



McDonald's Corporation (MCD)

Updated May 13th, 2025, by Prakash Kolli

Key Metrics

Current Price:	\$310	5 Year CAGR Estimate:	5.5%	Market Cap:	\$223.05B
Fair Value Price:	\$271	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	06/03/25
% Fair Value:	115%	5 Year Valuation Multiple Estimate:	-2.7%	Dividend Payment Date:	06/17/25
Dividend Yield:	2.3%	5 Year Price Target	\$362	Years Of Dividend Growth:	48
Dividend Risk Score:	A	Sector:	Consumer Discretionary	Rating:	Hold

Overview & Current Events

McDonald's, founded in 1940 and headquartered in Chicago, IL, is the world's leading restaurant chain with 43,477 locations in about 119 countries at end of 2024. The highest store counts are in the US (13,557), China (6,8206), Japan (2,989), France (1,589), and Canada (1,489). Approximately 95% of the stores are franchised or licensed 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 \$130B+ and total revenue was around \$25.9B in 2024.

On May 1st, McDonald's reported Q1 2025 results. Total revenue came in at \$5,956M, down 2%, compared to \$6,169M in Q1 2024 on 1% higher systemwide sales adjusting for currency headwinds. Diluted earnings decreased 2% to \$2.60 per share compared to \$2.66 per share in comparable periods on pre-tax charges. On a geographic basis, comparable sales were -3.6% in the US, -1.0% in the International Operated Markets, and +3.5% in the International Developmental Licensed Markets. The firm's focus on value deals and the McValue platform should boost traffic and sales.

The company's Accelerating the Arches strategy is driving growth and higher margins. It focuses on the digital app and dual-lane drive-thru, development, and delivery to provide convenience. However, a stressed consumer has led the chain to offer its \$5 Meal Deal to increase its value proposition. The company is growing its loyalty program, reaching 175 million users in 60 markets. Loyalty member sales were approximately \$31 billion in the year.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$4.97	\$5.71	\$6.66	\$7.90	\$7.84	\$6.05	\$9.28	\$10.10	\$11.56	\$11.39	\$12.31	\$16.47
DPS	\$3.44	\$3.61	\$3.83	\$4.19	\$4.73	\$5.04	\$5.25	\$5.66	\$6.23	\$6.78	\$7.08	\$9.47
Shares¹	945	861	816	786	765	750	752	741	732	722	718	701

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, during the pandemic, and in 2024. 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, 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 systemwide sales from existing restaurants. Earnings per share growth should be driven by higher sales, declining operating costs, new restaurants, and share repurchases. The firm plans to grow its unit count by 4% to 5% annually and increase capital expenditures. We are forecasting 6% annual average growth to 2030. 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.

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Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	20.2	21.1	22.3	21.1	25.2	33.2	25.3	25.1	25.6	25.5	25.2	22.0
Avg. Yld.	3.4%	3.0%	2.6%	2.5%	2.4%	2.5%	2.2%	2.2%	2.3%	2.3%	2.3%	2.6%

McDonald's stock price flat since our last report on missing estimates and flat organic sales. Our earnings estimate matches consensus. We previously raised our fair value multiple to 22X earnings considering the solid business model and good performance. Our fair value estimate is \$271. Our 5-year price target is \$362.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	69%	63%	58%	53%	60%	83%	57%	56%	54%	60%	58%	58%

