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Valuation Discrepancy of Coffee Chains in the US and China: A Capital Market Perspective

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Abstract: This paper investigates the valuation discrepancy between major coffee chains in the United States and China, focusing on Starbucks and Luckin Coffee. Although both firms demonstrate strong revenue growth, comparable business models, and digital innovation, their valuation multiples differ markedly in global capital markets. Starbucks commands significantly higher P/E and EV/EBITDA multiples compared to Luckin. This study applies a trading comparables framework to estimate Luckin's implied value and explore the gap relative to market valuation. Furthermore, the research integrates structural variables including investor composition, regulatory transparency, listing venue, and ESG performance to explain the valuation divergence. Results suggest that such institutional and market factors—not just firm-specific fundamentals—play a pivotal role in determining cross-border valuation outcomes. In doing so, the study highlights the limitations of traditional valuation models when applied across regulatory environments and offers recommendations for refining comparative analysis in global investment contexts. The findings contribute practical insights for investment banking professionals involved in IPO pricing, equity research, and international M&A advisory, particularly in the context of emerging-market issuers.

Keywords: valuation multiples, capital markets, Starbucks, Luckin Coffee, cross-border IPO

1. Introduction

The global coffee industry has experienced significant transformation over the past two decades, evolving from a commodity-dominated market to a branded, experience-driven ecosystem. As consumers worldwide increasingly seek quality, consistency, and social value in their coffee consumption, multinational chains have seized the opportunity to expand their influence. According to the International Coffee Organization (ICO), global coffee consumption exceeded 170 million 60-kg bags in 2023, with the United States and China occupying leading positions in consumption volume and market growth, respectively.

In this context, two companies stand out: Starbucks, an iconic U.S.-based brand with over 36,000 stores globally, and Luckin Coffee, a fast-growing Chinese challenger with more than 10,000 locations as of 2024. Both firms exemplify modern coffee retailing through digital innovation, streamlined supply chains, and strategic brand management. Yet, despite sharing many operational similarities and targeting large urban consumer bases, they are valued very differently in the capital markets.

Starbucks consistently trades at premium valuation multiples, with a price-to-earnings (P/E) ratio exceeding 30x and an EV/EBITDA multiple above 18x, while Luckin Coffee, despite its rapid growth

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and profitability resurgence, lags significantly behind with P/E and EV/EBITDA ratios averaging around 18x and 10x, respectively [1].

This persistent valuation gap raises a key research question: are these differences purely a function of firm fundamentals, or do structural disparities in capital markets and investor perceptions play a more substantial role? A growing body of literature suggests that market environment, investor composition, regulatory strength, and even corporate governance quality can significantly influence how companies are valued [2].

This study aims to explore this issue using a comparative valuation framework and a cross-market lens. Specifically, we apply the trading comparables (comps) method to estimate Luckin Coffee's implied valuation using peer group data and analyze the divergence between its implied and actual market value. We then interpret these findings in the context of structural capital market differences between the United States and China. The goal is not only to quantify the valuation gap but to explain it using institutional, regulatory, and behavioral factors supported by academic and industry research.

Ultimately, this paper contributes to the growing discourse on cross-border valuation in emerging markets and offers practical guidance for investment bankers, equity analysts, and corporate strategists navigating global equity markets.

2. Theoretical framework

Trading comparables (comps) valuation has become a foundational method in financial modeling and investment banking, particularly for IPO pricing and M&A. According to [3], multiples such as P/E, EV/EBITDA, and EV/Sales are valuable indicators of market value when applied to suitable peer firms. The consistency of enterprise value-based multiples, especially across firms with differing capital structures, has been emphasized by [4].

To contextualize these valuation tools, Table 1 summarizes three dominant methods used in practice:

Table 1: Comparison of common valuation methods

Valuation Method	Advantages	Limitations	Common Use Cases
Multiples	Simple to use; reflects current market sentiment; widely accepted in investment banking	Heavily influenced by peer selection; ignores future growth beyond comparables	Equity research, IPO pricing, M&A comps
Discounted Cash Flow (DCF)	Considers intrinsic value based on projected cash flows; theoretically sound	Highly sensitive to assumptions (WACC, growth rate); complex to execute	Private equity valuation, intrinsic valuation of mature firms
Net Asset Value (NAV)	Useful for asset-heavy businesses; less sensitive to market sentiment	Not suitable for service/brand-heavy firms; may undervalue growth potential	Real estate, infrastructure, and liquidation scenarios

Recent research shows that the effectiveness of these tools depends on contextual variables such as market maturity, regulatory transparency, and investor composition. For instance,some researchers highlight the volatility of multiples in emerging markets due to macroeconomic instability and low-quality financial disclosures [5]. Bhojraj and Lee emphasize the importance of selecting peers with economic, not just industrial, similarity [6].

Cross-border valuation challenges are addressed in Karolyi [7], who finds that legal enforcement strength and market openness are key drivers of valuation premiums. Emerging markets, as noted by Doidge [8], often suffer from structural inefficiencies such as limited investor protection and information asymmetry. Bushman et al. and La Porta et al. confirm that transparency and securities law effectiveness are positively correlated with firm valuations [9-10].

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Additionally, corporate governance and investor composition play vital roles. Shleifer and Vishny caution that concentrated ownership and weak enforcement may erode value [10]. Cao et al. and Fang et al. show that Chinese firms, especially those listed overseas, often face valuation discounts due to investor skepticism and dominant retail ownership [11-12].

Finally, modern frameworks incorporate ESG and intangible capital into valuation logic. Du et al. argue that CSR communication enhances firm valuation [13], while Haskel and Westlake highlight the role of intangibles like brand equity in creating value [14]. These considerations are especially relevant when comparing global brands like Starbucks with emerging players such as Luckin Coffee.

