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[www.tigressfinancialpartners.com](http://www.tigressfinancialpartners.com)**McDonald's Corporation (MCD-US)**

Hotels Restaurants &amp; Leisure

- We reiterate our Neutral rating on MCD as Business Performance continues to trend negative and valuation remains high.
- Business Performance continues to decline due to competition along with global economic and currency headwinds.
- MCD attempts to drive traffic growth through the ongoing introduction of new digital and service initiatives.
- MCD uses its value-based pricing menu to further drive traffic by rotating limited-time value product offerings.
- MCD's ongoing re-franchising process will continue to pressure revenue near-term but should have a longer-term positive effect on capital returns.
- Intense competition in the US along with global macroeconomic and currency headwinds continue to create a difficult environment for growth.
- MCD consistently returns cash to shareholders through ongoing dividend increases and share repurchases.

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**Company Note**
**McDonald's Corporation (MCD-US)**

Hotels Restaurants &amp; Leisure

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**Research Action:**

Reiterate rating

Rating: Neutral

Prior Rating: Neutral

Price 11/28/2017: \$171.34

52 Week High / Low: \$171.38 / \$117.71

**Key Data: (TTM as of Sep-17)**

Excess Cash per Share: \$1.86

Annual Dividend: \$4.04

Dividend Yield: 2.36%

Avg. Volume (30 Day): 2.5M

Shares Outstanding: 797.2M

Float: 796.8M

Equity MV: \$136,589.8M

Sales TTM: \$23,509.1M

Beta: 0.58

EBITDAR: \$12,287.9M

NOPAT: \$6,126.4M

Total Invested Capital: \$58,255.8M

Return on Capital: 12.90%

Cost of Capital: 4.42%

Economic Profit: \$4,027.3M

Market Value Added: \$133,319.5M

Current Operations Value: \$138,571.5M

Future Growth Value: \$53,003.9M

- **We reiterate our Neutral rating on MCD as Business Performance continues to trend negative and valuation remains high.** MCD continues to improve operating efficiencies and enhance customer experience through the ongoing introduction of new digital and service initiatives. MCD is also trying to reduce capital requirements and increase Return on Capital through the ongoing re-franchising of its restaurants. MCD's re-franchising process is causing a negative trend in revenue in the near-term but should have a positive trend on Return on Capital longer-term. The trend in higher wages will also have a mixed effect as labor costs rise, margins will continue to come under pressure. However, MCD can also benefit from greater disposable income. MCD remains one of the best run companies in the world and trades at a premium valuation. While MCD has outperformed its peer group and the overall market, the current high valuation and slowing Business Performance drives our neutral rating.
- **Business Performance continues to decline due to competition along with global economic and currency headwinds.** For the past 12 months ending September 2017, revenue declined 5.7% Y/Y from \$24.9 billion to \$23.5 billion. We are estimating a further decline of 12.3% to \$20.6 billion over the NTM. Economic Operating Cash Flow (EBITDAR) increased 7.8% from \$11.4 billion to \$12.3 billion over the LTM. We are estimating a decline of 20.7% to \$9.8 billion over the NTM. Net Operating Profit After Tax (NOPAT) increased 11.6% from \$5.5 billion to \$6.1 billion over the LTM. We estimate a decline of 23% to \$4.7 billion over the NTM. Return on Capital (ROC) declined from 13.6% to 12.9% over the LTM. We are forecasting a further decline to 11.7% over the NTM. Economic Profit increased 5.1% from \$3.8 billion to \$4.0 billion over the LTM. We are forecasting a decline of 9.6% to \$3.6 billion over the NTM. MCD's ongoing re-franchising efforts should have a positive effect on Return on Capital over the long-term. The near-term negative trend will eventually be a headwind to further share price gains.

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**McDonald's Corporation (MCD-US)****Hotels Restaurants & Leisure**

