ubiquity in the beverage industry still supports our low Business Risk assessment. However, the company's increased debt levels and greater reliance on capital markets weaken its strong Solvency Score and its moderate Cash Flow Cushion. Still, Starbucks has solid brand intangible assets that command premium pricing and combined with its scale advantages have earned a wide economic moat from Morningstar's Equity Research Group. In addition to its alliance with Nestlé, which is expected to accelerate the company's global growth and further its channel diversification, we believe that the three facets identified by Starbucks: digital engagement, tapping the market in China, and Starbucks Roasteries and Reserve, the innovation lab that generates ideas, creates premium products, and provides a distinctive retail environment, and produces an exceptional growth platform. The rating also reflects Starbucks' recent restructuring of its portfolio to accelerate growth in high-returns businesses by removing noncore, slow-growth activities and gaining control of stores in its core markets. These activities include the acquisition of its East China joint venture; Singapore retail operations' full conversion to licensed; ongoing closures of Teavana TM/MC retail stores; and the sale of the Tazo brand company-operated to licensed stores.

Credit Strengths

- Starbucks' digital consumer engagement is one of the best in class; its My Starbucks Rewards program, with 15 million members (a 13% increase over the prior year) solidifies loyalty to the brand. The company's Mobile Order & Pay, which has rapidly grown, links into the loyalty system and generates incremental sales, as mobile app users spend more than double the average customer. These elements reinforce the company's competitive advantages and position it well to capture the benefit of consumers' ongoing mobile usage.
- Starbucks and Nestlé Global Coffee Alliance will allow the company to further penetrate the consumer packaged goods and food-service channels around the world, which is expected to meaningfully contribute to the company's growth in fiscal 2019.

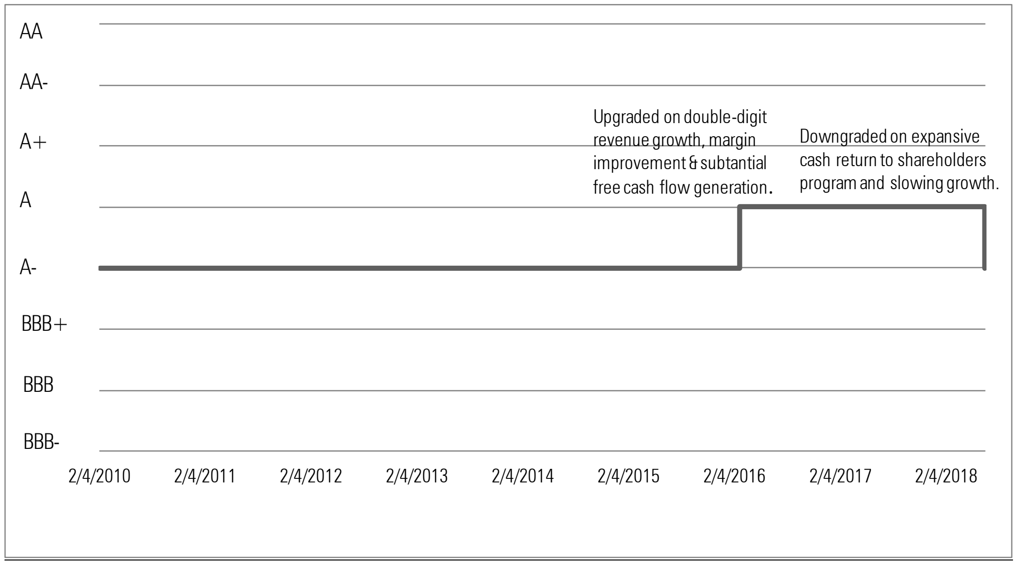
Credit Weaknesses

- Expansion of Starbucks' high cash return to shareholder program has resulted in the company abandoning its conservative capital structure management. Starbucks has set a limit on its leverage, indicating that it will maintain its lease-adjusted leverage below 3.0 times, which historically averaged just over 2.0 times.
- In order to maintain its current credit profile, Starbucks is highly dependent on continuing strong operational and financial performances. Any prolonged weakness in the company's revenue growth, operating margins, and cash flows could have a negative impact on Starbucks' credit pillars.

