

## Equity Research

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## Restaurants

### McDonald's Corporation

#### Global Momentum Continues to Drive Upside with Sales Strength in Most Markets; Maintain Buy

McDonald's results continued to impress and demonstrated the global momentum the concept is using to drive top and bottom-line upside. Sales strength continued largely across the globe, with upside in key international markets offsetting what had been moderating expectations in the U.S. Domestic comps still proved respectable, exceeding the category for nine of the past ten quarters now, and we continue to have a favorable domestic comp outlook given the balance of sales initiatives across digital, value and food quality. We believe these will prove to be lasting sales drivers in the coming years, helping the concept recapture lost traffic. We maintain our Buy rating and \$200 price target.

**MCD** **\$167.44**

12 month target \$200.00

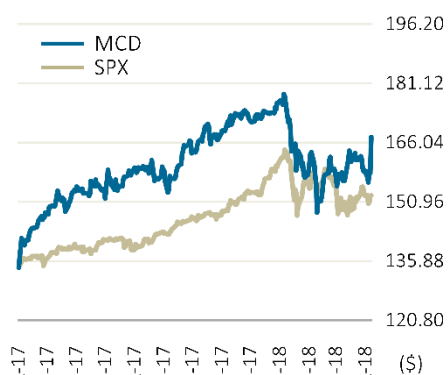
### BUY

52 week range \$139.93 - \$178.36

Dividend Yield 2.4%

Market Cap (m) \$130,506

#### Price Performance



Source: IDC

- ▶ McDonald's reported 1Q18 adjusted EPS of \$1.79, above our estimate of \$1.73 and consensus of \$1.67, driven by stronger comparable sales and higher other operating income, partially offset by higher G&A.
- ▶ Global same-store sales increased 5.5%, exceeding our 4.6% estimate and consensus of 3.7%, as stronger results in most international markets was partially offset by relatively in line comps in the U.S.
- ▶ **U.S. Comps:** Increased 2.9% and exceeded the category (270 bps) for the fifth straight quarter; management cited traffic weakness around breakfast and reduced local value offers and modest weather impact.
- ▶ **Experience of the Future:** Deployment continues at ~1,000 units/qtr. in the U.S. with half the system expected to be converted by year-end.
- ▶ We are slightly raising our 2018 EPS estimate to \$7.73 from \$7.71 given the quarter's upside offset by some adjustments to G&A and f/x given commentary and modestly lower U.S. comps, '19 est. remains \$8.31.
- ▶ **Valuation:** Our price target of \$200 is based on applying a 24.0x P/E multiple to our 2019 EPS estimate of \$8.31. Our 24.0x P/E is based on a 1.5x premium to the quick service median given expected sales trends.