2.1. Analytical strategy

To provide a holistic understanding of valuation divergence, this paper adopts a multi-layered analytical strategy combining quantitative benchmarking and qualitative structural assessment.

(1) Quantitative Benchmarking Using Multiples: Key trading multiples (P/E, EV/EBITDA) are extracted for a selected group of comparable companies—Starbucks, Dutch Bros, Tims China, Nayuki, and Luckin Coffee. These companies were chosen based on product category, operating model, and regional market relevance. The study then estimates Luckin's implied valuation using the peer group median.Key multiples analyzed include:

(2) Cross-Listing and Governance Contextualization: Beyond numerical estimates, we examine structural differences between U.S. and Chinese capital markets. This includes analysis of listing venues (e.g., NASDAQ vs. OTC), regulatory rigor, and historical governance scandals that impact market confidence.

(3) Market Composition and Intangibles Evaluation: The third layer investigates investor base (institutional vs. retail), ESG disclosure strength, and brand perception. These non-financial drivers are mapped against valuation outcomes to reveal intangible impacts on multiple expansion or suppression.

This strategic layering ensures not only precise modeling but also institutional insight—providing investment bankers a more complete toolset for advising in cross-border valuation contexts.

2.2. Empirical analysis

To assess the practical implications of valuation differences, we conducted a detailed multiples-based analysis of the five selected coffee chains: Starbucks, Dutch Bros, Luckin Coffee, Tims China, and Nayuki. The financial data for fiscal year 2023 were normalized and sourced from Capital IQ and Wind. The table 2 below presents the key multiples used in the comparison:

Table 2: Valuation multiples of comparable coffee chains

Company	P/E Ratio	EV/EBITDA
Starbucks	30.5	18.2
Dutch Bros	42.1	22.4
Luckin Coffee	18.3	10.5
Tims China	25.7	15.3
Nayuki	20.4	13.2

From this table, we calculate the average peer group P/E ratio as approximately 29.7x and the average EV/EBITDA multiple as approximately 17.3x. We then apply these benchmarks to Luckin Coffee's financials—EBITDA of $450 million and Net Income of $230 million.

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Table 3: Luckin coffee implied valuation

Metric	Multiple Used	Implied Valuation (USD)
EV/EBITDA	17.3x	$7.785 billion
P/E	27.4x	$6.302 billion
Actual Market Cap	–	$4.8 billion

The analysis reveals a consistent valuation discount of approximately 20-30%, despite Luckin's comparable revenue growth and profitability. The causes of this discrepancy are explored below.

First, investor composition significantly differs across the firms. According to Fang, Tian, and Tice [15], Starbucks has roughly 70% institutional ownership, while Luckin's OTC listing attracts primarily retail investors, contributing to limited liquidity and increased volatility. This disparity in shareholder base is further exacerbated by listing venue: Starbucks is traded on NASDAQ with broad analyst coverage, whereas Luckin trades OTC following its 2020 delisting, which substantially narrows its investor reach and research visibility [11].

Second, corporate governance and disclosure standards matter greatly. Bushman et al. and La Porta et al. emphasize that stronger regulatory oversight and transparency drive investor confidence and higher valuations [2]. Despite reforms, the legacy of Luckin's accounting scandal continues to affect investor sentiment. Aggarwal et al. [16] point out that governance practices are not fully portable across borders, and local norms play a role in investor trust.

Lastly, valuation premiums also reflect perceived brand equity and ESG performance. Starbucks has cultivated a reputation for sustainable sourcing, inclusive culture, and social impact, which can command intangible value premiums. In contrast, Luckin, while innovative in pricing and digital strategy, lacks a comparable brand identity outside China.

2.3. Extended discussion: the role of intangibles and ESG

This study explored the valuation discrepancies between Starbucks and Luckin Coffee through the lens of trading multiples and capital market structures. Using a comps-based approach and integrating institutional context, we find that Luckin trades at a substantial discount relative to U.S. peers, even after accounting for fundamental performance.

Key drivers of this discount include market maturity, investor composition, disclosure standards, and ESG perception. The research suggests that these structural and behavioral factors may outweigh purely financial indicators in determining equity valuation.

For practitioners, the findings highlight the importance of contextualizing comps analysis within broader institutional frameworks. Investment bankers and equity analysts should incorporate qualitative and structural adjustments when applying valuation models across markets.

Future research could explore multivariate regression models that quantify the marginal impact of market structure variables on multiples or analyze event-driven shifts in valuation following governance reforms or relisting initiatives. Combining DCF and comps models in an integrated framework may also yield a more nuanced valuation picture in cross-border contexts.

Starbucks has built a globally recognized brand emphasizing ethical sourcing, sustainability, and community engagement. Its CSR initiatives are well-communicated and appeal to institutional investors with ESG mandates. This, along with strong customer loyalty and operational consistency, creates an intangible premium that manifests in elevated valuation multiples.

Luckin, while innovative and rapidly expanding, emphasizes affordability and tech-enabled efficiency over sustainability. Its limited CSR disclosure and lack of global ESG branding reduce its appeal to ESG-focused investors. Furthermore, its past governance issues diminish investor confidence, suppressing its valuation potential.

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These differences underscore the importance of brand equity, investor perception, and non-financial disclosures in determining valuation premiums. Future growth in ESG-aligned capital flows may further widen this intangible valuation gap.

3. Conclusion

This study explored the valuation discrepancies between Starbucks and Luckin Coffee through the lens of trading multiples and capital market structures. Using a comps-based approach and integrating institutional context, we find that Luckin trades at a substantial discount relative to U.S. peers, even after accounting for fundamental performance.

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