Credit Rating History

- On June 23, Starbucks' credit rating was downgraded one notch to an A- rating because of the company's aggressive capital allocation policy characterized by its expansive cash return to shareholders program, an increase in its lease-adjusted leverage to just under 3.0 times from 2.3 times, and slower revenue growth.
- On April 21, 2017, Starbucks' A credit rating was affirmed, reflecting the stability of the company's pillars
- On Feb. 26, 2016, Starbucks' credit rating was upgraded one notch to A on double-digit top-line revenue growth, margin improvement, and free cash flow generation after dividend and capital expenditure of $1.5 billion in fiscal 2015.
- On Feb. 4, 2010, Starbucks was initiated with an A- rating.

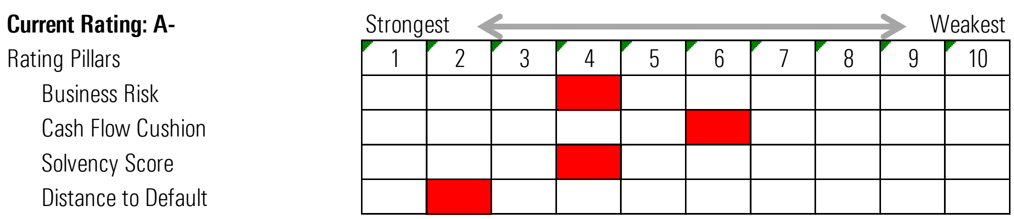
Exhibit 1 Starbucks' Credit Rating History



Source: Company filings, Morningstar Credit Ratings, LLC

Pillar Analysis

Exhibit 2 Starbucks' Credit Pillar Summary



Source: Morningstar Credit Ratings, LLC

Please refer to the appendix for a full description of the rating pillars.

- Business Risk (4-Low): Starbucks derives its strong competitive advantages from its intangible assets, cohesive network, and supplier and scale advantage, which are the major contributors to the company's low Business Risk. These positive factors overwhelm the company's concentration risk and aggressive management score because of its Cash Return to Shareholders program.

  - Size (Very large): While there are hundreds of food-service companies public and private, Starbucks is among the largest with revenue of $22.4 billion for fiscal year 2017, composed of $17.7 billion from company-operated stores, $2.4 billion in licensed stores, and $2.4 billion in consumer packaged goods, and other. Company-operated stores generated 79% of its revenues.

- Economic Moat (Wide): Starbucks' wide economic moat as assigned by Morningstar Equity Research Group is derived from its intangible assets inherent in its brand portfolio, cohesive franchise network, influence over suppliers, and scale advantages. (See Appendix.)
- Uncertainty (Medium): With substantial growth and channel development opportunities that would increase the company's diversification, MCR assigns Starbucks a medium uncertainty rating because of potential macroeconomic volatility, competitive pressures, and execution risk.
- Product/Customer Concentration (Concentrated): Although Starbucks has made tremendous gains in expanding its menu offerings, we estimate beverages—primarily coffee and coffee-based products—generate 75% of the company's revenue.
- Management (Fairly Aggressive): Increases in leverage to support payouts to shareholders are indicative of an aggressive capital allocation policy.
- Dependence on Capital Markets (Low Dependency): Strong adjusted cash flows and pretax proceeds of $7.3 billion from Starbucks' alliance with Nestlé, benefits the Dependence on Capital Markets score in the near term. However, this score will likely weaken as management funds its $25 billion cash return to shareholders program by fiscal year 2020 and as debt maturities of $500 million in 2021 and $750 million in 2022 becomes due.
- Cyclicality (Medium Cyclicality): Food expenditures away from home are discretionary and susceptible to recessionary pressures, but quick-service restaurants are generally less so, compared with casual-dining restaurants. Although, Starbucks' products are viewed as a necessity by some of its customers, and a simple pleasure or an inexpensive indulgence by others, during the last recession in fiscal year 2008 comparable-store sales declined 5% in the U.S., with a negative trend throughout the course of that year, ending with a decline of 8% in the fourth quarter.