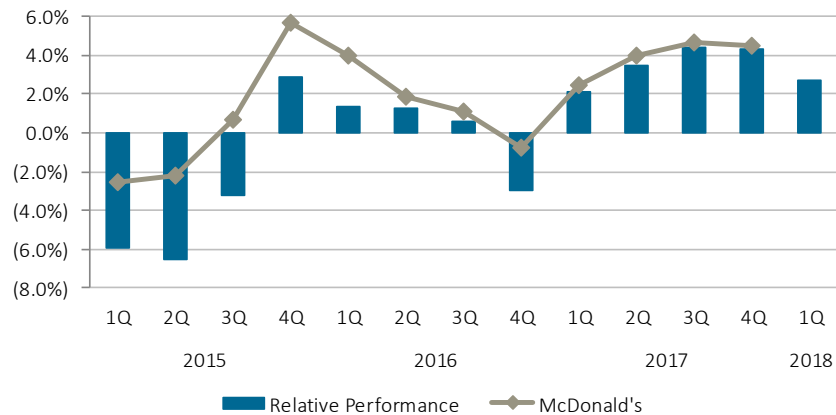
## Estimates

	1Q17 A	2Q17 A	3Q17 A	4Q17 A	FY17 A	1Q18 A	2Q18 E	3Q18 E	4Q18 E	FY18 E	FY19 E
Sales	5,676	6,050	5,755	5,340	22,820	5,139	5,318	5,326	5,216	21,000	20,817
Restaurant Margin	17.5%	18.7%	19.1%	17.3%	18.2%	16.0%	17.0%	18.0%	17.6%	17.1%	18.0%
Oper. Margin (%)	35.8%	37.9%	53.5%	40.2%	41.9%	41.7%	43.5%	45.3%	43.7%	43.5%	46.2%
Diluted EPS (Adj.)	1.47	1.70	1.76	1.71	6.63	1.79	1.95	2.06	1.94	7.73	8.31
Comparable Sales	3.6%	6.3%	5.6%	5.5%	5.3%	5.5%	3.2%	3.4%	3.6%	4.0%	3.1%

Source: BTIG Estimates and Company Documents (\$ in millions, except per share amount)

**Market Share Gains Continue as Initiatives Gain Traction.** McDonald's U.S. same-store sales increased 2.9% this quarter, matching consensus and our sense of investor expectations but below our elevated 4.5% estimate. Comps still saw improvement in two-year results, increasing to 4.6% from 3.2% in 4Q17 for a 140 bps sequential acceleration, while also continuing to exceed the industry. McDonald's outperformed the QSR sandwich category by 270 bps, marking the fifth straight quarter of outperformance, though compared with 430-440 bps in 3Q and 4Q of last year. Same-store sales in the U.S. were driven by slightly less than 2.5% of menu pricing as well as positive menu-mix from with premium items and attachment of items from the \$1 \$2 \$3 Dollar Menu. Management indicated poor weather negatively impacted U.S. comps by ~50 bps, partially offset by a modest benefit from the timing of Easter/Spring Break (not quantified). Traffic was negative though with management citing weakness in the breakfast daypart given heightened competitive activity and elimination of most local value offers as it emphasises its national platform.

### McDonald's U.S. Relative Comp Performance



Source: Company Documents.

We believe the investments McDonald's has been making to improve food quality perceptions (fresh beef), consumer access (mobile ordering, Experience of the Future) and value (\$1 \$2 \$3 Dollar Menu) is resonating with guests. While traffic did turn negative this quarter, we believe the upcoming launch of fresh beef and increasing awareness of the new Dollar Menu will sustain the concept's sales gains while technology becomes a greater contributor.

**Digital Investment Continuing.** Following last year's launch of mobile ordering in 20k locations globally, deployment of Experience of the Future (in-store kiosks) continues in the U.S. with another 4,000 U.S. restaurants expected to be converted this year. This will result in roughly half of the U.S. system modernized by year-end, a schedule that has been accelerated in recent quarters. While the initiative remains new, management indicated that initial markets for EOTF have seen further sales gains in the second year rather than just an initial lift. This continues to give us a favorable view of U.S. comps in the coming years given the significant pace of deployment this year.

