FBR RESEARCH

Important disclosures can be found on pages 4 - 5 of this report.

Starbucks Corporation (SBUX-$20.03*)

Outperform

Seattle, WA

December 20, 2007

Price Target: $27.00

Company Update

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STOCK DATA

52 Week Range	$36.80-$19.89
3-Month ADTV	13,594,620
Dividend Yield	0.00%
Market Cap (mil)	$14,629.9
Shrs Outstanding (mil)	730.4
5-Year CAGR	24%
Float %	97%

EARNINGS DATA

EPS			
Sep	2007A	2008E	2009E
1Q	$0.26	$0.28	—
2Q	$0.19	$0.23	—
3Q	$0.21	$0.26	—
4Q	$0.21	$0.25	—
FY	$0.87	$1.02	$1.19
P/E	23.0x	19.6x	16.8x
FY	2007A	2008E	2009E
Revenue	$9,411.0	$10,962	$12,578
$ in Millions			
ROE	29.8%	28.9%	26.2%
ROA	13.8%	13.2%	13.1%
ROIC	14.0%	13.4%	13.6%
Debt/Capital	70.0%	69.6%	70.0%
Adjusted for estimate of capitalized value of operating leases			
Op Margin	11.2%	11.0%	11.2%
EPS Growth	19%	16%	18%

BALANCE SHEET DATA

	4Q07
Cash & Equivalents	$281.3
Current Assets	$1,696.5
Cash & ST Inv. Assets	438.7
Total Debt	$1,261.1
Stockholders' Equity	$2,284.1

On The Twelfth Day of Christmas, Starbucks Gave to Me...

Summary and Recommendation

We are reiterating our Outperform rating and $27 price target while attempting to "pass the [holiday] cheer."

Starbucks is a dominant, global consumer products company facing significant internal and external pressures. We continue to believe that the dramatic downturn in the company's fundamental performance is likely to create issues that it has never faced before as a public company--shareholder activism.

As witnessed over the past two weeks, activist shareholders are still at work as evidenced by the significant investments in PNRA and CAKE. We believe it is only a matter of time before one appears and starts to put some pressure on Starbucks.

Key Points

On the twelfth day of Christmas, Starbucks gave to me...

- 12 - Signs of traffic humming
- 11 - Improved new unit volumes
- 10 - Speedier baristas
- 9 - More transparency
- 8 - Product inn - o - vation
- 7 - More global growing
- 6 - Rising ROIC
- 5 - Slowed U - S growth!
- 4 - Four-wall initiatives
- 3 - Three new desserts
- 2 - Two new board members
- 1 - And a change in the U - S strat - e - gy!

Exhibit 1. Starbucks Summary Model (dollars in millions)

Income Statement	2006	2007	2008E	2009E
Retail Sales	6,583.1	7,998.3	9,311.2	10,614.7
Specialty Sales:				
Licensing	860.7	1,026.3	1,217.1	1,465.8
Foodservice & Other	343.2	386.9	433.7	497.7
Total Specialty	1,203.8	1,413.2	1,650.7	1,963.5
Net Revenues	**7,786.9**	**9,411.5**	**10,962.0**	**12,578.1**
Cost of Sales	3,178.8	3,999.1	4,675.5	5,362.3
Store Operating Expenses	2,687.8	3,215.9	3,743.0	4,263.1
Other Operating Expenses	260.1	299.2	353.3	421.9
Depreciation	387.2	467.2	551.0	633.7
G&A	473.0	484.2	547.0	630.5
JV Income	93.9	108.0	118.1	138.0
Operating Income	**894.0**	**1,053.9**	**1,210.3**	**1,404.5**
Operating Margin	***11.5%***	***11.2%***	***11.0%***	***11.2%***
EBITDA	**1,281.2**	**1,521.1**	**1,761.3**	**2,038.2**
EBITDA Margin	***16.5%***	***16.2%***	***16.1%***	***16.2%***
Net Interest Income (expense)	12.3	2.4	-6.0	-6.0
Pretax Income	**906.2**	**1,056.4**	**1,204.3**	**1,398.5**
Pretax Margin	***11.6%***	***11.2%***	***11.0%***	***11.1%***
Income Tax Provision	324.8	383.7	433.5	503.5
Tax Rate	35.8%	36.3%	36.0%	36.0%
Net Income	**581.5**	**672.7**	**770.7**	**895.1**
Net Income Margin	***7.5%***	***7.1%***	***7.0%***	***7.1%***
EPS, recurring, diluted	**$0.73**	**$0.87**	**$1.02**	**$1.19**
Weighted avg diluted shares outs.	792.5	770.1	758.3	749.0

