Take a step closer to McDonald's

Background Information

- Founded in 1940, over 80 years
- Headquartered in the U.S
- Achieved restaurant performance levels that are among the highest in the industry
- More than 200,000 employees
- Achieved nearly $20 billion in 2020 revenue and over $90 billion Systemwide sales
- Expects to open over 1,300 restaurants in 2021
- Expects to achieve a free cash flow conversion rate greater than 90% in 2021

SWOT Analysis

01 Strengths

- Technology Initiatives
- More than 200,000 employees
- Marketing Mix Strategy
- Real Estate Company

02 Weaknesses

- Regulation for digital world
- High opportunity cost
- Supply chain interruptions

SWOT Analysis

03 Opportunities

- Increase income and speed up the digital transformation process

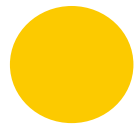- Promoted significant investment

04 Threats

- Use digital technology correctly
- Facing sustained, intense competition from traditional competitors, like KFC.
- The risk of increasingly reliant upon technology systems.
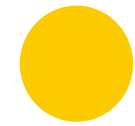
Key to McDonald's Success Today

- Develop strong, efficient processes and procedures

- Have the foundation of consistent processes

- Maintain consistency

- Establish a brand presence.

Franchisees

RESTAURANT MARGINS BY TYPE (In millions)

$12,500		
$10,000		
$7,500		
$5,000		
$2,500		
$0		

2020	2019	2018
$1,158	$1,660	$1,747
$8,519	$9,455	$9,039

■ Franchised margins   ■ Company-operated margins

➢ As of year-end 2020, 93% of McDonald's (36521 of total 39198) were franchised

➢ increasing the number of franchise-owned stores

Digital transformation

2021.10 IBM acquired McD Tech Labs

2021.7 MyMcDonald's Rewards programs

2020 Drive Thru

2019 3 major investment

2017 Digital Acceleration project

2015 self-service ordering kiosks

2014 Digital Innovation Team

2014 - Set up Digital Innovation Team

01

Unbundle the restaurant experience

02

Develop the next generation of drive-thrus

03

Deliver food anywhere any time

2015 - Adopt self-service ordering kiosks

The most immediate benefit of adopting self-order kiosks is cost-related

Kiosks improved overall sales and serves.

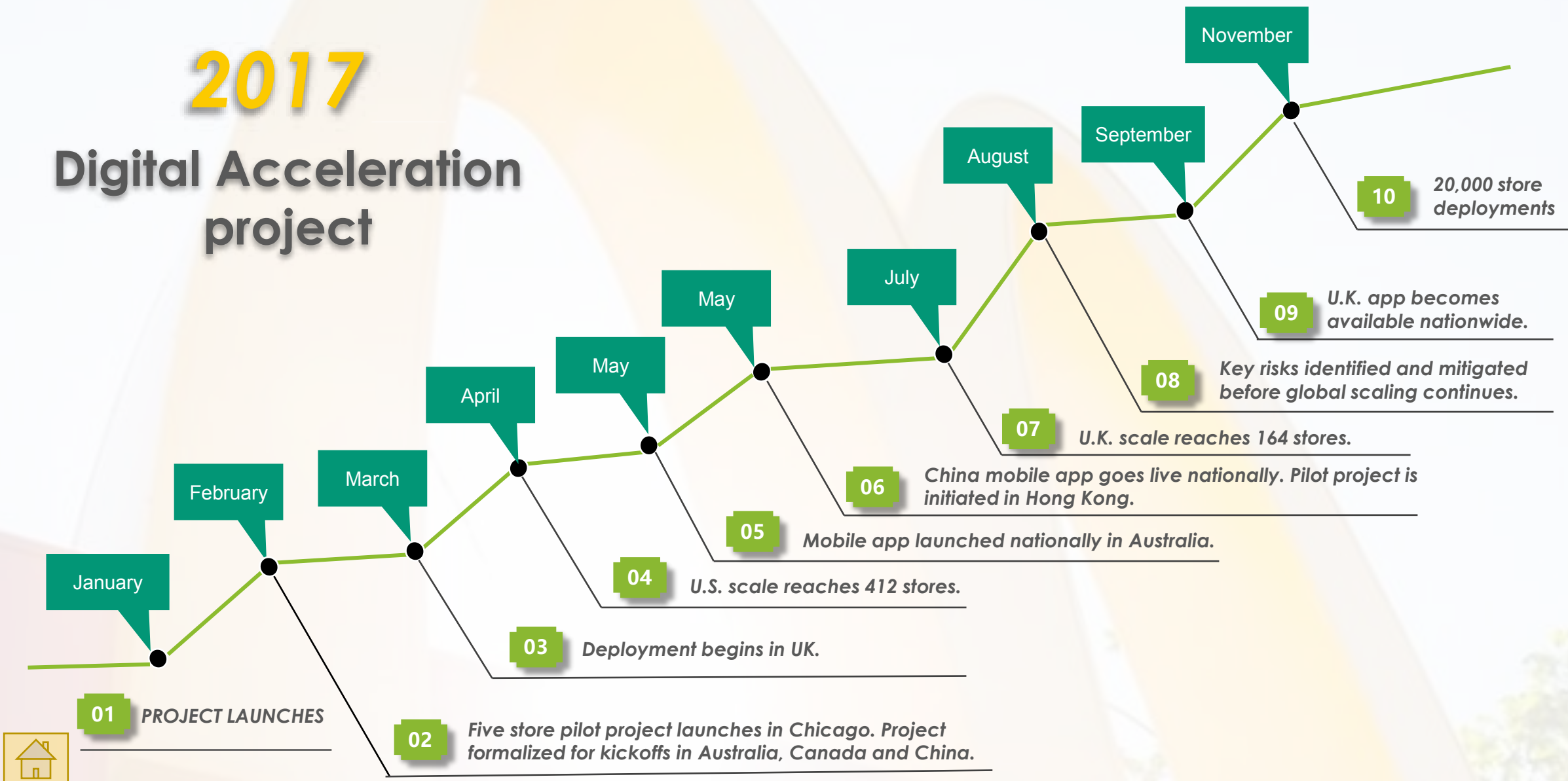**The touch screens can help to create your taste menu.**