- **MCD attempts to drive traffic growth through the ongoing introduction of new digital and service initiatives.** MCD is rolling out its mobile-order-and-pay applications along with the introduction of curbside and delivery services. Nearly all MCD's U.S. restaurants are using digital menu boards both inside and at drive-throughs to more efficiently adjust menu items and pricing changes. MCD continues to install ordering kiosks and table location technology for direct to customer table delivery. MCD is accelerating the rollout of its Experience of the Future (EOTF) restaurants that incorporate the latest food ordering and customer service technologies to further drive traffic and enhance the dining experience. Currently, 13% of all MCD's restaurants feature some level of the EOTF services with the goal of converting all its traditional restaurants by the end of 2020. MCD has also partnered with UberEATS to offer delivery service currently available in over 3,700 restaurants and is on track to reach 5,000 restaurants by year-end. MCD is also rolling out its mobile order-and-pay capability to over 6,000 of its international restaurants in Australia, Canada, China, France, Germany, and the United Kingdom which should be completed by year-end.
- **MCD uses its value-based pricing menu to further drive traffic by rotating limited-time value product offerings.** MCD's All Day Breakfast introduced in late 2015 was probably the most successful product offering campaign in its history. Unfortunately, the effect of All Day Breakfast has started to slow. MCD will continue to offer new limited time value-priced items in its ongoing attempt to increase customer traffic. Unique promotions like the one-day availability of its Szechuan sauce last month created a frenzy of traffic as Szechuan sauce fans traveled all over to get some of the limited-edition sauce.
- **MCD's ongoing re-franchising process will continue to pressure revenue near-term but should have a longer-term positive effect on capital returns.** Currently, 91% of all MCD restaurants are franchised with the goal long-term goal of bringing that to 95%. MCD recently re-franchised 4,000 of its restaurants with the sale of its China and Hong Kong restaurants. Re-franchising has weighed on near-term revenues as company-operated restaurant sales are replaced by franchise licensing revenue over the long-term. This will free up capital for further investment in new growth and digital initiatives as well as increasing dividend payouts and share buybacks.

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**McDonald's Corporation (MCD-US)****Hotels Restaurants & Leisure**

- **Intense competition in the US along with global macroeconomic and currency headwinds continue to create a difficult environment for growth.** While MCD is one of the world's most well-run companies, it still faces margin pressures from minimum wage increases and rising healthcare costs along with various increases in commodity costs. 40% of all MCD are outside the U.S. and are subject to negative currency translation. Increasing competition from all other quick service and casual dining restaurants along with the ongoing emergence of the better burger category continue to weigh on growth. One of the other biggest problems MCD faces is rising health concerns and the increased awareness of obesity, especially in the U.S. which is its largest market. MCD has been trying to improve the perceived healthfulness of its products by discontinuing the use of chickens raised with antibiotics and the removal of artificial ingredients for many of its products. MCD is also set to roll out the use of fresh beef over frozen in the McDonald's Quarter Pounder by mid-2018. MCD is also shifting to the use of cage-free eggs over the next 10 years. MCD has been forced to make these choices to both respond customer preference and competitive offerings.
- **MCD consistently returns cash to shareholders through ongoing dividend increases and share repurchases.** MCD has increased its dividend an average of 5% almost every year since it began its dividend payout policy in 1976. In 2014, MCD announced an open market purchase for \$10 billion worth of stock. In January 2016, MCD announced an additional open market purchase for \$15 billion worth of stock.

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**Investment Thesis**

Our neutral rating is based on McDonald's difficulty in growing revenue and Return on Capital due to increasing global competition and rising staffing costs. Year-over-year revenue continues to decline along with Return on Capital and Economic Profit. McDonald's currently trades at a premium valuation to our intrinsic value calculation. Even its successful All Day Breakfast campaign has lost some recent momentum.

**Company Overview**

McDonald's Corp. (MCD-US) is one of the world's largest operator and franchisor of quick service restaurants (QSR) with over 37,000 restaurants in 120 countries and has one of the world's best-known restaurant brands.

McDonald's operates under four geographic segments including the United States (33.5% of total revenue) its largest region. International Lead Markets (29.3% of total revenue) which includes Australia, Canada, France, Germany and the United Kingdom. High-Growth Markets (25.0% of total revenue) which are markets with a high restaurant expansion rate and franchising potential that include China, Italy, Poland, Russia, South Korea, Spain, Switzerland and the Netherlands. Foundational Markets (12.1% of total revenue) which includes all other markets in McDonald's system.

McDonald's dominates the quick service restaurant industry through its longtime focus on food quality and consistency and extensive marketing campaigns. McDonald's continues to shift its ownership structure toward increasing franchises and reducing capital needs. McDonald's plans to re-franchise many of its restaurants with a longer-term goal of a 95% franchised business model. McDonald's also continues to focus on increasing its digital capabilities to streamline operations and further improve customer experience and profitability.

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**Company Report – Research Update**
**McDonald's Corporation (MCD-US)**
**Hotels Restaurants & Leisure**
**Financial Data**

