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Company Valuation – McDonald's Corporation
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Abstract

This thesis presents an equity research analysis of the McDonald's Corporation, which recommends a "HOLD" position with a target price of \$304.35 by December 31, 2024, indicating a 4.4% increase from the current share price. The analysis takes into account significant market trends, such as global population growth, the rise of the middle class in emerging markets and digitalisation. In addition, McDonald's is expected to continue its expansion due to its re-franchising strategy, which could drive sales and profitability. The company's "Accelerating the Arches" plan, which centres on digitalisation, collaborating with delivery services, and emphasising core products, seeks to strengthen its position in the highly competitive quick-service restaurant sector. Despite McDonald's strong brand and adaptability, the report concludes that the expected growth and margin improvements are almost fully reflected in the share price, leading to a Hold recommendation.

Keywords (up to four):

McDonald's Corporation, Equity Research, Company Valuation, Forecast

This report is part of the Equity Research report (annexed), developed by Finn Maschke and Niclas Steinmetz and should be read as an integral part of it.

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Company Overview

Company Description



McDonald's Corporation (McDonald's or MCD), headquartered in Chicago, USA, is the world's largest quick-service restaurant (QSR) chain and one of the world's most recognisable and iconic brands, serving more than 65 million customers every day through 40,275 restaurants in more than 100 countries. The company was founded in 1940 by Richard and Maurice McDonald in San Bernardino, California. Ray Kroc, a franchise agent, joined the company in 1954, bought it and turned it into a global fast-food empire. McDonald's is one of the world's largest private employers, with more than 150,000 corporate employees and 2.2 million franchisees.

McDonald's offers a consistent and affordable menu with local adaptations to suit regional preferences. The menu includes a diverse range of offerings including hamburgers, fries, salads, branded sandwiches such as the Big Mac, breakfast options such as the Egg McMuffin and coffee options through the McCafé brand. In addition, the company frequently introduces limited-time promotions to further diversify its menu.

Segments

McDonald's derives its revenue from both through company-operated restaurants (COR) (5.2% of total restaurants) and as a franchisor (94.8%)¹. Each franchisee pays McDonald's rent (64.1% of franchise sales), royalties (35.5%) and initial fees (0.4%) when opening a new restaurant. These fees vary based on the ownership structure, including conventional franchise (55% of all restaurants), developmental license (20%), or foreign-affiliated (20%)². With rents accounting for 39.0% of total sales, McDonald's is often referred to as a real estate company as well as a fast-food chain. In 2022, McDonald's reported sales of \$23.2 billion (bn.), with 60.8% coming from franchise operations and 37.7% from company-owned stores. As the franchise segment has a much higher gross profit margin (50.7%) than company-owned stores (5.9%), McDonald's continually increases the number of franchise restaurants, which initially results in lower sales but improves profitability through higher margins.

In addition, McDonald's operates in the following business segments: the US, International Operated Markets (IOM) and International Developmental Licensed Markets & Corporate (IDL). The largest market is the US, with 33.4% of total restaurants, 40.6% of total sales and a franchise rate of 94.8%.

The IOM market encompasses 20 markets, including Australia, Canada, France, Germany and the UK, and accounts for 25.1% of total restaurants, 48.2% of total sales and a franchise rate of 89.1%. The IDL segment covers over 75 markets, including Brazil, China and Japan, with 41.5% of all stores, the highest franchise rate at 98.1%, but only 9.8% of total sales.

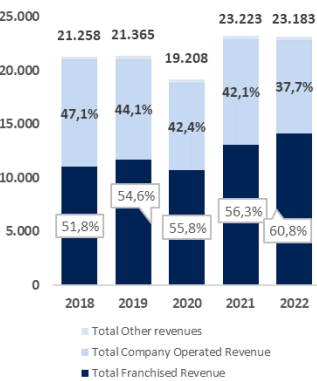


Exhibit 1: Revenue Split (\$m)

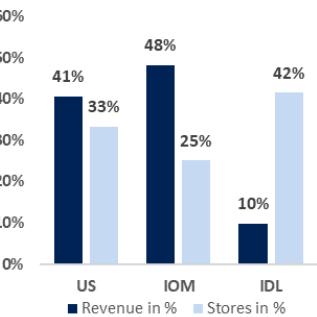


Exhibit 2: Revenue and Store count in % 2022 Split (\$m)

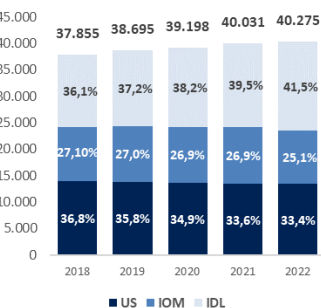


Exhibit 3: Store Count

¹ Unless otherwise indicated, all information presented in this document is sourced from McDonald's Annual Reports

² Source: Shareholder Engagement Slides 2022

Competitive Advantages

The company's ability to achieve higher sales and profit margins than its competitors, as shown in exhibit 4, is evidence of its excellent market position. Its remarkable and sustained success is based on several key competitive advantages. First, its globally recognised and iconic brand, valued at USD 196.5 bn. in 2022 (most valuable fast food brand)³, gives it a dominant global market presence, largely due to its highly successful and widely recognised marketing campaigns such as "I'm Lovin' it" in 2003, its globally recognised corporate logo, the Golden Arches, and its global reach. The company's size provides significant cost advantages through economies of scale and real estate, resulting in stable revenues that allow the company to manage its global operations. In addition, its highly efficient supply chain ensures smooth sourcing and delivery of ingredients, which reduces operating costs. Finally, and perhaps most importantly, the company's exceptional ability to innovate and adapt the menu to local and changing consumer preferences, while maintaining quality around the world, contributes to its continued success and customer loyalty. In addition, the ability to remain relevant and ahead of the market since its inception.

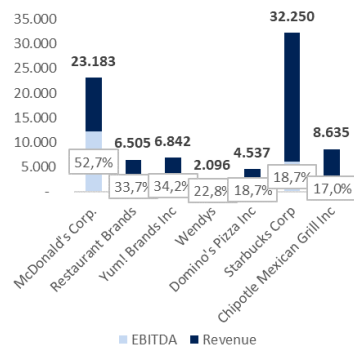


Exhibit 4: Revenue and EBITDA-Margin 2022

Growth Strategy

Since 2019, Chris Kempczinski has been the CEO of McDonald's driving the company's growth strategy, "Accelerating the Arches," which continues to serve as the foundation for revenue growth, enhanced customer engagement, and increased profitability. Anchored in the company's core identity, known as **MCD**, this growth strategy leverages historical strengths and identifies new opportunities. As part of this strategy, the company is committed to:

Maximise its marketing: Investing in new, culturally relevant approaches, such as the Famous McDonald's app, to effectively communicate the brand's story, food products and corporate purpose.

Focus on the essentials: Focus on the top 10 products, which account for approximately 70% of food sales and remain key growth drivers due to their popularity and profitability. In addition, expand the chicken offering, as this category is growing faster than beef.

Double Down on the 4 D's (Digital, Delivery, Drive Thru, Restaurant Development): These are the key areas where McDonald's is focusing its efforts to improve the customer experience and grow its business. These pillars include initiatives such as the development of a comprehensive digital experience engine, the expansion of delivery, the optimisation and expansion of drive-through locations and the overall expansion of restaurant locations.

Ownership structure

McDonald's Corporation (NYSE:MCD) went public in 1965 and is listed on the New York Stock Exchange (NYSE). Today, one share trades at \$291.42 (13.12.23), giving it a market capitalisation of \$211.4 bn. As a result of its substantial market capitalisation and consistent

“Accelerating the Arches”: Marketing, Focus on the Core & 4 D's

Concentration	Investors	% O/S
All	32	70,8%
Top 10	767	27,9%
Top 20	4	34,6%
Top 50	5.247	45,2%
Top 100	3.256	53,2%

Exhibit 5: Holding Concentration among top investors

³ Source: Statista, 2023

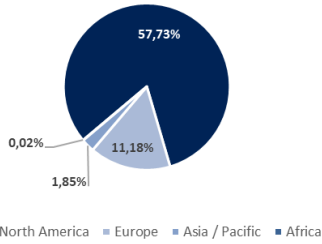


Exhibit 6: Geographical Distribution of McDonald's Institutional Investors

performance, McDonald's is an integral part of several major stock market indices, including the Dow Jones Industrial Average, the S&P 500 and the Russell 1000.

