
Investment Report

McDonald's Corporation (MCD)

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Look around you! How many people have never been to a MacDonald's restaurant or never heard of its signature Happy Meal? Since 1948, McDonald's corporation evolved from a simple hamburger stand in the streets of the United States to be the world's largest chain of hamburger fast food restaurant. The sunny yellow "M" has become the symbol of fast food restaurants; however, is the company a worthy investment?



Industry

McDonald's Corporation (McDonald's), incorporated on December 21, 1964, operates and franchises McDonald's restaurants. The Company's restaurants serve a locally relevant menu of food and drinks sold at various price points in over 100 countries. The Company's segments include U.S., International Lead Markets, High Growth Markets and Foundational Markets and Corporate. The U.S. segment focuses on offering a platform for authentic ingredients that allows customers to customize their sandwiches. Its High Growth Markets segment includes its operations in markets, such as China, Italy, Korea, Poland, Russia, Spain, Switzerland, the Netherlands and related markets. The International Lead markets segment includes the Company's operations in various markets, such as Australia, Canada, France, Germany, the United Kingdom and related markets. McDonald's High Growth markets are focused on creating customer excitement through menu, promotions and value, and implementing a digital strategy with specific mobile solutions and actions. The Foundational markets and Corporate segment is engaged in operating restaurants and increasing convenience to customers, including through drive-thru and delivery.

While a global Brand, the vast majority of McDonald's restaurants – more than 80% worldwide and nearly 90% in the U.S. – are owned and operated by approximately 5,000 independent, small- and mid-sized businessmen and women. Franchisees often live in the communities they serve and are committed to making a positive impact locally – from providing good food, customer service and job opportunities, to supporting local charities and other ways of giving back. Under a conventional franchise arrangement, the Company owns the land and building or secures a long-term lease for the restaurant location and the franchisee pays for equipment, signs, seating and decor.

McDonald's belongs to the Consumer Discretionary sector, under the restaurant industry. In connection with the economic analysis, when the economy is flourishing, money stock is growing; the level of consumerism tends to grow. Consumers would have more disposable money which they could choose to spend on discretionary such as entertainment as well as at commercial restaurants, contributing to the restaurant industry.

Competitors

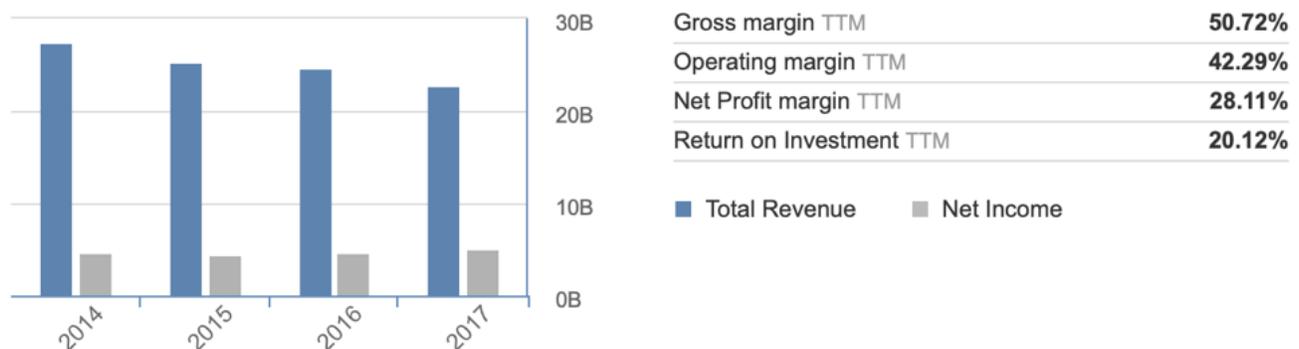
Competitor	Company description	Implications for MCD
Subway	Among the fastest growing fast food brands. Privately owned, Subway has close to 45,000 locations in over 110 countries as at 2017. As a single brand fast food restaurant chain and operator, Subway is the largest in the world.	Subway's main selling is its 'Eat Fresh' slogan which focuses on how its sandwiches are prepared from freshly baked bread. Subway's revenue as at 2015 was 1.11 billion dollars. Subway also focuses on health and lately McDonalds and other burger brands have come under the scanner for their health disadvantages.
Burger King	A subsidiary of Restaurant Brands International, Burger King's standing as one of the largest fast food restaurants cannot be disputed. Founded	With a revenue of over 4 billion dollars and assets worth 18.4 billion dollars as at 2015, burger king has positioned itself as a force to reckon with in the fast food industry. Burger