Report Basis	LTM	LTM	LTM	LTM	LTM	LTM	NTM	5 Yr	3 Yr	Current
Reported Period Ending	09/30/2012	09/30/2013	09/30/2014	09/30/2015	09/30/2016	09/30/2017	09/30/2018	Average	Average	Trend
<b>Net Sales Revenue</b>	\$27,437.6	\$27,964.6	\$27,962.3	\$25,643.9	\$24,934.3	\$23,509.1	\$20,630.4	\$26,002.8	\$24,695.8	\$22,069.7
Sales Growth	3.94%	1.92%	-0.01%	-8.29%	-2.77%	-5.72%	-12.25%	-2.97%	-5.59%	-8.98%
Sales Growth Trend	6.67%	2.73%	0.76%	-4.98%	-4.98%	-4.54%	-9.63%	-2.20%	-4.83%	-7.08%
<b>Operating Cash Flow (EBITDAR)</b>	\$11,811.0	\$12,212.6	\$12,178.9	\$11,231.9	\$11,401.2	\$12,287.9	\$9,750.8	\$11,862.5	\$11,640.3	\$11,019.3
EBITDAR Margin	43.05%	43.67%	43.55%	43.80%	45.73%	52.27%	47.26%	45.80%	47.26%	49.77%
EBITDAR Growth	4.56%	3.40%	-0.28%	-7.78%	1.51%	7.78%	-20.65%	0.93%	0.50%	-6.43%
<b>Net Operating Profit Before Tax (NOPBT)</b>	\$8,628.3	\$8,873.1	\$8,640.7	\$7,726.1	\$8,034.9	\$9,074.2	\$6,942.2	\$8,469.8	\$8,278.4	\$8,008.2
NOPBT Margin	31.45%	31.73%	30.90%	30.13%	32.22%	38.60%	33.65%	32.72%	33.65%	36.12%
NOPBT Growth	3.48%	2.84%	-2.62%	-10.58%	4.00%	12.93%	-23.49%	1.31%	2.12%	-5.28%
<b>Cash Operating Income Tax</b>	\$2,751.5	\$2,842.4	\$2,851.4	\$2,423.5	\$2,547.0	\$2,947.7	\$2,211.1	\$2,722.4	\$2,639.4	\$2,579.4
Economic Tax Effective Rate	31.89%	32.03%	33.00%	31.37%	31.70%	32.48%	31.85%	32.12%	31.85%	32.17%
<b>Net Operating Profit After Tax (NOPAT)</b>	\$5,876.9	\$6,030.7	\$5,789.3	\$5,302.6	\$5,487.9	\$6,126.4	\$4,731.1	\$5,747.4	\$5,639.0	\$5,428.8
NOPAT Margin	21.42%	21.57%	20.70%	20.68%	22.01%	26.06%	22.93%	22.20%	22.92%	24.50%
NOPAT Growth	1.90%	2.62%	-4.00%	-8.41%	3.50%	11.63%	-22.78%	1.07%	2.24%	-5.57%
<b>Cash &amp; Equivalents</b>	\$2,178.5	\$2,544.3	\$3,233.3	\$2,452.5	\$2,266.7	\$2,671.2	\$2,413.9	\$2,633.6	\$2,463.5	\$2,542.5
<b>Total Assets</b>	\$33,824.5	\$35,551.3	\$36,020.8	\$32,959.5	\$32,486.9	\$32,559.6	\$29,423.0	\$33,915.6	\$32,668.7	\$30,991.3
<b>Non - Interest Bearing Liabilities (NIBLs)</b>	\$4,527.0	\$4,811.4	\$5,236.4	\$5,211.0	\$5,599.7	\$5,498.2	\$4,968.5	\$5,271.3	\$5,436.3	\$5,233.4
<b>Net Assets</b>	\$29,297.5	\$30,739.9	\$30,784.4	\$27,748.5	\$26,887.2	\$27,061.4	\$24,454.5	\$28,644.3	\$27,232.4	\$25,757.9
<b>Economic Asset Adjustments</b>	\$11,226.5	\$11,852.9	\$14,167.0	\$15,757.8	\$14,239.2	\$14,194.4	\$28,189.4	\$17,442.3	\$20,397.2	\$29,691.9
<b>Net Operating Assets</b>	\$40,524.0	\$42,592.8	\$44,951.4	\$43,506.3	\$41,126.4	\$58,255.8	\$52,643.8	\$46,086.6	\$47,629.5	\$55,449.8
<b>Debt &amp; Debt Equivalents</b>	\$23,620.1	\$24,337.0	\$27,177.7	\$29,509.8	\$36,244.8	\$55,974.0	\$50,581.9	\$34,648.7	\$40,576.2	\$53,278.0
<b>Equity &amp; Equivalents</b>	\$13,884.1	\$15,164.9	\$13,625.9	\$8,309.8	(\$1,624.1)	(\$3,477.6)	(\$3,142.6)	\$6,399.8	\$1,069.4	(\$3,310.1)
<b>Total Capital - Financing Sources</b>	\$37,504.2	\$39,501.9	\$40,803.6	\$37,819.6	\$34,620.7	\$52,496.4	\$47,439.3	\$41,048.5	\$41,645.6	\$49,967.9
<b>Capital Adjustments</b>	\$870.5	\$1,003.7	\$2,119.5	\$4,238.5	\$4,001.4	\$3,838.8	\$3,469.0	\$3,040.4	\$4,026.2	\$3,653.9
<b>Net Capital Financing Sources</b>	\$38,374.7	\$40,505.6	\$42,923.1	\$42,058.1	\$38,622.1	\$56,335.2	\$50,908.3	\$44,088.8	\$45,671.8	\$53,621.8
<b>Net Working Capital</b>	\$1,911.4	\$1,852.9	\$1,837.2	\$1,814.0	\$1,309.7	\$1,690.8	\$1,527.9	\$1,700.9	\$1,604.8	\$1,609.3