- Cash Flow Cushion (6-Moderate) Starbucks' heightened dividends and share repurchases under its $25 billion cash return to shareholders program weighs on its Cash Flow Cushion Score, in spite of modest debt maturities during MCR's five-year forecast period and significantly high average adjusted cash flow. This score may weaken as larger maturities throughout the intermediate term become due.
- Solvency Score (4-Strong): This score weakens by fiscal year 2021 because of higher leverage and a lower lease-adjusted interest coverage ratio. Longer-term ROICs are expected to improve as the company licenses more stores as opposed to owning and operating them.
- Distance to Default (2-Very Strong): The strength of Starbucks' share price provides a significant equity cushion and a strong default score. The company has a market capitalization of $74 billion and debt of $9.8 billion. However, this input is slightly discounted as Starbucks has substantial operating lease commitments that are not captured in this measure of equity support.

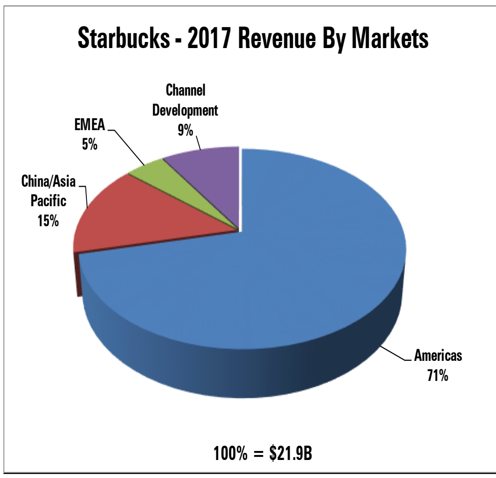
Starbucks Corporation Overview

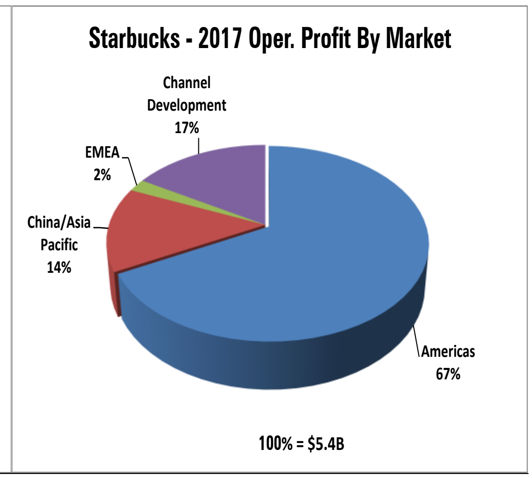
Starbucks is the premier roaster, marketer, and retailer of specialty coffee in the world, operating in 75 countries with 28,720 stores at July 1, of which 52% are company-operated and the remainder licensed stores. Starbucks purchases and roasts high-quality coffees that it sells, along with handcrafted coffee, tea, and other beverages and a variety of high-quality food items, including snack offerings, through company-operated stores. It also sells a variety of coffee and tea products and licenses its trademarks through other channels such as licensed stores, grocery, and food-service accounts. In addition to its flagship Starbucks Coffee brand, its sells goods and services under the following brands: Teavana, Tazo, Seattle's Best Coffee, Evolution Fresh, La Boulange, and Ethos.

Starbucks stated that it aims to be the one of the most recognized and respected brands in the world. This objective is to be accomplished through continuing the disciplined expansion of its global store base, adding stores in both existing and developed markets such as the U.S., but most important, in newer, higher-growth markets such as China, as well as optimizing the mix of company-operated and licensed stores in each market.

The company segments are listed below.