2017
Digital Acceleration project

The new system lets customers order meals via in-store kiosks or a mobile app and pick up their orders as soon as they arrive at the restaurant , uses the GPS on a customer's mobile device to direct orders to the proper restaurant based on the customer's location.

2017

Digital Acceleration project

January

February

March

April

May

May

July

August

September

November

01   PROJECT LAUNCHES

02   Five store pilot project launches in Chicago. Project formalized for kickoffs in Australia, Canada and China.

03   Deployment begins in UK.

04   U.S. scale reaches 412 stores.

05   Mobile app launched nationally in Australia.

06   China mobile app goes live nationally. Pilot project is initiated in Hong Kong.

07   U.K. scale reaches 164 stores.

08   Key risks identified and mitigated before global scaling continues.

09   U.K. app becomes available nationwide.

10   20,000 store deployments

2019
3 major investments

Apprente

It's a leader in personalization and decision logic technology, McDonald's will utilize this decision technology and machine learning to the drive-thru.
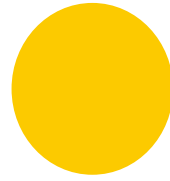
AI firm, building conversational agents that can automate voice-based ordering in multiple languages.

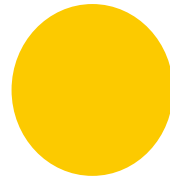*Plexure: a mobile engagement software company , makes the sales process for physical retailers seamless*
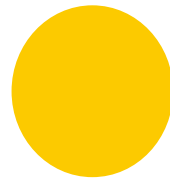
2020 Drive Thru

Express Pick Up:
New technology will alert crew to prep orders when customers are nearby, while dedicated parking spaces ensure fast pick up.

Express Drive Thru:
A new lane lets customers using the app skip the line and get their food even faster.

On-the-Go:
A smaller restaurant footprint would focus exclusively on efficiency, featuring Drive Thru, takeaway, and delivery with limited or no dine-in seating.

2021.7 MyMcDonald's Rewards programs

- **McDonald's is bringing its digital, data analytics, marketing, restaurant development and operations segments into one unit.**

- **The programs rake in valuable data about customers' food orders and habits, which restaurants use to push specialized deals in the hope of getting people to eat there more often and spend more money on extra items.**

2021.10
IBM will acquire
McD Tech Labs

✅ **McD Tech Labs:**
The company is created to advance employee and customer facing innovations following McDonald's 2019 acquisition of Apprente. committed to innovation across Digital, Delivery and Drive Thru.