Cost of Net Working Capital	\$76.1	\$96.3	\$84.8	\$83.6	\$64.1	\$66.3	\$59.9	\$79.0	\$71.4	\$63.1
% of Revenue	0.28%	0.34%	0.30%	0.33%	0.26%	0.28%	0.29%	0.30%	0.29%	0.29%
<b>Operational Capital</b>	\$36,019.0	\$37,783.7	\$38,870.0	\$36,572.7	\$34,533.2	\$51,025.0	\$46,109.6	\$39,756.9	\$40,710.3	\$48,567.3
Cost of Operational Capital	\$1,404.6	\$1,887.7	\$1,761.6	\$1,727.4	\$1,459.6	\$1,891.3	\$1,709.1	\$1,745.5	\$1,692.8	\$1,800.2
% of Revenue	5.12%	6.75%	6.30%	6.74%	5.85%	8.05%	8.28%	6.74%	6.88%	8.16%
<b>Productive Capital</b>	\$38,763.2	\$40,637.5	\$41,681.2	\$39,154.3	\$37,037.9	\$53,398.3	\$48,254.2	\$42,381.8	\$43,196.8	\$50,826.3
Cost of Productive Capital	\$1,512.5	\$2,030.9	\$1,891.8	\$1,850.9	\$1,564.0	\$1,999.2	\$1,806.6	\$1,867.3	\$1,804.7	\$1,902.9
% of Revenue	5.51%	7.26%	6.77%	7.22%	6.27%	8.50%	8.76%	7.20%	7.33%	8.63%
<b>Total Operating Capital</b>	\$39,717.3	\$41,446.8	\$43,116.2	\$42,336.0	\$40,106.4	\$56,760.1	\$51,292.2	\$44,753.1	\$46,400.8	\$54,026.1
Cost of Total Operating Capital	\$1,547.9	\$2,076.0	\$1,943.3	\$1,956.6	\$1,692.4	\$2,141.3	\$1,935.0	\$1,961.9	\$1,930.1	\$2,038.2
% of Revenue	5.64%	7.42%	6.95%	7.63%	6.79%	9.11%	9.38%	7.58%	7.84%	9.24%
<b>Non - Operating Capital</b>	\$806.6	\$1,146.1	\$1,835.2	\$1,170.3	\$1,020.0	\$1,495.7	\$1,351.7	\$1,333.5	\$1,228.7	\$1,423.7
Cost of Non - Operating Capital	\$37.6	\$49.9	\$68.5	\$68.8	\$45.0	\$55.6	\$50.3	\$57.6	\$56.5	\$52.9
% of Revenue	0.14%	0.18%	0.25%	0.27%	0.18%	0.24%	0.24%	0.22%	0.23%	0.24%
<b>Total Capital</b>	\$40,524.0	\$42,592.8	\$44,951.4	\$43,506.3	\$41,126.4	\$58,255.8	\$52,643.8	\$46,086.6	\$47,629.5	\$55,449.8
Cost of Total Capital	\$1,585.5	\$2,125.9	\$2,011.9	\$2,025.4	\$1,737.3	\$2,196.9	\$1,985.3	\$2,019.5	\$1,986.5	\$2,091.1
% of Revenue	5.78%	7.60%	7.19%	7.90%	6.97%	9.34%	9.62%	7.80%	8.07%	9.48%
<b>Cost of Capital (WACC)</b>	4.01%	5.12%	4.60%	4.58%	4.11%	4.42%	4.42%	4.56%	4.37%	4.42%
<b>Capital Structure</b>										
<b>Debt &amp; Debt Equivalents</b>	\$23,620.1	\$24,337.0	\$27,177.7	\$29,509.8	\$36,244.8	\$55,974.0	\$50,581.9	\$34,648.7	\$40,576.2	\$53,278.0
Debt & Debt Equivalents % of Market Value	20.34%	20.19%	22.60%	24.60%	27.45%	30.61%	30.61%	25.64%	27.99%	30.61%
<b>Preferred Equity</b>	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Preferred Equity % of Market Value	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Market Value of Common Equity</b>	\$92,523.5	\$96,175.9	\$93,096.7	\$90,473.2	\$95,800.0	\$126,910.3	\$114,684.6	\$100,491.2	\$104,394.5	\$120,797.5
Common Equity % of Market Value	79.66%	79.81%	77.40%	75.40%	72.55%	69.39%	69.39%	74.36%	72.01%	69.39%
<b>Total Economic Market Value (MV)</b>	\$116,143.6	\$120,513.0	\$120,274.4	\$119,983.0	\$132,044.8	\$182,884.4	\$165,266.5	\$135,139.9	\$144,970.7	\$174,075.4
Total %	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
<b>Excess Cash</b>	\$806.6	\$1,146.1	\$1,835.2	\$1,170.3	\$1,020.0	\$1,495.7	\$1,351.7	\$1,333.5	\$1,228.7	\$1,423.7
<b>Economic Enterprise Value</b>	\$115,337.0	\$119,366.9	\$118,439.2	\$118,812.7	\$131,024.8	\$181,388.6	\$163,914.8	\$133,806.5	\$143,742.1	\$172,651.7
<b>Average Capital</b>	\$37,427.4	\$39,440.1	\$41,714.4	\$42,490.6	\$40,340.1	\$47,478.7	\$53,621.8	\$42,292.8	\$43,436.5	\$50,550.2
Capital Δ	\$1,894.6	\$2,131.0	\$2,417.5	(\$865.0)	(\$3,436.0)	\$17,713.2	(\$5,427.0)	\$3,592.1	\$4,470.7	\$6,143.1