Exhibit 3 Segment Data





Sector Commentary

The global coffee business is likely to become more competitive as Coca-Cola (A+, stable) announced that it has signed a definitive agreement to acquire Costa Limited and according to the company, aims to increase its share of, the estimated $570 billion global coffee and tea market. Costa with 3,800 retail locations has become a major coffee brand. The company has trained baristas, a coffee vending operation, for-home coffee formats, and Costa's state-of-the-art roastery. Although Costa operates in 30 markets, just over 60% of its stores are in the United Kingdom, where the company is the leader. Costa has approximately 12% of its stores in Europe and a growing presence in China, where 12% of its stores are located. Coffee is one of the world's fastest-growing beverage categories, which is estimated at 6% and Costa provides Coca-Cola with an immediate coffee platform to grow globally. We do not believe that Costa represents an immediate threat to Starbucks because it does not have the size, scale, or brand equity that the company has; however, Coca-Cola ownership changes the competitive landscape. In addition to its strong intangible assets, Starbucks also has a first-mover competitive advantage in many international markets and a leading share, where MCR expects it to continue to expand aggressively.

In the United States, Starbucks is the leading specialty coffee retailer with over 14,400 company-owned and licensed locations and derives two thirds of its operating profit. The company has a sizable lead over its direct competitors, including Dunkin' Donuts (almost 9,300 U.S. points of distribution), Caribou Coffee, and Peet's Coffee with a few hundred locations, are now owned by the Joh. A. Benckiser Group. Other coffee competitors on the periphery include the quick-service restaurant chains that offer premium coffee and specialty coffee drinks such as McDonald's McCafé.

Financial Projections

We are forecasting a high-single-digit to low-double-digit sales increase supported by the company's new store development, digital initiatives, and comparable store sales at approximately 3%, which are at the low end of the company's guidance. Starbucks plans to open 2,300 new stores globally in fiscal year 2018, which we estimate will add 5%–6 % to the company's revenue growth. The Nestlé alliance is expected to add 1% to revenue growth, but not until fiscal 2019. Operating margins are forecast at approximately 17% in the near term, which is a contraction versus the prior year resulting from incremental investment in its employees and digital initiatives. We are projecting that the company's lease-adjusted leverage will exceed the low 3.0 times throughout the forecast period up from 2.2 times at fiscal 2017 and its lease-adjusted coverage ratio will decline to high-single digits from the historical teens.

Exhibit 4 Financial Projections

$s in Millions	2018E	2019E	2020E	2021E	2022E
Revenue	24,575	26,838	29,588	32,602	34,922
Revenue Growth	9.8%	9.2%	10.2%	10.2%	7.1%
Operating Income	4,173	4,694	5,348	6,011	6,576
Operating Income Growth	-2.7%	12.5%	13.9%	12.4%	9.4%
Adjusted EBITDA	5,384	6,080	6,873	7,674	8,332
Cash Flow From Operations	4,217	5,196	5,788	6,408	6,926
Capital Expenditures	(1,966)	(1,884)	(2,071)	(2,119)	(2,270)
Dividends	(1,754)	(2,277)	(2,545)	(2,851)	(3,135)
Free Cash Flow	497	1,036	1,171	1,438	1,522
Gross Debt / EBITDA	1.9	2.1	2.2	2.0	1.9
Adjusted Debt/EBITDAR	3.2	3.3	3.4	3.2	3.1
EBITDAR/Interest+ 1/3 Rents	10.7	9.0	8.3	8.3	8.6