	in 1953 and headquartered in Florida, USA, Burger King's menu of soft drinks, hot dogs, desserts, hamburgers, chicken and French fries among others are delicacies loved worldwide	has over 15,000 locations worldwide serving in around 100 countries.
Chipotle	Chipotle is a fast-casual restaurant chain serving tacos, burritos, bowls and salads. Chipotle operates more than 2,460 locations in the U.S., Canada, the United Kingdom, Germany and France, none of which are franchised.	The company has a higher price point than its fast food competitors, and its slogan is "food with integrity." Chipotle reported 2017 revenue of \$4.5 billion. As of November 2018, Chipotle's market cap is \$13.1 billion.

Financials

The income statement provides analysis of how well a company is doing compared to its past performances. In the instance of McDonald's, we can see that its total revenue has been steadily decreasing from 2014 to 2017. This is usually a clear indicator that a company has been decreasing in performances, however, a closer look at its gross profit and net income tell prospective investors the opposite, both data tells us that income has been steadily increasing throughout the four year period. As well, the return on investments shows that there is a larger possibility of a higher dividend for investors, as MCD's net income has been progressively inclining throughout the periods.

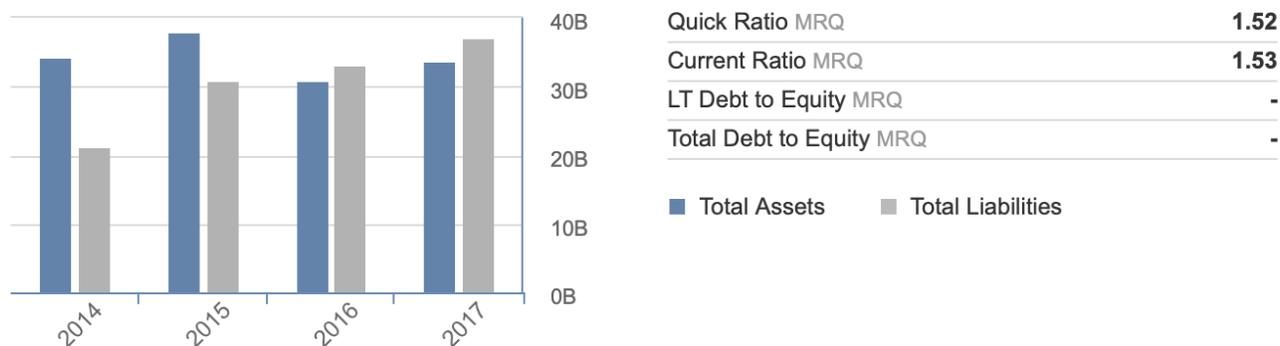
MCD Income Statement »



Period Ending:	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014
Total Revenue	22820.4	24621.9	25413	27441.3
Gross Profit	10620.8	10204.7	9789.2	10455.7
Operating Income	9552.7	7744.5	7145.5	7949.2
Net Income	5192.3	4686.5	4529.3	4757.8

The balance sheet tells investors where a company is focusing on growing, and if their methods are successful. McDonald's assets and liabilities have been through more fluctuations: with an increase of total assets from 2014 to 2015, and then a quick decline in 2016 before increasing again in 2017. This means that McDonald's is trying different tactics for their franchised stores, first increasing franchises and then decreasing them to see how their operating expenses versus their net profit would fare with the changes, before deciding to increase their franchise stores again. This indicates that McDonald's is experimenting and flexible in their business operations.