Source: Company Data, Financial statements and Tigress Research

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Company Report – Research Update

McDonald's Corporation (MCD-US)

Hotels Restaurants & Leisure

Financial Analysis

Report Basis	LTM	LTM	LTM	LTM	LTM	LTM	LTM	NTM	5 Yr	3 Yr	Current
Reported Period Ending	09/30/2012	09/30/2013	09/30/2014	09/30/2015	09/30/2016	09/30/2017	09/30/2018	09/30/2018	Average	Average	Trend
Return on Market Value (NOPAT / MV)	5.06%	5.00%	4.81%	4.42%	4.16%	3.35%	3.03%	3.03%	4.35%	3.98%	3.19%
Return on Enterprise Value (NOPAT / EV)	5.10%	5.05%	4.89%	4.46%	4.19%	3.38%	3.05%	3.05%	4.39%	4.01%	3.21%
Return on Capital (NOPAT / Average Capital)	15.70%	15.29%	13.88%	12.48%	13.60%	12.90%	11.66%	11.66%	13.63%	13.00%	12.28%
Cost of Capital (WACC)	4.01%	5.12%	4.60%	4.58%	4.11%	4.42%	4.42%	4.42%	4.56%	4.37%	4.42%
Economic Return Spread	11.69%	10.18%	9.28%	7.90%	9.50%	8.48%	7.67%	7.67%	9.07%	8.63%	8.07%
Capital Charge	\$1,501.0	\$2,017.6	\$1,917.3	\$1,945.8	\$1,656.2	\$2,099.1	\$1,896.9	\$1,896.9	\$1,927.2	\$1,900.4	\$1,998.0
Economic Profit (EP)	\$4,375.9	\$4,013.2	\$3,872.0	\$3,356.8	\$3,831.8	\$4,027.3	\$3,639.4	\$3,639.4	\$3,820.2	\$3,738.6	\$3,833.4
Economic Profit Improvement (EPI)	\$220.2	(\$362.7)	(\$141.2)	(\$515.2)	\$475.0	\$195.6	(\$388.0)	(\$388.0)	(\$69.7)	\$51.8	(\$98.2)
EP Growth	5.30%	(8.29%)	(3.52%)	(13.31%)	14.15%	5.10%	(9.63%)	(9.63%)	(1.17%)	1.98%	(2.26%)
Economic Profit Margin on Sales	15.95%	14.35%	13.85%	13.09%	15.37%	17.13%	17.64%	17.64%	14.76%	15.20%	17.39%
Economic Profit Per Share	\$4.24	\$3.97	\$3.88	\$3.42	\$4.08	\$4.71	\$4.26	\$4.26	\$4.01	\$4.07	\$4.49
GAAP Earnings Per Share	\$5.37	\$5.58	\$5.12	\$4.65	\$5.34	\$6.99	\$6.82	\$6.82	\$5.54	\$5.66	\$6.90
Excess Cash Per Share	\$0.80	\$1.15	\$1.88	\$1.26	\$1.21	\$1.86	\$1.68	\$1.68	\$1.47	\$1.44	\$1.77
<b>Performance Drivers</b>											
Sales Growth	3.94%	1.92%	-0.01%	-8.29%	-2.77%	-5.72%	-12.25%	-12.25%	-2.97%	-5.59%	-8.98%
Sales Growth Trend (ROC Sales Growth)	6.67%	2.73%	0.76%	-4.98%	-4.98%	-4.54%	-9.63%	-9.63%	-2.20%	-4.83%	-7.08%
EBITDAR Margin	43.05%	43.67%	43.55%	43.80%	45.73%	52.27%	47.26%	47.26%	45.80%	47.26%	49.77%
EBITDAR Growth	4.56%	3.40%	-0.28%	-7.78%	1.51%	7.78%	-20.65%	-20.65%	0.93%	0.50%	-6.43%
NOPBT Margin	31.45%	31.73%	30.90%	30.13%	32.22%	38.60%	33.65%	33.65%	32.72%	33.65%	36.12%
NOPBT Growth	3.48%	2.84%	-2.62%	-10.58%	4.00%	12.93%	-23.49%	-23.49%	1.31%	2.12%	-5.28%
NOPAT Margin	21.42%	21.57%	20.70%	20.68%	22.01%	26.06%	22.93%	22.93%	22.20%	22.92%	24.50%
NOPAT Growth	1.90%	2.62%	-4.00%	-8.41%	3.50%	11.63%	-22.78%	-22.78%	1.07%	2.24%	-5.57%
Economic Profit Margin on Sales (EP / Sales)	15.95%	14.35%	13.85%	13.09%	15.37%	17.13%	17.64%	17.64%	14.76%	15.20%	17.39%