## Income Statement

McDonald's \$ millions	Dec-15 FY15 A	Dec-16 FY16 A	Mar-17 1Q17 A	Jun-17 2Q17 A	Sep-17 3Q17 A	Dec-17 4Q17 A	Dec-17 FY17 A	Mar-18 1Q18 A	Jun-18 2Q18 E	Sep-18 3Q18 E	Dec-18 4Q18 E	Dec-18 FY18 E	Mar-19 1Q19 E	Jun-19 2Q19 E	Sep-19 3Q19 E	Dec-19 4Q19 E	Dec-19 FY19 E
Company Operated Restaurants	\$16,488.3	\$15,295.0	\$3,411.9	\$3,569.6	\$3,064.3	\$2,673.1	\$12,718.9	\$2,535.6	\$2,529.9	\$2,420.5	\$2,383.8	\$9,869.7	\$2,232.7	\$2,318.1	\$2,275.9	\$2,314.7	\$9,141.4
Franchised & Affiliated Restaurants	\$8,924.7	\$9,326.9	\$2,264.0	\$2,480.1	\$2,690.3	\$2,667.1	\$10,101.5	\$2,603.3	\$2,788.0	\$2,906.0	\$2,832.6	\$11,129.9	\$2,747.0	\$2,890.6	\$3,035.0	\$3,003.2	\$11,675.9
<b>Total Sales</b>	<b>\$25,413.0</b>	<b>\$24,621.9</b>	<b>\$5,675.9</b>	<b>\$6,049.7</b>	<b>\$5,754.6</b>	<b>\$5,340.2</b>	<b>\$22,820.4</b>	<b>\$5,138.9</b>	<b>\$5,317.9</b>	<b>\$5,326.5</b>	<b>\$5,216.4</b>	<b>\$20,999.7</b>	<b>\$4,979.8</b>	<b>\$5,208.7</b>	<b>\$5,311.0</b>	<b>\$5,317.8</b>	<b>\$20,817.2</b>
Food & Paper	\$5,552.8	\$4,897.5	\$1,088.4	\$1,138.7	\$962.2	\$844.7	\$4,034.0	\$803.8	\$799.5	\$757.6	\$749.7	\$3,110.5	\$701.1	\$725.6	\$707.8	\$723.3	\$2,857.8
Payroll & Employee Benefits	\$4,400.8	\$4,135.1	\$948.5	\$963.8	\$845.7	\$769.9	\$3,527.9	\$765.8	\$746.3	\$697.1	\$690.1	\$2,899.3	\$669.8	\$679.2	\$650.9	\$665.5	\$2,665.4
Occupancy & Other Operating	\$4,012.9	\$3,666.5	\$777.9	\$799.6	\$671.1	\$596.1	\$2,844.7	\$560.4	\$554.1	\$530.1	\$524.4	\$2,168.9	\$485.6	\$499.5	\$490.5	\$501.1	\$1,976.7
<b>Company Operated Expenses</b>	<b>\$13,976.9</b>	<b>\$12,698.8</b>	<b>\$2,816.4</b>	<b>\$2,903.3</b>	<b>\$2,479.8</b>	<b>\$2,210.1</b>	<b>\$10,409.6</b>	<b>\$2,130.9</b>	<b>\$2,099.8</b>	<b>\$1,984.8</b>	<b>\$1,964.2</b>	<b>\$8,179.7</b>	<b>\$1,856.5</b>	<b>\$1,904.3</b>	<b>\$1,849.2</b>	<b>\$1,889.9</b>	<b>\$7,499.9</b>
<b>Company Operated Profit</b>	<b>\$2,511.4</b>	<b>\$2,596.2</b>	<b>\$595.5</b>	<b>\$666.3</b>	<b>\$584.5</b>	<b>\$463.0</b>	<b>\$2,309.3</b>	<b>\$404.7</b>	<b>\$430.1</b>	<b>\$435.7</b>	<b>\$419.5</b>	<b>\$1,690.0</b>	<b>\$376.2</b>	<b>\$413.8</b>	<b>\$426.7</b>	<b>\$424.7</b>	<b>\$1,641.5</b>
Franchised Restaurant Expense	\$1,646.9	\$1,718.4	\$430.1	\$438.0	\$457.3	\$464.6	\$1,790.0	\$480.3	\$477.0	\$483.8	\$484.9	\$1,926.1	\$498.6	\$484.5	\$493.1	\$500.6	\$1,976.8
