SBUX BEARISH

Opportunity Alert

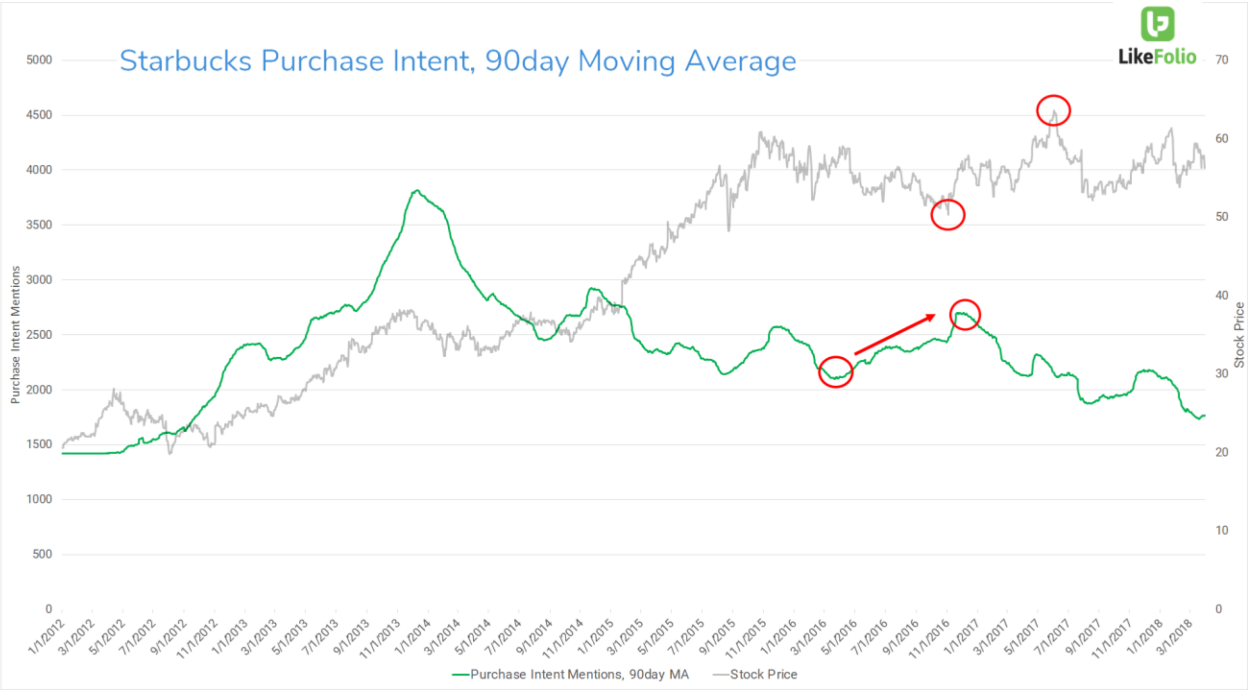
April 24, 2018

SUMMARY

When Starbucks Corporation held their initial public offering in 1992, they had just 140 locations in the United states, and by 2017 that number had increased to nearly 14,000 in the U.S. alone, with over 27,000 stores internationally. A recent and undeniable trend in Starbucks' Social data suggests that the perpetual proliferation of this café chain has provoked a growing sense of ennui in the American consumer. We are initiating a BEARISH ALERT for SBUX heading into their Q2 earnings Thursday.

LIKEFOLIO SOCIAL DATA

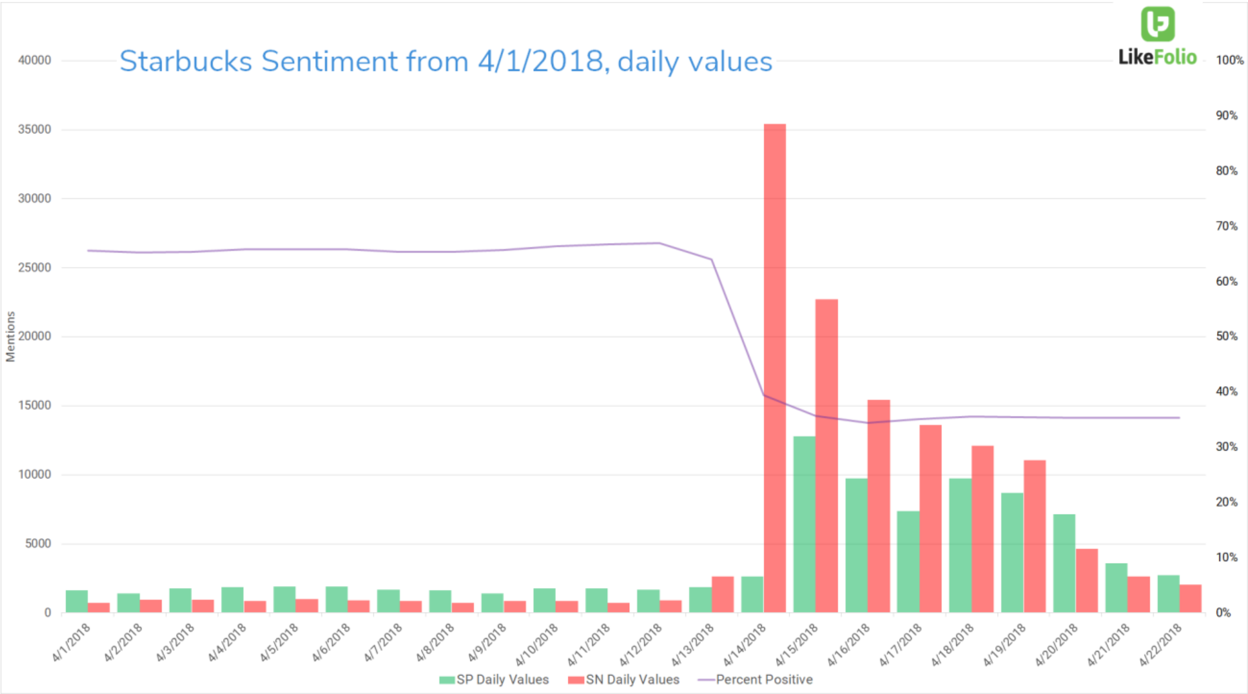
Starbuck's purchase intent moving average shot up to an all-time high in 2013, and the stock price began its increase of over 100% in the following months. The moving average has remained relatively flat since then, but there have been a few notable signs of continued correlation.



