POTENTIAL TO "MORE THAN DOUBLE":

WHY STARBUCKS IS A FAVORITE WITH THIS MEGA-SUCCESSFUL INVESTOR

PORTFOLIO WEALTH GLOBAL

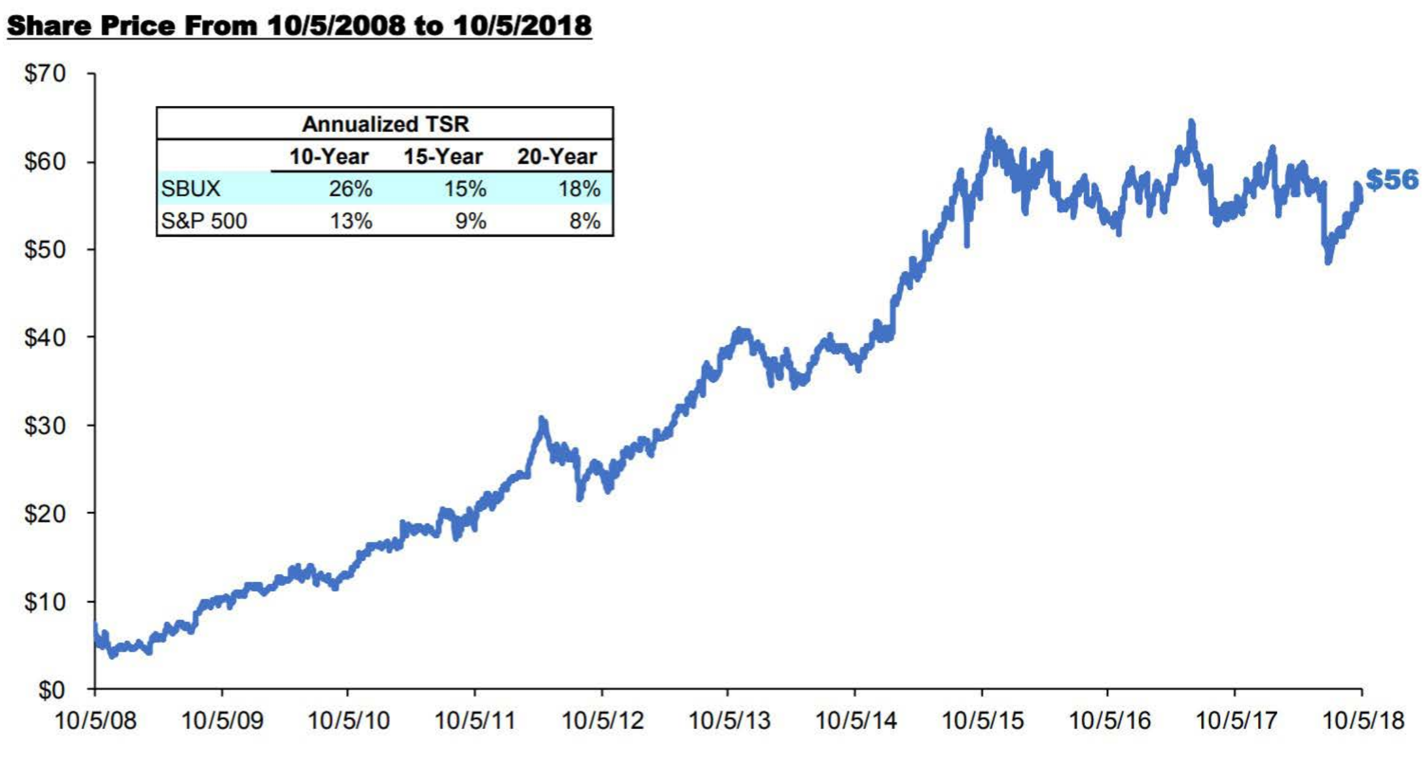
It's not every day that someone with the stature of Bill Ackman, the world-renowned investor and founder of hedge fund Pershing Square, makes a call that a stock will literally double in price. That, however, is exactly what Ackman has predicted for Starbucks (SBUX) stock shares within the next three years.