<b>Franchised Restaurant Profit</b>	<b>\$7,277.8</b>	<b>\$7,608.5</b>	<b>\$1,833.9</b>	<b>\$2,042.1</b>	<b>\$2,233.0</b>	<b>\$2,202.5</b>	<b>\$8,311.5</b>	<b>\$2,123.0</b>	<b>\$2,311.0</b>	<b>\$2,422.2</b>	<b>\$2,347.7</b>	<b>\$9,203.9</b>	<b>\$2,248.5</b>	<b>\$2,406.2</b>	<b>\$2,541.9</b>	<b>\$2,502.5</b>	<b>\$9,699.1</b>
<b>Restaurant Profit</b>	<b>\$9,789.2</b>	<b>\$10,204.7</b>	<b>\$2,429.4</b>	<b>\$2,708.4</b>	<b>\$2,817.5</b>	<b>\$2,665.5</b>	<b>\$10,620.8</b>	<b>\$2,527.7</b>	<b>\$2,741.1</b>	<b>\$2,857.9</b>	<b>\$2,767.2</b>	<b>\$10,893.9</b>	<b>\$2,624.7</b>	<b>\$2,819.9</b>	<b>\$2,968.6</b>	<b>\$2,927.3</b>	<b>\$11,340.5</b>
SG&A	\$2,434.3	\$2,384.5	\$521.3	\$525.4	\$567.0	\$617.6	\$2,231.3	\$533.1	\$554.3	\$547.2	\$589.8	\$2,224.4	\$519.8	\$504.4	\$522.5	\$566.2	\$2,112.9
Other Operating (Income) Expense	\$209.4	\$75.7	(\$125.9)	(\$112.1)	(\$828.9)	(\$96.3)	(\$1,163.2)	(\$148.5)	(\$125.0)	(\$100.0)	(\$100.0)	(\$473.5)	(\$95.0)	(\$95.0)	(\$95.0)	(\$95.0)	(\$380.0)
Impairment	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total Operating Expenses	\$2,643.7	\$2,460.2	\$395.4	\$413.3	(\$261.9)	\$521.3	\$1,068.1	\$384.6	\$429.3	\$447.2	\$489.8	\$1,750.9	\$424.8	\$409.4	\$427.5	\$471.2	\$1,732.9
<b>Total Operating Income (Loss)</b>	<b>\$7,145.5</b>	<b>\$7,744.5</b>	<b>\$2,034.0</b>	<b>\$2,295.1</b>	<b>\$3,079.4</b>	<b>\$2,144.2</b>	<b>\$9,552.7</b>	<b>\$2,143.1</b>	<b>\$2,311.8</b>	<b>\$2,410.7</b>	<b>\$2,277.4</b>	<b>\$9,143.0</b>	<b>\$2,199.9</b>	<b>\$2,410.5</b>	<b>\$2,541.1</b>	<b>\$2,456.1</b>	<b>\$9,607.6</b>
Interest Expense	\$638.3	\$884.8	\$218.6	\$230.9	\$236.7	\$235.1	\$921.3	\$236.8	\$245.1	\$245.5	\$246.0	\$973.4	\$246.4	\$249.5	\$252.6	\$255.7	\$1,004.0
Interest Income	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$8.4	\$10.0	\$9.0	\$27.4	\$7.8	\$9.2	\$14.4	\$15.9	\$47.3
Net Interest Income (Expense)	(\$638.3)	(\$884.8)	(\$218.6)	(\$230.9)	(\$236.7)	(\$235.1)	(\$921.3)	(\$236.8)	(\$236.7)	(\$235.6)	(\$236.9)	(\$946.0)	(\$238.6)	(\$240.2)	(\$238.2)	(\$239.8)	(\$956.7)
Nonoperating (Expense) Income	\$48.5	\$6.3	(\$7.9)	(\$2.8)	(\$23.2)	(\$24.0)	(\$57.9)	(\$18.4)	\$5.0	\$5.0	\$5.0	(\$3.4)	\$5.0	\$5.0	\$5.0	\$5.0	\$20.0
<b>Pretax Income</b>	<b>\$6,555.7</b>	<b>\$6,866.0</b>	<b>\$1,807.5</b>	<b>\$2,061.4</b>	<b>\$2,819.5</b>	<b>\$1,885.1</b>	<b>\$8,573.5</b>	<b>\$1,887.9</b>	<b>\$2,080.0</b>	<b>\$2,180.2</b>	<b>\$2,045.5</b>	<b>\$8,193.6</b>	<b>\$1,966.3</b>	<b>\$2,175.3</b>	<b>\$2,307.9</b>	<b>\$2,221.3</b>	<b>\$8,670.8</b>