Source: Morningstar Credit Ratings, LLC

Capital Structure and Liquidity Analysis

As of July (third quarter-end of fiscal 2018), Starbucks had total debt of $6.8 billion, including $300 million of commercial paper. Maturities of long-term debt were as follows: $350 million in fiscal 2019, $750 million in 2021, $500 million in 2022, and $4.9 billion thereafter. On Aug. 8, Starbucks issued $3.0 billion in a multi-tranche notes offering composed of $1.250 billion 3.8% notes due 2025, $750 million 4.0% notes due 2028, and $1.0 billion 4.5% notes due 2048. Proceeds for the debt issuance pushes its debt level to $9.8 billion and will likely to be used for the company's cash return to shareholders program. In addition to funded debt, we estimate Starbucks' capitalized lease obligation at $10.6 billion. While the growth of the company-operated stores is expected to decline as Starbucks emphasizes licensed stores, the Dec. 31, 2017, acquisition of the remaining 50% interest of its East China joint venture for $1.4 billion added 1,400 stores and additional lease obligations. Management has stated that it has made a commitment to the board of directors that its rent-adjusted leverage ratio (adjusted debt/EBITDAR) will remain at 3 times or less. MCR's lease-adjusted leverage ratio includes 8 times rent expense as a debt obligation, which is likely more aggressive than the company's calculation.

MCR believes Starbucks' heightened leverage is balanced by its low Business Risk and strong free cash flow generation (cash flow from operations less capital expenditures and dividends), which we forecast will average $1.1 billion annually over our five-year forecast period. The company's strong liquidity derived from its cash and short-term investment of $4.7 billion, pro forma for the note's issuance is augmented by the company's free cash flow. Financial flexibility is enhanced by Starbucks' unused $2.0 billion unsecured five-year revolving credit facility that matures in 2022 and a $1.0 billion unsecured 364-day credit facility that matures in October. Both facilities support Starbucks' $3.0 billion commercial paper program, and each has a $500 million accordion feature. Starbucks was compliant with the financial covenant of its credit agreements, which doesn't permit its fixed-charge coverage ratio to be less than 2.5 times.

Exhibit 5 Capital Structure ($s in Millions)

Type	Maturity dates	Interest rate (%)	Pro-Forma 1-Jul-18	xEBITDAR
Commercial Paper			300	
Notes	2018	2.00%	350	
Notes	2020	2.20%	500	
Notes	2021	2.10%	500	
Notes	2021	2.10%	250	
Notes	2022	2.70%	500	
Notes	2023	3.85%	750	
Notes	2023	3.10%	1,000	
Notes	2024	0.37%	768	
Notes[1]	2025	3.80%	1,250	
Notes	2026	2.45%	500	
Notes	2028	3.50%	600	
Notes[1]	2028	4.00%	750	
Notes	2045	4.30%	350	
Notes	2047	4.30%	500	
Notes[1]	2048	4.50%	1,000	
Deferred Debt Cost			(35)	
Fair value adjustment			(34)	
Total Debt Obligations			9,799	
Capitalized Lease Obligations			10,634	
Total Adj.Debt			20,433	2.8x
Total Cash and Equivalents			4,977	
Net Debt			15,456	2.1x
Adj. EBITDAR latest twelve month ended July 1, 2018			7,192	

[1]Notes issued August 8, 2018.

Source: Morningstar Credit Ratings, LLC as of July 23, 2018, *Adjusted TD includes total debt plus 8 times rents

Capital Allocation

The company's increasingly aggressive commitment of returning cash to shareholders through dividends and share repurchases will necessitate higher debt levels. A major acquisition, which could increase leverage and have a negative impact on the company's credit pillars, is not anticipated. Capital expenditures for approximately 2,300 new stores worldwide are expected to be just under $2.0 billion in fiscal year 2018. Approximately 1,100 of the company's new stores will be built in China/Asia Pacific, 900 in the Americas and the remainder in Europe, the Middle East, and Africa. In line with the company growth prospects we expect capital expenditures to just exceed $2.0 billion during the intermediate term.

Peer Comparison

Starbucks competes with McDonald's (A-, stable) McCafé line, Dunkin' Brands (not rated), which operates a 100% franchise model and the collection of brands and restaurants under JAB Holdings Company (not rated), which includes Jacobs Douwe Egberts and the coffee assets of Mondelez, D.E MasterBlenders, Peet's Coffee, Caribou Coffee, Einstein Noah Restaurant Group, Keurig Green Mountain, and Panera Bread. With the exception of Dunkin' Donuts, Starbucks has a more limited food offering. Several other restaurant companies that are not primary competitors with Starbucks such as Burger King, which is owned by Restaurant International (not rated) and Taco Bell, which is owned by Yum Brands Inc. (BB, stable) have expanded their breakfast menus and their coffee offerings.

