

## Equity Research

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### Peter Saleh

(212) 527-3567

psaleh@btig.com

### Ben Parente, CFA

(212) 588-6557

bparente@btig.com

## Restaurants

### McDonald's Corporation

#### Firing on All Cylinders; McDonald's Global Traffic Improves as Digital Investment Ticks Up

McDonald's results continued to impress with strong sales and traffic gains in all major markets including the U.S. Sales results in the U.S. were driven by some compelling beverage promotions and the McPick 2, which we believe are providing a foundation for more sustainable sales drivers like a stronger value platform and digital initiatives such as mobile order and pay and in-restaurant kiosks. On the call this morning, we would focus on the drivers of the continued sales gains, competitive conditions in major markets, updated restaurant modernization and technology initiatives in the U.S. and any relevant financial details following the China refranchising. We reiterate our Buy rating while our estimates and price target are under review pending the conference call.

► McDonald's reported 3Q17 adjusted EPS of \$1.76, slightly above our estimate of \$1.74, driven by stronger comparable sales and restaurant margins, partially offset by higher G&A and a modestly higher tax rate.

► Global same-store sales increased 6.0%, well above our 3.9% estimate and consensus of 4.7%, with outperformance in every segment that was driven by International Lead and Foundational Markets.

► In the U.S., same-store sales increased 4.1% vs. our 3.0% est. driven by the national beverage promotion, McPick 2 value offering and the Signature Crafted premium sandwich platform. Results suggest roughly half the increase was from traffic as pricing has been ~2.0% this year.

► The International Lead Markets increased 5.7%, above our 3.0% est. and consensus of 4.4%, led by strength in the U.K. and Canada.

► The High Growth and Foundational Markets increased 6.2% and 10.2%, above our 4.5% and 5.5%, estimates, respectively. The High Growth segment was driven by results in China while Foundational Markets experienced growth across all regions.

► McDonald's achieved its refranchising target of 4,000 units more than one year ahead of schedule with the refranchising of China and Hong Kong this quarter moving their franchise mix to 91%.

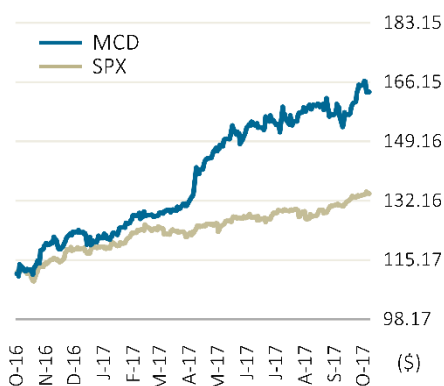
► **Outlook:** Management maintained the major components but tightened up the ranges for commodity inflation (1% in the U.S., 2% in International Lead), G&A (~7% decline in constant f/x) and tax rate.

**MCD** **\$163.34**  
12 month target \$175.00

### BUY

52 week range \$111.04 - \$166.50  
Dividend Yield 2.5%  
Market Cap (m) \$133,138

#### Price Performance



Source: IDC

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## BTIG Covered Companies Mentioned in this Report

MCDONALD'S CORPORATION (MCD, Buy, \$175.00 PT; Current Price: \$163.34; Analyst: Peter Saleh)

## Appendix: Analyst Certification and Other Important Disclosures

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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.

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### Company Valuation and Risk Disclosures

#### McDonald's Corporation (MCD, Buy, \$175.00 PT)

**Valuation:** Our price target of \$175 is based on applying a 24.7x P/E multiple to our 2018 EPS estimate of \$7.08. Our 24.7x P/E is based on a 2.0x 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 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

## Other Disclosures

Additional Information Available Upon Request

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