

Tear Sheet:**McDonald's Corp.**

July 28, 2023

McDonald's strong value offering, improving service levels, and relevant marketing are resonating with customers. Global comparable sales increased 11.7% during the second quarter of fiscal 2023, including 10.3% growth in the U.S., driven by higher checks and traffic. Although customers are adding fewer menu items to their orders and some are trading down to lower-priced menu items amid elevated inflation, more are visiting McDonald's restaurants. We believe this trend will continue as challenging macroeconomic conditions spur consumers to seek out affordable dining options. We have slightly revised our revenue forecast higher for 2023, though we still expect sales growth will slow in the second half of the year and in 2024 due to lower and less frequent menu price increases as inflation moderates.

Operating margins are expanding despite cost pressures. Ongoing inflationary cost pressures across commodities, particularly beef, and labor are weighing on McDonald's company-operated restaurant margins. Nevertheless, McDonald's franchises approximately 95% of its restaurants, largely insulating it against higher operating costs. McDonald's adjusted operating margin through the first half of fiscal 2023 expanded 290 basis points year-over-year. We expect these gains will recede slightly in the second half of the year due to lingering cost pressures and stepped-up selling, general, and administrative (SG&A) spending on technology and organizational investments. We now forecast S&P Global Ratings-adjusted EBITDA of \$15 billion in 2023, expanding roughly 8% from 2022.

We expect improving cash flow generation will fund higher capital spending, dividends and ongoing share repurchases this year. McDonald's has opened 526 net new restaurants this year, largely entirely in its international markets and primarily in China. We expect the pace of new openings will accelerate in the second half of the year, with the company reaching its target of 1,500 net new openings. We project capital expenditure (capex) will grow approximately 20% this year to between \$2.2 billion and \$2.4 billion. Good topline growth and flow through will likely result in free operating cash flow (FOCF) in the \$7.5 billion-\$8 billion range in fiscal 2023, though we anticipate all of it will be returned to shareholders through dividends and share repurchases. Our view of the company's financial policy remains unchanged, and we expect it will keep S&P Global Ratings-adjusted leverage in the low- to mid-3x area.

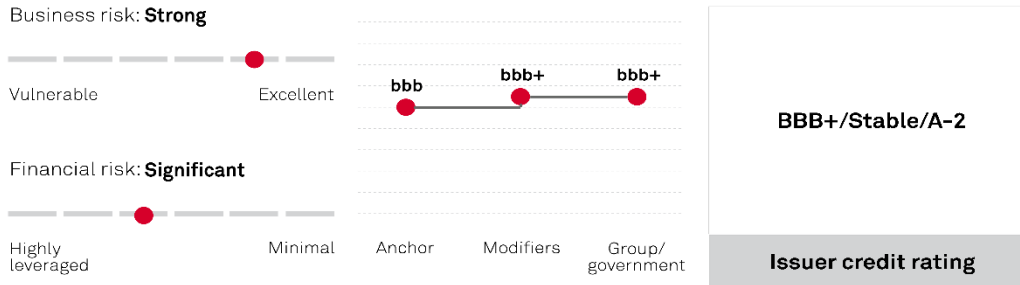
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Ratings Score Snapshot



Recent Research

- McDonald's Corp., May 2, 2023

Company Description

McDonald's is the world's largest restaurant company by revenue, generating more than \$124 billion in systemwide sales during the 12 months ended June 30, 2023. The company operates and franchises more than 40,800 restaurants globally and is primarily a franchisor, with approximately 95% of its restaurants owned and operated by independent franchisees.

Outlook

The stable outlook reflects our expectation that McDonald's highly franchised business model and successful execution of its strategic growth plan will enable it to achieve higher earnings and FOCF this year despite challenging macroeconomic conditions.

Downside scenario

We could lower our rating if the company's credit measures deteriorate, including S&P Global Ratings-adjusted leverage above 4x and FOCF to debt below 15%, whether due to sustained operating performance setbacks or a shift to a more aggressive financial policy.

Upside scenario

We could raise our rating if the company:

- Demonstrates a clear commitment to a more conservative financial policy that includes maintaining S&P Global Ratings-adjusted leverage of about 3x and FOCF to debt of about 20%; and
- Sustains operating performance gains, including positive global comparable sales, successful new restaurant development, and margin expansion.