Economic Profit Growth	5.30%	(8.29%)	(3.52%)	(13.31%)	14.15%	5.10%	(9.63%)	(9.63%)	(1.17%)	1.98%	(2.26%)
Economic Return Spread (ROC-WACC)	11.69%	10.18%	9.28%	7.90%	9.50%	8.48%	7.24%	7.24%	9.07%	8.63%	7.86%
Economic Return Ratio (ROC / WACC)	391.54%	298.91%	301.95%	272.51%	331.36%	291.86%	263.74%	263.74%	299.32%	298.58%	277.80%
Economic Profit Momentum (ΔEP/Capital)	0.57%	(0.90%)	(0.33%)	(1.22%)	1.23%	0.35%	(0.76%)	(0.76%)	(0.17%)	0.12%	(0.21%)
Economic Profit Momentum Margin (ΔEP/Sales)	0.80%	(1.30%)	(0.50%)	(2.01%)	1.90%	0.83%	(1.88%)	(1.88%)	(0.21%)	0.24%	(0.52%)
Capital Growth	5.19%	5.55%	5.97%	(2.02%)	(8.17%)	45.86%	(9.63%)	(9.63%)	9.44%	11.89%	18.11%
Capital Turns	0.71X	0.69X	0.65X	0.61X	0.65X	0.42X	0.41X	0.41X	0.60X	0.56X	0.41X
EVC Acceleration Margin	0.83%	(1.32%)	(0.50%)	(1.84%)	1.85%	0.78%	(1.65%)	(1.65%)	(0.34%)	0.20%	(0.39%)
EVC Acceleration Spread	0.62%	(0.97%)	(0.36%)	(1.24%)	1.12%	0.48%	(0.82%)	(0.82%)	(0.13%)	0.12%	(0.22%)
<b>Risk Factors</b>											
Free Cash Flow (NOPAT - Δ Capital)	\$3,982.3	\$3,899.8	\$3,371.8	\$6,167.6	\$8,924.0	(\$11,586.7)	\$10,158.1	\$10,158.1	\$2,155.3	\$1,168.3	(\$714.3)
Free Cash Flow Rate (FCF / Capital)	10.38%	9.63%	7.86%	14.66%	23.11%	(20.57%)	19.95%	19.95%	6.94%	5.73%	(0.31%)
Free Cash Flow Yield (FCF / MV)	3.43%	3.24%	2.80%	5.14%	6.76%	(6.34%)	6.15%	6.15%	2.32%	1.85%	(0.09%)
Total Debt / Total Capital	61.55%	60.08%	63.32%	70.16%	93.84%	99.36%	99.36%	99.36%	77.35%	87.79%	99.36%
Total Debt / EBITDAR	199.98%	199.28%	223.15%	262.73%	317.90%	455.52%	518.74%	518.74%	291.72%	345.39%	487.13%
Excess Cash	\$806.6	\$1,146.1	\$1,835.2	\$1,170.3	\$1,020.0	\$1,495.7	\$0.0	\$0.0	\$1,333.5	\$1,228.7	\$747.9
Financial Leverage ((Total Debt - Excess Cash) / Pension Liability (Net Pension Liability / MV)	19.64%	19.24%	21.07%	23.62%	26.68%	29.79%	30.61%	30.61%	24.08%	26.69%	30.20%
Equity Risk Index (S&P 500 = 1.00)	0.62	0.63	0.62	0.61	0.62	0.61	0.61	0.61	0.62	0.61	0.61
Stock Price Volatility	2.03	1.88	1.54	1.82	2.34	2.07	2.07	2.07	1.93	2.08	2.07
Sales Index (NL Sales)	10.22	10.24	10.24	10.15	10.12	10.07	9.93	9.93	10.16	10.11	10.00
Market Value Index (NL Market Value)	11.66	11.70	11.70	11.70	11.79	12.12	12.02	12.02	11.80	11.87	12.07
Size Index (NL Sales: MV)	10.94	10.97	10.97	10.92	10.96	11.09	10.97	10.97	10.98	10.99	11.03
Beta	0.43	0.44	0.43	0.42	0.43	0.42	0.42	0.42	0.43	0.43	0.42
TFP Adjusted Beta	0.62	0.63	0.62	0.61	0.62	0.61	0.61	0.61	0.62	0.61	0.61
Stock Price Volatility	2.03	1.88	1.54	1.82	2.34	2.07	2.07	2.07	1.93	2.08	2.07
<b>Valuation Measures</b>											
Total Economic Market Value (MV)	\$116,143.6	\$120,513.0	\$120,274.4	\$119,983.0	\$132,044.8	\$182,884.4	\$165,266.5	\$165,266.5	\$135,139.9	\$144,970.7	\$174,075.4
