



McDonald's Corporation (MCD)

Updated February 7th, 2024, by Prakash Kolli

Key Metrics

Current Price:	\$285	5 Year CAGR Estimate:	6.5%	Market Cap:	\$206.47B
Fair Value Price:	\$261	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	02/28/24
% Fair Value:	109%	5 Year Valuation Multiple Estimate:	-1.7%	Dividend Payment Date:	03/15/24
Dividend Yield:	2.3%	5 Year Price Target	\$348	Years Of Dividend Growth:	49
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Hold

Overview & Current Events

McDonald's, founded in 1940 and headquartered in Chicago, IL, is the world's leading restaurant chain with 40,275 locations in about 119 countries at end of 2022. The highest store counts are in the US (13,444), China (4,978), Japan (2,968), France (1,536), and Canada (1,462). Approximately 95% of the stores are franchised and the rest are company owned. However, the company owns about 55% of the real estate and 80% of the buildings in its network. The firm sells burgers, chicken sandwiches, fries, breakfast sandwiches, burritos, nuggets, shakes, sodas, coffee, etc. Total system sales were approximately \$116B in 2022 and total revenue was around \$25.5B in 2023.

On February 5th, McDonald's reported Q4 2023 results. For the quarter, total revenue came in at \$6,406.2M, a +8% increase from \$5,926.5M compared to Q4 2022 on a 6% rise in systemwide sales adjusting for currency headwinds. Revenue climbed 12% at company-owned stores, while revenue increased 6% at franchised restaurants. Diluted earnings climbed 8% to \$2.80 per share compared to \$2.59 per share in comparable periods on higher sales offset by pre-tax charges and impairments. On a geographic basis, sales increased +4.3% in the US, +4.4% in the international markets, and +0.7% in the international developmental licensed markets.

For the year, revenue rose 10% to \$25.5B from \$23.2B while diluted EPS was up 38% to \$11.56 from \$8.33.

The company's two initiatives, Accelerating the Arches strategy and the Performance and Customer Excellence (PACE) initiative are driving growth and higher margins. Moreover, McDonald's is improving its burger offerings and cooking process to compete with other chains. The company announced a new CosMc small store format.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$4.82	\$4.97	\$5.71	\$6.66	\$7.90	\$7.84	\$6.05	\$9.28	\$10.10	\$11.56	\$12.44	\$16.56
DPS	\$3.28	\$3.44	\$3.61	\$3.83	\$4.19	\$4.73	\$5.04	\$5.25	\$5.66	\$6.23	\$6.68	\$8.94
Shares¹	963	907	819	794	767	746	745	744	736	728	724	706

McDonald's has a long and successful history when it comes to earnings per share growth. In the 2014 through 2023 period, earnings per share compounded at an average rate of 10.2% per annum. During that time the company did encounter challenges, though, as profits dropped in 2014 and again during the pandemic. McDonald's found ways to reignite growth by offering all day breakfast at its restaurants and expanding the menu through healthier offerings. Another big strategic shift was McDonald's decision to rebrand many of its restaurants. The company generates lower revenue now (sales peaked at \$28 billion in 2013) but its costs are lower, increasing margins. McDonald's is now asset-light and low-cost, collecting franchise and real estate fees from thousands of restaurants.

This strategy has been successful, with earnings per share growing at a strong pace. McDonald's continues to perform better than many of its peers when it comes to generating rising revenues from existing restaurants. Earnings per share growth should be driven by higher sales, declining operating costs, new restaurants, and share repurchases. We are forecasting 6% annual average growth to 2029. McDonald's reasonable payout ratio indicates the dividend is safe. We estimate the dividend will increase on average by about 6% annually over the next five years.

¹ Share count in millions.

Disclosure: This analyst is long MCD.



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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	20.0	20.2	21.1	22.3	21.1	25.2	33.2	25.3	25.1	25.6	22.9	21.0
Avg. Yld.	3.4%	3.4%	3.0%	2.6%	2.5%	2.4%	2.5%	2.2%	2.2%	2.3%	2.3%	2.6%

McDonald's stock price gained again since our last report on optimism about future growth despite near-term headwinds. Our earnings estimate matches consensus. Our valuation multiple is 21X earnings considering the solid business model and good performance. Our fair value estimate is \$261. Our 5-year price target is \$348.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2059
Payout	68%	69%	63%	58%	53%	60%	83%	57%	56%	54%	54%	54%