A year over year purchase intent increase from 2016 to 2017 preceded SBUX's run to its still-withstanding all-time-high valuation. After reaching that relatively lower high, Starbucks' purchase intent mentions started to decline, and have continued to fall at an alarming rate. This suggests weakness in Starbucks' consumer loyalty as we move into 2018.

LIKEFOLIO SOCIAL DATA CNTD.

Earlier this month Starbucks made national news, yet most headlines contained a decidedly unfavorable slant. The Company became embroiled in a massive controversy after two Black men were arrested for loitering in a Starbucks store. ‘Baristas’ at the location in question reported the men, who were waiting for their friend to arrive before ordering drinks, to the police. A video of the arrest immediately went viral, and the ensuing firestorm on social media held Starbucks chiefly responsible for the perceived injustice. Articles such as: “A bitter brew at a Philly Starbucks for two black men” further cemented the international chain of coffee shop’s culpability in the incident of racial bias. In the face of boycott threats and a general hue and cry, the CEO announced that 8000 Starbucks locations would be closed on May 29, for ‘racial bias education.’ The below chart plots all the tweets that mentioned Starbucks and keywords that suggested either positive or negative sentiment.



The wave of public outrage can be seen clearly on the sentiment chart. Although consumer happiness has risen back above 50% in the last few days, the continued effect on sentiment a week after the incident proves that it may be affecting consumer behavior going forward.

EXCLUSIVE: JEFF MACKE'S THOUGHTS

Every once in a while, we like to add the thoughts of an industry expert. When we reached out to Jeff Macke for commentary on Starbucks' 2018 outlook, he was happy to oblige:

I'm starting a short position on Starbucks ahead of their earnings report. SBUX had plenty of operational problems before the headlines. In the name of pursuing tech initiatives, the company is sacrificing the quality of the experience for core customers. You can see it in the flat transaction data (despite record "app adoption") and flat revenues. Those problems didn't get better last quarter.

Starbucks already had a morale problem cutting back some of the traditional perks that were part of Howard Schultz's management style. Add to that what happened in Philadelphia along with operational problems already existent and Starbucks doesn't only have a PR problem. They have an issue with 8,000 store managers.

Whatever they say this week, Starbucks has lost its mojo. Wall St. is losing faith in this management team. It could take a few quarters but numbers will come down. When they do, so will the shares.

--Jeff Macke
Trader, Columnist & Speaker

KEY POINTS

1. In the past, Purchase Intent mentions have been predictive of SBUX stock price, with a lead time of 6-8 months.
2. Starbucks' has been displaying uncharacteristic vulnerability in the volume of its social mentions; suggesting that consumers have begun to lose interest in the most well recognized coffee shop in the world.
3. SBUX has missed its last 4 earnings revenue estimates, and any sign of weakness on Thursday's report will only compound the recent abundance of negative headlines.
4. The distinct likelihood of an earnings miss makes Starbucks an enticing short going into the release on Thursday afternoon, but waiting for the dust to settle before entering a long-term short position will reduce the short-term event risk.

OPPORTUNITY DETAILS

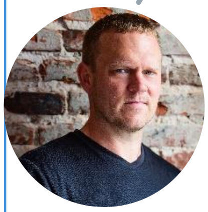
Direction: Bearish

Duration: 6-12 months

Target: $45

TRADE IDEAS

Simple	Short the stock after their earnings release on Thursday.
Option Spread	Sell the Sep.18 57.5/60 Call Spread @ $1.25 Credit. Max loss $125, Max gain $125 a contract. SELL -1 VERTICAL SBUX 100 21 SEP 18 57.5/60 CALL @1.25 LMT
Aggressive	Buy at-the-money puts that expire in a few months to cash in on a potential earnings miss.



Andy's Pick

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