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**Competition of Starbucks and Luckin Coffee: who will be the winner in China?**

In Partial Fulfillment of the Requirements

for the Bachelor of Science in Finance

by

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## **ABSTRACT**

Luckin Coffee appeared in the Chinese coffee market as a stronger competitor to Starbucks and determined to become China's "Starbucks". There is inevitable competition between Luckin Coffee and Starbucks, and the battle between them has intensified. Who will be the final winner is a common concern. Therefore, the researcher hopes to find the answer through this research. Researcher will use data from the launch of Luckin Coffee to compare with Starbucks data, through Strategic Position and Action Evaluation Matrix for analysis. The final analysis about who will become the winner will under the theory of game theory. In other words, under what circumstances will the party win the final victory. Researcher believes that, in the end, it can definitely find a strategy that is theoretically suitable for Luckin Coffee to help it achieve the ultimate victory.

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## **Introduction**

Research purpose is to compare the performance of Starbucks and Luckin Coffee in Chinese coffee market, and researcher wants to use specific evidence to find the winner. Since Luckin Coffee wants to become Chinese “Starbucks”, researcher’s hypothesis is that Luckin Coffee can occupy Chinese coffee market eventually, that means Luckin Coffee will be the winner.

Thus, researcher will go to Bloomberg to find some available data about stock price and sales of Starbucks and Luckin Coffee. Also, researcher will go to their official site to get more data information. Researcher will investigate their market share in China, so that researcher can find whether Luckin Coffee did well. Using financial statement analysis and ratio analysis can help researcher to figure out their performance. Meanwhile, analysis of their investor behavior and their financial activities is one of the keys to test their performance. Their marketing strategies are also important when researcher begin to analyze these two companies. Some subsidiary business can also be compared to get results. Peer articles about the comparative between Coca and Pepsi, or, McDonald’s and Burger King, can also give researcher some useful ideas in this research. When researcher finish the job of analysis and comparison, researcher can predict that whether Luckin Coffee can become Chinese “Starbucks”.

It’s important to analysis Luckin Coffee’s performance, because China needs more world brand names.

## Literature Review

Since Starbucks opened its first store in China, Starbucks has become a well-known coffee brand in China, occupying the vast coffee market. It can say that in the past few years, Starbucks has no significant competitors in the Chinese coffee market. However, in 2017, Luckin Coffee opened its first store in Xiamen and successfully listed on NASDAQ in 2018. Luckin Coffee has lived up to expectations and has become Starbucks' most significant competitor in the Chinese coffee market. Luckin Coffee followed the pace of Starbucks and opened several stores in major cities that rivaled Starbucks stores. Unlike Starbucks offers coffee and rest place, Luckin Coffee is more focused on self-raising and take-away coffee services. Also, there are very few stores that provide guests with a place to rest. Luckin Coffee attracts customers with products that are less expensive than Starbucks and a variety of coupons, such as "first cup free," "buy one get one free," or "50% discount coupon". Luckin Coffee publicly stated that profit is not their first goal, attracting customers and occupying a broader coffee market is their primary goal. For this goal, Luckin Coffee, despite losing money, still offers a variety of coupons to attract a large number of customers. The market seesaw battle between Luckin Coffee and Starbucks is being staged fiercely in China. Who will be the final winner? Many scholars have published their analyses and opinions on this issue.

Wang (2019) analyzed the prospects of Luckin Coffee with Luckin Coffee's performance after the IPO. She pointed out in the article that Luckin Coffee's closing price was lower than its issue price. This situation is because Luckin Coffee offered coupons in the form of using much cash, but the profit was not impressive. However, she also pointed out that Luckin Coffee is a user who hopes to win Starbucks in such a strategy. Luckin Coffee

sells coffee through a developed network, providing online self-service ordering services, making sales more convenient. Although the distribution of coupons makes Luckin Coffee's earnings less, it can be used to offset the coupon's expenses by selling coffee and other products. Wang believes that Luckin Coffee focuses on madness rather than profitability. As long as it breaks even elsewhere, such a strategy is not infeasible, as long as Luckin Coffee can maintain a lot of financial support and quick action. The researcher believes that Wang's analysis is accurate because Starbucks' visibility in China is apparent, and the market share is significant. If Luckin Coffee does not attract customers with low prices and affordable coupons, it is difficult for them to compete with Starbucks.

Mattone (2019) also noticed the threat of Starbucks by emerging coffee brand Luckin Coffee. Through a comparison of the number of stores in Starbucks and Luckin Coffee in several major Chinese cities, he found that the number of Starbucks stores is still higher than that of Luckin Coffee. This situation is beneficial to Starbucks. At the same time, Starbucks has a long history and a luxurious experience model because Starbucks has been in China for nearly two decades, while Luckin Coffee is a new brand. However, he also mentioned that Luckin Coffee's technical support is flexible and can beat competitors at a lower price and more convenient service. The researcher believes that Luckin Coffee and Starbucks are competing in the distribution of stores. In the store-intensive area, as long as people can see Starbucks, they can see Luckin Coffee at the same time. According to its store growth rate, Luckin Coffee's store number can exceed Starbucks in the future. Besides, Xu (2019) mentioned the technical advantages of Luckin Coffee in the article, because the marketing model of the mobile app can indeed bring

more convenient services to consumers. Xu pointed out that China is a country defined as “a hot beverage,” so the existence and renewal of the coffee market are predictable.

