

Analyzing the Financial Performance of Starbucks and Luckin Coffee

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Abstract. Numerous industries have been significantly affected by the Covid-19 pandemic, including the coffee industry. People were forced to stay at home, many coffee shops had to shut down due to the lack of customers. However, as the pandemic subsides, the coffee market now is recovering and growing at a rapid pace. Now Starbucks has over 36,000 coffee stores around the world, covering 84 countries, while in the Chinese mainland, it operates more than 6,000+ stores in over 230 cities. It is expected that by 2025, the number of Starbucks coffee shops in China will reach 9,000, covering 300 cities. In contrast, Luckin Coffee, China's largest coffee chain, in the number of outlets in China, has surpassed Starbucks with 7,846 coffee shops as of Q3 2022 and in Jan 2023 the outlets exceeded 8,400 with the accelerated growth. This essay aims to study these two key players in the coffee industry, Starbucks and Luckin Coffee, to compare their financial data via the financial statement of Year 2021 and the stock movement from May 18, 2019, to Jun 30, 2020. This analysis will bring a deeper understanding of the two companies with investigations and observations with the respect of their financial and stock performance.

Keywords: Luckin; Starbucks; Coffee.

1. Introduction

Throughout a person's daily routine, a cup of coffee could be a part of it. Coffee is now a popular non-alcoholic drink enjoyed by millions of people. Coffee started growing popular in the 17th century, now it is a daily drink and developing very quickly. Global Coffee Market Size was valued at USD 79.5 billion in 2022. The global coffee market industry is projected to grow from USD 83.6 Billion in 2023 to USD 112.8 billion by 2030, exhibiting a compound annual growth rate (CAGR) of 5.12% during the forecast period (2023 - 2030) [1]. In China, the coffee market has been expanding rapidly as more and more people are growing into the habit of drinking coffee. As the population of Chinese coffee consumers continues to grow, in 2022, the coffee segment will generate US\$15.34 billion in revenue and is projected to increase at a compound annual growth rate (CAGR) of 9.63 percent between 2022 and 2025" [2]. There are many key players in the coffee industry such as Starbucks, Luckin Coffee, Manner Coffee, Blue Bottle, Peet's Coffee, and so on. This essay will take a closer look at the 2 largest chain coffee companies, Starbucks and Luckin Coffee. Comparative analysis will be applied to compare Starbucks and Luckin through various financial tools. This article will start by talking about Starbucks including its history, their unique selling points and their company's culture, followed by a discussion of Luckin Coffee with its rapid growth and the scandal that has impacted the company. Finally, the essay will compare the two companies through their financial statements, stock movement and financial ratios.

2. Description of Starbucks

Starbucks started in Seattle's famed Pike Place Market in Year 1971. With more than 36,000 coffee shops spread across 80 countries, Starbucks has now attained the position of being the world's largest coffee company. Starbucks stands out from its competition by having a relaxing atmosphere, and accepting freelance workers to work at their shop. Their products also change with the seasons, making people have new drinks to try out every time! Starbucks' goal is to have a positive impact on individuals, communities, and society as a whole by making a difference one person, one cup, and one community at a time. In 2022 there were over 402,000 employees working in Starbucks. "As of

February 2023 Starbucks, has a market cap of \$117.73 Billion. This makes Starbucks the world's 115th most valuable company by market cap according to our data” [3]. Starbucks is also a company with the social responsibility. In the investor letter of 2022 Starbucks said: “We are striving to be a resource-positive company, to give back more of the planet’s resources than we consume. To help us get there, we have clear and ambitious sustainability targets to reduce our carbon, water, and waste footprints in half by 2030 [4].” Starbucks went public in 1992 June 26th in Nasdaq under the trading symbol SBUX and the price per stock was 17\$ per share. In 2021 there are 51% of the stores being company operated and 49% being franchises, the company operated stores made up 80% of the total revenue. Starbucks made its entry into the Chinese mainland market by launching its inaugural outlet in Beijing, China, in January 1999. Currently Starbucks had more than 6,000+ stores in over 230 cities and employed more than 60,000 partners in China mainland. The figure 1 displays the count of Starbucks outlets worldwide from 2003 to 2022 [5].