Summary Balance Sheet	2006	2007	2008E	2009E
Cash and Equivalents	**312.6**	**281.3**	**343.1**	**337.0**
Short-Term Investments	141.0	157.4	157.4	157.4
Other current assets	1,076.1	1,257.8	1,469.0	1,699.3
Total Current Assets	1,529.8	1,696.5	1,969.5	2,193.7
PP&E, Net	**2,287.9**	**2,890.4**	**3,506.0**	**4,084.4**
Other assets	611.3	757.0	872.6	1,050.9
Total Assets	**4,428.9**	**5,343.9**	**6,348.1**	**7,329.0**
Short-Term Borrowings	**700.0**	**710.2**	**710.2**	**710.2**
Current portion LTD	**0.8**	**0.8**	**0.8**	**0.8**
Other current liabilities	1,234.9	1,444.5	1,680.9	1,921.4
Total Current Liabilities	1,935.6	2,155.6	2,391.9	2,632.4
Long-Term Debt	**2.0**	**550.1**	**550.1**	**550.1**
Other liabilities	262.9	354.1	354.1	354.1
Total Liabilities	2,200.4	3,059.8	3,296.1	3,536.6
Total Shareholders' Equity	2,228.5	2,284.1	3,052.0	3,792.4
Total Liabilities and Equity	**4,428.9**	**5,343.9**	**6,348.1**	**7,329.0**
Debt/Total Capital	***24.0%***	***35.6%***	***29.2%***	***25.0%***

Summary Cash Flow				
Net Income	564.3	672.6	770.7	895.1
D&A	412.6	491.2	576.0	658.7
Other operating cash flows	-67.2	8.1	110.2	94.8
Change in working capital	221.9	159.3	46.5	32.4
Cash from operations	**1,131.6**	**1,331.2**	**1,503.5**	**1,681.0**
Capital Expenditures	**771.2**	**1,080.3**	**1,091.6**	**1,137.1**
YOY % Change		***40.1%***	***1.0%***	***4.2%***
Cap Ex/Depreciation	***1.9x***	***2.2x***	***1.9x***	***1.7x***
Net CFFO (After Capital Ex.)	**360.4**	**250.9**	**411.8**	**543.9**

Additional Financials	2006	2007	2008E	2009E
Net CFFO/Net Income	0.6x	0.4x	0.5x	0.6x
Free Cash Flow	427.6	242.8	301.7	449.1
FCF Yield	2.7%	1.6%	2.0%	3.0%
Asset Turnover	2.0x	1.9x	1.9x	1.8x
ROA	14.7%	13.8%	13.2%	13.1%
ROE	26.9%	29.8%	28.9%	26.2%

	2006	2007	2008E	2009E
Number of stores:				
U.S. Company-Operated	5,728	6,793	7,693	8,593
U.S. Licensed	3,168	3,891	4,591	5,241
International Company-Operated	1,435	1,712	2,012	2,362
International Licensed	2,109	2,615	3,179	3,979
Total system	**12,440**	**15,011**	**17,475**	**20,175**
YOY % Change		***20.7%***	***16.4%***	***15.5%***
Same-store sales:				
Systemwide	**7.0%**	**5.0%**	**3.3%**	**4.0%**
U.S.	7.0%	4.0%	2.8%	4.0%
International	8.0%	7.0%	5.5%	4.0%

Source: FBR Research and company reports

Risks

High gas prices, minimum credit card payments, and a slower housing market could cause the consumer to cut back on spending on food away from home.Spikes in dairy or coffee prices could hurt margins.Starbucks' international business produces approximately 10% of earnings, primarily from Canada, the U.K., and Japan. Economic weakness or exchange rate fluctuations in these markets could have a negative effect on Starbucks.Expectations for Starbucks are very high, reflected in its P/E. If same-store sales should slow below the market's expectations, the stock reaction could be significant.The restaurant sector is a very competitive space, with few barriers to entry. Increased competition in specialty coffee, including new café openings and entry into specialty coffee by larger fast-food or packaged-food competitors, could hurt Starbucks.Terrorist incidents in the U.S. or abroad could hurt consumer spending.Weather can have a short-term effect on sales.