While affirming Luckin Coffee’s business strategy, Xu also expressed concern about its rate of return. Also, Luckin Coffee’s taste does not impress consumers, which means that Luckin Coffee cannot compete with Starbucks with more delicious coffee products. At the same time, in the Chinese beverage market, there is a milk tea market, which will also pose a threat to the coffee market. So, Luckin Coffee competitive with Starbucks while accepting competition from the milk tea market. The researcher believes that Xu’s concerns about Luckin Coffee are correct. Luckin Coffee, a Chinese local coffee brand, however, clearly knows the tastes of Chinese consumers better than Starbucks, so Luckin Coffee’s subsidiary, “Little Deer Tea,” is a company that sells milk tea, which uses in the milk tea market.

Stevenson (2019) and Wang (2019) are similar to Luckin Coffee’s strategy analysis, but Stevenson is more concerned with the direct feelings of consumers. Through interviews with consumers, Stevenson learned that people might choose Luckin Coffee for a more convenient service because many people are not particularly sensitive to the taste of coffee. Stevenson mentioned that with the Internet cooperation with Alibaba, Starbucks has also begun to switch to the delivery market. This reaction may weaken Luckin Coffee’s primary technical advantage. The researcher also noticed the strategy Starbucks faced with competitor Luckin Coffee, so the war in the coffee market is getting more intense. Marszalek (2018) said that whether Luckin Coffee survives from the competition with Starbucks depends on Luckin Coffee’s future strategy. She also mentioned that Starbucks and Alibaba’s strategy of cooperation has dramatically weakened the

competitive advantage of Luckin Coffee. Starbucks has gradually become a way of life, which is what Luckin Coffee is currently unable to achieve. People will choose a different coffee store in different situations. For examples, when people have leisure time, people may go to Starbucks to buy a cup of coffee and have a chat with friends, but when the time is not enough, people may choose to order Luckin Coffee to deliver in office. The researcher agrees with Marszalek's attitude that Luckin Coffee does have a long way to go. Whether or not to achieve the final victory depends on Luckin Coffee's future business strategy. Not everyone holds an optimistic attitude towards to Luckin Coffee. Culpan (2019) mentioned in his report that Luckin Coffee described itself as "coffee network in China," but the fact that expenses are as three times as income makes Luckin Coffee more like a technology startup company rather than a food company. The researcher believes that the market is changeable and diversified. Every company has its strategy, and it is one-sided to define a company from some temporary data. The researcher wants to judge the sustainability of a company from a long-term perspective.

Cogan (2018)'s analysis of Luckin Coffee is similar to the analysis of the scholars mentioned above, but he has a richer view of Luckin Coffee's future development. He believes that Luckin Coffee's operating model provides the right direction for Starbucks' future market strategy in the Chinese market. Costa Coffee, which will be acquired by Coca-Cola, will also become a new threat, but he believes that Luckin Coffee must be the fastest growing of the three. If Luckin Coffee has plans to expand overseas, Luckin Coffee's overall competitiveness will be even stronger. At the same time, Luckin Coffee also provides an excellent example of how to destroy existing markets. Luckin Coffee will make coffee more accessible and cheaper in China. Researcher also has a positive

attitude towards the future development of Luckin Coffee. Although Luckin Coffee faces many problems, it is the only way which must be passed to become the first coffee merchant in China.

As Santana (2019) said: “Luckin Coffee’s current business model is not doing. And at a certain point, the investor funding has been stopped flowing if nothing changes.”. The researcher believes that Luckin Coffee’s current business model is not a long-term business model because the ultimate goal of every company is to maximize profits. Luckin Coffee’s current strategy is useful, but Luckin Coffee needs to change its business model in the future to seek more profit and higher market share. Since Luckin Coffee is an emerging brand, more detailed analysis is rare. Therefore, it is difficult to judge Luckin Coffee and Starbucks that who will be the final winner from some primary data and strategy analysis. The researcher hopes to compare Luckin Coffee and Starbucks’ operations with more, professional analysis to predict who will be the final winner. In the process, Cuofano (2017) and UK essays’ (2018) research on Coca-Cola and Pepsi, and Majasiki’s (2019) research on McDonald’s and Burger King competition provide researcher with useful examples for analyzing Luckin. Coffee and Starbucks.

## Methodology and Data

This research will use the Strategic Position and Action Evaluation Matrix to be the basic model, and will also analyze the results with game theory and BCG matrix.

Strategic Position and Action Evaluation Matrix, referred to as SPACE matrix, is mainly to analyze the external environment of the enterprise and the strategic combination that the enterprise should adopt. The SPACE matrix has four quadrants that represent the four strategic models of aggressive, conservative, defensive, and competitive. The two axes of this matrix represent the two internal factors of the business – Financial Strength (FS) and Competitive Advantage (CA); two external factors - Environmental Stability (ES) and Industrial Strength (IS). These four factors are the most important for the overall strategic position of the company.

