

MCDONALD'S CORPORATION



BUY. HOLD. AND PROSPER.®

(as at May 31, 2020)

Business Description:

McDonald's Corporation engages in the operation and franchise of McDonald's restaurants in more than 100 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 35,000+ locations globally.

Investment Thesis and Industry Growth Drivers:

Investing in the Future:

- **Velocity Growth Plan (VGP):** McDonald's launched the VGP which is laser-focused on using technology to improve customer experience. From the Global Mobile App to self-order kiosks, the company has made huge strides toward accomplishing its technological goals. In order to fast-track this transformation, the company recently acquired Dynamic Yield, a leader in personalization and decision logic, to make customer experience even more personalized.
- Dynamic Yield improves suggestive selling capabilities in drive-thru service based on time of day, weather and popular menu items; this technology has been deployed in thousands of locations.
- **Delivery:** McDonald's is now offering delivery services in nearly 25,000 restaurants globally, tailoring to customer preferences for home-delivered foods.
- **Digital:** Around the world, more and more customers are redeeming digital-only offers, allowing McDonald's to better understand customer demands while creating engaging digital customer experiences.
- **Targeting High Growth Markets:** Markets with relatively higher restaurant expansion and franchising potential include China, Italy, Poland, Russia, South Korea, Spain, Switzerland and the Netherlands. McDonald's is committed to developing their brand awareness in these regions.
- **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.

Reducing Carbon Footprint

- McDonald's will partner with franchisees and suppliers to reduce greenhouse gas emissions related to McDonald's restaurants and offices by 36% by 2030 from a 2015 base year, in a new strategy to address global climate change.
- Through these actions, McDonald's expects to prevent 150 million metric tons of greenhouse gas emissions from being released into the atmosphere by 2030. This is the equivalent of taking 32 million passenger cars off the road for an entire year or planting 3.8 billion trees and growing them for 10 years.

Competitors

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

Barriers to Entry:

- **Scale:** McDonald's has over 35,000 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.

Officers and Directors:

Chris Kempczinski, President and Chief Executive Officer; Kevin Ozan, Chief Financial Officer; **Daniel Henry**, Executive Vice President and Global Chief Investment Officer, **Joe Erlinger**, President McDonald's USA.



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Financial Summary:

Income Statement (USD millions, years ended December 31st)

	2015	2016	2017	2018	2019
Total Revenue	25,413	24,622	22,820.40	21,025.20	21,076.50
Operating Income	7,146	7,745	9,552.70	8,822.60	9,069.80
Net Income	4,529	4,687	5,192.30	5,924.30	6,025.40
Diluted Earnings Per Share	4.8	5.44	6.37	7.54	7.88
Dividends per Common Share	3.44	3.61	3.83	4.19	4.73

Balance Sheet

Cash	7,690	1,368	2,464	1,038	913
Long Term Debt	24,122	25,879	29,536	31,075.30	34,118.10
Total Equity	7,088	(2204)	(3268)	(6,258.40)	(8,210.30)

Statement of Cash Flow

Cash Flows from Operations	6,539	6,060	5,551.20	6,966.70	8,122.10
Cash Flows from Investing	(982)	(1420)	562	(2,455.10)	(3,071.10)
Cash Flows from Financing	735	(11262)	(5,310.80)	(5,949.60)	(4,994.80)

Key Ratios and Figures (%)

Operating Margin	28.1%	31.5%	41.9%	42.0%	43.0%
Net Income Margin	17.8%	19.0%	22.8%	28.2%	28.6%

Source: McDonald's 2019 Annual Report



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PIC3252-E(06/20)