The majority of McDonald's shares are held by institutional investors, who account for 70.8% of ownership⁴. Of these institutional investors, 66.7% are primarily traditional investment managers and investment banks. The top three investors are The Vanguard Group (9.4%), BlackRock Inc (4.8%) and State Street Global Advisors, Inc (4.6%). Insiders hold a modest 0.2% of the shares. Geographically, institutional investors are mainly located in the United States (55.6%), UK (4.2%), Canada (2.1%) and Norway (1.3%).

This significant institutional ownership contributes to lower share turnover, resulting in reduced share price volatility and a long-term focus. Exhibit 7 shows that McDonald's has the lowest annualised volatility among its peers, based on a decade of monthly data. This trend underscores the robust and resilient nature of McDonald's business model, which has consistently withstood various economic challenges and uncertainties.

Company Index	Annualized Volatility
McDonald's	16,5%
Starbucks Corp	22,8%
Domino's Pizza Inc	28,2%
Yum! Brands Inc	23,0%
Restaurant Brands International	27,1%
Chipotle Mexican Grill Inc	32,8%
Wendys Co	25,3%

Exhibit 7: Annualized Volatility Peers

Leadership Team

As of 31 December 2022, the McDonald's management team consists of 14 Board members, 4 of whom are women. The average age is 54.8 years and the average length of service is 14 years, although it should be noted that 4 members joined in 2022 and a further 7 members have been with the company for over 20 years. The average tenure of the entire Board can be used as an indicator of the stability and experience of the management team. McDonald's is led by CEO Chris Kempczinski, who took over the role on 01 November 2019. Kempczinski joined McDonald's in 2015 and has more than 25 years of professional experience at relevant companies such as Procter & Gamble, PepsiCo, Kraft Foods and strategy consultancy Boston Consulting Group.⁵

Overall, McDonald's Leadership Team is strategically aligned to guide the company towards enduring prosperity and sustainable success. The composition of the Board reflects a judicious blend of expertise and diversity, crucial for steering the company in an ever-evolving business landscape.

Stock Performance

Comparing MCD's historical share price performance to various key indices, we see that McDonald's has slightly outperformed the market. Over this period, MCD generated an annualised return of 15,2%, outperforming the MSCI World, S&P 500 and Dow Jones, which returned 6.4%, 12,4% and 13,5% respectively.

McDonald's Leadership Team: Diversity, Stability and Long-Term Expertise

⁴ Source: Refinitiv, Retrieved 23.11.2023

⁵ Source: McDonald's Corp. Corporate Website, Annual Report



Exhibit 8: MCD stock performance against selected Indices

The fact that its annualised volatility is not significantly higher than that of the indices suggests that it has delivered consistent returns with relatively moderate risk.

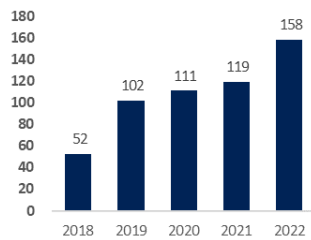


Exhibit 9: Cumulative Share Buybacks (\$m.)

McDonald's is known as a "dividend aristocrat" for its consistent returns to shareholders. The company's impressive track record includes 46 consecutive years of paying dividends on its common stock, with annual increases. In FY22, the payout ratio was 67.5%. However, McDonald's commitment to shareholder returns extends beyond dividends and includes a substantial share repurchase program, which has resulted in a -4.7% reduction in shares outstanding between 2018 and 2022. The most recent share repurchase program was approved by the Board of Directors in December 2019, authorizing the repurchase of up to \$15 bn. of the company's outstanding shares with no predetermined expiration date. This program was temporarily suspended in 2020 due to the COVID-19 pandemic, but resumed in September 2021.⁶ Shares were reduced primarily through the use of excess cash, an increase in refranchising (the conversion of company-owned restaurants to franchises), and the issuance of long-term debt, which increased by 15.5% from 2018 to 2022, taking advantage of prevailing low interest rates.

In millions, except per share data	2018	2019	2020	2021	2022
Number of shares repurchased	32,2	25	4,3	3,4	15,8
Shares outstanding at year end	767	746	745	745	731
Dividends declared per share	4,19	4,73	5,04	5,25	5,66
Treasury stock purchase (in Shareholders equity)	5.247	4.980	874	846	3.896
Dividends paid	3.256	3.582	3.753	3.919	4.168
Total return to shareholders	8.503	8.562	4.627	4.765	8.064
Payout Ratio	54,96%	59,45%	79,33%	51,94%	67,47%

Exhibit 10: Total Shareholder Return

It's worth noting that McDonald's is not alone in this practice; industry competitors such as Restaurant Brands International have also initiated significant share repurchase programmes. Share buybacks are an effective way to increase profitability on an earnings per share basis. However, the use of debt to fund buybacks is a critical decision, as it takes advantage of low interest rates while carrying inherent risks, such as the potential for financial distress.

⁶ Source: Reuters, 2021

Financial analysis

To determine McDonald's financial health, an in-depth review of the company's financial records, liquidity measures and capital structure over the past five years is undertaken.

From 2018 to 2022, McDonald's revenue was observed to grow at a compound annual growth rate (CAGR) of 1.7%, a rate significantly lower than its industry peers. This low growth rate was largely due to a decline in company-operated sales (COR) with a CAGR of -2.7%, while franchisee-operated sales (FOR) recorded an upward trend with an increase of +5.1%. An analysis of revenue trends shows declines of 6.3% and 10.1% in 2018 and 2020, respectively. The 2018 decline was largely related to a decline of 20.9% in COR due to strategic restructuring. In contrast, the decline in 2020 was attributed to the impact of the Corona pandemic and related temporary closures in IOM markets. However, a rebound in growth of around 20.9% was observed in 2021. A slight decline of 0.2% was observed in 2022, mainly due to the geopolitical situation with permanent restaurant closures in Russia and temporary closures in Ukraine. Looking at the historical growth rates of MCD by geographical segment, the US market showed the highest CAGR of 4.2%, closely followed by the IDL segment with a CAGR of 4.1%. In contrast, the IOM segment experienced a contraction with a negative CAGR of -0.6%, mainly due to challenges in the Russian market.

An analysis of McDonald's financial performance highlights a marked improvement in the EBITDA margin, which rose from 47.6% to 52.7% during the analysed period. This increase is primarily due to the company's focused refranchising initiatives. In 2018, franchise sales accounted for 51.8% of total revenue, while by 2022, franchise revenue increased significantly to 60.8%. Simultaneously, the franchising segment recorded an impressive margin of 83.3% in 2022, in contrast to the company-operated restaurants (COR) margin of 15.64%. This is also evident as COR expenses account for 31.8% of total sales in 2022, while franchisee-related expenses are only at 10.1%. The franchise segment's significantly higher profitability and lower capital requirements underlines its strategic attractiveness.

An assessment of selected balance sheet items shows relative stability over the years. However, between 2018 and 2019, assets and liabilities experienced a significant increase of approximately \$14.7 bn. This increase was attributed to the implementation of the new accounting standard ASC 842, which requires the recognition of most leases on the balance sheet. Additionally, there was a notable 284% increase in cash and cash equivalents (C&CE) in 2020 owing to reduced capital expenditure and fewer share buybacks, coupled with the sale of McDonald's Japan stock. However, in 2022, there was a decline of -45.1% in C&CE due to the resumption of share buybacks.

Standard liquidity ratios were used to analyse McDonald's liquidity. The results show a consistently strong liquidity position throughout the period. McDonald's demonstrates its ability to meet current obligations and maintain sound short-term solvency. Both the current and quick ratios are above 1, indicating the company's ability to meet current obligations without resorting to inventory liquidation. There was a slight fluctuation in the cash ratio, which increased to 0.68 due to an increase in cash and cash equivalents. This trend suggests that McDonald's has a solid basis for financing short-term liabilities, and is ahead of its competitors in terms of liquidity.