The large U.S. restaurant companies have engaged in operational and financial restructuring, through refranchising and leverage recapitalization, and have aggressively been returning capital to shareholders. Both Starbucks and McDonalds are highly rated, have wide economic moats and are engaged in large multi-year cash return to shareholder programs. Starbucks rated similar to McDonald's with comparable credit pillars has the lowest leverage, historical exhibited greater growth than McDonald's and has led the industry with digital engagement, but with a beverage focus is much less diversified.

Exhibit 6 Peer Analysis ($s in Millions)

Trailing-Twelve Months Ended June 30, 2018			
Financial Metrics	SBUX[1]	MCD	DNKN
Credit Rating	A-	A-	Not/Rated
Revenue	24,114	21,587	1,327
EBITDA	5,863	9,907	445
Margin	*24%*	*46%*	*34%*
EBITDAR	7,192	11,572	507
Margin	*30%*	*54%*	*38%*
Debt	9,799	30,980	3,056
Adjusted Debt	20,443	44,186	3,550
Rent-Adjusted Leverage	2.8	3.8	7.0

[1]Debt and adjusted debt amounts reflect the company's $3.0B Aug. 8 notes issuance.

Source: Company filings, Morningstar Credit Ratings, LLC most recent annualized data.

Appendix

Starbucks' Moat and Trend

The following description comes directly from Morningstar's Equity Research Group:

"Nonexistent switching costs, intense industry competition, and low barriers to entry make it difficult for restaurants and specialty retailers to establish long-lasting competitive advantages, but with a brand intangible asset that commands premium pricing combined with meaningful scale advantages, Starbucks possesses a wide economic moat, in our opinion. We expect the company to maintain its specialty coffee leadership while successfully finding new growth avenues. Our confidence is supported by Starbucks' mobile/digital/loyalty offerings (including the My Starbucks Rewards and Mobile Order & Pay platforms and new partnerships with other consumer-facing companies), channel development efforts (K-Cups, Nespresso-compatible products, and other consumer packaged goods), geographic market expansion opportunities (notably, China, India, and Japan), a complementary brand portfolio (the Starbucks Reserve sub-brand in particular, but also Princi and Teavana), and employee investments that have driven down attrition levels. In our view, each of these factors provides support for our estimates, which call for average annual revenue growth in the high-single-digit range and cash flow growth in the low to mid-teens over the next decade. Although there are execution and brand saturation risks tied to management's current strategic plans, we believe if executed properly, they could fortify its already wide economic moat.

"With over 14,400 company-owned and licensed locations in the U.S., Starbucks maintains a sizable lead over direct domestic rivals, including Dunkin' Donuts (almost 9,300 U.S. points of distribution), Caribou Coffee, and Peet's Coffee (the last two chains, which account for a few hundred locations, are now owned by the Joh. A. Benckiser Group). With cafelike environments and a brand that evokes a high-quality customer experience, Starbucks enjoys pricing power advantages over most specialty coffee peers, which we believe will only be augmented by the incubation of the Starbucks Reserve sub-brand to distribute exclusive, higher-end coffee blends. New product platforms such as smoothies and tea, as well as a revamped food program, have added diversity to the menu, allowing the firm to broaden its target audience, increase its average transaction size, and expand more into the lunch and evening daypart. Starbucks also wields considerable influence over arabica coffee bean suppliers, ensuring access to raw materials at competitive prices. In addition, retail landlords often grant Starbucks exclusive leases to prominent locations rife with consumer traffic, and we believe the company has a significant longer-term opportunity through the use of alternative store formats, including smaller-format express stores (400-600 limited service locations situated in high foot traffic locations), stand-alone drive-thrus, beverage trucks (which have been tested on college campuses), and kiosk locations. The company's strong landlord relationships and square footage creativity could accelerate the global growth aspirations of Starbucks' more nascent retail formats over the next decade and make it more difficult for rivals to compete.