In a presentation at the Grant's Fall 2018 Conference, Ackman asserted that shares of SBUX have the potential to "more than double in value over the next three years" and that Pershing Square owns 15.2 million shares at an average cost of $51 per share – a major vote of confidence if I've ever heard one.

And while you might not get the opportunity to buy SBUX at $51, anything under $63 is a great investment for the long-term, irrespective of whether the shares actually double within three years or not. Indeed, there's plenty of data to support the claim that Starbucks will continue to flourish as a company, taking the share price north over the next several years.

Let's start with the basics: Starbucks is the undisputed leading global specialty coffee retailer and has developed an iconic brand with a logo that's recognized practically everywhere. The company boasts 29,000 stores with over $32 billion in system-wide sales, with the geographic breakdown being 50% in the United States and 50% being international.

With a market capitalization of more than $70 billion and a respectable annual dividend yield of 2.6%, SBUX stock provides shareholders with the comfortable feeling of owning part of a solid company. Plus, with an annualized shareholder return of 26% from 2008 to 2018 – twice the return of the S&P 500 over the same period – it's hard to argue with gains of this magnitude:



Annualized TSR	10-Year	15-Year	20-Year
SBUX	26%	15%	18%
S&P 500	13%	9%	8%

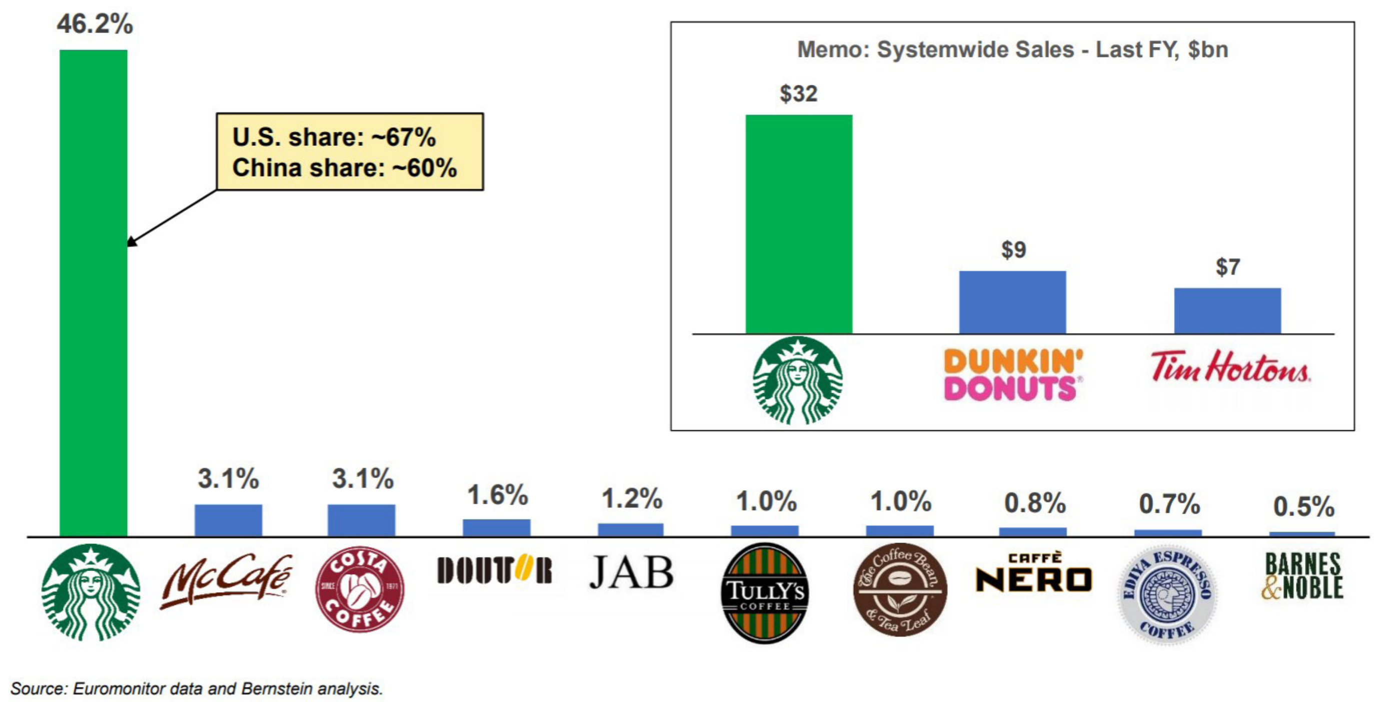
Courtesy: *pershingsquareholdings.com*

Great stock investments are based on companies with strong revenues, and Starbucks generates $24 billion in annual revenues. Having been established in 1971, Starbucks has outlasted its competitors and is seemingly on every street corner nowadays, with around 14,000 coffee shops in the United States and more international locations being added at a rapid pace.

When I say a rapid pace, I'm not exaggerating: a new Starbucks coffee shop is being opened every 15 hours in China. Starbucks' target for China is 6,000 stores by the end of fiscal year 2022, which would average out to around 600 new locations each year. Suffice it to say that they've come a long way since 2008, when there were "only" 254 Starbucks coffee shops in China.

Along with the company's ambitious vision of expansion, investors will also appreciate the fact that Starbucks has over $2 billion in free cash flow, 75 million U.S. customers per week, and more than 350,000 employees in 77 countries working at over 28,700 Starbucks locations. Judging by the sheer magnitude of the numbers, it's more than fair to say that no one sells coffee like Starbucks does.

Seriously, no one even comes close. In the global specialist coffee shop sector, Starbucks' market share is 15 times bigger than their closest competitor and over 3.5 times bigger than the other top ten competitors combined:



Courtesy: Euromonitor data and Bernstein analysis, pershingsquareholdings.com

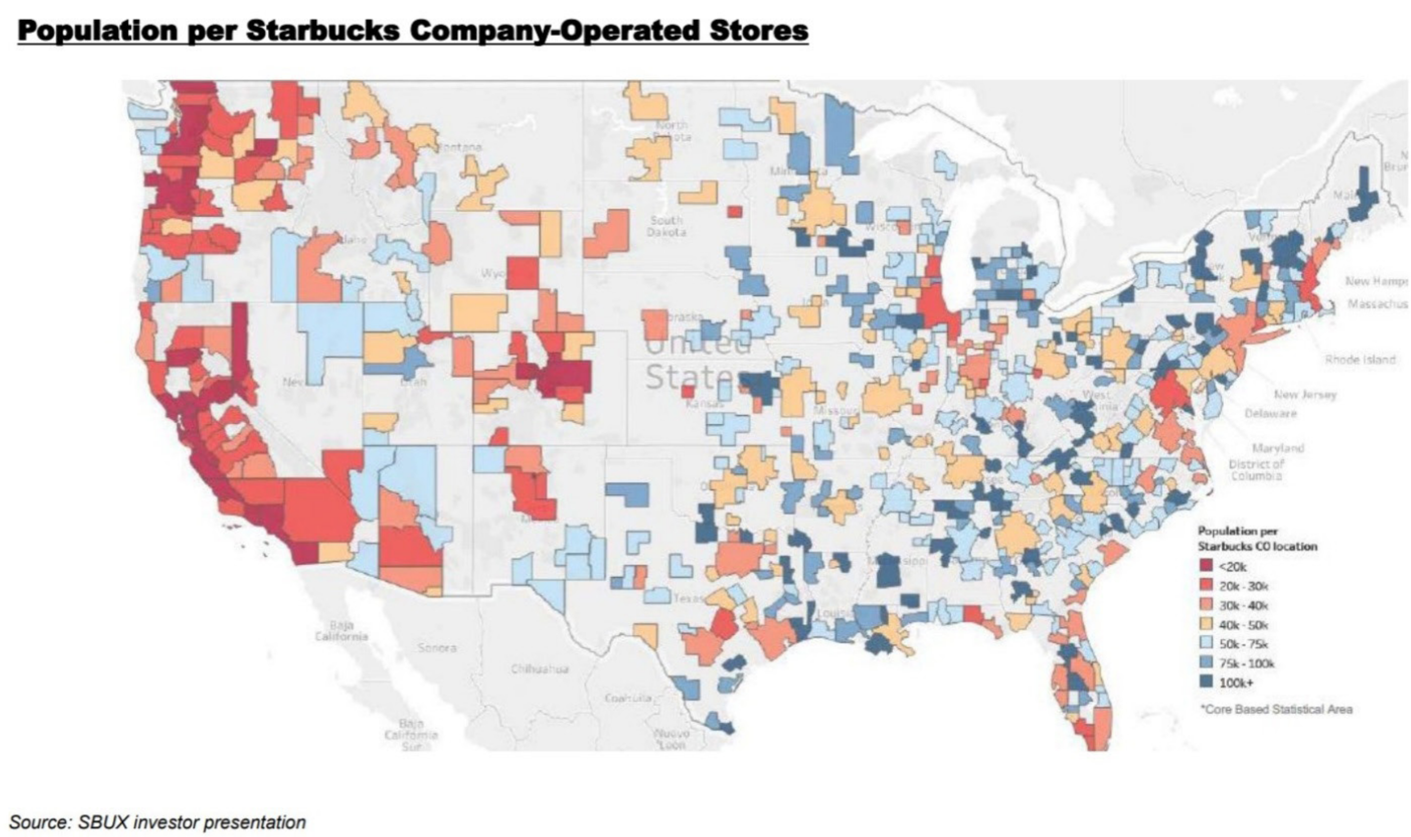
By now, you should have a pretty clear idea of why Bill Ackman likes SBUX stock so much. Not all investors have been as bullish, however. Some would claim that the Starbucks brand took a hit in mid-2018 when a Philadelphia Starbucks employee asked two African-American men to leave the premises. As a result, 8,000 U.S. Starbucks locations were closed on the afternoon of May 29 to conduct racial bias education.

Some observers might view the incident as a public relations setback, but it should also be noted that Starbucks CEO Kevin Johnson did take prompt action to address the situation: "I've spent the last few days in Philadelphia with my leadership team listening to the community, learning what we did wrong, and the steps we need to take to fix it," stated Johnson during the peak of the controversy.

I believe that Johnson and Starbucks are making strides in moving past this unfortunate incident and looking toward the future with a superior plan for expansion and profitability. For instance, in a move that should be highly encouraging to investors, Nestlé agreed to pay Starbucks $7.15 billion in return for the exclusive right to sell their packaged coffees and teas internationally across 189 countries on 6 continents.

This agreement constitutes Nestlé's third-largest transaction in that company's 152-year history. It's a win-win proposition for both parties, and particularly for Starbucks, which will now have a behemoth of a partner in the multinational food and beverage market.

Despite the company's "economic moat," Starbucks is nowhere near the saturation point as a business. While it's evident that there's plenty of room to grow in China and elsewhere, not every investor appreciates the potential for expansion in the United States, with penetration opportunities in the American Midwest and South:



Courtesy: Starbucks investor presentation, pershingsquareholdings.com

Plus, on a more foundational level is the fact that Starbucks is the number-one dispensary of a drug that's 100% legal, caffeine, which millions of people depend on for the boost of energy they need to get through their busy day. With the ability to acquire the world's most commonly used drug at a low price and resell it at a substantial markup to a loyal consumer base with little scrutiny from the government, Starbucks has managed to utterly dominate one of the world's most lucrative niches.

Starbucks has earned Bill Ackman's stamp of approval, and it has certainly earned mine as well. Anything under $63 is an absolute steal for SBUX shares, a stock that might indeed double sooner than we think.

DISCLAIMER