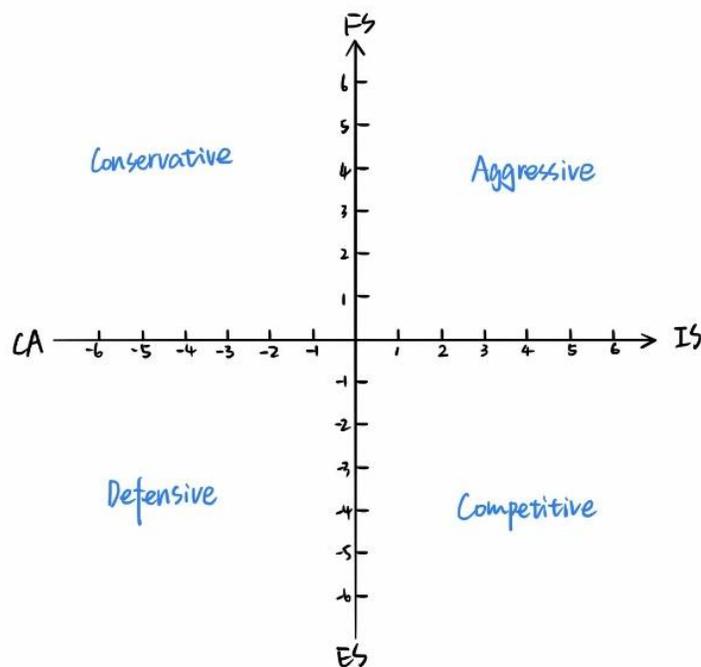


Figure 1. SPACE Matrix

The steps to create a SPACE matrix are as follows:

- (1) Select a set of variables that constitute financial advantage (FS), competitive advantage (CA), environmental stability (ES), and industrial advantage (IS);
- (2) A score value from +1 (worst) to +6 (best) is given to each variable constituting FS and IS. And the scores of the variables constituting the axes of ES and CA from -1 (best) to -6 (worst);
- (3) Adding the scores of all the variables of each number axis, and dividing by the total number of each number axis variable, respectively, and obtaining the average scores of FS, CA, IS and ES;
- (4) Marking the average scores of each of FS, CA, IS, and ES on their respective axes;
- (5) Add the two fractions of the X-axis and mark the result on the X-axis; add the two fractions of the Y-axis and mark the result on the Y-axis; mark the intersection of the X and Y-number axes;
- (6) Draw a vector from the origin of the SPACE matrix to the intersection of the X and Y values. This vector indicates the type of strategy the company can take.

Here are the variables in each factor:

SPACE matrix variables table

Dimensions	Factors Evaluated
Financial Strength	Return on investment Leverage liquidity

	<p>Capital required/available</p> <p>Cash flow</p> <p>Ease of exit from market</p> <p>Risk involved in business</p>
Competitive Advantage	<p>Market share</p> <p>Product quality</p> <p>Product life cycle</p> <p>Product replacement cycle</p> <p>Customer loyalty</p> <p>Competitor's capacity utilization</p> <p>Technological knowhow</p> <p>Vertical integration</p>
Environmental Stability	<p>Technological changes</p> <p>Rate of inflation</p> <p>Demand variability</p> <p>Prices of competing products</p> <p>Barriers to entry into market</p> <p>Competitive pressure</p> <p>Price elasticity of demand</p>
Industry Strength	<p>Growth potential</p> <p>Profit potential</p> <p>Financial Stability</p> <p>Technological know how</p>

	Resource utilization Capital intensity Ease of entry into market Productivity Capacity Utilization
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The SPACE matrix should be tailored to the situation of the company being researched and based on as much factual information as possible. Depending on the type of business, the axis of the SPACE matrix can represent many different variations the amount.

When the vector appears in the aggressive quadrant of the SPACE matrix, the company is in an excellent position to use its internal strengths and external opportunities to choose its own strategic model such as market penetration, market development, product development, backwards Integration, forward integration, horizontal integration, and mixed diversification.

When the vector appears in the conservative quadrant, it means that the firm should stick to the basic competitive advantage and not take excessive risks. The conservative strategy includes market penetration, market development, product development and centralized diversification.

When vectors appear in the defensive quadrant, it means that companies should concentrate on overcoming internal weaknesses and avoiding external threats. Defensive strategies include tightening, divestiture, closing and liquidation, and centralized diversification.

When the vector appears in the competitive quadrant, it indicates that the company should adopt a competitive strategy, including backward integration, forward integration, market penetration, market development, product development and formation of joint ventures.

Game theory is that the two companies use each other's strategies to change their own countermeasures in equal games to achieve the goal of winning. In this research, the strategies which are calculated in SPACE matrix of Luckin Coffee and Starbucks will be applied in game theory. BCG matrix, also known as Market Growth Rate-Relative Market Share Matrix, can help the researcher to find which stage is Luckin Coffee or Starbucks in, doing a further analysis to these two companies.