Key Metrics

McDonald's Corp.--Forecast summary

Period ending	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027
(Mil. \$)	2019a	2020a	2021a	2022a	2023e	2024f	2025f	2026f	2027f
Revenue	21,077	19,208	23,223	23,183	24,994	26,437	27,708	29,025	30,390
EBITDA (reported)	10,633	9,082	12,278	11,241	13,347	14,276	14,990	15,761	16,502
Plus: Operating lease adjustment (OLA) rent	1,607	1,479	1,560	1,476	1,491	1,506	1,521	1,536	1,551
Plus/(less): Other	(15)	(32)	(398)	1,141	170	200	225	300	300
EBITDA	12,225	10,530	13,440	13,858	15,008	15,982	16,736	17,597	18,353
Less: Cash interest paid	(1,609)	(1,663)	(1,717)	(1,657)	(1,778)	(1,867)	(1,948)	(1,999)	(2,056)
Less: Cash taxes paid	(1,590)	(1,442)	(2,404)	(3,024)	(2,144)	(2,308)	(2,432)	(2,576)	(2,714)
Funds from operations (FFO)	9,026	7,425	9,319	9,177	11,086	11,807	12,356	13,021	13,584
Debt (reported)	34,177	37,440	35,623	35,904	35,931	37,897	38,975	39,935	41,148
Plus: Lease liabilities debt	13,379	14,023	13,726	12,796	12,923	13,053	13,183	13,315	13,448
Less: Accessible cash and liquid investments	(809)	(3,104)	(4,238)	(2,325)	(2,193)	(1,800)	(1,800)	(1,800)	(1,800)
Plus/(less): Other	601	634	--	--	--	--	--	--	--
Debt	47,348	48,993	45,111	46,374	46,661	49,150	50,359	51,450	52,796
Cash and short-term investments (reported)	899	3,449	4,709	2,584	2,437	2,000	2,000	2,000	2,000
Adjusted ratios									
Debt/EBITDA (x)	3.9	4.7	3.4	3.3	3.1	3.1	3.0	2.9	2.9
FFO/debt (%)	19.1	15.2	20.7	19.8	23.8	24.0	24.5	25.3	25.7

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. \$--U.S. dollar.

Financial Summary

McDonald's Corp.--Financial Summary

Period ending	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	\$	\$	\$	\$	\$	\$
Revenues	22,820	21,025	21,077	19,208	23,223	23,183
EBITDA	11,062	11,250	12,225	10,530	13,440	13,858
Funds from operations (FFO)	6,818	7,996	9,026	7,425	9,319	9,177
Interest expense	1,494	1,541	1,664	1,745	1,706	1,681
Cash interest paid	1,458	1,519	1,609	1,663	1,717	1,657
Operating cash flow (OCF)	6,206	7,556	9,186	7,218	10,182	8,389
Capital expenditure	1,848	2,736	2,386	1,635	2,033	1,890
Free operating cash flow (FOCF)	4,358	4,820	6,800	5,583	8,148	6,499

McDonald's Corp.--Financial Summary

Discretionary cash flow (DCF)	(3,417)	(3,644)	(1,758)	922	3,384	(1,565)
Cash and short-term investments	2,464	866	899	3,449	4,709	2,584
Gross available cash	2,464	866	899	3,449	4,709	2,584
Debt	36,371	38,773	47,348	48,993	45,111	46,374
Common equity	(3,268)	(6,258)	(8,210)	(7,825)	(4,601)	(6,003)
Adjusted ratios						
EBITDA margin (%)	48.5	53.5	58.0	54.8	57.9	59.8
Return on capital (%)	28.1	28.0	26.5	19.6	25.7	25.8
EBITDA interest coverage (x)	7.4	7.3	7.3	6.0	7.9	8.2
FFO cash interest coverage (x)	5.7	6.3	6.6	5.5	6.4	6.5
Debt/EBITDA (x)	3.3	3.4	3.9	4.7	3.4	3.3
FFO/debt (%)	18.7	20.6	19.1	15.2	20.7	19.8
OCF/debt (%)	17.1	19.5	19.4	14.7	22.6	18.1
FOCF/debt (%)	12.0	12.4	14.4	11.4	18.1	14.0
DCF/debt (%)	(9.4)	(9.4)	(3.7)	1.9	7.5	(3.4)