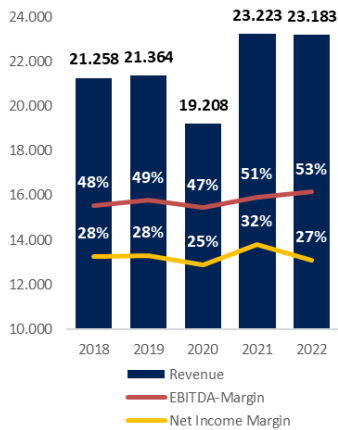


Exhibit 11: Revenue (m\$) and Margin Development

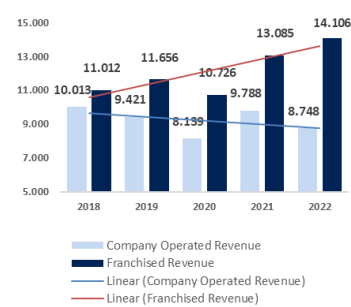


Exhibit 12: Development company-operated and franchised revenue

in million	2018	2019	2020	2021	2022
CCE	866	899	3,449	4,709	2,584
% Growth		3,8%	283,9%	36,5%	-45,1%

Exhibit 13: Development Cash and Cash Equivalents

	2018	2019	2020	2021	2022
Current ratio	1,36	0,98	1,01	1,78	1,43
Quick ratio	1,35	0,97	1,00	1,76	1,41
Cash ratio	0,29	0,25	0,56	1,17	0,68

Exhibit 14: Liquidity Ratios

	2018	2019	2020	2021	2022
Interest coverage	8,80	7,98	5,92	8,33	8,57
Debt Ratio	94,7%	71,9%	71,1%	66,2%	71,2%
Debt/EBITDA	3,07	3,23	4,18	3,03	2,94

Exhibit 15: Solvency & Capital Structure

In terms of solvency and capital structure, the debt-to-equity (D/E) ratio was considered unsuitable due to significant share buyback activity, resulting in negative equity. Consequently, the interest coverage ratio, Debt/EBITDA and leverage ratio were used for the assessment. The analysis showed that McDonald's was able to easily meet its interest obligations, with the interest coverage ratio remaining consistently above 8, with the exception of the Corona pandemic in 2020. The Debt/EBITDA ratio improved from 3.07 to 2.98 between 2018 and 2022, indicating effective debt management and EBITDA growth outpacing new debt. The debt ratio also shows a reduction from 94.7% in 2019 to 71.2% in 2022. This trend is supported by an Altman Z-score of 4.8 in 2022, indicating a low risk of bankruptcy and confirming McDonald's financial stability.

	MCD	RBI	Yum!	Wendys
Debt ratio	71,2%	58,4%	202,7%	62,6%
Interest Coverage Ratio	8,6	3,9	3,8	2,7
Debt/EBITDA	2,9	6,1	5,1	7,4
ROIC	23,4%	9,0%	60,5%	7,3%
Return on Assets	11,9%	6,4%	22,4%	3,4%

Exhibit 16: Peer Comparison

Compared to its peers, McDonald's debt ratio is slightly elevated at 71,2% excluding YUM Brands and Domino's Pizza. However, McDonald's interest coverage and Debt/EBITDA ratios are significantly better, as shown in exhibit 16.

An analysis of McDonald's financial performance shows a decline in return on assets from 18.0% in 2018 to 11.9% in 2022, and a decline in asset turnover from 0.64 in 2018 to 0.44 in 2022, suggesting potential for operational efficiency improvements. Nevertheless, McDonald's maintains a relatively high return on invested capital (ROIC) of around 23.4% in 2022, indicating efficient capital utilisation and value creation for investors. While McDonald's profitability outperforms its peers, there is room for improvement in asset utilisation efficiency compared to Yum! Brands Inc.

	2018	2019	2020	2021	2022
ROIC	26,1%	27,1%	20,4%	28,1%	23,4%
Return on Assets	18,0%	15,2%	9,5%	14,2%	11,9%
Asset Turnover	0,64	0,53	0,38	0,44	0,44

Exhibit 17: Return Ratio

The financial analysis of McDonald's from the previous five years exhibits a firm with solid liquidity, effective debt management and strong profit margins, which position it favourably relative to its peers. Although it faces difficulties in sales growth and asset utilisation efficiency, McDonald's demonstrates financial stability and potential for further strategic development.

Valuation

WACC

The future cash flows of McDonald's were discounted to derive a fair value for the company using the weighted average cost of capital (WACC). This metric is influenced by the company's capital structure, cost of equity as well as its cost of debt. Given the implications of these variables on the valuation, each was approached with precision, as detailed below.

Capital Structure

In the context of aligning McDonald's capital structure with its long-term strategic objectives, a critical analysis of its financial position was conducted. From 2018 to 2022, a significant increase of 15.5% in the company's debt was observed. At the same time, McDonald's engaged in strategic share buybacks, resulting in a negative book equity position. In the absence of explicit disclosure from management regarding the target capital structure, the analysis concentrated on evaluating the business's present and past debt-to-equity ratio (D/EV). The data for 2022 indicates a ratio of 15.9% which is notably less than the industry median of 25.0% and also lower than MCD's historical ratios from 2018 to 2022. As we anticipate that McDonald's will not increase its mounting debt to the same extent as before due to a higher interest rate environment, we have set a target

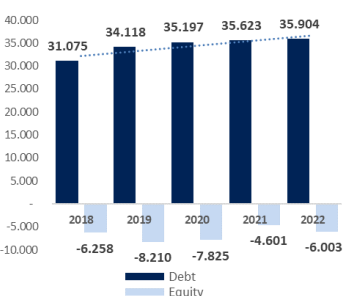


Exhibit 18: Development Equity and Debt (\$m)

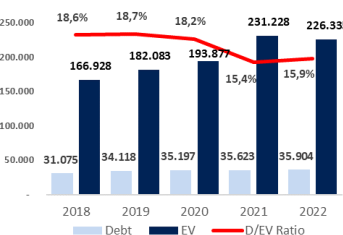


Exhibit 19: Historical D/EV

D/EV ratio of 14.0%, which seems very reasonable after gaining insights from a comprehensive sensitivity analysis and review of capital structure benchmarks.

WACC Inputs	
Risk-free rate	4,31%
MRP	5,00%
Levered Beta	0,66
Cost of Equity	7,61%
Cost of Debt	5,36%
Tax Rate	22,08%
Debt to EV ratio	14,00%
Equity to EV ratio	86,00%
Target Debt to Equity	16,28%
WACC	7,13%

Exhibit 20: WACC Inputs

- Cost of Equity

The Capital Asset Pricing Model (CAPM) was employed to derive the cost of equity. The selected risk-free interest rate was identified as a 10-year U.S. Treasury bill, reflecting a rate of 4.31%. This selection was influenced by McDonald's strong U.S. operations and the general acceptance of U.S. Treasury bonds as a reliable risk-free rate, with the maturity of the chosen bond aligning with the forecast horizon. For the market risk premium, a figure of a 5.0% US market risk premium was sourced from Professor Damodaran's research. This choice was made to ensure alignment with standard practices in investment banking, which frequently rely on his estimates.

Two methodologies were employed for Beta (β) determination. First, beta was measured using the covariance between McDonald's return and the MSCI World, with the MSCI being used as a proxy for the market. MSCI World was chosen over the S&P 500 because McDonald's operates in more than 100 countries and has relevant sales outside the U.S. Beta was calculated using data sets spanning 3, 5 and 10 years, analysed using both monthly and weekly data. This extensive analysis was selected to reduce biases associated with shorter timeframes and certain days of the week, resulting in a more reliable representation of the movement of McDonald's stock over time.

The second approach involved comparing McDonald's beta to the average unlevered beta of its peers. Using projected 5-year and 3-year betas and relevant financial figures, the peer group's average unlevered beta was discerned and then relevered using McDonald's target capital structure and marginal tax rate. By averaging the results from both the initial method and the second comparative approach, the combined leveraged beta for McDonald's was determined to be 0.66. This resulted in an imputed cost of equity of 7.61%.