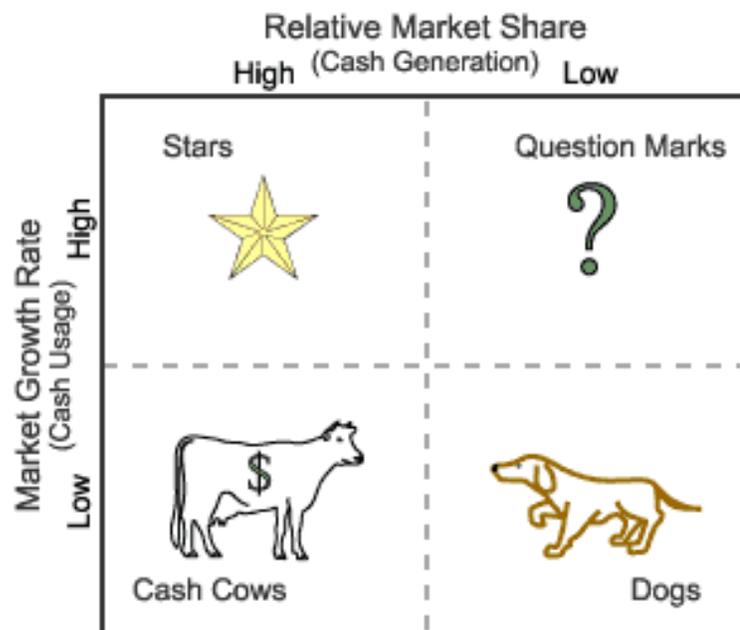


Figure 2. BCG Matrix

Reference: quickmba.com

In order to make the results of the SPACE matrix and BCG matrix more accurate, the researcher will collect data on Luckin Coffee and Starbucks in 2018-2019 (such as

company annual report, media evaluation, market share change, etc.) for more accurate scoring. Data can be obtained from major reliable databases and the company's official website. At the same time, researcher will refine the scoring criteria and try best to reduce the data bias of the study. In some variable scores that cannot be measured by data, the researcher will score on the evaluation of customers on the web and media reports.

## Results

The scoring system in SPACE matrix is depend on the relative data from Luckin Coffee and Starbucks. Some indicators that cannot be measured with data are scored based on public evaluation and market response. The following pictures are SPACE matrix results.

		Internal Factors		External Factors	
		CA	IS	IS	CA
X-axis			(-6 worst, -1 best)		(+1 worst, +6 best)
		Market share	-2	Growth potential	+6
		Product quality	-4	Profit potential	+6
		Product replacement cycle	-4	Financial Stability	+2
		Customer loyalty	-5	Technological knowhow	+6
		Competitor's capacity utilization	-3	Capital intensity	+6
		Technological knowhow	-1	Ease of entry into market	+4
		Average	-3.17	Average	+5.00
		Total X-axis score		+1.83	
	Y-axis		FS		ES
			(+1 worst, +6 best)		(-6 worst, -1 best)
		Return on investment	+1	Technological charges	-1
		Leverage liquidity	+6	Rate if inflation	-1
		Capital required/available	+5	Demand variability	-4
		Cash flow	+5	Prices of competing products	-5
		Ease of exit from market	+4	Barriers to entry into market	-3
		Risk involved in business	+1	Competitive pressure	-6
		Average	+3.67	Average	-3.33
		Total Y-axis score		+0.33	
since X>0 and Y>0, the Lukcin Coffee should applied aggressive method to face the competitor					

Figure 3. SPACE Matrix Results in Luckin Coffee

		Internal Factors		External Factors	
		CA	IS	IS	CA
X-axis			(-6 worst, -1 best)		(+1 worst, +6 best)
		Market share	-1	Growth potential	+3
		Product quality	-1	Profit potential	+5
		Product replacement cycle	-1	Financial Stability	+6
		Customer loyalty	-1	Technological knowhow	+5
		Competitor's capacity utilization	-2	Capital intensity	+3
		Technological knowhow	-2	Ease of entry into market	+6
		Average	-1.33	Average	+4.67
		Total X-axis score		3.33	
	Y-axis		FS		ES
			(+1 worst, +6 best)		(-6 worst, -1 best)
		Return on investment	6	Technological charges	-2
		Leverage liquidity	1	Rate if inflation	-1
		Capital required/available	3	Demand variability	-3
		Cash flow	4	Prices of competing products	-6
		Ease of exit from market	1	Barriers to entry into market	-2
		Risk involved in business	3	Competitive pressure	-6
		Average	3.00	Average	-3.33
		Total Y-axis score		-0.33	
since X>0 and Y<0, the starbucks should applied competitive method to face the competitor					

Figure 4. SPACE Matrix Results in Starbucks

According to figure 3 and figure 4, Luckin Coffee is in aggressive stage, which means that the company is in an excellent position to use its internal strengths and external opportunities to choose its own strategic model such as market penetration, market development, product development, backwards Integration, forward integration, horizontal integration, and mixed diversification. Meanwhile, Starbucks presents a competitive stage, which indicates that the company should adopt a competitive strategy, including backward integration, forward integration, market penetration, market development, product development and formation of joint ventures.

		Luckin	
		Aggressive	Not
Starbucks	Competitive	"-1, -1"	"-1, 1"
	Not	"1, -1"	"0, 0"

Figure 5. Game Theory in Luckin Coffee and Starbucks

Then, the game theory can be used to get a further analysis. Using game theory and combing the business decision in reality, if Luckin Coffee can still keep the aggressive method and achieve the market occupy target, then turn the short target to the long target, Luckin Coffee maybe become the final winner in Chinese market.

After the game theory analysis, the researcher turns the sight to the BCG matrix, which showed in figure 2. According to Luckin Coffee's data, it has a high market growth rate but low relative market share. Thus, Luckin Coffee belongs to question marks. While Starbucks belongs to the star mark, it means that Luckin Coffee needs a lot amount of

money to keep the increasing growth rate so that Luckin Coffee can stay in the market and compete with Starbucks. When Luckin Coffee enters a new stage, a new and useful strategy will be required to help Luckin Coffee getting the market war.