"Many of Starbucks' competitive advantages also apply to international markets, which we view as a critical growth engine over the next several decades. With a widely recognized brand, Starbucks is among the few retail concepts to be successfully replicated across the globe. As such, we believe the firm will eventually exceed its domestic store count overseas. The chain has nearly 14,300 units in almost 80 countries outside the U.S., including some well-established cafe cultures. Emerging-market prospects are also intriguing, including opportunities in markets such as mainland China (which already has nearly 3,400 units, on its way to 10,000-plus over a longer horizon, in our view) and India (which offers potential for at least 1,000 units over the next decade, in our view). We have a favorable view of Starbucks' decision to buy the remaining stakes of Starbucks Japan (2014) and Starbucks China (2017) that it didn't already own, as full ownership should help to accelerate inroads into new channels (with emphasis on the underpenetrated ready-to-drink market but also other licensing and food-service opportunities), roll out new brands, and accelerate mobile/digital/loyalty efforts, which in turn should help to build on already strong store-level profit metrics.

"Starbucks' channel development aspirations underscore the power of its brand intangible asset. We view the company as one of the few food-service operators that could evolve into a world-class consumer packaged goods company due to its ability to connect with grocery and mass-channel customers through licensed on-premise stores. With its already strong bargaining clout with national retailers like Amazon, Costco, Kroger, Whole Foods, and Trader Joe's, we expect Starbucks to develop national distribution of its entire consumer product portfolio over the next few years. Starbucks should also have ample opportunities to expand its presence on grocery and mass-channel shelves across the globe through a partnership with Nestle to market, sell, and distribute the Starbucks, Teavana, VIA, and other brands across more than 190 markets across the globe. We've been impressed by Starbucks' efforts to expand its distribution beyond traditional outlets, including other restaurant chains, hotels, airlines, universities, and offices. These developments give us confidence in our outlook calling for high-single-digit collective average annual revenue growth for the channel development and other segments over the next five years. More important, we anticipate that the channel development segment will become an increasingly important free cash flow contributor.

"Although the attractive economics of a specialty coffee program have attracted substitutes in recent years, we believe the global brand intangible asset behind Starbucks' wide moat is strengthening, resulting in a positive moat trend. This view is validated by global comparable-store sales that have outpaced much of the industry the past five years, even with softer transaction trends the past several quarters in the U.S. Additionally, we still believe that few national/regional restaurant or specialty coffee operators are willing or able to compete with Starbucks' in-store customer experience, outside a handful of smaller independent coffee chains or select fast-casual concepts.

"In particular, we like that Starbucks now has a retail concept portfolio that offers a solution for any real estate setting, with large-format 20,000-square-foot-plus Roastery locations offering a truly unique retail destination in major urban markets (including New York City, Milan, and Tokyo in 2018 and Chicago in 2019), upscale Starbucks Reserve stores combining many of the experiential aspects of the Roastery stores (save for the roasting process) in a more flexible setting for upscale urban and suburban settings, the incorporation of Princi bakery counters at Roastery and Reserve locations (while offering optionality as a stand-alone concept over a longer horizon), and aspirations to incorporate a Reserve Bar within 20% of its traditional stores over a longer horizon. We also see longer-term opportunities to reinvent Starbucks' traditional store base, including smaller-format express stores (limited-service locations designed for high-foot-traffic locations), stand-alone drive-thrus, beverage trucks, and kiosks.