✅ **IBM's expertise in building customer care solutions with AI and natural language processing will help scale the AOT technology across markets and tackle integrations including additional languages, dialects and menu variations.**

MCD Financial Summary

Comparable to Starbucks

FY2020 MCD VS Starbucks key Finanical Information		
In Millions	MCD	Starbucks
Revenue	19,208	23,518
Operating Profit	7,324	1,562
Operating Profit %	38%	7%
Net income	4,731	925
Net income %	25%	4%
EBITDA	7,590	2,993
EBITDA %	40%	13%
Current Ratio	101%	106%
cash ratio	56%	59%
ROCE	517%	7%

Revenue

-18% lower than Starbucks ,due to Pandemic.

EBITDA

154% higher than Starbucks ,due to investment in digital transformation.

Current Ratio

5% lower than Starbucks ,due to more capital reinvestment in the existing companies.

Cash Ratio

3% lower than Starbucks ,due to pandemic and strategic digital acquisition.

Key Financial Figures

MCD PL Summary	FY2020	FY2019	FY2018	FY2017	FY2016	FY2015	FY2014
Revenue	19,208	21,365	21,258	22,820	24,622	25,413	27,441
Total Margins	9,676	11,115	10,786	10,621	10,205	9,789	10,456
Total Margins %	50%	52%	51%	47%	41%	39%	38%
Operating Profit	7,324	9,070	8,823	9,553	7,745	7,146	7,949
Operating Profit %	38%	42%	42%	42%	31%	28%	29%
Net income	4,731	6,025	5,924	5,192	4,687	4,529	4,758
Net income %	25%	28%	28%	23%	19%	18%	17%
EBITDA	7,590	9,262	9,064	9,553	7,745	7,146	7,949
EBITDA %	40%	43%	43%	42%	31%	28%	29%

MCD BS Summary	FY2020	FY2019	FY2018	FY2017	FY2016	FY2015	FY2014
Current Ratio	101%	98%	136%	184%	140%	327%	3%
cash ratio	56%	25%	29%	85%	35%	260%	31%
D/E Ratio	450%	416%	-497%	-904%	-1174%	340%	34%
ROCE	517%	312%	30%	31%	28%	20%	205%

FY2020 Revenue

-10% lower than FY 2019,due to revenue declines in Company-operated restaurants **US$1.3B**.

FY2020 Total Margins

-13% lower than FY 2019,due to total margins declines in franchised Margins **US$0.9B**.

FY2020 EBITDA

-18% lower than FY 2019,due to revenue declines **US$1.3B**.

FY2020 Current Ratio

3% better than FY 2019,due to more cash on hand **US$2.6B**.