Overall the analysis in many perspectives, Luckin Coffee's strategy in present can be understood. If Luckin Coffee wants to defeat Starbucks to occupy more market shares, Luckin Coffee needs to concern a long run strategy and increase the profit.

## Conclusion

By using SPACE matrix, game theory, and BCG matrix, and combing the relative data and news, this research finds that Luckin Coffee have possible to occupy more China's coffee market in the future. Luckin Coffee's current strategy of increasing cash flow, issuing coupons, and price war with Starbucks are in line with the aggressive stage behavior model, but if Luckin Coffee wants to further improve its own competitiveness in the future, it needs to look farther. Luckin Coffee needs to pay more attention to long-term benefits and to compete with Starbucks on the premise of ensuring profits. If Luckin Coffee cannot improve investor returns in the future, it will be difficult to conduct further financing or to expand the market. Although the future is hopeful, Luckin Coffee still has a long way to go.

Researcher cannot be denied that this study is limited. First, Luckin Coffee is an emerging brand for the market, so there aren't a lot of articles about Luckin Coffee's analysis or a detailed comparison of Luckin Coffee and Starbucks. Therefore, the previous researchers' help for this research is not very significant. Second, since Luckin Coffee was only available in 2018, and the time of this study is far from the time of the study, the data that can be used for reference is not as much as expected. The more data that can be used for research, the more natural the results are. Third, because the SPACE matrix's scoring system is subjectively different depending on the company and the researcher, and the researcher tries to maintain an objective situation, there may be a wrong rating, which will bring this research to the present. Great risk. Because the score directly affects the judgment of the result. Fourth, due to the rapid changes in the market, this research is based on the analysis and prediction of Luckin Coffee and Starbucks in

today's market environment, and it cannot be directly applied in the future. In the case of a two-player game, payoff cannot be given accurately, which will also bring some bias to the research. However, the use of SPACE Matrix and game theory in this study can be a reference for future researchers.

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## Appendix - Relative data of Luckin Coffee and Starbucks

### Luckin Coffee

#### Luckin Coffee Inc (LK UW) - By Measure

In Millions of CNY except Per Share 12 Months Ending	FY 2018 12/31/2018
<b>Revenue</b>	<b>840.7 100.0%</b>
Freshly brewed drinks	649.6 77.3%
Other Products	135.6 16.1%
Others	55.4 6.6%
<b>Percentage of Revenue</b>	<b>—</b>
Freshly brewed drinks	77.30
Other Products	16.10
Others	6.60
<b>Number of Locations</b>	<b>2,073.00 #####</b>
Pick-up stores	1,811.00 87.36%
Delivery kitchens	176.00 8.49%
Relax stores	86.00 4.15%

Source: Bloomberg

#### Luckin Coffee Inc (LK UW) - Profit

In Millions of CNY except Per Share 12 Months Ending	FY 2018 12/31/2018
<b>Returns</b>	
Return on Assets	-84.73
Return on Capital	-118.00
Return on Invested Capital	-117.72
<b>Margins</b>	
Gross Margin	36.69
EBITDA Margin	-177.39
Operating Margin	-190.08
Pretax Margin	-192.60
Income before XO Margin	-192.60
Net Income Margin	-192.60
Net Income to Common Margin	-379.49
<b>Additional</b>	

Source: Bloomberg

## Luckin Coffee Inc (LK UW) - Adj Highlights

In Millions of CNY 12 Months Ending	FY 2017 12/31/2017	FY 2018 12/31/2018	Current/LTM 09/30/2019	FY 2019 Est 12/31/2019	FY 2020 Est 12/31/2020
<b>Market Capitalization</b>	—	—	<b>36,204.1</b>		
- Cash & Equivalents	219.1	1,761.0	6,051.2		
+ Preferred & Other	0.0	0.0	0.0		
+ Total Debt	0.0	424.4	428.7		
<b>Enterprise Value</b>	—	—	<b>30,581.7</b>		
<b>Revenue, Adj</b>	—	<b>840.7</b>	<b>3,394.6</b>	<b>5,062.7</b>	<b>14,317.6</b>
<i>Growth %, YoY</i>	—	—		502.2	182.8
<b>Gross Profit, Adj</b>	—	<b>308.5</b>		<b>1,237.8</b>	<b>4,409.8</b>
<i>Margin %</i>	—	36.7		24.5	30.8
<b>EBITDA, Adj</b>	—	<b>-1,491.3</b>		<b>-1,867.0</b>	<b>241.5</b>
<i>Margin %</i>	—	-177.4		-36.9	1.7
<b>Net Income, Adj</b>	—	<b>-3,190.3</b>	<b>-3,765.3</b>	<b>-2,267.9</b>	<b>-545.6</b>
<i>Margin %</i>	—	-379.5	-110.9	-44.8	-3.8
<b>EPS, Adj</b>	—	—		<b>-10.46</b>	<b>-2.48</b>
<i>Growth %, YoY</i>	—	—			76.2
<b>Cash from Operations</b>	—	<b>-1,310.7</b>			
<b>Capital Expenditures</b>	—	<b>-1,005.7</b>		<b>-1,223.0</b>	<b>-1,416.5</b>
<b>Free Cash Flow</b>	—	<b>-2,316.4</b>		<b>-3,688.3</b>	<b>-897.7</b>