Company Profile

Starbucks is the leading coffee retailer in the world, operating in 37 countries. Of its approximate 14,000 stores worldwide, more than 70% are in the U.S., and about 57% of the system is company operated. About 43% of Starbucks stores are operated by licensees such as HMS and Target in the U.S. and local retail conglomerates in international markets. In addition to its retail stores, Starbucks also sells beans, ice cream, and bottled coffee beverages in supermarkets and warehouse clubs in the U.S. and abroad via joint ventures, as well as coffee to foodservice operators. Starbucks is also involved in the production and distribution of music through its Hear Music label. Starbucks sources, roasts, and distributes coffee beans for its own stores and for its partners. In FY06, Starbucks' total revenue reached nearly $7.8 billion. Starbucks has great flexibility with its store format, with sites that are freestanding, in line, end-cap, or kiosk within another store.

*Closing price of last business day immediately prior to the date of this publication.

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- Underperform FBRC expects that the subject company will underperform similar companies within its industry. We recommend that investors reduce their positions until the valuation or fundamentals become more compelling.

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Rating	FBRC Research Distribution[1]	FBRC Banking Services in the past 12 months[1]
BUY [Outperform]	46.86%	20.33%
HOLD [Market Perform]	46.67%	8.98%
SELL [Underperform]	6.48%	11.76%

(1) As of midnight on the business day immediately prior to the date of this publication.

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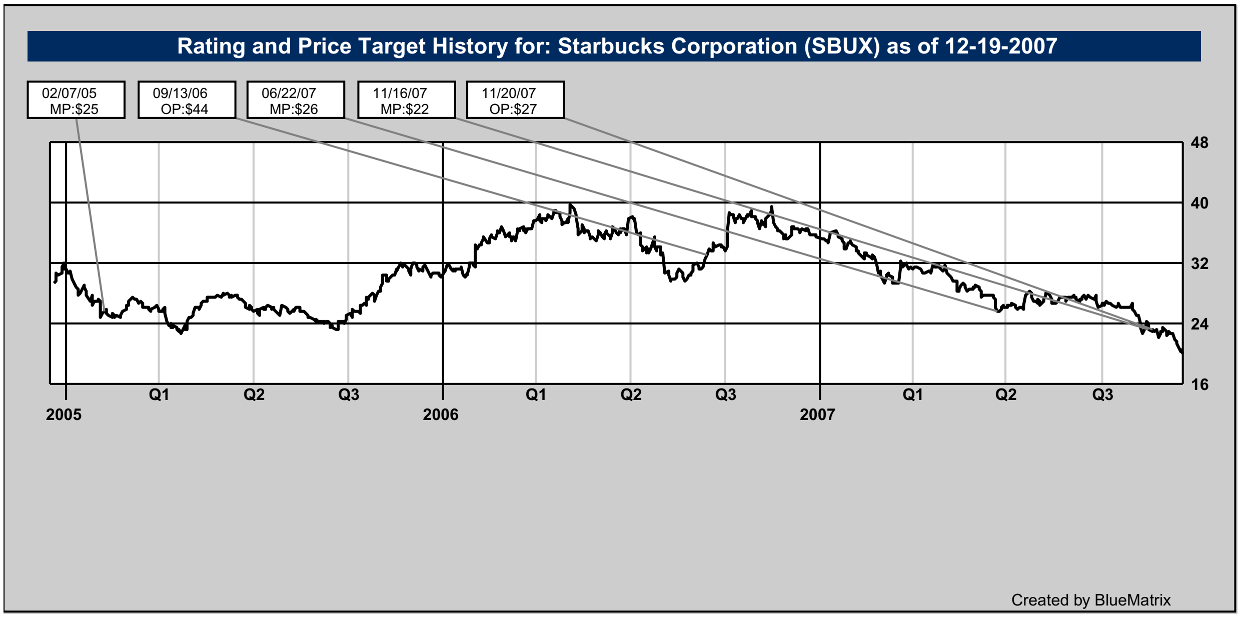

Rating and Price Target History for: Starbucks Corporation (SBUX) as of 12-19-2007
02/07/05 MP:$25
09/13/06 OP:$44
06/22/07 MP:$26
11/16/07 MP:$22
11/20/07 OP:$27
48
40
32
24
16
2005
Q1
Q2
Q3
2006
Q1
Q2
Q3
2007
Q1
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