MCD Balance Sheet »



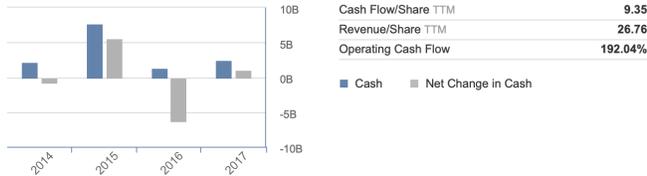
Quick Ratio MRQ	1.52
Current Ratio MRQ	1.53
LT Debt to Equity MRQ	-
Total Debt to Equity MRQ	-

■ Total Assets ■ Total Liabilities

Period Ending:	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014
Total Assets	33803.7	31023.9	37938.7	34227.4
Total Liabilities	37071.7	33228.2	30850.8	21374
Total Equity	-3268	-2204.3	7087.9	12853.4

The statement of cash flows shows the exact movements of money to see where specifically McDonald's is targeting in the indicated period. Focusing on the P/E ratio, we can see that it is relatively high, meaning that it usually indicates positive future performance and investors are willing to pay more for this company's shares. However, there is a risk that the shares are being overvalued due to the P/E ratio, but it seems unlikely in the case of McDonald's because of its recent dip in the value of shares. When the value of shares of a company decreased significantly but its P/E ratio is still relatively high, it means that now is a good time to begin investing in said company because it decreases the chance that the shares are being overvalued.

MCD Cash Flow Statement



	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014
Cash From Operating Activities	5551.2	6059.6	6539.1	6730.3
Cash From Investing Activities	562	-981.6	-1420	-2304.9
Cash From Financing Activities	-5310.8	-11262.4	735.3	-4618.3
Net Change in Cash	1066.4	-6288.1	5607.6	-720.8

McDonald's Corporation (MCD)
NYSE - NYSE Delayed Price. Currency in USD

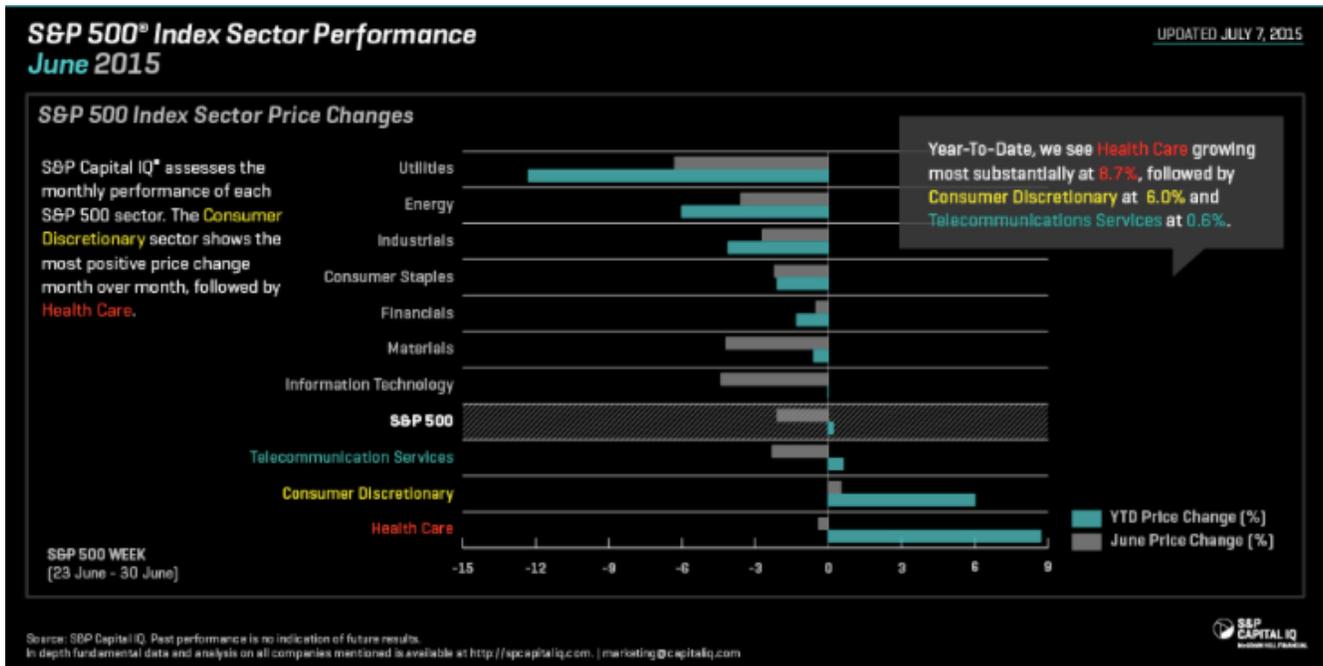
181.22 -1.15 (-0.63%) **181.22** 0.00 (0.00%)
At close: 4:00PM EST After hours: 5:14PM EST