- Cost of Debt

To ascertain McDonald's long-term cost of debt, the market values of the five most recent bond issuances in the U.S. between 2022 and 2023 were analysed. By weighting these against the outstanding sum of each bond, an overarching weighted YTM was derived. The subsequent cost of debt was calculated by factoring in a default rate of 67.10%, which was sourced from Bloomberg, and a default probability of 0.03%, which was sourced from Refinitiv. This led to an expected cost of debt of 5.36%, and a cost of debt after tax of 4.17%.

Using the projected costs of equity and debt with a five-year average effective tax rate of 22.08%, the WACC was determined to be 7.13%.

ROIC and Long-Term Growth Rate

In evaluating McDonald's capital efficiency, the focus is on the Return on Invested Capital (ROIC). Over five years, McDonald's ROIC rose from 26.6% to 29.4%, despite a dip in 2020 due to the COVID-19 pandemic. Consistently surpassing its WACC, McDonald's demonstrates effective operational performance and strategic capital allocation. Comparative analysis with competitors like Restaurant Brands International (RBI) and Wendy's shows McDonald's strong position,

Multiples	Betas
Levered Beta Multiple 3 Years	0,60
Levered Beta Multiple 5 Years	0,72
Regression:	
3 years weekly	0,62
5 years weekly	0,77
10 years weekly	0,71
3 years monthly	0,60
5 years monthly	0,64
10 years monthly	0,63

Exhibit 21: Calculated Levered Betas

	2018	2019	2020	2021	2022
ROIC	26,1%	27,1%	20,4%	28,1%	23,4%

Exhibit 22: Peer ROIC Comparison

although it trails behind YUM! Brands' ROIC of 60.5% as exhibit 4 shows in 2022. The improvement of ROIC is driven by McDonald's refranchising strategy and the resulting improvement in margins, while CAPEX remain stable. With ongoing refranchising and investment in areas like digitalization, McDonald's ROIC is projected to reach 44.7% by 2033.

A cautious but informed methodology was used to assess McDonald's terminal value growth rate. This considered the company's strong market presence, expansion opportunities in emerging markets and possible saturation in developed areas. Three rates were evaluated: an effective revenue-weighted inflation rate of 2.3%, which reflects McDonald's pricing power in line with inflation; a sustainable growth rate of 5.6%, calculated by multiplying operating ROIC by the retention rate, which reflects the company's efficiency in reinvesting retained earnings; and the long-term world GDP growth rate of 2.4% projected for 2031-2034. This approach ensures a balanced and realistic view of McDonald's growth potential, taking into account both internal financial strategies and external economic indicators.

Discounted-Cashflow-Model

McDonald's Corporation (MCD) was valued using the discounted cash flow (DCF) method, reflecting its widespread acceptance as a robust valuation technique. The projection period was split into two distinct forecast periods: the first from 2023 to 2030 followed by the second from 2031 to 2033, in order to better facilitate the transition towards a stable steady state. The enterprise value of MCD as of 31 December 2024 was then adjusted by deducting net debt, resulting in an equity value of \$261.9 bn. This translates into a per share valuation of \$308.4, based on the current number of shares outstanding. An Adjusted Present Value (APV) approach was utilized to confirm the DCF valuation. The APV method resulted in a marginal variance with a share price estimate of \$309.0. The difference in share prices calculated from the DCF and APV methods is only 0.2%. This highlights the need to take into account the varying evaluations of the tax shield that are inherent to each approach.

Sensitivity Analysis

In order to assess the robustness of the valuation of McDonald's, a comprehensive sensitivity analysis was performed to analyse the impact of key assumptions on the valuation. The analysis focused primarily on the WACC and the long-term growth rate, as these play an important role in the DCF valuation.

The analysis began by examining the impact of a 0.4% increase or decrease in both the cost of debt and the cost of equity, using a detailed matrix to show their interaction and impact on valuation. The results showed a 24.0% change in WACC due to extreme shifts in the cost of equity, while similar movements in the cost of debt resulted in a variance of only 1.8%. This difference is attributed to McDonald's target debt-to-equity ratio of 16.3%, which amplifies the impact of the cost of equity.

Next, the WACC was varied between 6.13% and 8.13% to account for possible fluctuations in the market's risk assessment, resulting in an enterprise value between 213.6 bn. and 336.6 bn., while the long-term growth rate was adjusted between 1.4% and 3.4%, resulting in an EV between 229.0 bn. and 312.4 bn. This shows that while the valuation is sensitive to changes in both the

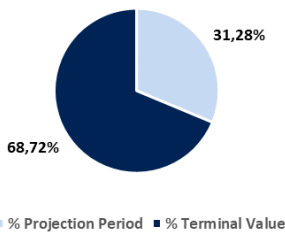


Exhibit 23: Allocation of Enterprise Value to projection period and terminal value

Sensitivity Analysis WACC		Cost of Debt				
		4,56%	4,96%	5,36%	5,76%	5,76%
Cost of Equity	6,81%	6,35%	6,40%	6,44%	6,48%	6,48%
	7,21%	6,70%	6,74%	6,78%	6,83%	6,83%
	7,61%	7,04%	7,09%	7,13%	7,17%	7,17%
	8,01%	7,39%	7,43%	7,47%	7,52%	7,52%
	8,41%	7,96%	7,99%	7,99%	8,01%	8,01%

Exhibit 24: Sensitivity Analysis WACC

Sensitivity Analysis Enterprise Value		WACC				
		6,13%	6,63%	7,13%	7,63%	8,13%
Terminal Growth Rate	1,40%	281.626	252.751	229.004	209.145	192.302
	1,90%	305.847	271.529	243.865	221.108	202.071
	2,40%	336.563	294.747	261.868	235.359	213.545
	2,90%	376.793	324.191	284.129	252.623	227.214
	3,40%	431.766	362.755	312.359	273.970	243.773

Exhibit 25: Sensitivity Analysis Enterprise Value

WACC and the long-term growth rate, it is more sensitive to adjustments in the right WACC. This result underlines the importance of an accurate estimation of the cost of capital in the valuation of MCD.

Exhibit 26 analyses how rising interest rates impact equity cost and WACC, especially with recent central bank rate hikes. It shows that small changes in the risk-free rate, like a 0.5% increase, significantly affect the cost of capital. This underscores the importance of interest rate fluctuations in financial modelling and corporate valuation.

Finally, the sensitivity analysis was extended to include changes in the terminal growth rate in order to measure the resulting changes in the share price. As exhibit 44 shows, the company's valuation is highly sensitive to changes in growth rates.

Risk-free rate	3,31%	3,81%	4,31%	4,81%	5,31%
Cost of Equity	6,61%	7,11%	7,61%	8,11%	8,61%
WACC	6,27%	6,70%	7,13%	7,56%	7,99%

Exhibit 26: Sensitivity Analysis risk-free rate

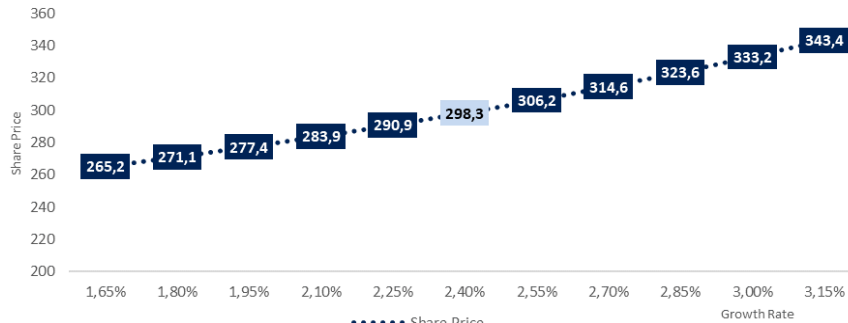


Exhibit 27: Sensitivity Analysis relative to growth rate

The sensitivity analysis conducted confirms MCD's position for stable growth. However, anticipated fluctuations in discount rates and growth prospects may cause considerable changes in valuation and impact investment decisions. Continuously monitoring market conditions is advised to arrive at an accurate assessment of MCD's fundamental value.

Comparables

In this section, the trading comparables methodology was used to value McDonald's. Firstly, competitors were identified based on their business model, geographical coverage, enterprise value, sales growth and profitability. The peers that were selected, as previously mentioned, included Yum! Brands, Wendy's, Starbucks, Domino's Pizza, Chipotle Mexican Grill, and Restaurant Brands International to provide a comparative valuation of MCD.

