

INVESTOR'S EDGE

Optimism is growing after Starbucks gets its new CEO

Brian Niccol navigated Chipotle Mexican Grill through a number of challenges.

"Business leaders cannot be bystanders." — Howard Schultz



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Guest columnist

In my June column, I recommended shares of Chipotle Mexican Grill (ticker symbol: CMG). Since then, some major changes have occurred at the company, and the fast casual dining sector overall.

In early August, Chipotle's highly regarded CEO, Brian Niccol, announced he would be leaving the company effective Aug. 31 and taking the helm at Starbucks.

The day of Niccol's announcement, Chipotle's stock dropped more than 10% while Starbucks' soared nearly 25%.

Niccol is rightfully credited with the remarkable turnaround of Chipotle, beginning when he took over as CEO in 2018. At that time, the company was in real distress, with almost daily fallout from the widespread foodborne illness outbreak. Not only did Niccol lead them through that tumultuous period, but he also successfully navigated the company through COVID-19, supply chain shortages, and high inflation. Under his tenure, Chipotle's stock rose a spectacular 700%.

Clearly, shareholders of Chipotle will miss Niccol. However, if you bought the common stock after my recommendation, don't sell now. Niccol built a strong a deep bench of management talent that is staying put at Chipotle. I am confident it will be an excellent long-term investment.

I also believe that the recent CEO shakeup necessitates a closer look at Starbucks, which should benefit significantly as another possible Niccol turnaround play.

Starbucks' troubles began in early 2023 following the second (and final) exit of legendary CEO Howard Schultz. Schultz's successor, Laxman Narasimhan, struggled from the get-go and his brief tenure has been marred by falling sales, major labor disputes, and overall customer dissatisfaction. Starbucks' stock has dropped more than 20% over the last 17 months, while the S&P 500 Index has risen about 40%.

Much of Starbucks' recent troubles boil down to inefficiencies. The primary areas that have hurt the company are labor disputes, supply chain issues, and an overly

expansive menu with more than 170,000 possible, often complex, drink combinations. As a result, wait times at the average Starbucks have skyrocketed, disgruntled employees have left, and frustrated customers have gone for coffee elsewhere.

These areas appear to be “low-hanging fruit” for Niccol to have an almost immediate impact.

At Chipotle, Niccol streamlined the menu, ordering process, and day-to-day operational policies. He took a collaborative approach with both staff and customers and focused on promoting a fresh, constantly improving brand. This is exactly what I expect Niccol to do when he takes the helm at Starbucks this fall.

Despite its recent struggles, Starbucks is an iconic brand name franchise with a strong foundation in place for Niccol to hit the ground running. It’s the largest coffee retailer in the world, with more than 35,000 stores across 80 countries. Starbucks is also consistently ranked as having the world’s highest valued restaurant brand.

One of Starbucks’ biggest strengths is its expansive, historically loyal customer base. In fact, there are more than 75 million Starbucks rewards members currently, and the company projects that cohort to double over the next five years. Expect Niccol to aggressively target new and existing rewards members with promotions, menu offerings, and collaborations with other companies like Delta Airlines and Amazon.

With the global COVID-19 pandemic in the review mirror, Starbucks has adopted a renewed focus on store growth, with plans to open more than 17,000 new stores by 2030. Starbucks especially wants to target underpenetrated areas such as China and Latin America, where it believes there is significant opportunity. In fact, currently, three out of every four new stores are expected to be opened outside of the United States.

Starbucks is already engaged in an aggressive, \$4 billion cost-cutting program, which Niccol will likely accelerate. It’s clear that efficiency will be the name of the game across all areas of the company including menu redesign, ordering



Starbucks has more than a dozen shops in Onondaga County, including this one in the Canal Center in DeWitt.

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experience, and store operations.

Starbucks pays an attractive dividend yield of 2.47%. It has also raised its dividend for the last 14 consecutive years with an impressive average annual increase of 17%.

Despite its more than 20% surge the day Niccol was announced as CEO, Starbucks is still 11% off its 52-week high and 24% off its all-time high reached in 2021. Furthermore, Goldman Sachs’ bullish view asserts that Starbucks could reach a price of \$139 per share, or about 45% upside from current prices.

It should be noted that Starbucks and Chipotle are different companies. Starbucks is a much larger, global franchise with revenue more than three times that of Chipotle’s. So, Niccol certainly has his career’s biggest challenge on his hands, one so far that investors believe he’s ready for.

I believe Niccol brings a modern, fresh, innovative energy to Starbucks that will power efficiency and execution on all fronts.

For the patient investor, buying this iconic brand name franchise at current prices will yield excellent long-term results.

Jim Burns, a chartered financial analyst, is president of J.W. Burns & Co. The opinions expressed here are his and do not necessarily reflect those of The Post-Standard. Readers should do research before deciding on an investment. Contact him at jburns@jwburns.com

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