Taxes (Benefit)	\$2,026.4	\$2,179.5	\$592.7	\$666.3	\$935.8	\$512.4	\$2,707.2	\$460.5	\$530.4	\$555.9	\$521.6	\$2,068.5	\$501.4	\$554.7	\$588.5	\$566.4	\$2,211.1
<b>Net Income from Continuing Operations</b>	<b>\$4,529.3</b>	<b>\$4,686.5</b>	<b>\$1,214.8</b>	<b>\$1,395.1</b>	<b>\$1,883.7</b>	<b>\$1,372.7</b>	<b>\$5,866.3</b>	<b>\$1,427.4</b>	<b>\$1,549.6</b>	<b>\$1,624.2</b>	<b>\$1,523.9</b>	<b>\$6,125.1</b>	<b>\$1,464.9</b>	<b>\$1,620.6</b>	<b>\$1,719.4</b>	<b>\$1,654.9</b>	<b>\$6,459.8</b>
Discontinued Operations and One-Time Items	\$195.6	\$275.9	\$0.0	\$0.0	(\$455.6)	\$0.0	(\$455.6)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<b>Net Income After Discontinued Ops and One-Time Items</b>	<b>\$4,724.9</b>	<b>\$4,962.4</b>	<b>\$1,214.8</b>	<b>\$1,395.1</b>	<b>\$1,428.1</b>	<b>\$1,372.7</b>	<b>\$5,410.7</b>	<b>\$1,427.4</b>	<b>\$1,549.6</b>	<b>\$1,624.2</b>	<b>\$1,523.9</b>	<b>\$6,125.1</b>	<b>\$1,464.9</b>	<b>\$1,620.6</b>	<b>\$1,719.4</b>	<b>\$1,654.9</b>	<b>\$6,459.8</b>
<b>EPS</b>	<b>\$5.00</b>	<b>\$5.76</b>	<b>\$1.47</b>	<b>\$1.70</b>	<b>\$1.76</b>	<b>\$1.71</b>	<b>\$6.63</b>	<b>\$1.79</b>	<b>\$1.95</b>	<b>\$2.06</b>	<b>\$1.94</b>	<b>\$7.73</b>	<b>\$1.87</b>	<b>\$2.08</b>	<b>\$2.22</b>	<b>\$2.14</b>	<b>\$8.31</b>
YoY % Change	(2.5%)	15.2%	17.1%	17.1%	8.1%	18.8%	15.1%	21.4%	14.6%	17.1%	13.4%	16.5%	4.7%	6.6%	7.9%	10.6%	7.5%
Diluted Shares Outstanding	944.6	861.2	825.2	819.2	813.5	803.0	815.5	798.7	794.2	790.2	786.3	792.3	782.5	778.8	775.3	771.8	777.1
<b>EBITDA</b>	<b>\$8,701.2</b>	<b>\$9,261.0</b>	<b>\$2,359.3</b>	<b>\$2,634.6</b>	<b>\$3,435.2</b>	<b>\$2,487.0</b>	<b>\$10,916.1</b>	<b>\$2,509.1</b>	<b>\$2,685.2</b>	<b>\$2,784.3</b>	<b>\$2,637.4</b>	<b>\$10,616.0</b>	<b>\$2,584.2</b>	<b>\$2,802.6</b>	<b>\$2,933.4</b>	<b>\$2,834.0</b>	<b>\$11,154.2</b>
<b>Comparable Store Sales</b>	<b>1.5%</b>	<b>3.8%</b>	<b>3.6%</b>	<b>6.3%</b>	<b>5.6%</b>	<b>5.5%</b>	<b>5.3%</b>	<b>5.5%</b>	<b>3.2%</b>	<b>3.4%</b>	<b>3.6%</b>	<b>4.0%</b>	<b>2.8%</b>	<b>3.4%</b>	<b>3.1%</b>	<b>3.1%</b>	<b>3.1%</b>
U.S.	0.5%	1.7%	1.7%	3.9%	4.1%	4.5%	3.6%	2.9%	3.0%	3.0%	3.5%	3.1%	4.0%	4.0%	4.0%	4.0%	4.0%
International Lead Markets	3.4%	3.4%	2.8%	6.3%	5.7%	6.0%	5.3%	7.8%	3.0%	3.0%	2.5%	4.1%	2.0%	3.0%	2.5%	2.5%	2.5%
High Growth Markets	1.8%	2.8%	3.8%	7.0%	6.2%	4.0%	5.3%	4.7%	2.5%	3.0%	3.5%	3.4%	2.5%	3.0%	2.5%	2.5%	2.6%
Foundational Markets & Corporate	0.7%	10.0%	8.5%	11.5%	8.0%	8.0%	9.0%	8.7%	4.5%	5.0%	5.0%	5.8%	2.0%	3.0%	2.5%	2.5%	2.5%