Source: Bloomberg

## Luckin Coffee Inc (LK UW) - Standardized

In Millions of CNY except Per Share 12 Months Ending	FY 2018 12/31/2018	Current 11/14/2019
<b>Cash from Operating Activities</b>		
+ Net Income	-1,619.2	
+ Depreciation & Amortization	106.7	
+ Non-Cash Items	0.1	
+ Other Non-Cash Adj	0.1	
+ Chg in Non-Cash Work Cap	201.7	
+ (Inc) Dec in Inventories	-146.6	
+ Inc (Dec) in Accts Payable	176.7	
+ Inc (Dec) in Other	171.6	
+ Net Cash From Disc Ops	0.0	
<b>Cash from Operating Activities</b>	<b>-1,310.7</b>	
<b>Cash from Investing Activities</b>		
+ Change in Fixed & Intang	-1,005.7	
+ Disp in Fixed & Intang	0.0	
+ Disp of Fixed Prod Assets	0.0	
+ Disp of Intangible Assets	0.0	
+ Acq of Fixed & Intang	-1,005.7	
+ Acq of Fixed Prod Assets	-1,005.7	
+ Acq of Intangible Assets	0.0	
+ Net Change in LT Investment	0.0	
+ Dec in LT Investment	0.0	
+ Inc in LT Investment	0.0	
+ Net Cash From Acq & Div	0.0	
+ Cash from Divestitures	0.0	
+ Cash for Acq of Subs	0.0	
+ Cash for JVs	0.0	
+ Other Investing Activities	-277.6	
+ Net Cash From Disc Ops	0.0	
<b>Cash from Investing Activities</b>	<b>-1,283.2</b>	
<b>Cash from Financing Activities</b>		
+ Dividends Paid	0.0	
+ Cash From (Repayment) Debt	392.0	
+ Cash From (Repay) ST Debt	180.9	
+ Cash From LT Debt	300.0	
+ Repayments of LT Debt	-88.9	
+ Cash (Repurchase) of Equity	3,656.4	
+ Increase in Capital Stock	3,656.4	
+ Decrease in Capital Stock	0.0	
+ Other Financing Activities	-60.0	
+ Net Cash From Disc Ops	0.0	
<b>Cash from Financing Activities</b>	<b>3,988.4</b>	
Effect of Foreign Exchange Rates	17.4	
<b>Net Changes in Cash</b>	<b>1,411.9</b>	
<b>Cash Paid for Interest</b>	<b>8.0</b>	
<b>Reference Items</b>		
EBITDA	-1,491.3	
Trailing 12M EBITDA Margin	-177.39	-99.62
Interest Received	8.5	
Free Cash Flow	-2,316.4	
Free Cash Flow to Equity	-1,924.4	

Source: Bloomberg

## Starbucks

## Starbucks Corp (SBUX UW) - By Measure

In Millions of USD except Per Share 12 Months Ending	FY 2017 10/01/2017	FY 2018 09/30/2018	FY 2019 09/29/2019
<b>Revenue</b>	<b>22,386.8 100.0%</b>	<b>24,719.5 100.0%</b>	<b>26,508.6 100.0%</b>
Company Operated Retail	17,650.7 78.8%	19,690.3 79.7%	21,544.4 81.3%
Licensed Stores	2,355.0 10.5%	2,652.2 10.7%	2,875.0 10.8%
CPG, Foodservice and Other	2,381.1 10.6%	2,377.0 9.6%	2,089.2 7.9%
Specialty Operations	—	—	—
Licensing	—	—	—
Licensed Stores	—	—	—
Foodservice and other	—	—	—
Other Initiatives	—	—	—
Company Operated Retail	—	—	—
<b>Revenue - Supplementary Breakdown</b>	<b>22,386.8 100.0%</b>	<b>21,922.0 100.0%</b>	<b>—</b>
Beverages	12,915.0 57.7%	14,463.1 66.0%	—
Food	3,832.1 17.1%	4,397.7 20.1%	—
Other	2,756.1 12.3%	3,061.2 14.0%	—
Packaged and Single Serve Coffees	2,883.6 12.9%	—	—
Packaged and Single Serve Coffees	—	—	—
<b>Percentage of Revenue</b>	<b>—</b>	<b>—</b>	<b>—</b>
Company Operated Retail	78.80	79.70	81.30
Licensed Stores	10.50	10.70	10.80
CPG, Foodservice and Other	10.70	9.60	7.90
Other	—	—	—
Whole Bean Coffees	—	—	—
Packaged and Single Serve Coffees	—	—	—
Food	—	—	—
Beverages	—	—	—
<b>% of Revenue - Supplementary</b>	<b>—</b>	<b>—</b>	<b>—</b>
Beverages	58.00	59.00	—
Food	17.00	18.00	—
Other	12.00	12.00	—
Packaged and Single Serve Coffees	13.00	—	—
<b>Revenue Growth %</b>	<b>—</b>	<b>—</b>	<b>—</b>
Company Operated Retail	4.80	11.60	9.40
Licensed Stores	9.30	12.60	8.40
CPG, Foodservice and Other	2.70	-0.20	-12.10
<b>Number of Locations</b>	<b>—</b>	<b>—</b>	<b>—</b>
Specialty Operations	—	—	—
Licensing	—	—	—
Licensed Stores	—	—	—
Company Operated Retail	—	—	—