"While we view premium stores as an underappreciated growth initiative in the coming years, we think investors should also take note of other drivers for Starbucks to improve store productivity metrics at new and existing locations, adding incremental support to our positive moat trend rating. Beverage platforms like cold beverages (which could account for 50% of beverage sales by 2021), an expanded assortment of health and wellness-oriented drinks, and new beverage innovations developed at Roastery locations should remain a key contributor to comparable traffic and transaction size, while a more refined food lineup—including sous vide egg bites, an expanded lunch daypart featuring soups, sandwiches, and salads, and the ability to offer Princi fresh-baked products at Reserve stores—should help to drive greater food attach rates and push food to 25% of sales by 2021, from 20% today. We also believe Starbucks still has opportunities to streamline and remodel many of its traditional stores using design elements from its Roastery and Reserve formats, which offers an additional potential layer of growth.

"Additionally, we remain constructive about Mobile Order & Pay, a platform that dovetails nicely with the company's existing digital and loyalty platforms. The program, which is available nationwide in the U.S. as well as internationally in the U.K. and Canada—at roughly 40% of all Starbucks locations—allows customers to place customized beverage and food orders from mobile devices for pickup in a store of their choosing. We see many benefits from the platform, including more My Starbucks Reward loyalty members, greater targeted marketing efforts leading to higher food attachment rates and average ticket sizes, increased purchasing frequency from existing customers, and greater store throughput by effectively eliminating point-of-sale pain points. We do think it will take a few quarters to resolve Mobile Order & Pay congestion issues, which have weighed on recent store transaction trends. With "My Starbucks Barista" voice recognition technology integrated into its mobile app and the opportunity to further expand MOP internationally in the years to come, we see an opportunity for greater utilization of existing stores.

"We're also optimistic about Starbucks' loyalty program synergies across its various business lines and through new partnerships including Spotify, The New York Times, and Lyft, which support the strengthening of Starbucks' brand intangible asset. In our view, the high level of engagement among Starbucks Rewards and mobile app users should facilitate the rollout of a general purpose prepaid reloadable debit card (through J.P. Morgan Chase and Visa), as well as more targeted mobile marketing efforts in 2018.

"In our view, Starbucks' strategic move to expand past its traditional retail roots and develop a more substantive consumer packaged goods business through its partnership with Nestle will continue to gain traction in the years to come, given its well-recognized brand name that commands premium pricing and unique ability to connect with grocery and mass-channel customers through its licensed on-premise stores and digital platforms. Although consumer packaged goods expansion will require incremental supply-chain and distribution investments, we're convinced that having greater control of its own consumer product distribution will ultimately strengthen the company's competitive position, driving excess economic returns over a longer horizon. "

Exhibit

Descriptors for Pillar Analysis

			Rating Pillars		
Score Range		**Business Risk**	**Cash Flow Cushion**	**Solvency Score**	**Distance to Default**
Strongest	1-2	Minimal	Very Strong	Very Strong	Very Strong
	3-4	Low	Strong	Strong	Strong
	5-6	Moderate	Moderate	Moderate	Moderate
	7-8	High	Weak	Weak	Weak
Weakest	9-10	Very High	Very Weak	Very Weak	Very Weak

Business Risk Pillar Components

Country Risk (10% of Business Risk Score)

Weakest	Very High Risk
	High Risk
	Moderate Risk
Strongest	Low Risk

Company Risk (90% of Business Risk Score)

	Size	**Economic Moat**	**or Sustainable Competitive Advantage**	**Uncertainty**
Weakest	Very Small	None	None	Extreme
	Small			Very High
	Moderate	Narrow	Moderate	High
	Large			Medium
Strongest	Very Large	Wide	Substantial	Low

	Product/Customer Concentration	**Management**	**Dependence on Capital Markets**	**Cyclicality**
Weakest	Highly Concentrated	Aggressive	Extremely Dependent	Highly Cyclical
	Concentrated	Fairly Aggressive	Highly Dependent	Cyclical
	Neutral	Neutral	Dependent	Average Cyclicality
	Diversified	Fairly Conservative	Low Dependence	Mild Cyclicality
Strongest	Highly Diversified	Conservative	Very Low Dependence	Non-Cyclical

Morningstar® Credit Research

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