Economic Enterprise Value	\$115,337.0	\$119,366.9	\$118,439.2	\$118,812.7	\$131,024.8	\$181,388.6	\$163,914.8	\$163,914.8	\$133,806.5	\$143,742.1	\$172,651.7
Equity Market Value	\$92,523.5	\$96,175.9	\$93,096.7	\$90,473.2	\$95,800.0	\$126,910.3	\$114,684.6	\$114,684.6	\$100,491.2	\$104,394.5	\$120,797.5
Total Capital	\$40,524.0	\$42,592.8	\$44,951.4	\$43,506.3	\$41,126.4	\$58,255.8	\$52,643.8	\$52,643.8	\$46,086.6	\$47,629.5	\$55,449.8
Market Value Created MVC (MV - Capital)	\$75,619.6	\$77,920.1	\$75,323.0	\$76,476.7	\$90,918.4	\$124,628.5	\$112,622.6	\$112,622.6	\$89,053.4	\$97,341.2	\$118,625.6
MVC Margin (MVC / Sales)	275.61%	278.64%	269.37%	298.23%	364.63%	530.13%	545.91%	545.91%	342.48%	394.16%	537.50%
MVC Spread (MVC / Capital)	186.60%	182.94%	167.57%	175.78%	221.07%	213.93%	213.93%	213.93%	193.23%	204.37%	213.93%
Current EVC Value (EP / WACC)	\$109,116.3	\$78,451.5	\$84,243.4	\$73,302.7	\$93,331.7	\$91,092.8	\$82,317.5	\$82,317.5	\$83,711.6	\$85,578.1	\$86,705.2
Current Operations Value COV	\$146,543.6	\$117,891.6	\$125,957.8	\$115,793.3	\$133,671.8	\$138,571.5	\$135,939.3	\$135,939.3	\$126,004.3	\$129,014.6	\$137,255.4
Current Operations Value Per Share	\$141.99	\$116.71	\$126.16	\$118.10	\$142.29	\$162.19	\$142.11	\$142.11	\$131.73	\$139.51	\$151.58
Future Growth Value (MVC - EVA Value)	(\$30,400.0)	\$2,621.3	(\$5,683.4)	\$4,189.7	(\$1,627.0)	\$44,312.9	\$29,327.2	\$29,327.2	\$9,135.6	\$15,956.1	\$36,820.0
Future Growth Value Reliance (FGV / MV)	(26.17%)	2.18%	(4.73%)	3.49%	(1.23%)	24.23%	17.75%	17.75%	6.76%	11.01%	21.15%
Share Price	\$91.75	\$96.21	\$94.81	\$98.53	\$115.36	\$156.68	\$156.68	\$156.68	\$112.32	\$123.52	\$156.68
Dividend Yield	3.05%	3.20%	3.42%	3.45%	3.09%	2.40%	0.00%	0.00%	(28.31%)	9.98%	26.84%
Total Shareholder Return (TTM)	7.53%	8.06%	1.96%	7.37%	20.17%	38.22%	0.00%	0.00%	(28.31%)	9.98%	26.84%
MV to IC Ratio	2.87X	2.83X	2.68X	2.76X	3.21X	3.14X	3.14X	3.14X	2.93X	3.04X	3.14X
EV / EBITDAR Multiple	9.77X	9.77X	9.72X	10.58X	11.49X	14.76X	16.81X	16.81X	11.28X	12.35X	15.67X
EV / NOPBIT Multiple	13.37X	13.45X	13.71X	15.38X	16.31X	19.99X	23.61X	23.61X	15.80X	17.36X	21.56X
EV / NOPAT Multiple	19.63X	19.79X	20.46X	22.41X	23.88X	29.61X	34.65X	34.65X	23.28X	25.49X	31.80X
EV / EP Multiple	26.36X	29.74X	30.59X	35.39X	34.19X	45.04X	45.04X	45.04X	35.03X	38.45X	45.04X
Future Growth Value (% of MV)	(26.17%)	2.18%	(4.73%)	3.49%	(1.23%)	24.23%	17.75%	17.75%	6.76%	11.01%	21.15%
Current Operations Value (% of MV)	126.17%	97.82%	104.73%	96.51%	101.23%	75.77%	82.25%	82.25%	93.24%	88.99%	78.85%
Market Value (COV + FGV %)	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Basic Shares Outstanding	1,032.1	1,010.1	998.4	980.5	939.4	854.4	956.6	956.6	956.6	924.8	905.5