Source: Bloomberg

## Starbucks Corp (SBUX UW) - Profitability

In Millions of USD except Per Share 12 Months Ending	FY 2017 10/01/2017	FY 2018 09/30/2018	FY 2019 09/29/2019
<b>Returns</b>			
Return on Common Equity	50.90	136.51	—
Return on Assets	20.11	23.46	16.60
Return on Capital	31.21	46.50	49.65
Return on Invested Capital	26.12	28.65	41.78
<b>Margins</b>			
Gross Margin	30.64	29.74	28.25
EBITDA Margin	23.24	20.99	20.85
Operating Margin	18.47	15.71	15.38
Incremental Operating Margin	—	—	10.88
Pretax Margin	19.29	23.38	16.85
Income before XO Margin	12.89	18.28	13.56
Net Income Margin	12.89	18.28	13.58
Net Income to Common Margin	12.89	18.28	13.58
<b>Additional</b>			
Effective Tax Rate	33.18	21.83	19.52
Dvd Payout Ratio	52.55	38.96	51.05
Sustainable Growth Rate	24.15	83.32	—

Source: Bloomberg

## Starbucks Corp (SBUX UW) - Adj Highlights

In Millions of USD 12 Months Ending	FY 2017 10/01/2017	FY 2018 09/30/2018	FY 2019 09/29/2019	Current/LTM 09/29/2019
<b>Market Capitalization</b>	<b>76,891.2</b>	<b>74,409.2</b>	<b>104,683.1</b>	<b>99,435.3</b>
- Cash & Equivalents	2,690.9	8,937.8	2,757.1	2,757.1
+ Preferred & Other	6.9	6.3	1.2	1.2
+ Total Debt	3,932.6	9,440.1	11,167.0	11,167.0
<b>Enterprise Value</b>	<b>78,139.8</b>	<b>74,917.8</b>	<b>113,094.2</b>	<b>107,846.4</b>
<b>Revenue, Adj</b>	<b>22,386.8</b>	<b>24,719.5</b>	<b>26,508.6</b>	<b>26,508.6</b>
<i>Growth %, YoY</i>	5.0	10.4	7.2	7.2
<b>Gross Profit, Adj</b>	<b>6,859.2</b>	<b>7,351.8</b>	<b>7,488.1</b>	<b>7,527.3</b>
<i>Margin %</i>	30.6	29.7	28.2	28.4
<b>EBITDA, Adj</b>	<b>5,435.6</b>	<b>5,763.3</b>	<b>6,009.3</b>	<b>5,958.6</b>
<i>Margin %</i>	24.3	23.3	22.7	22.5
<b>Net Income, Adj</b>	<b>3,006.4</b>	<b>3,717.0</b>	<b>3,562.0</b>	<b>3,450.4</b>
<i>Margin %</i>	13.4	15.0	13.4	13.0
<b>EPS, Adj</b>	<b>2.05</b>	<b>2.67</b>	<b>2.89</b>	<b>2.80</b>
<i>Growth %, YoY</i>	8.2	29.8	8.4	8.1
<b>Cash from Operations</b>	<b>4,251.8</b>	<b>11,937.8</b>	<b>5,047.0</b>	<b>5,047.0</b>
<b>Capital Expenditures</b>	<b>-1,519.4</b>	<b>-1,976.4</b>	<b>-1,806.6</b>	<b>-1,806.6</b>
<b>Free Cash Flow</b>	<b>2,732.4</b>	<b>9,961.4</b>	<b>3,240.4</b>	<b>3,240.4</b>