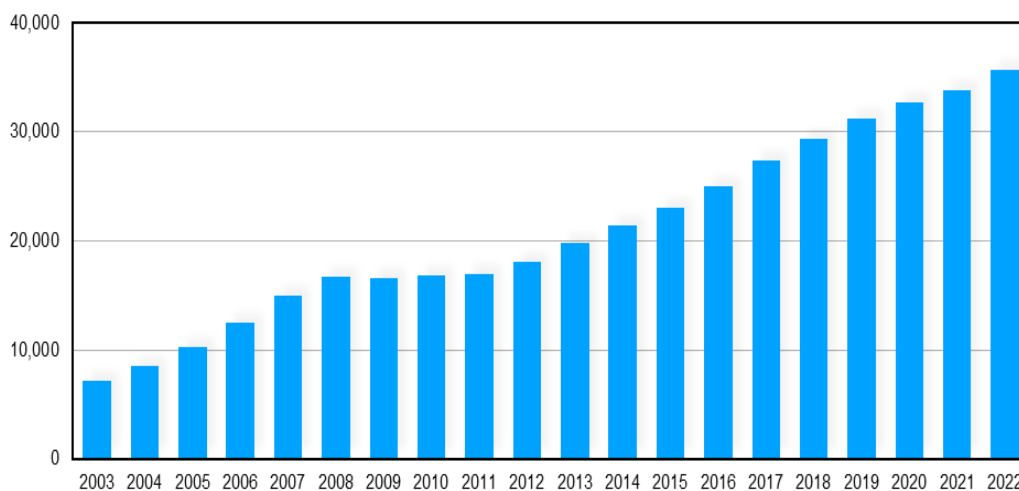


Figure 1. The count of Starbucks outlets worldwide from 2003 to 2022.

3. Description of Luckin Coffee

In Xia Men, China, Luckin Coffee was established in 2017. Now Luckin become the largest coffee chain in China with over 8,400 outlets. Starting with coffee, Luckin aims to become an integral part of everyone's daily routine. Their vision to establish a globally renowned coffee brand and become an indispensable aspect of people's daily routines endured. Luckin is unique by being fast convenient and affordable, they are mostly located around office buildings to make themselves a daily routine for people at work. Luckin went public in Nasdaq in May of 2019 with the stock price being 17\$ per share, Luckin was exposed for faking financial documents in April of 2020. “Luckin, whose American Depositary Shares traded on Nasdaq until July 13, 2020, has agreed to pay a \$180 million penalty to resolve the charges” [6].

Although Luckin experienced such hardships, they still have a fast and constant growth in China. Luckin accumulated 7846 shops in the September of 2022 including 5373 self-run outlets and 2473 collaboration stores, the average number of customers until 2022 Sep 30 is over 25 million. In 2022, Luckin has around 27000 employees which is huge for a company that started just 6 years ago. Technology is the core of their business, Luckin coffee's business model is a highly technology driven retail model and the customer enjoys their products because of their high-quality, affordability and convenience. The table 1 shows the numbers of the stores and the average monthly transaction customers of Luckin Coffee during the recent one and half year till Sep. 30, 2022 [7].

Table 1. Key Operating Data - Luckin Coffee Third Quarter 2022 Earnings Release.

	Mar 31, 2021	Jun 3, 2021	Sep 30, 2021	Dec 31, 2021	Mar 31, 2022	Jun 30, 2022	Sep 30, 2022
Total outlets	4,951	5,259	5,671	6,024	6,580	7,195	7,846
Self-run outlets	3,939	4,018	4,206	4,397	4,675	4,968	5,373
Collaboration outlets	1,012	1,241	1,465	1,627	1,905	2,227	2,473
Same-store sales growth for self-run outlets	95%	71.8%	75.8%	43.6%	41.6%	41.2%	19.4%
The average number of customers (in thousands)	8,728	1,2285	14,722	16,229	15,975	20,712	25,103

4. Compare Starbucks and Luckin Coffee

Starbucks and Luckin Coffee are two of the leading players in the global coffee industry, they have gained widespread recognition for their offerings and business strategies. This essay will utilize financial statements, including the income statement, balance sheet, and cash flow statement, stock movement, and important financial ratios to assess and compare their financial performance. The insights into their overall financial health and competitive position in the market will be gained from the comparison analysis.

