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MARKETS | STOCKS

Starbucks Is Cooling Off in Bad Sign for Corporate Profits

Shares of Starbucks lose some froth after a coffee chain executive pours cold water on next fiscal year's expectations



Starbucks' profit growth will slow in fiscal 2020, finance chief Patrick Grismer says.. PHOTO: ADAM GLANZMAN/BLOOMBERG NEWS

By Michael Wursthorn

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Starbucks Corp. [SBUX -4.40%](#) ▼ served up a weak outlook to shareholders for next fiscal year's earnings, adding to an increasingly hazy view around corporate-profit growth beyond 2019.

The coffee chain's chief financial officer, Patrick Grismer, warned that profit growth will slow in fiscal 2020 due to the loss of tax-related gains that won't be repeated. Without those tax benefits, Starbucks's earnings growth will fall below its previous projections of at least 10%, he said while speaking at the Goldman Sachs global retail conference.

"It's a very significant headwind to our [earnings per share] growth in fiscal 2020 as we [lose] those benefits," Mr. Grismer said. The company's next fiscal year begins Oct. 1.

Shares of Starbucks ended 0.7% lower Wednesday after recovering from a steeper decline earlier in the session. They are still up 49% for the year.

Starbucks' warning comes as earnings forecasts for next year fall across the S&P 500. Analysts have been cutting profit expectations for S&P 500 companies. Some of the revisions followed downbeat outlooks for the second half of the year, while others were because of analysts'

factoring in a tougher economic climate and trade tariffs.

S&P 500 earnings are projected to grow nearly 11% in 2020, down from estimates of 12% at the end of June. Analysts slashed profit estimates for consumer-discretionary companies, which includes Starbucks; financial firms, and materials companies by some of the biggest margins over that time, pulling down earnings across the broad index.

Even those numbers may still be too optimistic, Tobias Levkovich, chief U.S. equity strategist at Citigroup, warned in a recent note. Wage pressures and unpredictable shocks from trade and other geopolitical hostilities add to overall anxieties, he said.

“We think 2019 and 2020 numbers still need to get trimmed back, irrespective of trade-related worries, curbing near-term market upside,” said Mr. Levkovich.

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