	EV/Sales	EV/EBITDA	EV/EBIT	P/E
YUM.N	6,7	19,4	21,0	23,9
WEN.OQ	3,5	14,3	19,6	19,0
SBUX.OQ	3,2	16,7	21,1	28,8
DPZ.N	3,8	19,2	21,1	26,1
CMG.N	3,9	20,5	24,6	49,0
QSR	4,9	14,6	15,9	21,3
Median	3,9	17,9	21,1	25,0
MCD	9,0	16,8	19,7	23,0

Exhibit 28: Peer Multiples Comparison

As exhibit 28 shows, MCD is slightly below the peer median for all ratios except EV/Sales. For EV/Sales, MCD has a significantly higher value of 9.0 compared to the peer median of 3.9. This discrepancy suggests that the market has a higher perception of McDonald's sales than its peers, possibly due to its stronger brand recognition and global presence. However, the EV/EBITDA, EV/EBIT, and P/E ratios suggest a relative undervaluation in terms of earnings potential and profitability. This juxtaposition may suggest that while McDonald's is recognised for its size and sales volume, there are concerns or lower expectations about its future growth and earnings efficiency compared to its peers.

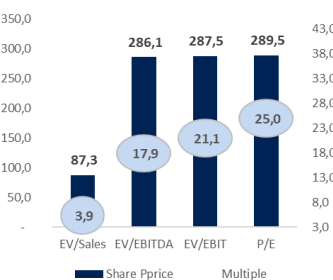


Exhibit 29: Multiple Overview

Looking at exhibit 29, all metrics except the EV/Sales ratio suggest a median share price range of \$286.1 to \$289.5, indicating that MCD's valuation is largely in line with its current share price of \$291.42 (13.12.23) and a 52-week range of \$245.7 to \$299.4. Considering this discrepancy between CCA's suggested prices and the actual market price, it appears that McDonald's is now

appropriately valued or even slightly overvalued. This adjustment in valuation might prompt a revaluation among investors, especially those with a keen eye on risk assessment and market trends. It could lead to a cautious approach towards investing in McDonald's, with a focus on monitoring the company's strategic initiatives and market responses to ensure continued alignment with its valuation. Such an outlook could temper expectations for rapid growth but reinforce confidence in the company's resilience and long-term market position.

Nevertheless, it is important to recognise the inherent complexities of directly comparing McDonald's to its selected peers as all peers differ in size, business model and geographical reach. Given its status as a market leader with a significant competitive moat and the highest market capitalisation in its peer group, McDonald's unique position makes direct comparisons challenging. This highlights the nature of relative valuation through trading comparables, which, while insightful, need to be contextualised within broader market and operational dynamics.

Key Risks

After conducting a thorough valuation and analysis of McDonald's, it is imperative to examine the potential risks the company may encounter, in order to provide a comprehensive and coherent analysis. This section outlines the primary risks, evaluating their probability and economic impact to provide a well-rounded perspective for an accurate assessment of the company's future prospects.

Strategic Execution Risk

Central to McDonald's profitability is the execution of its strategic plan, 'Accelerating the Arches'. This plan, with a medium probability of risk but high economic impact, relies on McDonald's ability to adapt to changing consumer preferences, particularly in digital, environmental, and social responsibility areas. The company's initiatives, like the 2020 introduction of the 'McPlant' burger, signify its response to evolving market demands. However, failure to effectively navigate these trends could result in significant financial setbacks.

Competitive Landscape

Operating in the highly competitive Informal Eating Out (IEO) sector, McDonald's faces a variety of competitors, from quick-service restaurants to local food providers. This scenario, posing a high probability of risk with medium economic impact, requires McDonald's to continuously innovate and adapt to maintain its market position amidst shifting consumer preferences, intense price competition as well as periods of market consolidation.

Geopolitical and operational Risks

McDonald's global presence across over 100 countries introduces complex geopolitical and operational risks. These risks, with a low probability but high economic impact, stem from diverse cultural, regulatory, and economic environments. Issues like the Israel conflict⁷ and the 2023 strikes in Italy⁸ highlight the challenges in maintaining brand integrity and operational efficiency amidst political unrest and labour disputes.

⁷ Source: CNN, 2023

⁸ Source: Business Insider, 2023

Legal and Regulatory Risk

McDonald's faces significant risks related to international laws and regulations in areas such as food safety and marketing practices. With a high probability and economic impact, these risks demand ongoing compliance efforts, exemplified by legal disputes over promotional practices.

Debt & Currency Risks

McDonald's global footprint subjects it to a variety of economic risks, notably currency fluctuations and inflation. With 38% of its debt held in foreign currencies and 57.9% of its 2022 sales occurring outside the U.S., the company faces considerable exposure to changes in exchange rates. This exposure is compounded by McDonald's substantial long-term debt with about \$6.9 bn. due within the next two years. Such a debt structure makes McDonald's particularly sensitive to interest rate variations, which could adversely affect its debt servicing capacity, credit ratings, and overall financial health.

Risk Category	Probability	Economic Impact
Strategic Execution	Medium	High
Competitive Landscape	High	Medium
Geopolitical Factors	Low	High
Labor and Supply Chain	Medium	Medium
Regulatory Compliance	High	High
Debt & Currency Risk	High	High
Financial Leverage	Medium	High

In conclusion, McDonald's navigates a complex landscape of risks requiring strategic foresight and robust risk management. Exhibit 30 provides a summarized risk assessment, emphasizing the importance of understanding these risks for a comprehensive evaluation of McDonald's prospects in the dynamic global fast-food industry.

Exhibit 30: Risk Assessment - Probability and Economic Impact Analysis

Recommendation

Based on the comprehensive valuation analysis presented in this equity research report, our recommendation is to **HOLD** McDonald's stock based on an analysis of its financial performance, market position, and future outlook. Our analysis projects a share price of \$304.35 for MCD by 31 December 2024. To value MCD's shares, we utilize a weighted average approach, with 80% allocated to cash flow-based valuations (DCF and APV), and 20% to multiple valuations. The rationale for implementing these precise weightings is rooted in the proposition that valuations based on cash flow, because of their direct emphasis on the company's operational efficiency and ability to generate earnings, are considered to be more reflective of McDonald's intrinsic value. Meanwhile, multiples provide a market-based perspective, justifying a lesser but still significant weightage.

The EV/Sales multiple has been excluded from these calculations due to its marked divergence from other valuation metrics, and as a significant outlier. As of 13th December 2023, MCD's closing stock price was \$291.42, marking a 4.4% deviation below our determined price target. This notable discrepancy suggests a potential for stock appreciation, guiding our recommendation to hold MCD shares. The proximity of our price target to the current market price indicates a market perception of McDonald's that aligns closely with our analysis.

Our valuation methodology and projections take into account McDonald's robust brand equity, unique market standing, extensive global footprint, and an increasing share of franchised operations anticipated to boost margins. Furthermore, the projected rise in sales and expansion of store networks are integral to our assessment. Our confidence in McDonald's lies in its proven ability to adapt to evolving macroeconomic conditions. The company's agility in responding to global market trends, strategic emphasis on digital integration, and ongoing expansion in both established and developing markets are factors we believe will continue to drive its growth path.

Recommendation - HOLD

Our Target Share Price for MCD is \$304.35 – 4.4% above the current share price

Valuation Summary - Range of implied share prices

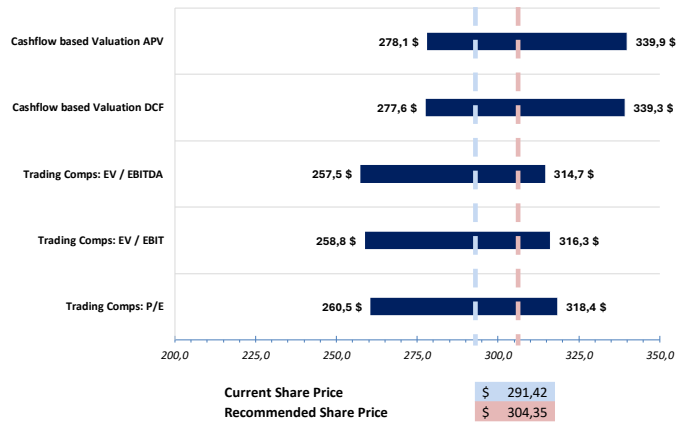


Exhibit 31: Football Chart – Valuation Summary

Appendix

Financial Statements

Income Statement for McDonald's Corp.