4.1 Financial Statement

The income statement, balance sheet, and cash flow statement are part of financial statements. Let's start our discussion with the income statement. The below table 2 shows the income statement from official annual financial report of Year 2021 Starbucks and Luckin Coffee. Starbucks fiscal year is calculated from Oct of each year to Sep of next year, while Luckin Coffee is from January to December of each year.

Table 2. Year 2021 Annual Report - Income Statement.

	Starbucks (USD)	Luckin (USD)	Luckin (RMB)
Total Revenue	29,060,600	1,253,217	7,965,323
Cost Of Revenue	20,669,600	823,695	5,235,324
Cost/Revenue	71.1%	65.7%	
Gross Profit	8,391,000	429,522	2,729,999
Gross Margin	28.9%	34.3%	
Operating Expense	3,733,800	457,548	2,908,128
Expense/GP	44.5%	106.5%	
Operating Income	4,657,200	-28,026	-178,129
Operating Margin	16%		
EBIT	5,826,700	103,527	658,007
EBIT Margin	20.1%	8.3%	
Net Income	4,199,300	107,974	686,270
Net Profit Margin	14.5%	8.6%	
All numbers in thousands			
1usd=6.3559 (2021/12/31)			

The Table 2 of Year 2021 income statement shows a clear contrast between Starbucks and Luckin Coffee. Starbucks's revenue is over 23 times larger than Luckin's, and its gross profit is almost 20 times greater. Despite the challenging market conditions created by Covid-19, Starbucks remained profitable in 2021. However, Luckin Coffee suffered a loss with the high expenses 107% over gross profit, and got the combined impact of Covid-19 and the lingering effects of its scandal. In contrast, Starbucks's expenses were only 44.5% over its gross profit. These disparities reveal that Starbucks has stronger operation performance than Luckin Coffee.

In order to compare the profitability of Starbucks and Luckin Coffee, various profitability ratios such as gross margin, operating margin, EBIT margin, and net profit margin will be used. As for gross margin, Luckin Coffee performed better with 34.3% than Starbucks with 28.9%. While as for operating margin, Luckin is negative due to the high expenses to makes it impossible to calculate its operating margin. In contrast, Starbucks has an operating margin of 16%. Additionally, Starbucks's EBIT margin of 20.1% and net profit margin of 14.5% are both higher than Luckin's EBIT margin of 8.3% and net profit margin of 8.6%. The results of table 2 indicate that Starbucks's overall profitability is better than that of Luckin Coffee. Starbucks's financial position appears to be more stable and sustainable, while Luckin is struggling to control its expenses and generate positive operating income.

Balance sheet comparison between Starbucks and Luckin Coffee will be the next to be discussed. Table 3 shows a clear picture for the comparison.

Table 3. Year 2021 Annual Report – Balance.

	Starbucks (USD)	Luckin (USD)	Luckin (RMB)
Total Assets	31,392,600	1,937,175	12,312,490
Current Assets	9,756,400	1,318,987	8,383,350
Cash, Cash Equivalents & Short-Term Investment	6,617,900	1,019,153	6,477,636
Receivables	1,133,100	133,962	851,450
Accounts Receivable	940,000	33,066	210,167
Total Non-Current Assets	21,636,200	618,188	3,929,140
Total Liabilities	36,707,100	1,365,873	8,681,353
Current Liabilities	8,151,400	1,037,089	6,591,633
Total Non-Current Liabilities Net Minority Interest	28,555,700	328,784	2,089,720
Total Equity	-5,314,500	571,302	3,631,137
Stockholders' Equity	-5,321,200	571,302	3,631,137
Current Ratio	1.20	1.27	
Quick Ratio	0.93	1.01	
Cash Ratio	0.81	0.98	
Debt-Equity Ratio		2.4	
All numbers in thousands 1usd=6.3559 (2021/12/31)			

Upon analyzing the balance sheet provided in Table 3, it is evident that Starbucks holds significantly more assets than Luckin, with a total asset value over 16 times greater than Luckin's. Similarly, Starbucks also has a larger total liability than Luckin, with almost 27 times more liabilities than Luckin. The concern is that Starbucks has a total liability of USD 36,707,100, exceeding its total assets of USD 31,392,600. Investors should approach this with caution.