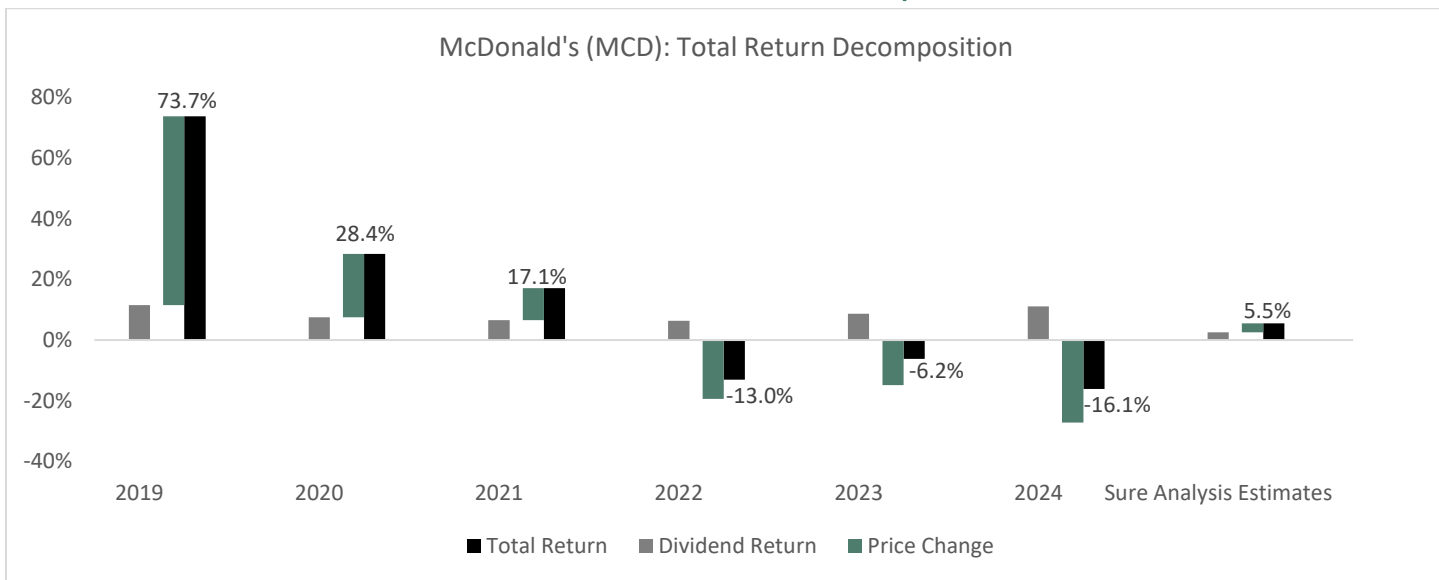
McDonald's competitive advantage lies in its global scale, cost advantages, immense network of restaurants, well-known brand, and real estate assets. The company has one of the most well-known brands in the world and has successfully replicated its business model globally. Next, McDonald's often owns 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 Q1 2025, long-term debt was \$38,845M offset by \$2,387 in cash and equivalents. The company is slowly reducing leverage after peaking in 2020. The leverage ratio is ~3.67X and interest coverage is about 7.79X.

Final Thoughts & Recommendation

Total return potential comes in at 5.5% per annum, as 6% growth, and a 2.3% dividend yield is offset by a (-2.7%) valuation headwind. McDonald's comparable sales has been impacted by global conflicts, price increases, the *E. Coli* outbreak, and a stressed consumer. The Accelerating the arches program is driving digital app use and loyalty membership. 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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	25413	24622	22820	21025	21077	19210	23220	23183	25494	25920
Gross Profit	9789	10205	10621	10786	11115	9752	12580	13207	14563	14711
Gross Margin	38.5%	41.4%	46.5%	51.3%	52.7%	50.8%	54.2%	57.0%	57.1%	56.8%
SG&A Exp.	2434	2385	2231	2200	2229	2245	2378	2492	2435	2412
D&A Exp.	1556	1517	1363	1482	1618	1751	1868	1871	1978	2097
Operating Profit	7355	7820	8390	8586	8886	7206	9873	9371	11647	11713
Op. Margin	28.9%	31.8%	36.8%	40.8%	42.2%	37.5%	42.5%	40.4%	45.7%	45.2%
Net Profit	4529	4687	5192	5924	6025	4730	7545	6177	8469	8223
Net Margin	17.8%	19.0%	22.8%	28.2%	28.6%	24.6%	32.5%	26.6%	33.2%	31.7%
Free Cash Flow	4725	4239	3698	4225	5728	4624	7102	5488	7255	6672
Income Tax	2026	2180	3381	1892	1993	1410	1583	1648	2053	2121

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	37939	31024	33804	32811	47511	52630	53850	50436	56147	55182
Cash & Equivalents	7686	1223	2464	866	899	3449	4709	2584	4579	1085
Inventories	100	59	59	51	50	51	56	52	53	56
Goodwill & Int.	2516	2337	2380	2332	2677	2773	2782	2900	3040	3145
Total Liabilities	30851	33228	37072	39070	55721	60450	58460	56439	60854	58979
Accounts Payable	875	756	925	1208	988	741	1007	980	1103	1029
Long-Term Debt	24122	25956	29536	31075	34177	37440	35620	35904	37153	38424
Total Equity	7088	-2204	-3268	-6258	-8210	-7825	-4601	-6003	-4707	-3797
LTD/E Ratio	3.40	-11.78	-9.04	-4.97	-4.16	-4.79	-7.74	-5.98	-7.89	-10.12

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	12.6%	13.6%	16.0%	17.8%	15.0%	9.5%	14.2%	11.8%	15.9%	14.8%
Return on Equity	45.4%	---	---	---	---	---	---	---	---	---
ROIC	15.4%	17.1%	20.8%	23.2%	23.7%	17.0%	24.9%	20.3%	27.2%	23.7%
Shares Out.	907	819	794	767	746	750	752	741	732	722
Revenue/Share	26.90	28.59	27.98	26.76	27.55	25.61	30.89	31.27	34.81	35.91
FCF/Share	5.00	4.92	4.53	5.38	7.49	6.17	9.45	7.40	9.91	9.24

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

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