Buy Sell

Summary Chart Conversations Statistics Historical Data Profile Financials Analysis Options Holders Sustainability

Previous Close: 182.37 Market Cap: 139.704B
Open: 181.42 Beta (3Y Monthly): 0.38
Bid: 0.00 x 900 PE Ratio (TTM): 27.54
Ask: 0.00 x 800 EPS (TTM): 6.58
Day's Range: 180.69 - 181.75 Earnings Date: Jan 28, 2019 - Feb 1, 2019
52 Week Range: 146.84 - 190.88 Forward Dividend & Yield: 4.64 (2.56%)
Volume: 1,886,302 Ex-Dividend Date: 2018-11-30
Avg. Volume: 3,965,129 1y Target Est: 195.50

This is confirmed in the S&P500 Index Sector Performance chart. It can be seen that the consumer discretionary sector price is just under the Health Care sector at a 6% growth. This suggests that the Consumer Discretionary sector is performing very well currently, ranking second among the ten sectors in the index.



At a closer analysis, it is also confirmed from Blackrock's iShares S&P Global Consumer Discretionary Index ETF, where a substantial amount of growth is demonstrated since July of 2014 in the past year. The hypothetical \$10,000 growth graph shows that a \$10,000 invested in the sector at the end of July last year would have increased 24.51%, accumulating to \$12,451.30 by the end of July in 2015.

iShares S&P Global Consumer Discretionary Index ETF (CAD-Hedged)



Generally, the sector demonstrates great potential. Nevertheless, Blackrock rates this fund as medium to high risk due to the historical volatility of the fund.



The Restaurant Performance Index from U.S. National Restaurant Association also shows that the restaurant industry specifically has been experiencing general growth in its recovery from the great recession in 2008. This suggests that with the growing economy, the restaurant industry presents good potential in the future.

Investment Opportunities

There are three methods of investing in McDonald's: Make an initial purchase of McDonald's common stock, which is the most basic and simplest way to take part in investing in McDonald's, build McDonald's share ownership. which is where you have a share in the ownership of a property, usually between a quarter and three-quarters, and then you rent the part that isn't owned at a reduced rate, or reinvest dividends, which is basically a way to automatically use your dividends to buy more shares of the stocks in your portfolio.

Investment Risks

Substitutes are a large factor of investment risk in McDonalds: because of the rise in more ethical and healthier fast food chains, people may be more inclined to eat there instead of McDonalds, which has a reputation for having less healthy foods that come from unethical farms and slaughterhouses. Places like Chipotle or Subway are revamping the fast food industry with healthy, ethically sourced foods that provide more options for vegetarians or those with medical needs.