FY2020 Cash Ratio

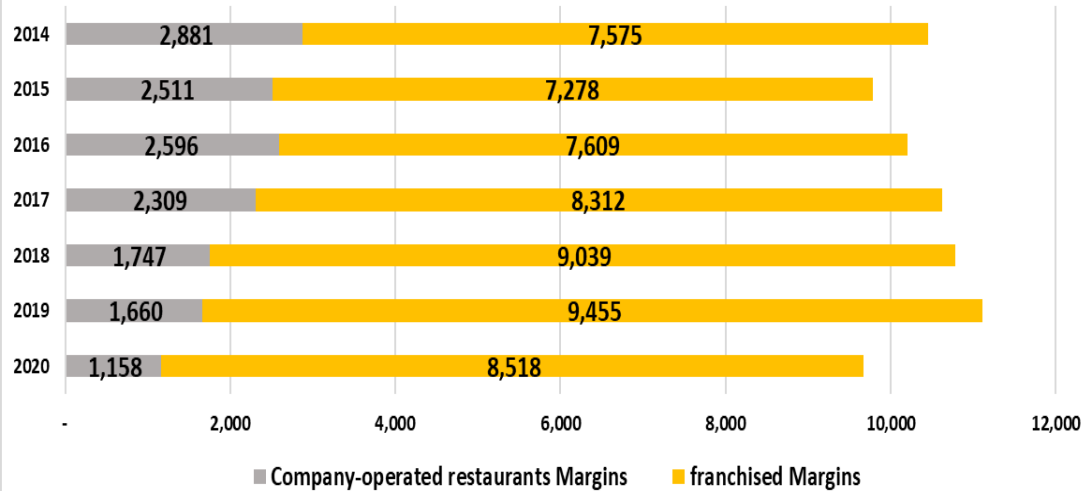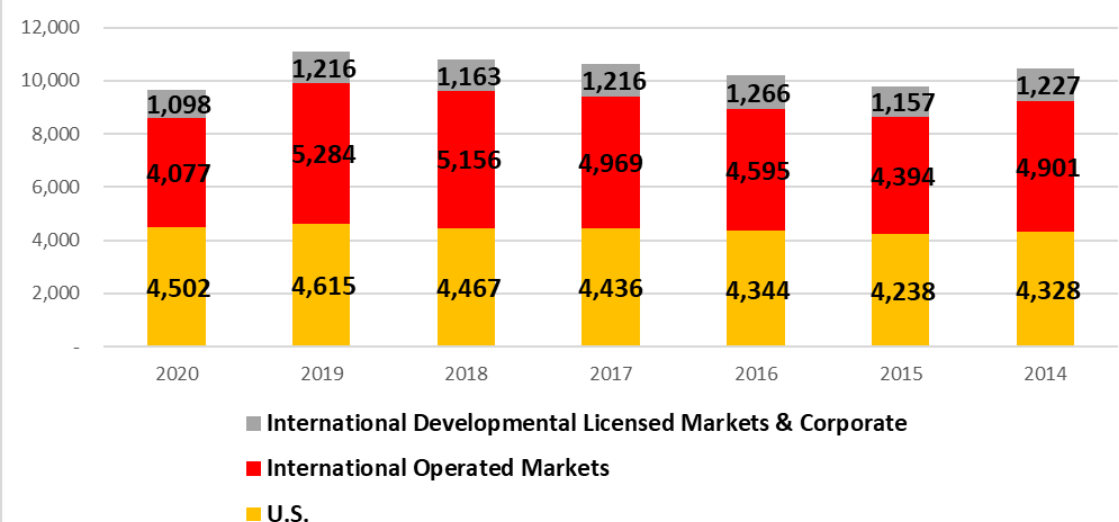**31% better** than FY 2019,due to fewer treasury stocks purchases **US$4.1B**.

FY2020 ROCE

205% better than FY 2019,due to more cash on hand **US$2.6B**.