Source: Bloomberg

## Starbucks Corp (SBUX UW) - Standardized

In Millions of USD except Per Share 12 Months Ending	FY 2017 10/01/2017	FY 2018 09/30/2018	FY 2019 09/29/2019	Last 12M 09/29/2019
<b>Cash from Operating Activities</b>				
+ Net Income	2,884.7	4,518.3	3,599.2	3,599.5
+ Depreciation & Amortization	1,067.1	1,305.9	1,449.3	1,449.3
+ Non-Cash Items	205.6	-1,477.2	-1,791.3	-1,791.6
+ Stock-Based Compensation	176.0	250.3	308.0	308.0
+ Deferred Income Taxes	95.1	714.9	-1,495.4	-1,495.4
+ Other Non-Cash Adj	-65.5	-2,442.4	-603.9	-604.2
+ Chg in Non-Cash Work Cap	94.4	7,590.8	1,789.8	1,789.8
+ (Inc) Dec in Accts Receiv	-96.8	131.0	-197.7	-197.7
+ (Inc) Dec in Inventories	14.0	-41.2	-173.0	-173.0
+ Inc (Dec) in Accts Payable	46.4	391.6	31.9	31.9
+ Inc (Dec) in Other	130.8	7,109.4	2,128.6	2,128.6
+ Net Cash From Disc Ops	0.0	0.0	0.0	0.0
<b>Cash from Operating Activities</b>	<b>4,251.8</b>	<b>11,937.8</b>	<b>5,047.0</b>	<b>5,047.0</b>
<b>Cash from Investing Activities</b>				
+ Change in Fixed & Intang	-1,519.4	-1,976.4	-1,806.6	-1,806.6
+ Disp in Fixed & Intang	0.0	0.0	0.0	0.0
+ Disp of Fixed Prod Assets	0.0	0.0	0.0	0.0
+ Disp of Intangible Assets	0.0	0.0	0.0	0.0
+ Acq of Fixed & Intang	-1,519.4	-1,976.4	-1,806.6	-1,806.6
+ Acq of Fixed Prod Assets	-1,519.4	-1,976.4	-1,806.6	-1,806.6
+ Acq of Intangible Assets	0.0	0.0	0.0	0.0
+ Net Change in LT Investment	0.0	0.0	0.0	0.0
+ Dec in LT Investment	0.0	0.0	0.0	0.0
+ Inc in LT Investment	0.0	0.0	0.0	0.0
+ Net Cash From Acq & Div	0.0	-1,311.3	0.0	0.0
+ Cash from Divestitures	0.0	0.0	0.0	0.0
+ Cash for Acq of Subs	0.0	-1,311.3	0.0	0.0
+ Cash for JVs	0.0	0.0	0.0	0.0
+ Other Investing Activities	669.4	926.2	795.8	795.8
+ Net Cash From Disc Ops	0.0	0.0	0.0	0.0
<b>Cash from Investing Activities</b>	<b>-850.0</b>	<b>-2,361.5</b>	<b>-1,010.8</b>	<b>-1,010.8</b>
<b>Cash from Financing Activities</b>				
+ Dividends Paid	-1,450.4	-1,743.4	-1,761.3	-1,761.3
+ Cash From (Repayment) Debt	350.2	5,584.1	1,646.0	1,646.0
+ Cash From (Repay) ST Debt	0.0	0.0	0.0	0.0
+ Cash From LT Debt	750.2	5,584.1	1,996.0	1,996.0
+ Repayments of LT Debt	-400.0	0.0	-350.0	-350.0
+ Cash (Repurchase) of Equity	-1,974.5	-7,042.3	-9,924.1	-9,924.1
+ Increase in Capital Stock	68.0	91.2	298.2	298.2
+ Decrease in Capital Stock	-2,042.5	-7,133.5	-10,222.3	-10,222.3
+ Other Financing Activities	-4.4	-41.2	-17.5	-17.5
+ Net Cash From Disc Ops	0.0	0.0	0.0	0.0
<b>Cash from Financing Activities</b>	<b>-3,079.1</b>	<b>-3,242.8</b>	<b>-10,056.9</b>	<b>-10,056.9</b>
Effect of Foreign Exchange Rates	10.8	-39.5	-49.0	-49.0
<b>Net Changes in Cash</b>	<b>333.5</b>	<b>6,294.0</b>	<b>-6,069.7</b>	<b>-6,069.7</b>
<b>Cash Paid for Taxes</b>	<b>1,389.1</b>	<b>1,176.9</b>	<b>470.1</b>	<b>470.1</b>
<b>Cash Paid for Interest</b>	<b>96.6</b>	<b>137.1</b>	<b>299.5</b>	<b>299.5</b>
<b>Reference Items</b>				
EBITDA	5,201.8	5,189.2	5,527.2	5,527.3
Trailing 12M EBITDA Margin	23.24	20.99	20.85	20.85
Net Cash Paid for Acquisitions	0.0	1,311.3	0.0	0.0
Tax Benefit from Stock Options	-82.8	-62.7	-111.6	-111.6
Free Cash Flow	2,732.4	9,961.4	3,240.4	3,240.4
Free Cash Flow to Firm	2,794.2	10,094.5	3,506.8	3,506.1
Free Cash Flow to Equity	3,082.6	15,545.5	4,886.4	4,886.4
Free Cash Flow per Basic Share	1.89	7.20	2.63	2.64
Price to Free Cash Flow	28.49	7.89	33.63	31.82
Cash Flow to Net Income	1.47	2.64	1.40	1.38

Source: Bloomberg

## Starbucks Corp (SBUX UW) - Benchmark

In Millions of USD except Per Share 12 Months Ending	CY 2017 12/29/2017	CY 2018 12/31/2018
<b>Return on Common Equity</b>	<b>50.90</b>	<b>136.51</b>
S&P 500 Consumer Discretionary Sector C	24.93	28.31
<b>Return on Capital</b>	<b>31.21</b>	<b>46.50</b>
S&P 500 Consumer Discretionary Sector C	12.89	11.87
<b>Operating Margin</b>	<b>18.47</b>	<b>15.71</b>
S&P 500 Consumer Discretionary Sector C	11.08	8.18
<b>Price/EPS</b>	<b>27.97</b>	<b>24.16</b>
S&P 500 Consumer Discretionary Sector C	23.22	20.33
<b>Price/Book</b>	<b>15.09</b>	<b>72.09</b>
S&P 500 Consumer Discretionary Sector C	5.22	6.56
<b>Periodic EV to Trailing 12M EBITDA</b>	<b>15.02</b>	<b>14.44</b>
S&P 500 Consumer Discretionary Sector C	12.47	12.70
<b>Net Debt/EBITDA</b>	<b>0.24</b>	<b>0.10</b>
S&P 500 Consumer Discretionary Sector C	1.64	1.31

Source: Bloomberg