Year ended December 31 (\$, in millions)	Historical Period					Projection Period							Steady State			
	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023E	FY2024F	FY2025F	FY2026F	FY2027F	FY2028F	FY2029F	FY2030F	FY2031F	FY2032F	FY2033F
Forecast Income Statement																
Operating Activities																
Revenues	21,257.9	21,364.4	19,207.8	23,222.9	23,182.6	25,091.8	27,118.3	29,469.6	32,007.0	34,781.7	37,896.4	41,096.9	44,672.3	46,312.9	48,337.2	50,450.3
Sales by Company-operated restaurants	10,012.7	9,430.8	8,139.2	9,787.4	8,748.4	9,464.8	10,007.0	10,743.5	11,528.8	12,356.0	13,244.4	14,189.7	15,193.4	15,995.0	15,731.5	16,395.5
Revenues from franchised restaurants	11,012.5	11,655.7	10,726.1	13,085.4	14,105.8	15,290.1	16,747.1	18,321.5	20,048.4	21,958.6	24,054.3	26,355.3	28,879.0	30,596.1	31,956.6	33,377.3
Other Revenues	232.7	287.9	342.5	350.1	328.4	336.9	364.1	395.6	429.8	467.1	507.7	551.9	599.9	621.9	649.1	677.5
Operating cost and expenses	(10,425.3)	(10,185.0)	(9,455.7)	(10,642.7)	(9,975.4)	(10,944.7)	(11,665.4)	(12,578.7)	(13,563.3)	(14,618.8)	(15,763.1)	(16,996.5)	(18,324.5)	(18,528.2)	(19,350.4)	(20,210.4)
Company-operated restaurant expenses	(8,263.9)	(7,760.6)	(6,981.2)	(8,047.3)	(7,380.9)	(7,899.2)	(8,355.7)	(8,966.4)	(9,621.8)	(10,312.2)	(11,053.6)	(11,842.3)	(12,680.3)	(12,598.1)	(13,129.3)	(13,683.5)
Food & Paper	(3,153.8)	(2,980.3)	(2,564.2)	(3,096.8)	(2,737.3)	(2,982.7)	(3,153.6)	(3,385.6)	(3,633.1)	(3,893.8)	(4,173.8)	(4,471.8)	(4,788.0)	(4,756.9)	(4,957.5)	(5,166.8)
Payroll & employee benefits	(2,937.9)	(2,704.4)	(2,416.4)	(2,617.2)	(2,617.2)	(2,745.0)	(2,902.2)	(3,115.8)	(3,343.6)	(3,583.5)	(3,841.1)	(4,115.3)	(4,406.4)	(4,377.8)	(4,562.4)	(4,755.0)
Occupancy & other operating expenses	(2,174.2)	(2,075.9)	(2,000.6)	(2,773.3)	(2,026.2)	(2,171.5)	(2,295.9)	(2,464.9)	(2,645.1)	(2,834.9)	(3,038.7)	(3,255.6)	(3,485.9)	(3,463.3)	(3,609.3)	(3,761.7)
Other restaurant expenses	(186.1)	(213.8)	(267.0)	(240.4)	(244.6)	(275.5)	(297.8)	(323.5)	(351.5)	(381.9)	(415.3)	(451.3)	(490.9)	(508.5)	(530.8)	(554.0)
Franchised restaurants-occupancy expenses	(1,973.3)	(2,200.6)	(2,207.5)	(2,335.0)	(2,349.7)	(2,770.0)	(3,015.9)	(3,288.8)	(3,590.0)	(3,924.7)	(4,294.4)	(4,702.8)	(5,153.7)	(5,421.6)	(5,690.3)	(5,973.0)
Gross Profit	10,832.6	11,179.4	9,752.1	12,580.2	13,207.2	14,147.1	15,452.9	16,882.0	18,443.8	20,162.8	22,043.3	24,100.3	26,347.8	27,784.7	28,986.9	30,239.8
Selling, general & administrative expenses	(1,985.4)	(1,966.9)	(2,245.0)	(2,377.8)	(2,492.2)	(2,763.5)	(3,008.8)	(3,281.1)	(3,581.5)	(3,915.5)	(4,284.3)	(4,691.7)	(5,141.6)	(5,408.9)	(5,676.9)	(5,959.0)
Other operating (income) expense, net	456.6	281.3	140.7	273.0	173.0	269.0	293.3	320.2	349.6	381.9	417.3	456.1	498.5	524.7	547.9	572.1
Gains on sales of restaurant businesses	304.1	127.5	23.3	96.0	59.8	87.2	94.2	102.3	111.2	120.8	131.3	142.8	155.2	160.9	167.9	175.2
Equity in earnings of unconsolidated affiliates	151.5	153.8	117.4	177.0	113.2	181.8	199.1	217.8	238.4	261.1	286.0	313.4	343.4	363.8	380.0	396.9
EBITDA	9,302.8	9,493.8	7,647.8	10,475.4	10,888.0	11,652.6	12,737.4	13,921.1	15,211.8	16,629.2	18,176.3	19,864.7	21,704.7	22,900.5	23,857.8	24,853.0
Depreciation and amortization	(214.8)	(262.5)	(300.6)	(329.7)	(370.4)	(439.5)	(489.1)	(542.4)	(599.8)	(661.9)	(707.6)	(763.3)	(811.1)	(868.6)	(917.4)	(974.1)
Operating Income before Taxes (EBIT)	9,088.0	9,231.3	7,347.2	10,145.7	10,517.6	11,213.0	12,248.3	13,378.7	14,612.0	15,967.3	17,568.7	19,231.5	21,043.6	22,211.9	23,140.5	24,105.9
Notional Taxes	(1,908.5)	(1,938.6)	(1,542.9)	(2,130.6)	(2,208.7)	(2,354.7)	(2,571.1)	(2,809.5)	(3,068.5)	(3,353.1)	(3,689.4)	(4,038.6)	(4,419.2)	(4,664.5)	(4,859.5)	(5,062.2)
Tax Adjustments	(291.2)	(355.6)	(144.4)	371.4	(6.3)	(121.5)	(132.8)	(145.0)	(158.4)	(173.1)	(190.4)	(208.5)	(228.1)	(240.8)	(250.8)	(261.3)
NOPLAT	6,888.4	6,937.1	5,659.9	8,386.5	8,302.6	8,736.7	9,543.4	10,424.2	11,385.1	12,441.1	13,688.8	14,984.4	16,396.3	17,306.7	18,030.1	18,782.3
Non-Operating Activities																
Other operating (income) expense, net	(33.7)	(87.2)	(290.7)	(75.0)	(1,146.8)	(150.2)	(162.3)	(176.4)	(191.6)	(208.2)	(226.3)	(246.0)	(267.4)	(277.2)	(289.4)	(302.0)
pre-tax charges related to the sale of the Company's business in Russia	-	-	-	-	(1,281.0)	-	-	-	-	-	-	-	-	-	-	-
pre-tax gain related to the Company's sale of its Dynamic Yield business	-	-	-	-	271.0	-	-	-	-	-	-	-	-	-	-	-
Asset Disposition & Other Expenses	(33.7)	(87.2)	(290.7)	(75.0)	(1,146.8)	(150.2)	(162.3)	(176.4)	(191.6)	(208.2)	(226.3)	(246.0)	(267.4)	(277.2)	(289.4)	(302.0)
Impairment and other charges(gains),net	(231.7)	(74.3)	267.5	285.0	(136.8)	-	-	-	-	-	-	-	-	-	-	-
Other operating (income) expense, net - Balancing value	-	-	-	0.3	0.2	-	-	-	-	-	-	-	-	-	-	-
Non operating (income) expense, net	-	-	-	-	(517.0)	-	-	-	-	-	-	-	-	-	-	-
Non-Operating Income Before Taxes	(265.4)	(161.5)	(23.2)	210.3	(1,663.6)	(150.2)	(162.3)	(176.4)	(191.6)	(208.2)	(226.3)	(246.0)	(267.4)	(277.2)	(289.4)	(302.0)
Notional Taxes	55.7	33.9	4.9	(44.2)	349.4	31.5	34.1	37.0	40.2	43.7	47.5	51.7	56.2	58.2	60.8	63.4
Tax Adjustments	8.5	6.2	0.5	7.7	1.0	1.6	1.8	1.9	2.1	2.3	2.5	2.7	2.9	3.0	3.1	3.3
Non-Operating Income After Taxes (before OCI)	(201.2)	(121.4)	(17.9)	173.8	(1,313.3)	(117.0)	(126.5)	(137.4)	(149.3)	(162.2)	(176.3)	(191.7)	(208.4)	(216.0)	(225.5)	(235.3)
Other Comprehensive Income	(431.1)	126.8	(104.1)	13.1	87.1	(117.0)	(126.5)	(137.4)	(149.3)	(162.2)	(176.3)	(191.7)	(208.4)	(216.0)	(225.5)	(235.3)
Non-Operating Income After Taxes (after OCI)	(632.3)	5.4	(122.0)	186.9	(1,226.2)	(117.0)	(126.5)	(137.4)	(149.3)	(162.2)	(176.3)	(191.7)	(208.4)	(216.0)	(225.5)	(235.3)
Financing Activities																
Interest expenses	(981.2)	(1,121.9)	(1,218.1)	(1,185.8)	(1,207.0)	(1,366.5)	(1,427.7)	(1,489.2)	(1,550.4)	(1,610.4)	(1,668.9)	(1,709.4)	(1,749.0)	(1,788.5)	(1,827.4)	(1,867.2)
Nonoperating (income) expense, net	(25.3)	70.2	34.8	(42.3)	178.4	48.4	50.1	51.8	53.4	55.0	56.4	57.8	59.2	60.5	61.8	63.1
Financial Result before Taxes	(1,006.5)	(1,051.7)	(1,183.3)	(1,228.1)	(1,028.6)	(1,318.0)	(1,377.6)	(1,437.4)	(1,496.9)	(1,555.4)	(1,612.5)	(1,651.6)	(1,689.9)	(1,728.0)	(1,765.6)	(1,804.0)
Notional Taxes	211.4	220.9	248.5	257.9	216.0	276.8	289.3	301.9	314.4	326.6	338.6	346.8	354.9	362.9	370.8	378.8
Tax Adjustments	32.2	40.5	23.2	(45.0)	0.6	14.3	14.9	15.6	16.2	16.9	17.5	17.9	18.3	18.7	19.1	19.6
Financial Result after Taxes	(762.9)	(790.3)	(911.6)	(1,015.2)	(812.0)	(1,026.9)	(1,073.3)	(1,120.0)	(1,166.4)	(1,211.9)	(1,256.4)	(1,286.9)	(1,316.7)	(1,346.4)	(1,375.7)	(1,405.6)
Total Comprehensive Income for the Year (excluding OCI)	5,924.3	6,025.4	4,730.5	7,545.2	6,177.4	7,592.8	8,343.6	9,166.8	10,069.4	11,066.9	12,256.1	13,505.8	14,871.3	15,744.2	16,429.0	17,141.4
Total Comprehensive Income for the Year (including OCI)	5,493.2	6,152.2	4,626.4	7,558.3	6,264.5	7,592.8	8,343.6	9,166.8	10,069.4	11,066.9	12,256.1	13,505.8	14,871.3	15,744.2	16,429.0	17,141.4