Declining revenue and as a result, sales are also a factor of risk in the investment process. Although it can be shown in the income statement that net income is increasing every year, total revenue has been constantly decreasing for the past periods. This may become a problem in the future as the increasingly decrease in revenue can impact net income, and as a result, investors dividends.

Is It the Right Time to Invest in McDonald's?

The flourishing economy and growing industry seem to project a bright future for restaurants in the United States. However, is McDonald's a good choice to invest in?

When analyzing the Direct Competitor Comparison chart, it can be seen that in terms of profit, McDonald's gross margin and operating margin are significantly higher than those of its competitors such as Wendy's and Yum!, as well as the industry. This suggests that McDonald's is more profitable in terms of sales. However, the down side is that the internal trend of McDonald's operating performance ratios (as shown in the Annual Income Statement chart) all demonstrates a gradual decline in recent years. The quarterly revenue growth from the comparison chart also shows that McDonald's has a negative growth of -0.10 which is opposite of the industries 0.07. This demonstrates a weakening ability in managing resources for profit, and on a long run, may prove detrimental for

Direct Competitor Comparison					
	WEN	BKW	MCD	YUM	Industry
Market Cap:	2.99B	N/A	95.30B	37.87B	1.01B
Employees:	31,200	N/A	420,000	69,810	7.00k
Qtrly Rev Growth (yoy):	-0.11	N/A	-0.10	-0.03	0.07
Revenue (ttm):	2.00B	N/A	26.02B	13.08B	405.57M
Gross Margin (ttm):	0.34	N/A	0.38	0.26	0.31
EBITDA (ttm):	393.74M	N/A	9.03B	2.70B	65.17M
Operating Margin (ttm):	0.13	N/A	0.29	0.15	0.09
Net Income (ttm):	102.64M	N/A	4.18B	915.00M	N/A
EPS (ttm):	0.27	0.49	4.30	2.04	0.32
P/E (ttm):	38.40	N/A	23.13	43.03	35.78
PEG (5 yr expected):	4.64	N/A	2.96	2.13	1.67
P/S (ttm):	1.86	N/A	3.68	2.89	2.99

investors.

Another notable data is the P/E ratio which shows McDonald's to be the lowest among its competitors as well as the industry. This suggests that McDonald's has a lower expected earnings growth. McDonald's PEG data is also shown to be much higher than that of the industry, although remaining far behind that of Wendy's, confirming that McDonald's expected earnings growth for the

Annual Income Statement (values in 000's)					
Period Ending:	Trend	12/31/2014	12/31/2013	12/31/2012	12/31/2011
Liquidity Ratios					
Current Ratio		152%	159%	145%	125%
Quick Ratio		148%	155%	141%	122%
Cash Ratio		76%	88%	69%	67%
Profitability Ratios					
Gross Margin		38%	39%	39%	40%
Operating Margin		29%	31%	31%	32%
Pre-Tax Margin		27%	29%	29%	30%
Profit Margin		17%	20%	20%	20%
Pre-Tax ROE		57%	51%	53%	56%
After Tax ROE		37%	35%	36%	38%

next five years are slower than industry.

Neglecting the declining trends for the profit ratios, the risk analysis ratios are also displaying a high risk in its large debt burden, which means little margin of safety to protect debt holder's capital and decreased earnings available for dividends. The Cash Flow From Operation/ Total Debt Ratio's inner trend also shows a decreased ability to repay funds and yearly-debts.

Although the U.S. economy and the restaurant industry are experiencing strong growth, the projection for McDonald's does not seem so bright. After all, for a low-costing fast-food restaurant, it is naturally favored more by the low-income population. Therefore, it would likely outperform during times of economic recession than during the strong expansion that the United States experience at the moment.

Therefore, it would not be advisable to invest in McDonald's stocks.

Reference:

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