

## McDonald's

## 4Q Quick Take: Global SSSG miss on softer int'l; EPS beat helped by tax, interest inc.

Reiterate Rating: NEUTRAL | PO: 341.00 USD | Price: 297.05 USD

## Comp momentum slows

MCD's 4Q EPS beat (\$2.95 vs \$2.82 VA) was of slightly lower quality than what we've come to expect from MCD. US Same Store Sales Growth (SSSG) was inline with consensus (+4.3%), slowing slightly vs pre-COVID from the first three quarters of the year, and still ticket-driven (we believe pricing was up HSD in the quarter). Also in contrast to prior quarters, international comps were softer than expected historically international momentum has tended to outpace the US. While the middle-east related weakness in International Developmental Licensed (IDL) markets (0.7% vs 5.9% VA consensus) was to be expected, the International Operated Markets (IOM)'s slight miss (4.4% vs 4.9%) -- attributed to negative comparable sales in France -- suggests that MCD may finally be seeing the impact of intense pressures facing European consumers after having proven immune for so long.

## Tight G&amp;A, higher McOpCo mostly offset franchise margin

The bull case on MCD has been upside to operating margin guidance and while MCD operating margin missed (43.7% vs 44.8% consensus) the underlying dynamics were encouraging on that front given that the pronounced SSSG weakness in the IDL markets would invariably have an impact on franchise margins. MCD was able to mostly offset with higher McOpCo margin (16.1% vs 15.5% consensus) and lower G&A (\$821mm vs \$864mm consensus), the latter suggesting that Accelerating the Arches is helping streamline expenses.

## Slight upsizing of CapEx guide vs Investor Day

While MCD's 2024E guidance was largely unchanged versus what was given at the December investor day, the midpoint of the CapEx range was edged higher (from \$2.5 bb to \$2.5-\$2.7bb), speaking to the increased capital intensity needed to fund faster growth.

## Reiterate Neutral rating and \$341 PO

We reiterate our Neutral rating and \$341 PO as we see limited opportunities for margin expansion due to the franchised model, particularly if topline growth slows.

05 February 2024

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## Stock Data

Price	297.05 USD
Price Objective	341.00 USD
Date Established	29-Jan-2024
Investment Opinion	A-2-7
52-Week Range	245.73 USD - 302.39 USD
Mrkt Val (mn) / Shares Out (mn)	215,463 USD / 725.3
Free Float	100.0%
Average Daily Value (mn)	841.72 USD
BofA Ticker / Exchange	MCD / NYS
Bloomberg / Reuters	MCD US / MCD.N
ROE (2023E)	NA
Net Dbt to Eqty (Dec-2022A)	NA
ESGMeter™	High

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SSSG- same store sales growth

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Timestamp: 05 February 2024 08:24AM EST

**Exhibit 1: MCD updated Capex guide and introduced tax and interest rate guidance for F24**

F24 Guidance – Updated vs Prior

	Prior (Investor Day)	Current	Consensus	vs Cons
Net unit growth	4%	4%	4%	0.2ppt
CapEx (\$bb)	\$2.50	\$2.50-\$2.70	\$2.47	5%
Net restaurant unit expansion contribution to systemwide sales growth	~2%	~2%	-	-
SG&A (% of systemwide sales)	2.20%	2.20%	2.2%	0.0ppt
Adj. operating margin	Mid-to-high 40%	Mid-to-high 40%	47%	-
FCF Conversion %	>90%	>90%	-	-
Tax rate	N/A	20-22%	21%	-
Y/Y interest expense increase	N/A	9-11%	4%	-

Source: Company reports, Visible Alpha

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**Exhibit 2: MCD reported 4Q EPS ahead of consensus**