Cashflow Statement

Year ended December 31 (\$, in millions)	Historical Period					Projection Period							Steady State			
	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023E	FY2024F	FY2025F	FY2026F	FY2027F	FY2028F	FY2029F	FY2030F	FY2031F	FY2032F	FY2033F
Free Cashflow																
Cashflow																
NOPLAT	6,888.4	6,937.1	5,659.9	8,386.5	8,302.6	8,736.7	9,543.4	10,424.2	11,385.1	12,441.1	13,688.8	14,984.4	16,396.3	17,306.7	18,030.1	18,782.3
Depreciation & Amortization	214.8	262.5	300.6	329.7	370.4	439.5	489.1	542.4	599.8	661.9	707.6	763.3	811.1	868.6	917.4	974.1
Gross Cash Flow	7,103.2	7,199.6	5,960.5	8,716.2	8,673.0	9,176.3	10,032.5	10,966.5	11,984.9	13,103.0	14,296.5	15,617.6	17,057.5	17,995.2	18,747.5	19,529.4
Delta in NWC	701.1	97.3	735.4	(400.0)	331.0	115.3	127.1	140.6	156.6	173.2	191.8	212.4	212.4	143.4	147.6	155.4
Delta Capex	(14,908.5)	(2,383.4)	175.8	1,630.3	(2,447.3)	(1,897.8)	(2,077.0)	(2,268.8)	(2,479.3)	(2,585.3)	(2,785.5)	(3,002.9)	(3,251.2)	(2,951.2)	(3,041.6)	(3,155.5)
Delta Goodwill	(345.9)	(95.7)	(9.4)	(117.9)	-	-	-	-	-	-	-	-	-	-	-	-
Delta Long-term lease liability	12,757.8	563.9	(300.4)	(886.5)	1,201.6	389.9	423.3	449.6	501.3	514.1	539.0	563.4	563.4	327.0	333.4	339.9
Total Investments	(1,795.5)	(1,818.3)	601.4	225.9	(814.8)	(1,392.6)	(1,526.6)	(1,678.6)	(1,821.4)	(1,898.0)	(2,054.7)	(2,227.1)	(2,480.7)	(2,560.6)	(2,660.2)	
Operating FCF	7,103.2	5,404.1	4,142.2	9,317.6	8,899.0	8,361.5	8,639.9	9,440.0	10,306.2	11,281.6	12,398.5	13,562.9	14,830.4	15,514.5	16,186.9	16,869.2
Growth in %	-	-	-23.7%	214.9%	-4.5%	-6.0%	-3.7%	9.3%	9.2%	9.5%	9.9%	9.4%	9.8%	-4.6%	-4.3%	-4.2%
Non operating result	(201.2)	(121.4)	(17.9)	173.8	(1,313.3)	(117.0)	(126.5)	(137.4)	(149.3)	(162.2)	(176.3)	(191.7)	(208.4)	(216.0)	(225.5)	(235.3)
Delta Derivative Assets	106.6	(499.9)	1,660.1	(230.5)	(1,122.8)	(255.4)	(295.2)	(320.9)	(349.7)	(381.2)	(414.7)	(450.6)	(486.7)	(206.7)	(255.1)	(266.3)
Delta Tax asset (liability)	384.5	801.2	(2,751.6)	(1,370.4)	69.4	73.6	85.1	92.5	100.8	109.9	119.6	129.9	59.6	73.6	76.8	
Delta Derivative Liabilities	(116.7)	74.5	26.9	(29.2)	173.8	99.0	114.4	124.4	135.5	147.7	160.7	174.6	80.1	98.9	103.	

Balance Sheet for McDonalds Corp.

