

MCDONALD'S CORPORATION

(NYSE: MCD)



(as at February 28, 2023)

Business Description:

McDonald's Corporation (McDonald's) engages in the operation and franchise of McDonald's restaurants in more than 119 countries across the globe. It operates through the following reporting segments: U.S.; International Lead Markets; High Growth Markets; Foundational Markets and Corporate. The Company is primarily a franchisor, with approximately 93% of McDonald's restaurants currently owned and operated by independent franchisees. It was founded in 1955 and serves over 65 million customers daily across 40,000+ locations globally as at year-end 2021.

Investment Thesis and Industry Growth Drivers:

- **Accelerating the Arches Growth Strategy:** The strategy encompasses all aspects of McDonald's business as the leading global omnichannel restaurant brand and includes new growth pillars that build on the company's competitive advantages. The growth pillars are Maximize Marketing (M), Committed to the Core (C), and Double Down on Digital, Delivery and Drive Thru (D), that build on historic strengths and articulate areas of further opportunity.
 - **Maximize Marketing:** McDonald's intends to invest in new, culturally relevant approaches to communicate its brand story, food, and purpose. The focus will be on enhanced digital capabilities that provide a more personal connection with customers.
 - **Commit to the Core:** The company prioritizes chicken and beef offerings through line extensions of customer favorites, as they expect these offerings to represent the largest growth opportunities. McDonald's also sees a significant opportunity in coffee and leverages the McCafé brand to drive long-term growth.
 - **Double Down on the 3D's (Digital, Delivery, and Drive Thru):** McDonald's intends to double down on the 3D's by leveraging its competitive strengths and building a powerful digital experience growth engine to enhance customer experience. Notably, 2021 System-wide sales from digital channels (which are comprised of the mobile app, delivery, and kiosk) exceeded US\$18 billion, or over 25% of System sales in the company's top six markets.
- **Global Exposure:** McDonald's operates through three market segments:
 - U.S.: 41% of Operating Income as at December 2021
 - International Operated Markets (mainly Germany, France, Canada, the United Kingdom, and Australia): 44% of Operating Income as at December 2021

- International Development Licensed Markets (mainly Asia, Latin America, and the Middle East): 15% of Operating Income as at December 2021

- Business Model:

McDonald's is primarily a franchisor, while also directly operating a number of its own restaurants. Under its conventional franchise model, the company may co-invest with franchisees and will generally own or secure long-term leases of the land and building for the restaurant. Alternatively, a developmental license or affiliate arrangement will be put in place, and require the licensees to be responsible for operating and managing the business, providing capital, and developing and opening new restaurants. McDonald's will generally not invest capital under a developmental license or affiliate agreement and will receive a royalty based on a percentage of sales, along with other fees.

- **Returning Cash to Investors:** McDonald's has a strong track record of returning cash to shareholders, even during periods of large investments in technology. The company has returned cash to shareholders via dividends each year since 1976, and opportunistically deploys cash on share buy-backs to further enhance shareholder value.
- **Brand Loyalty: MyMcDonald's Rewards Loyalty Program:**
 - In 2021, loyalty programs in the U.S., Germany, and Canada were launched, adding to more than 40 markets in which MyMcDonald's Rewards operates.
 - Within six months in the U.S., there were more than 30 million loyalty members enrolled and more than 21 million active members earning rewards.

Competitors:

- Burger King[®]
- Wendy's[®]
- Yum! Brands, Inc
- Subway[®]
- Chipotle Mexican Grill, Inc.

Barriers to Entry:

- **Scale:** McDonald's has over 40,000 locations globally, and services over 65 million customers daily
- **Brand:** The company operates one of the most recognizable brands on the planet. This type of brand awareness is difficult to replicate.
- **Customer Loyalty:** The consistency and convenience of McDonald's food are key drivers of brand loyalty. The restaurants are often located in high-traffic areas, which ensures that their products are always accessible.

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Officers and Directors:**Chris Kempczinski**, President and Chief Executive Officer**Ian Borden**, Executive Vice President and Chief Financial Officer**Jon Banner**, Executive Vice President and Global Chief Impact Officer**Morgan Flatley**, Executive Vice President and Global Chief Marketing Officer and New Business Ventures**Marion Gross**, Executive Vice President and Global Chief Supply Chain Officer**Heidi Capozzi**, Executive Vice President and Global Chief People Officer**Joe Erlinger**, President McDonald's USA**Financial Summary:****Income Statement (USD millions, years ended December 31st)**

	2018	2019	2020	2021	2022
Total Revenue	21,257.9	21,364.4	19,207.8	23,222.9	23,182.6
Operating Income	8,822.6	9,069.80	7,324.0	10,356.0	9,371.0
Net Income	5,924.3	6,025.40	4,730.5	7,545.2	6,177.4
Diluted Earnings Per Share	7.54	7.88	6.31	10.04	8.33
Dividends per Common Share	4.19	4.73	5.04	5.25	5.66

Balance Sheet

Total Assets	32,811.2	47,510.8	52,626.8	53,854.3	50,435.6
Long Term Debt	31,075.3	34,118.1	35,196.8	35,622.7	35,903.5
Total Equity	(6,258.4)	(8,210.3)	(7,824.9)	(4,601.0)	(6,003.4)

Statement of Cash Flow

Cash Flows from Operations	6,966.7	8,122.1	6,265.2	9,141.5	7,386.7
Cash Flows from Investing	(2,455.1)	(3,071.1)	(1,545.8)	(2,165.7)	(2,678.1)
Cash Flows from Financing	(5,949.6)	(4,994.8)	(2,249.0)	(5,595.6)	(6,580.2)

Key Ratios and Figures (%)

Operating Margin	41.5%	42.5%	38.1%	44.6%	40.4%
Return on Assets	18.1%	12.7%	9.0%	14.0%	12.2%

Source: McDonald's 2021 Annual Report; McDonald's Fourth Quarter and Full Year 2022 Results, and Bloomberg L.P.



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