

McDonald's Corporation

US Satellite*

Recommended since 16.09.2020

25.11.2024



Country US	Market capitalization (bn) USD 209,2	Perf. since reco. (%)
Sector Travel & Leisure	Free float 100,0%	McDonald's Corporation 29,1
Factset MCD-US	Closing price USD 290,28	Sector 61,6
ISIN US5801351017	ESG Risk score* 25,9 Medium risk	

Profile
 Founded by Ray Kroc in 1952, McDonald's Corporation is the world's largest fast-food chain serving more than 70 million customers daily. At the end of 2019, 38,700 fast-food outlets worldwide were operated by a company, a franchise partner, or the Group itself. The Group's revenues are derived from land rentals, royalties paid by franchise partners and sales in the restaurants it operates. McDonald's is best known for its (beef, chicken, fish) burgers and fries.

Strengths/opportunities

- ⊕ The tenth most valuable brand in the world and a real estate empire.
- ⊕ A leading fast-food company in the USA / A Value Meals success story.
- ⊕ Tech initiatives (self-service, on-line/mobile ordering).
- ⊕ Improvement of quality control and health protocols.

Weaknesses/threats

- ⊕ Fierce competition in the sector.
- ⊕ Supply chain disruptions.
- ⊕ Employee dissatisfaction.
- ⊕ Ongoing environmental concerns.

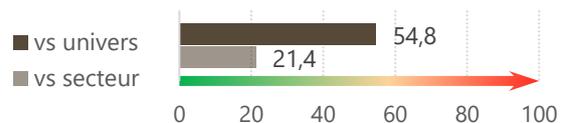
Investment case

- ⊕ McDonald's continues to demonstrate resilience in navigating a challenging economic environment, marked by inflationary pressures and shifts in consumer behavior. In response to declining traffic observed in Q2 2024, the company adopted a proactive strategy to reinforce its value proposition. The introduction of the "\$5 Deal Meal" has been a notable success, attracting price-sensitive customers, while digital initiatives, including the loyalty program (now representing over 20% of total sales), have strengthened customer relationships and boosted average transaction spend. Additionally, the initial success of the "Big Arch" burger launch in select international markets underscores the importance of product innovation in driving demand.
- ⊕ Operationally, McDonald's has shown remarkable adaptability: despite a 1.5% decline in comparable sales in Q3 2024, the company reported revenue growth of 3% to \$6.87 billion and exceeded market expectations with an EPS of \$3.23 (+1% y/y). These results highlight the effectiveness of pricing and promotional strategies in managing elevated costs. Furthermore, management remains confident in its ability to drive long-term growth through strategic initiatives, such as continued expansion in China and other emerging markets, despite temporary challenges like the E. coli outbreak in October.
- ⊕ Lastly, McDonald's capitalizes on its structural strengths: its scale, integrated digital ecosystem, and consistent innovation solidify its position as a defensive leader in the quick-service restaurant sector. Looking ahead, the company appears well-positioned to benefit from growing demand for affordable dining options while maintaining its leadership in adapting to modern food consumption trends. This combination of defensive attributes and sustainable growth potential continues to make McDonald's an attractive long-term investment.

Valuation

Based on 2024 estimates, the Group's valuation multiples (P/E, P/CF, EV/EBITDA) do not show any excesses compared to its sector peers.

ESG risk vs. universe & sector (percentile)*



USD	12/2023	2024e	2025e
Sales revenue (mio)	25 494	26 053	26 971
Sales growth	10,0%	2,2%	3,5%
EBIT adjusted (mio)	11 719	11 995	12 686
% of sales	46,0%	46,0%	47,0%
Net income (mio)	8 469	8 526	8 946
Net income growth	37,1%	0,7%	4,9%
FCF/Sales	28,5%	26,9%	28,7%
Net debt/Ebitda	3,5x	3,0x	2,9x
Dividend yield	2,4%	2,3%	2,5%
PE	25,6x	24,6x	23,0x
EV/EBITDA	18,4x	17,8x	16,9x

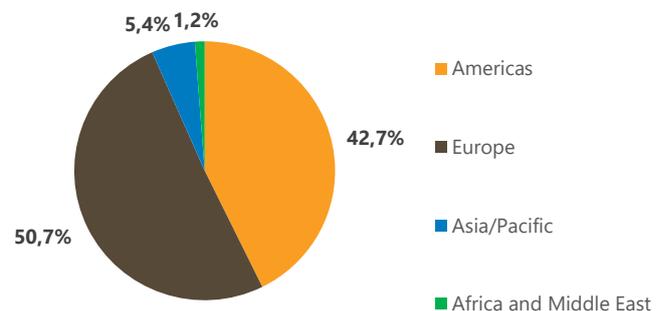
ESG - risks and key points

- ⊕ The rating shows that McDonald's has an average level of financial risk related to ESG factors due to average exposure and management of significant issues.
- ⊕ The company is regularly the target of criticism/controversy regarding the dietary quality of its products, the treatment of its employees, its environmental practices and tax optimisation.

5-year performance vs sector



Sales breakdown - 12/2023



*: see overleaf

Source: Factset, Sustainabilitycs

Glossary

Satellite

From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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