Moving on to evaluate the liquidity of both companies by applying liquidity ratios including the current ratio, quick ratio, and cash ratio, we see that Starbucks has a current ratio of 1.2, whereas Luckin has a current ratio of 1.27. Both companies have a ratio above one, indicating that they are capable of meeting their short-term liabilities with their current assets. Luckin Coffee, with a higher current ratio, demonstrates a stronger ability to meet its current liability. Furthermore, the quick ratio evaluates a company's liquidity by assessing its capability to change current assets into cash within a period of 90 days or less. Starbucks has a quick ratio of 0.93, whereas Luckin's quick ratio is 1.01. Luckin Coffee's quick ratio is higher than Starbucks, indicating a lower financial risk for Luckin. Finally, the cash ratio evaluates a company's capability to repay the debt solely with the cash assets. Starbucks has a cash ratio of 0.81, while Luckin's cash ratio is 0.98, which is slightly higher than Starbucks. Both ratios are lower than one.

In terms of the leverage ratio, we will look at two ratios - the Debt-Equity Ratio and the Equity Multiplier. The Debt-Equity Ratio indicates the degree to which a business's operations are funded by debt. Luckin's Debt-Equity Ratio is 2.4. However, we cannot calculate Starbucks' Debt-Equity Ratio because its liabilities surpass its assets based on the 2021 annual report. Although it may differ among industries, a debt-to-equity ratio with approximately 2 or 2.5 is typically regarded as favorable

Given Starbucks' negative equity due to its high liability, it indicates that Starbucks is facing a relatively high level of financial risk.

Cash flow statement is the next one to be discussed based on the below table 4, which shows the clear comparison between Starbucks and Luckin Coffee with the respect of Operating Cashflow, Investing Cashflow and Financing Cashflow.

Table 4. Year 2021 - Cash Flow Statement.

	Starbucks (USD)	Luckin (USD)	Luckin (RMB)
Operating Cashflow	5,989,100	19,422	123,447
Investing Cashflow	-319,500	53	337
Financing Cashflow	-3,651,000	238,308	1,514,660
Free Cashflow	4,519,100	-7,831	-49,770
	*All numbers in thousands		
	*1usd=6.3559 (2021/12/31)		

Looking at the cash flow table 4 for the year 2021, Starbucks' positive operating cash flow USD \$5,989,100 demonstrates a greater capacity for generating cash from its primary operations. This fosters investor confidence in the stock market and the company's ability to payout dividends to shareholders. In contrast, Luckin generated relatively smaller operating cash use 19,422. In the terms of investing cashflow and financing cashflow, Starbucks had a negative investing cash flow of 319,500 to invest more in its future growth. Meanwhile Starbucks raised more cash from financing activities of -3.651, 000. While Luckin has positive number in both investing cashflow and financing cashflow. Finally, Starbucks had a positive free cash flow of \$4,519,100, whereas Luckin had a negative free cash flow of -\$7,831. Overall Starbucks appears to be in a stronger financial position than Luckin with much stronger ability to generate cash from its core business and higher positive free cash flow.

4.2 Stock Movement

Comparing the stock movement of Starbucks and Luckin from May 2019 to June 2020, during this period, Luckin Coffee was in the stock market. Starbucks performed better overall.

Starbucks' stock price (NASDAQ: SBUX) was around \$77 per share at May 2019 and was around \$77 per share at June 2020, showing a relatively stable performance during the period. The stock price did fluctuate within this period, reaching a high of around \$99 per share in July 2019 and a low of around \$50 per share in March 2020 due to the COVID-19 pandemic's effect on the stock market. However, by the end of June 2020, the stock had mostly recovered.

On the other hand, Luckin Coffee (NASDAQ: LKNCY) started May 2019 at around \$17 per share and ended June 2020 at around \$2 per share. During this period, the stock price experienced significant fluctuations, reaching a high of around \$50 per share in January 2020 before plummeting to around \$4 per share in April 2020 due to an accounting scandal. The company was subsequently delisted from the NASDAQ stock exchange in June 2020 [8].