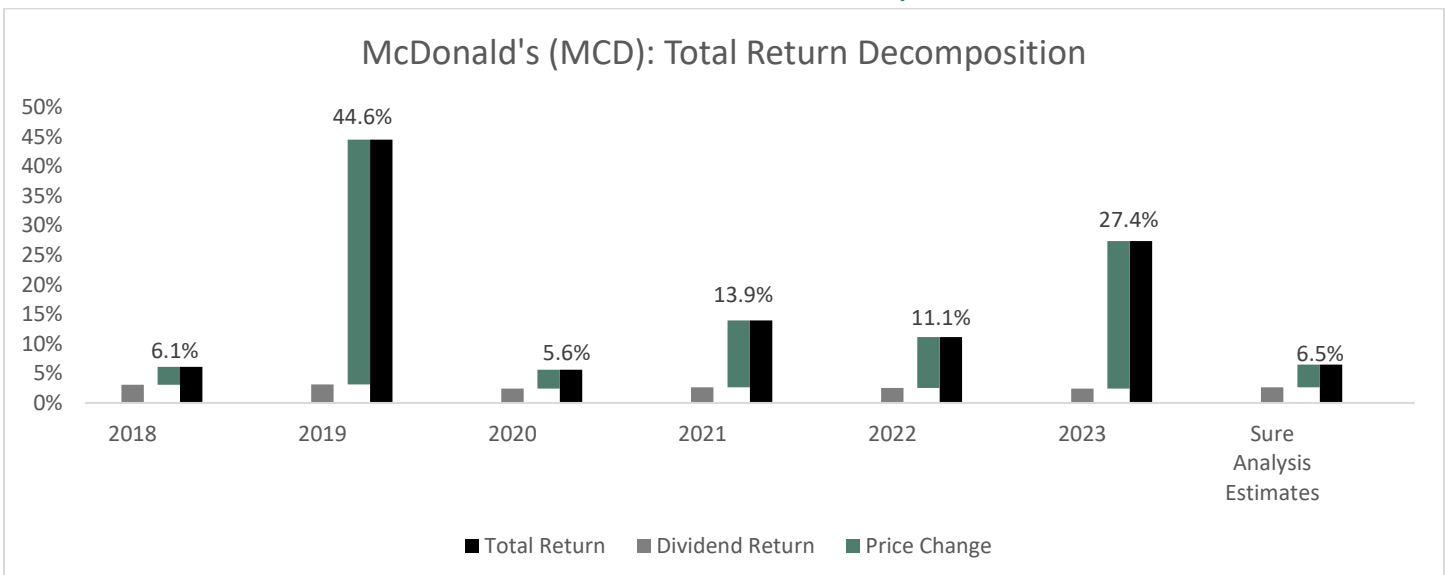
McDonald's competitive advantage lies in its global scale, cost advantages, immense network of restaurants, well-known brand, and real estate assets. The company has one of the most well-known brands in the world and has successfully replicated its business model globally. Next, McDonald's often owns prime real estate making it difficult for competitors to gain traction. That said, barriers to entry are non-existent and competition in the market space is intense. However, the company's superior track record against numerous competitors has illustrated why it is No. 1. During the Great Recession, McDonald's posted excellent results, with earnings per share of \$2.91, \$3.67, \$3.98, and \$4.60 over the 2007 through 2010 stretch, while the dividend kept on increasing to boot. Results bounced back after the pandemic too.

At end of Q4 2023, long-term debt was \$37,152.9M offset by \$4,579.3 in cash and equivalents. The company is slowly reducing leverage after peaking in 2020. The leverage ratio is ~3.1X and interest coverage is about 8.6X.

Final Thoughts & Recommendation

Total return potential comes in at 6.5% per annum, as 6% growth, and a 2.3% dividend yield could be offset by a (-1.7%) valuation headwind. McDonald's is performing better than many of its peers because of its value proposition. However, global conflicts, inflation, and labor shortages are headwinds. The firm is focused on returning cash to shareholders but the valuation remains elevated. We have maintained our hold rating at the current share price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	27441	25413	24622	22820	21025	21077	19210	23220	23183	25494
Gross Profit	10456	9789	10205	10621	10786	11115	9752	12580	13207	14563
Gross Margin	38.1%	38.5%	41.4%	46.5%	51.3%	52.7%	50.8%	54.2%	57.0%	57.1%
SG&A Exp.	2488	2434	2385	2231	2200	2229	2245	2378	2492	2435
D&A Exp.	1645	1556	1517	1363	1482	1618	1751	1868	1871	---
Operating Profit	7968	7355	7820	8390	8586	8886	7206	9873	9371	11647
Op. Margin	29.0%	28.9%	31.8%	36.8%	40.8%	42.2%	37.5%	42.5%	40.4%	45.7%
Net Profit	4758	4529	4687	5192	5924	6025	4730	7545	6177	8469
Net Margin	17.3%	17.8%	19.0%	22.8%	28.2%	28.6%	24.6%	32.5%	26.6%	33.2%
Free Cash Flow	4147	4725	4239	3698	4225	5728	4624	7102	5488	7255
Income Tax	2614	2026	2180	3381	1892	1993	1410	1583	1648	2053

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	34227	37939	31024	33804	32811	47511	52630	53850	50436	56147
Cash & Equivalents	2078	7686	1223	2464	866	899	3449	4709	2584	4579
Inventories	110	100	59	59	51	50	51	56	52	---
Goodwill & Int.	2735	2516	2337	2380	2332	2677	2773	2782	2900	---
Total Liabilities	21374	30851	33228	37072	39070	55721	60450	58460	56439	60854
Accounts Payable	860	875	756	925	1208	988	741	1007	980	---
Long-Term Debt	14936	24122	25956	29536	31075	34177	37440	35620	35904	37153
Total Equity	12853	7088	-2204	-3268	-6258	-8210	-7825	-4601	-6003	-4707
LTD/E Ratio	1.16	3.40	-11.78	-9.04	-4.97	-4.16	-4.79	-7.74	-5.98	-7.89

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	13.4%	12.6%	13.6%	16.0%	17.8%	15.0%	9.5%	14.2%	11.8%	15.9%
Return on Equity	33.0%	45.4%	192%	-190%	-124%	---	---	---	---	---
ROIC	16.4%	15.4%	17.1%	20.8%	23.2%	23.7%	17.0%	24.9%	20.3%	27.2%
Shares Out.	963	907	819	794	767	746	750	752	741	732
Revenue/Share	27.82	26.90	28.59	27.98	26.76	27.55	25.61	30.89	31.27	34.81
FCF/Share	4.20	5.00	4.92	4.53	5.38	7.49	6.17	9.45	7.40	9.91

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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