Year ended December 31 (\$, in millions)	Historical Period					Projection Period						Steady State				
	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023E	FY2024F	FY2025F	FY2026F	FY2027F	FY2028F	FY2029F	FY2030F	FY2031F	FY2032F	FY2033F
Balance Sheet Forecast																
Core business																
Operating cash	66.2	66.6	59.9	72.4	72.2	78.2	84.5	91.8	99.7	108.4	117.8	128.1	139.2	144.3	150.6	157.2
Accounts receivable	2,441.5	2,224.2	2,110.3	1,872.4	2,115.0	2,156.1	2,330.3	2,531.5	2,750.4	2,988.8	3,248.7	3,531.4	3,838.7	3,979.7	4,153.6	4,335.2
Inventories, at cost, not in excess of market	51.1	50.2	51.1	55.6	52.0	56.2	59.9	64.6	69.6	75.1	80.9	87.3	94.1	95.1	99.4	103.8
Deferred revenues - initial franchise liabilities	(627.8)	(660.6)	(702.0)	(738.3)	(757.8)	(855.6)	(937.1)	(1,025.2)	(1,121.9)	(1,228.7)	(1,346.0)	(1,474.8)	(1,616.0)	(1,712.1)	(1,788.2)	(1,867.7)
Accounts payable	(1,207.9)	(988.2)	(741.3)	(1,006.8)	(980.2)	(1,055.4)	(1,124.9)	(1,213.0)	(1,307.9)	(1,409.7)	(1,520.0)	(1,639.0)	(1,767.1)	(1,786.7)	(1,866.0)	(1,948.9)
Current liabilities	(986.6)	(1,656.7)	(1,839.8)	(2,052.5)	(1,898.5)	(2,107.8)	(2,256.2)	(2,420.4)	(2,601.3)	(2,801.7)	(3,022.5)	(3,266.0)	(3,534.2)	(3,709.0)	(3,885.8)	(4,071.3)
Lease liability	-	(621.0)	(701.5)	(705.5)	(661.1)	(674.3)	(695.5)	(718.5)	(743.5)	(770.7)	(800.2)	(832.4)	(867.3)	(903.4)	(941.1)	(980.4)
Accrued payroll and other liabilities	(986.6)	(1,035.7)	(1,138.3)	(1,347.0)	(1,237.4)	(1,433.4)	(1,560.7)	(1,701.9)	(1,857.8)	(2,031.0)	(2,222.3)	(2,433.6)	(2,667.0)	(2,805.6)	(2,944.6)	(3,090.9)
NWC	(263.5)	(964.5)	(1,061.8)	(1,797.2)	(1,397.3)	(1,728.2)	(1,843.6)	(1,970.7)	(2,111.3)	(2,267.9)	(2,441.1)	(2,633.0)	(2,845.3)	(2,988.7)	(3,136.4)	(3,291.8)
Goodwill	2,331.5	2,677.4	2,773.1	2,782.5	2,900.4	2,900.4	2,900.4	2,900.4	2,900.4	2,900.4	2,900.4	2,900.4	2,900.4	2,900.4	2,900.4	2,900.4
Intangible Assets - net	-	-	691.2	795.0	864.3	899.1	971.7	1,055.7	1,146.9	1,246.4	1,354.7	1,472.7	1,600.8	1,659.6	1,732.1	1,794.2
Property Plant & Equipment	22,842.7	24,160.0	24,958.2	24,720.6	23,773.6	24,485.5	25,254.8	26,090.7	26,998.7	27,985.5	29,058.1	30,224.0	31,491.4	32,805.3	34,173.7	35,599.3
Lease right-of-use asset, net	-	13,261.2	13,827.7	13,552.0	12,565.7	13,342.7	13,761.9	14,217.4	14,712.2	15,249.9	15,834.4	16,465.7	17,160.4	17,876.4	18,622.0	19,398.8
Investments in advance to affiliates	1,202.8	1,270.3	1,297.2	1,201.2	1,064.5	1,548.6	1,696.2	1,855.6	2,030.5	2,224.0	2,436.3	2,669.3	2,924.9	3,098.8	3,236.6	3,380.5
Long-term lease liability	-	(12,757.8)	(13,321.3)	(13,020.9)	(12,134.4)	(13,436.0)	(13,825.9)	(14,249.3)	(14,698.8)	(15,200.1)	(15,714.3)	(16,253.3)	(16,816.7)	(17,143.7)	(17,477.1)	(17,817.0)
Core Invested Capital	26,113.5	27,646.6	29,164.3	28,233.2	27,636.8	28,012.0	28,915.6	29,899.8	30,978.6	32,138.1	33,428.5	34,849.9	36,415.9	38,208.0	40,051.3	41,964.4
Non Core business																
Derivative Assets	3,075.6	2,969.0	3,468.9	1,808.8	2,039.3	3,162.1	3,417.5	3,712.6	4,033.6	4,383.2	4,764.4	5,179.1	5,629.6	5,836.4	6,091.5	6,357.8
Tax asset (liability)	(3,778.7)	(4,163.2)	(4,964.4)	(2,212.8)	(842.4)	(911.8)	(985.4)	(1,070.5)	(1,163.1)	(1,263.9)	(1,373.8)	(1,493.4)	(1,623.3)	(1,682.9)	(1,756.5)	(1,833.2)
Derivative Liabilities	(1,096.3)	(979.6)	(1,054.1)	(1,081.0)	(1,051.8)	(1,225.6)	(1,324.6)	(1,439.0)	(1,563.4)	(1,698.9)	(1,846.6)	(2,007.3)	(2,182.0)	(2,262.1)	(2,361.0)	(2,464.2)
Non Core invested capital	(1,799.4)	(2,173.8)	(2,549.6)	(1,485.0)	145.1	1,024.7	1,107.5	1,203.1	1,307.1	1,420.4	1,544.0	1,678.4	1,824.4	1,891.4	1,974.0	2,060.3
Financing																
Long-term debt	31,075.3	34,118.1	35,196.8	35,622.7	35,903.5	39,863.8	41,252.7	42,622.9	43,958.6	45,238.0	46,450.7	47,578.1	48,680.9	49,779.5	50,862.9	51,968.6
Current maturities of longterm debt	-	59.1	2,243.6	-	-	-	-	-	-	-	-	-	-	-	-	-
Accrued interest	297.0	337.8	388.4	363.3	393.4	411.8	426.1	440.3	454.1	467.3	479.8	491.5	502.9	514.2	525.4	536.8
Debt	31,372.3	34,515.0	37,828.8	35,986.0	36,296.9	40,275.6	41,678.8	43,063.2	44,412.7	45,705.3	46,930.6	48,069.5	49,183.8	50,293.7	51,388.3	52,505.5
Excess cash	799.8	831.9	3,389.2	4,636.8	2,511.6	2,423.1	2,416.8	2,409.5	2,401.6	2,392.9	2,383.5	2,373.3	2,362.1	2,357.0	2,350.7	2,344.1
Net debt	30,572.5	33,683.1	34,439.6	31,349.2	33,785.3	37,852.4	39,262.0	40,653.7	42,011.1	43,312.4	44,547.0	45,696.3	46,821.7	47,936.7	49,037.6	50,161.3
Equity	(6,258.4)	(8,210.3)	(7,824.9)	(4,601.0)	(6,003.4)	(8,815.6)	(9,239.0)	(9,550.8)	(9,725.4)	(9,753.8)	(9,574.6)	(9,168.0)	(8,581.5)	(7,837.3)	(7,012.3)	(6,136.6)

DCF Valuation

DCF

Year ended December 31 (\$, in millions)	Historical Period					Projection Period						Steady State			TV	
	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023E	FY2024F	FY2025F	FY2026F	FY2027F	FY2028F	FY2029F	FY2030F	FY2031F		FY2032F
Operating Free Cash Flow to Firm (base case)	8,361.5	8,430.6	9,206.9	10,052.9	11,006.1	12,098.6	13,236.9	14,476.0	15,231.5	15,878.8	16,547.6	16,944.8	17,196.5	17,395.5	17,550.5	17,668.5
Operating Free Cash Flow to Firm (default case)	2,499.2	2,027.0	2,213.3	2,413.6	2,658.1	2,913.4	3,182.3	3,474.1	3,618.7	3,780.5	3,944.7	4,099.3	4,244.8	4,381.8	4,501.3	4,606.5
Ultimately expected Cash Flow discounted @ WACC	8,430.0	9,206.2	10,052.2	11,005.3	12,007.7	13,235.9	14,474.9	15,230.3	15,877.6	16,546.4	16,943.5	17,192.5	17,391.5	17,546.5	17,661.5	17,776.5
Discount factor						0.93	0.87	0.81	0.76	0.71	0.66	0.62	0.58	0.54	0.50	0.46
Discounted FCF						8,593.6	8,758.9	8,951.2	9,184.9	9,380.4	9,575.8	9,740.1	9,881.5	10,001.1	10,101.3	10,191.5
Enterprise Value	261,866.8															
Show Projection Period	21.1%															
Show Terminal Value	44.7%															
Invested Capital Non Core Operations	1,107.5															
Value of Financial Debt and other claim	39,262.4															
Equity Value	223,711.9															
Total shares outstanding (mn)	725.3															
Price per share (\$)	308.4															

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