MCD 4Q23 reported results vs BofAE and Visible Alpha consensus

	Reported	Reported	y/y change	BofAE	Consensus	Variance (vs BofAE)	Variance (vs Cons)
	4Q22	4Q23		4Q23	4Q23	4Q23	4Q23
Total Units	40,275	41,822	4%	41,828	41,731	0%	0%
U.S. total units	13,444	13,457	0%	13,504	13,471	0%	0%
Intl Operated total units	10,103	10,263	2%	10,246	10,295	0%	0%
Intl Dev Licensed total units	16,728	18,102	8%	18,078	17,964	0%	1%
Global SSS	12.6%	3.4%	-9 ppt	5.4%	4.9%	-2.0ppt	-1.5ppt
U.S. SSS	10.3%	4.3%	-6 ppt	4.5%	4.3%	-0.2ppt	0.0ppt
Intl Operated SSS	12.6%	4.4%	-8 ppt	6.0%	4.9%	-1.6ppt	-0.5ppt
Intl Dev Licensed SSS	16.5%	0.7%	-16 ppt	6.0%	5.9%	-5.3ppt	-5.2ppt
Total revenues	5,927	6,406	8%	6,465	6,448	-1%	-1%
Company-operated sales	2,208	2,474	12%	2,463	2,458	0%	1%
Franchise revenues	3,645	3,869	6%	3,922	3,907	-1%	-1%
Other revenues	73	64	-13%	80	82	-20%	-23%
Expenses							
Company-operated restaurant expenses	1,872	2,075	11%	2,084	2,077	0%	0%
Co-op margin	15.2%	16.1%	92 bps	15.4%	15.5%	75bps	65 bps
Franchised restaurants-occupancy expenses	588	633	8%	605	615	5%	3%
Franchised margin	83.9%	83.6%	-22 bps	84.6%	84.3%	-94bps	-61 bps
Other restaurant expenses	57	45	-22%	66	63	-32%	-29%
SG&A	812	821	1%	910	864	-10%	-5%
Other Operating (Inc)/Exp, net ex-one time	15	31	113%	-63	-39.3	-149%	-179%
Operating Income	2,583	2,802	8%	2,864	2,889	-2%	-3%
Margin (%)	43.6%	43.7%	16 bps	44.3%	44.8%	-56bps	-107 bps
Interest Expense	323	360	12%	351	355	3%	1%
Non-Operating (Income) Expense	-79.1	-73	n/m	-47.3	-44.6	55%	64%
Pretax Income	2,339	2,515	8%	2,560	2,566	-2%	-2%
Taxes	436	476	9%	512	507	-7%	-6%
Tax Rate	18.6%	18.9%	31 bps	20.0%	19.7%	-107bps	-82 bps
Net Income	1,903.4	2,039.0	7%	2,048.4	2,067	0%	-1%
Average diluted shares	736	728	-1%	729	729	0%	0%
Adjusted EPS	\$2.59	\$2.95	14%	\$2.81	\$2.82	5%	5%
EBITDA (est)	3,046	3,318	9%	3,382	3,423	-2%	-3%
EBITDA Margin	51.4%	51.8%	040bps	52.3%	53.1%	-52bps	-129bps

Source: Company reports, BofA Global Research estimates, Visible Alpha

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**Price objective basis & risk****McDonald's (MCD)**

Our 12-month \$341 price objective is based on a 25.4x P/E multiple on our forward estimates, in line with a relative P/E multiple of 1.3x reflecting limited opportunities for margin expansion due to the franchised model, despite continued topline strength. We apply the relative P/E multiple to our 4Q24-3Q25 estimates (of \$13.39) to arrive at our \$341 PO.

Risks to our price objective:

To the upside, McDonald's could sustain elevated comps for longer than expected based on company-specific initiatives or industry dynamics. Margins and returns could exceed expectations if McDonald's reduces the pace of investments or identifies unexpected savings opportunities. If investor risk tolerance shifts sharply lower, the relative attractiveness of McDonald's defensive positioning would increase.

To the downside, McDonald's comps could decelerate faster than we anticipate, from either a lack of traction in company initiatives or a deteriorating demand environment. Margins could compress more than expected if McDonald's fails to pass through inflation in food and labor costs.

## Analyst Certification

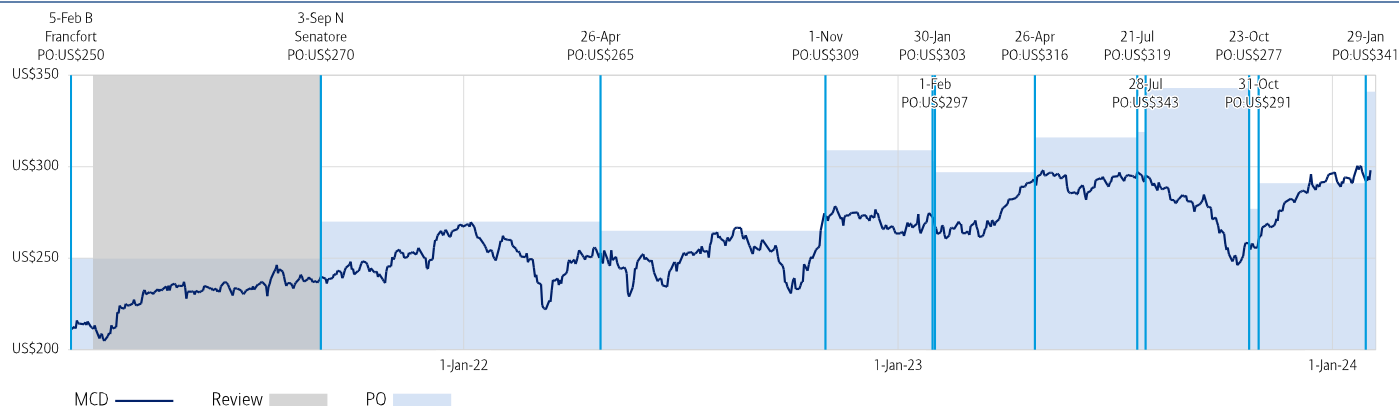
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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	21	58.33%	Buy	10	47.62%
Hold	10	27.78%	Hold	3	30.00%
Sell	5	13.89%	Sell	4	80.00%

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Sell	807	22.84%	Sell	383	47.46%

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