Business Review

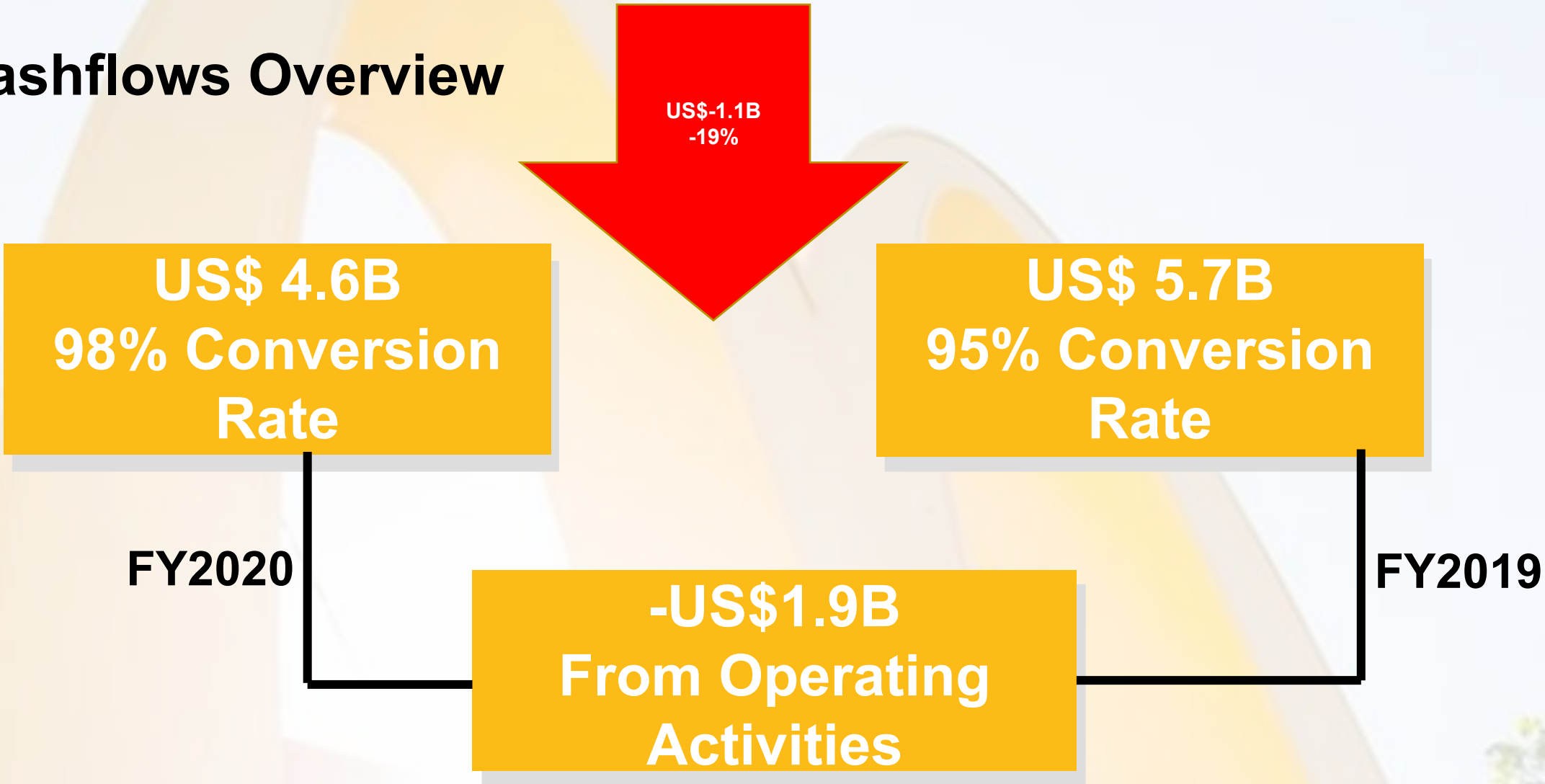## Restaurant Margins By Type(in millions)

Year	Company-operated restaurants Margins	franchised Margins
2014	2,881	7,575
2015	2,511	7,278
2016	2,596	7,609
2017	2,309	8,312
2018	1,747	9,039
2019	1,660	9,455
2020	1,158	8,518

Total Margins Segmentation(in millions)

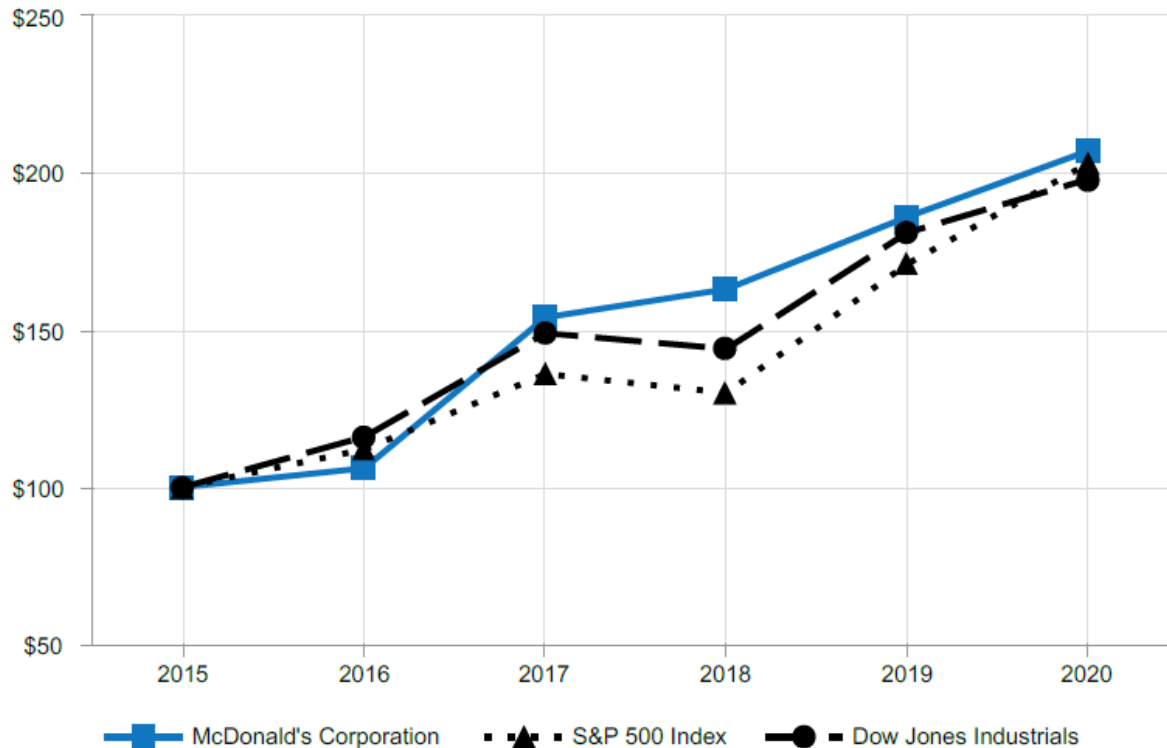| Year	International Developmental Licensed Markets & Corporate	International Operated Markets	U.S.
2020	1,098	4,077	4,502
2019	1,216	5,284	4,615
2018	1,163	5,156	4,467
2017	1,216	4,969	4,436
2016	1,266	4,595	4,344
2015	1,157	4,394	4,238
2014	1,227	4,901	4,328