Source: BTIG Estimates and Company Documents.

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## BTIG Covered Companies Mentioned in this Report

MCDONALD'S CORPORATION (MCD, Buy, \$200.00 PT; Current Price: \$158.30; Analyst: Peter Saleh)

## Appendix: Analyst Certification and Other Important Disclosures

### Analyst Certification

I, Peter Saleh, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

I, Ben Parente, CFA, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

### Regulatory Disclosures

#### Ratings Definitions

**BTIG LLC's ("BTIG") ratings, effective June 12, 2017, are defined as follows:**

**BUY** – A security which is expected to produce a positive total return of 15% or greater over the 12 months following the recommendation. The BUY rating may be maintained as long as it is deemed appropriate, notwithstanding price fluctuations that would cause the target to fall outside of the 15% return.

**SELL** – A security which is expected to produce a negative total return of 15% or greater over the next 12 months following the recommendation. The SELL rating may be maintained as long as it is deemed appropriate, notwithstanding price fluctuations that would cause the target to fall outside of the 15% return.

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**Distribution of BTIG's Research Recommendations (as of March 31, 2018):**

**BUY: 59.6%; NEUTRAL: 36.5%; SELL: 3.9%**

**Distribution of BTIG's Investment Banking Services (as of March 31, 2018):**

**BUY: 21.4%; NEUTRAL: 6.8%; SELL: 0.00%**

For purposes of FINRA ratings distribution rules, BTIG's stock ratings of Buy, Neutral and Sell fall into Buy, Hold and Sell categories, respectively.

### Company Valuation and Risk Disclosures

#### McDonald's Corporation (MCD, Buy, \$200.00 PT)

**Valuation:** Our price target of \$200 is based on applying a 24.0x P/E multiple to our 2019 EPS estimate of \$8.31. Our 24.0x P/E is based on a 1.5x premium to the quick service median given expected sales trends.

**Risks:** Key risks include weakening traffic trends in the U.S., deterioration in same-store sales in Japan, China and Russia, sales weakness in key markets such as the U.K., Germany and Australia, complications in the refranchising and G&A reduction efforts and a spike in commodity prices.

# McDonald's Corporation (MCD)



*Note: Closing Price and Target Price have been adjusted for corporate actions.*

Date	Closing Price (\$)	Target Price (\$)	Analyst	Rating
15-Jul-15	97.86	NA	Peter Saleh	Neutral
19-Jan-16	115.78	130	Peter Saleh	Buy
25-Apr-16	127.71	137	Peter Saleh	Buy
26-Apr-17	140.87	156	Peter Saleh	Buy
29-Jun-17	153.16	175	Peter Saleh	Buy
02-Jan-18	172.49	200	Peter Saleh	Buy

## Other Disclosures

Additional Information Available Upon Request

## General Disclosures

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