CONCISE
From 2001 – 2004 Starbucks’ Return on Equity (ROE) increased 11% from 15.4% to 17.1% (see Exhibit X). This increase was driven by two improvements: Starbucks more effectively using its assets to generate revenues (asset turnover), and Starbucks keeping more of each dollar it books as revenue in the form of net income (profit margin). Starbucks’ asset turnover increased 6% from 1.65 in 2001 to 1.75 in 2004, and its profit margin increased 9% from 6.8% in 2001 to 7.4% in 2004. The increases in the asset turnover and profit margin ratios combined to increase Starbucks’ Return on Assets (ROA) by 15%, from 11.2% in 2001 to 12.9% in 2004. Starbucks does not use debt to finance the opening of new stores or the operating of existing stores so it is not surprising that the increase in ROE is driven by an increase in ROA, not an increase in financial leverage. Financial leverage actually declined slightly from 1.38 in 2001 to 1.33 in 2004.

NOT CONCISE
Over the period I analyzed Starbucks’ ROE significantly increased (see attached). This increase was driven by the change in Starbucks’ asset turnover and profit margin. Asset turnover shows how effectively a firm uses its assets to generate revenues. Profit margin shows how much of each dollar a firm books as revenue it keeps in the form of net income. These two ratios combine to produce ROA. Given that Starbucks’ asset turnover and profit margin have increased, it is no surprise that its ROA has also increased. The last component of ROE is financial leverage. Recently, Starbucks’ financial leverage has declined slightly.