⬤ Total Margins by Restaurants :

- **Overall:** dominated by franchised Margins(**88%**) from type and US Market (**47%**) and International Operated Market (**42%**) from regions.

- **Company-operated restaurants:**-**30% lower** than FY 2019,due to incremental COVID-19 expenses in the U.S. and International Operated Markets**.**

- **Franchised restaurants:**-**10% lower** than FY 2019,due to higher costs in investment in Experience of the Future and costs in recovery and drive growth.

- **US Margins:**-**2% lower** than FY 2019,due to pandemic.

- **International Operated Markets Margins:**-**23% lower** than FY 2019,due to worse performance in European countries countries but **positive** in **Australia**.

- **International Developmental Licensed Markets & Corporate:**-**10% lower** than FY 2019,due to worse performance in Latin America and Asia but comparable **strong** performance in **Japan.**

Free Cashflows Overview

US$-1.1B
-19%

US$ 4.6B
98% Conversion Rate

US$ 5.7B
95% Conversion Rate

FY2020

FY2019

-US$1.9B
From Operating Activities

Stock Price

Comparison of Cumulative Five-Year Total Return

Legend: McDonald's Corporation — S&P 500 Index — Dow Jones Industrials

Overall: 2% higher than S&P 500 Index and **5%** higher than Dow Jones Industrials at the end of 2020.

Company/Index	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020
McDonald's Corporation	$100	$106	$154	$163	$186	$207
S&P 500 Index	$100	$112	$136	$130	$171	$203
Dow Jones Industrials	$100	$116	$149	$144	$181	$198

Investment in Digital Transformation Timeline

FY2019

Dynamic Yield and Apprente Acquisition

FY2020
Tech Labs

FY2020

Drive Thru Improvement

Summary

Digital transformation strategy works.
And what's next?

Some interesting findings

Operation part

- 2014: digital innovation team

- 2015: Self-service ordering kiosks

- 2017: Digital Acceleration project

- 2019: Investment in Tech firm

- 2020: Drive Thru project

Financial part

	Net income%	Operating profit%	EBITDA %
2014	17%	29%	29%
2015	18%	28%	28%
2017	23%	42%	42%
2019	28%	42%	43%
2020	25%	38%	40%

- Although total revenue of the firm has dropped, key financial figures shows that the firm's profitability is improving.