Peer Comparison**McDonald's Corp.--Peer Comparisons**

	McDonald's Corp.	Starbucks Corp.	Yum! Brands Inc.	Restaurant Brands International Inc.
Foreign currency issuer credit rating	BBB+/Stable/A-2	BBB+/Stable/A-2	BB+/Stable/--	BB/Stable/--
Local currency issuer credit rating	BBB+/Stable/A-2	BBB+/Stable/A-2	BB+/Stable/--	BB/Stable/--
Period	Annual	Annual	Annual	Annual
Period ending	2022-12-31	2022-10-02	2022-12-31	2022-12-31
Mil.	\$	\$	\$	\$
Revenue	23,183	32,250	6,842	6,505
EBITDA	13,858	8,021	2,581	2,481
Funds from operations (FFO)	9,177	6,158	1,649	1,654
Interest	1,681	714	570	605
Cash interest paid	1,657	705	561	552
Operating cash flow (OCF)	8,389	5,721	1,506	1,627
Capital expenditure	1,890	1,841	279	100
Free operating cash flow (FOCF)	6,499	3,880	1,227	1,527
Discretionary cash flow (DCF)	(1,565)	(2,523)	(622)	230

McDonald's Corp.--Peer Comparisons

Cash and short-term investments	2,584	3,183	367	1,178
Gross available cash	2,584	3,183	367	1,178
Debt	46,374	21,366	12,459	13,322
Equity	(6,003)	(8,699)	(8,951)	4,268
EBITDA margin (%)	59.8	24.9	37.7	38.1
Return on capital (%)	25.8	38.7	64.7	11.3
EBITDA interest coverage (x)	8.2	11.2	4.5	4.1
FFO cash interest coverage (x)	6.5	9.7	3.9	4.0
Debt/EBITDA (x)	3.3	2.7	4.8	5.4
FFO/debt (%)	19.8	28.8	13.2	12.4
OCF/debt (%)	18.1	26.8	12.1	12.2
FOCF/debt (%)	14.0	18.2	9.8	11.5
DCF/debt (%)	(3.4)	(11.8)	(5.0)	1.7

Environmental, Social, And Governance

ESG Credit Indicators

E-1	E-2	E-3	E-4	E-5	S-1	S-2	S-3	S-4	S-5	G-1	G-2	G-3	G-4	G-5
- N/A					- N/A					- Risk management, culture, and oversight				

N/A—Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumeric 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

Governance factors are a moderately positive consideration in our credit rating analysis of McDonald's. The successful development and execution of the Accelerating the Arches growth strategy, which focuses on menu relevancy, value messaging, and enhanced convenience, bolster its value proposition for customers and franchisees. In our view, McDonald's strategic planning strengths will continue to drive higher sales, profitability, and cash flow generation.

Environmental and social factors are an overall neutral consideration in our credit rating analysis of McDonald's. Labor intensity is high within the restaurant industry, so labor relations is a key social risk factor that McDonald's must manage. It directly employs restaurant staff at its more than 2,100 company-operated locations. However, most workers across its system are employed by its franchisees. As a global company, with labor standards and practices that vary by region, governance of franchisee relationships is critical to ensure fair labor practices are implemented systemwide. Ongoing wage investments illustrate McDonald's efforts to remain competitive and address staffing needs. However, higher labor costs will need to be met with increased productivity or offset by pricing actions to preserve operating margins.

Restaurant food safety is another critical risk factor as reputational damage can be difficult to repair. We believe McDonald's careful management of its supply chain as well as its operational

standards regarding food storage and preparation mitigates the likelihood of a food safety incident.

Rating Component Scores

Foreign currency issuer credit rating	BBB+/Stable/A-2
Local currency issuer credit rating	BBB+/Stable/A-2
Business risk	Strong
Country risk	Low
Industry risk	Intermediate
Competitive position	Strong
Financial risk	Significant
Cash flow/leverage	Significant
Anchor	bbb
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Strong (no impact)
Comparable rating analysis	Positive (+1 notch)
Stand-alone credit profile	bbb+

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

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