

Starbucks Acquires Teavana

Student's Name

Institutional Affiliate

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## **Introduction**

Starbucks Corporation is one of the largest American coffee companies. It was founded in Washington, Seattle in the year 1971 and it has expanded operations in various countries worldwide with over 27,000 outlets. The company was founded by Gordon Bowker, Gordon Bowker, and Jerry Baldwin who were University students by then in Francisco. Starbucks distinguishes itself from other firms in the coffee industry and it has gained a high competitive advantage over its rivals. It has also been ranked among the top 10 admired companies as per the fortune ratings. Starbucks Corporation has grown its market share and boosted its value through mergers and acquisition. Starbucks' stock is traded on NASDAQ with a symbol SBUX. It went public in the year 1992 with an initial public offering at \$17 per share. The earnings per share have continually grown with the improved profitability of the firm. In the financial year 2012, the company announced its agreement of acquiring Teavana for \$620 million (Starbuck, 2012). This was the largest acquisition that the company has ever made in supporting its growth strategies. Teavana Inc. (NYSE: TEA) had a vast growth opportunity in the global market but only Starbucks Corporation had an adequate infrastructure to make this happen.

### **The financial analysis of the investment in Teavana**

The deal has boosted the company's profitability and the current Starbucks' share price is approximately \$58.23 per share. According to the Starbuck News Room, Teavana had generated a revenue of \$168 million in the financial year prior to its acquisition, \$124 million the year 2010 and the projected revenue for the year 2013 was estimated to be about \$286 million (Starbuck, 2012). This signifies a solid growth pace in the company and the Starbucks' CEO of that time, Kevin Johnson confirmed that the deal would lead to a 10% rise in the company's net profit. In addition, the acquisition was able to turn a significant proportion of the firm's revenue into profit

and therefore, increasing the net profit margin. Teavana had earned a net profit of \$17.7 million the previous year making a net profit margin of 10.5% (Starbuck, 2012). Starbucks expected to improve efficiency in Teavana and increase its market share to improve its profitability. The deal of acquiring Teavana Inc. for \$620 m cash and would make the deal to be Appreciate the earnings for about \$0.01 for every share in the financial year 2013. In this agreement, the shareholders of the acquired company were to receive a cash of \$15.50 per share. Starbucks would retain about 70% share of the common stock.

### *The financial ratios*

Details	2017	2016	2015	2014	2013	2012	2011
Net Profit margin ratio	12.89	13.22	14.39	12.57	0.06	10.40	10.65
R.O.A	20.11	21.05	23.77	18.57	0.08	17.76	18.12
R.O.E	50.90	48.16	49.73	42.41	0.17	29.15	30.91
Current ratio	1.25	1.04	1.19	1.37	1.02	1.90	1.83
Quick ratio	0.84	0.67	0.64	0.81	0.71	1.14	1.17
Leverage ratio	2.64	2.44	2.14	2.04	2.57	1.61	1.68
Debt/equity ratio	0.72	0.54	0.40	0.39	0.29	0.11	0.13

Data source:(Morningstar, 2018)

From the above analysis, it is crystal clear that the deal of acquiring Teavana was the best decision in the strategic moves of Starbucks in attaining and retaining a strong competitive advantage in the industry. The company has been able to achieve high profitability as evidenced by the financial ratios in the table above. For instance, just like the company's CEO had projected an increase of 10% of the Starbucks' net profit, the company was able to maintain a

consistent growth of its net profit margin since the acquisition of Teavana Inc. (Starbuck, 2012).

Even though the firm's liquidity ratios have been reducing, it has invested more in fixed assets and achieved a lowly levered capital structure which is essential for the survival of any business.

The R.O.E and growth in the earnings per share have also indicated shareholders' wealth maximization.

Details	2017	2016	2015	2014	2013	2012	2011
Total Revenue (in millions)	22,386	21,316	19,163	16,447	14,886	13,276	11,700
Gross profit margin (%)	59.50	60.10	59.40	58.30	57.10	56.40	58.00
Net income (in millions)	2,884	2,817	2,757	2,068	8	1,383	1,246
Net income from Teavana @10% (m)	288.4	281.8	275.7	206.8	0.8	138.3	124.6

Data source: (Morningstar, 2018)

The weighted average cost of capital for Starbucks is 5.98% and therefore the NPV for the investment of \$620 million with infinite useful life and average cash flow of \$ 138.3 in the year 2012 and an approximately constant growth of 2% can be assessed as follows;

$$NPV = FV/r$$

$$= 150 / (5.98\% - 2\%) = 3.76 \text{ billion}$$

Decision Criteria: NPV is positive and hence the investment is profitable

$$P.I. = 3,760 / 620 = 6.06$$

Decision: P.I. Is greater than 1 and hence the investment is feasible.

Similarly, the IRR of the investment at the time of acquisition was 29.30% which is significantly high compared to the Starbucks' average cost of capital.

### **Conclusion**

The above analysis of the Starbucks Corporation acquiring Teavana Inc. deal, it creates insight on the impact of the restructuring decision for growth. Most firms are considering creating competitive advantage through mergers and acquisitions. The coffeehouse industry has become more competitive due to lack of entry barriers. Firms that fail to establish proper strategies have botched to support their survival in the market and even forced to exit operation. Organizations are utilizing synergy opportunities to make them more competitive in the market. The Starbucks' bid for Teavanawas vital in increasing the company's profitability as well as boosting its price per share in the stock market.

## References

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