24

Compared with direct competitor

McDonald's

Net income of McDonald's Corporation worldwide from 2005 to 2020 (in billion U.S. dollars)
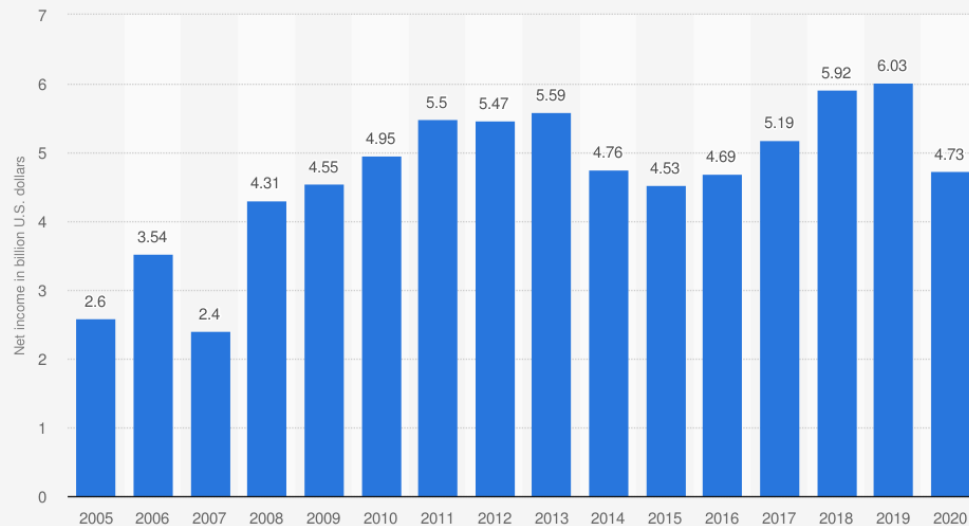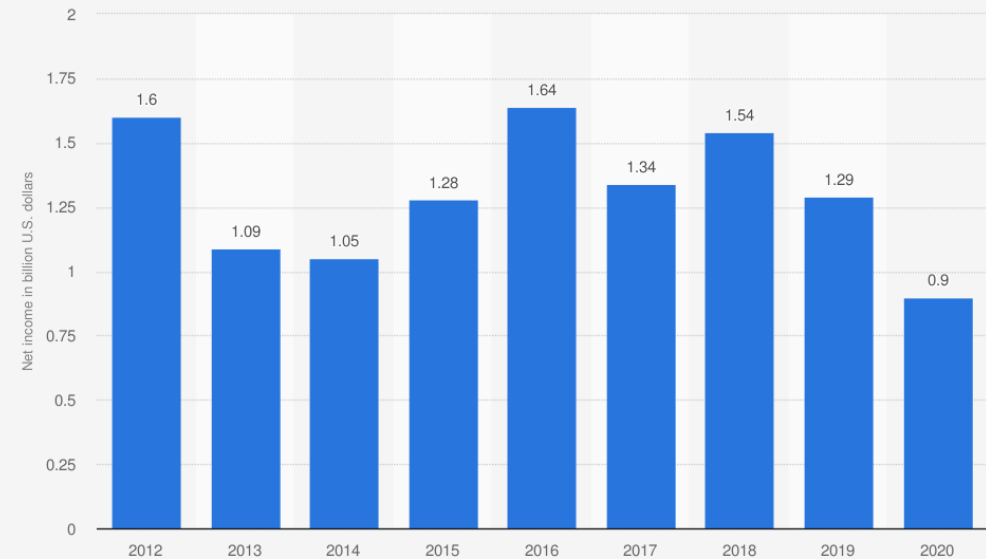
Source
McDonald's
© Statista 2021

Additional Information:
Worldwide; McDonald's; 2005 to 2020; financial year ended December 31 each year

YUM!

Net income of YUM! Brands worldwide from 2012 to 2020 (in billion U.S. dollars)

Source
Yum! Brands
© Statista 2021

Additional Information:
Worldwide; Yum! Brands; 2012 to 2020

Conclusion

1. Nowadays foodservice industry is intensively competitive, McDonald's has already done some incredible job to maintain its competitiveness, especially in perspective of digital transformation.

2. However, it is obvious that this market is saturated, it will be challenging for McDonald to increase its revenue and profit via expansion.

3. Fast food may not be as popular as before in rich areas.

Recommendation

McDonald's was good at standardization and cost control, and it can do it even better with digital methods.

Digital transformation has already helped McDonald's cut its cost, may be it can have another try.

Expansion is challenging, but not impossible.

McDonald's has a large group of loyal customers, and now they are gathering together in MyMcDonald's, why not branch out and try to expand business? We should not put all our eggs in one basket.

Thank You

For Your Attention