Therefore, based on the stock performance during the specified period, Starbucks performed better than Luckin Coffee. The below figure 2 shows that stock movement of Starbucks and Luckin from May 2019 to Jun 2020.

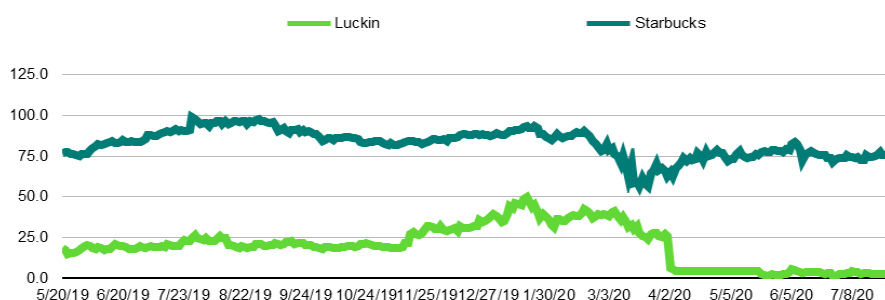


Fig 2. Stock movement of Starbucks and Luckin from May 2019 to Jun 2020.

4.3 Pretty Operating Returns Ratio

Apart from the aforementioned ratios, there are two other significant financial ratios to discuss: asset turnover and return on equity (ROE), which is an assessment of a company's overall profitability. Comparing Starbucks and Luckin in the ratio of asset turnover, the author can see that Starbucks and Luckin have different levels of efficiency in utilizing their assets to generate sales revenue. Starbucks's asset turnover is 0.93 and Luckin's asset turnover is 0.65. Starbucks has a higher asset turnover than Luckin, which implies that Starbucks generates more sales revenues for every dollar of assets than Luckin. However, as for ROE, Luckin's ROE is 18.9% while Starbucks' ROE will be negative this is because its book value of equity is negative based on year 2021 annual report. The table 5 shows the comparison of Asset Turn and ROE [9, 10].

Table 5. Operating Returns Ratio.

	Starbucks (USD)	Luckin (USD)	Luckin (RMB)
Sales	29,060,600	1,253,217	7,965,323
Total Assets	31,392,600	1,937,175	12,312,490
Net Income	4,199,300	107,974	686,270
Book Value of Equity	-5,321,200	571,302	3,631,137
Asset Turnover	0.93	0.65	
Return on Equity		18.90%	
All numbers in thousands			
1usd=6.3559 (2021/12/31)			

5. Conclusion

In conclusion, Starbucks and Luckin Coffee are two distinct brands with the differentiated business models, unique marketing strategy and different level of financial performances. Starbucks is a globally well-established and mature brand with their clear mission, "Starbucks International segment continues to accelerate growth for the company, with two-thirds of global retail growth over the next three years expected to come from its international business. Luckin Coffee is a new brand in China with the rapidly growth during the recent 6 years, and popular with its convenience and affordability. Even if Luckin considers to expand internationally, they will face greater challenges in doing so compared to Starbucks due to lack of the solid international foundation. "Luckin Coffee is reportedly eyeing overseas expansion in Southeast Asia. The comparison of their financial statements and stock movements has shown that Starbucks is a financially stable company with higher profitability ratios than Luckin Coffee. "Starbucks (SBUX) last ex-dividend date was on Feb 08, 2023 with \$0.53 per share. However, Luckin Coffee's rapid growth and increasing number of outlets in China show that it is a strong contender in the coffee industry. Starbucks positioned as a global chain coffee shop, while Luckin is outstanding as a fast and efficient coffee shop, they cater to different customers. In future, more investigation and observation for the coffee industry can be done through macro and micro economics. From the research perspective, more coffee companies like Costa Coffee, Dunkin' Donuts, Tim Hortons and etc. could be added on to study to provide a broader and more accurate picture of the whole coffee industry. The approach will make a deeper understanding of the coffee industry with the more comprehensive insights, which will help the investor to make the decision.

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