Source: Company Data, Financial statements and Tigress Research

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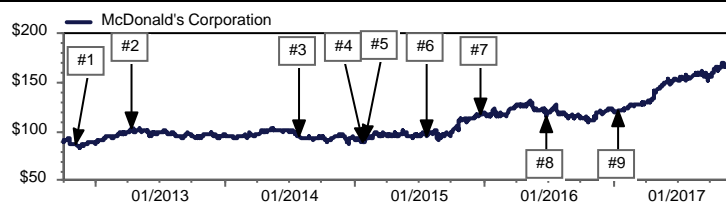
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**McDonald's Corporation (MCD-US)**
**Hotels Restaurants & Leisure**
**Ratings History**

McDonald's Corporation (MCD-US)				
Item #	Date	Research Action	Rating	Price
#9	01/13/2017	Reiterate Rating	Neutral	\$121.50
#8	06/27/2016	Reiterate Rating	Neutral	\$116.30
#7	12/21/2015	Reiterate Rating	Neutral	\$117.69
#6	07/24/2015	Reiterate Rating	Neutral	\$96.10
#5	02/02/2015	Reiterate Rating	Neutral	\$92.51
#4	01/27/2015	Reiterate Rating	Neutral	\$89.51
#3	07/25/2014	Reiterate Rating	Neutral	\$95.72
#2	04/12/2013	Reiterate Rating	Neutral	\$103.59
#1	11/06/2012	Initiation of Coverage	Neutral	\$87.97


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We employ proprietary quantitative valuation models combined with dynamic fundamental analysis based on the principles of Economic Profit to formulate timely and insightful investment ratings, analysis, strategies, and recommendations.

We make key adjustments to reported financial data eliminating GAAP-based accounting distortions and measuring all companies on a cash operating basis.

Our proprietary research framework is a multi-factor model that scores and ranks companies based on their risk-adjusted ability to create Economic Profit relative to their current market value focusing on three key components:

**Business Performance:** Measuring economic profitability, growth and operating efficiency.

**Risk:** Measuring business sustainability, volatility, strength, and consistency.

**Valuation:** Linking business performance to market value. Measuring value created relative to capital employed and enterprise multiples of economic profit and cash flow.

We score and rank 24 key measurements of performance, risk, and value into relative market and industry investment recommendations.

For more information on our research methodology, please review the *Tigress Investment Research Guide to Company Valuation and Analysis*.

**Glossary of Key Terms and Measures**

**Excess Cash per Share:** Excess Cash per Share is the amount of excess cash divided by basic shares outstanding. Excess Cash consists of all cash and short-term securities less operating cash needed to run the business. Operating Cash is 5% of TTM net sales revenue.

**EBITDAR:** Earnings Before Interest, Taxes, Depreciation, Amortization, and Restructuring and Rent Costs. This is especially important when comparing companies that use a significant amount of leased assets like restaurants and retailers.

**NOPAT:** Net Operating Profit after Tax represents a company's after-tax cash operating profit excluding financing costs.

**Total Invested Capital:** Total Invested Capital the total cash investment that shareholders and debt holders have made during the life of the company.

**Return on Capital:** Return on Capital equals NOPAT divided by Total Invested Capital. It is a key measure of operating efficiency. ROC quantifies how well a company generates cash flow relative to the capital invested in its business.

**Cost of Capital:** Is the proportionately weighted cost of each category of capital – common equity, preferred equity and debt.

**Economic Profit:** Economic Profit is the net operating income after tax less the opportunity cost of the total capital invested. It is the most important driver of shareholder value.

**Current Operations Value:** Current Operations Value is the portion of market value based on the discounted present value of the current earnings stream assuming it remains constant forever.

**Future Growth Value:** Future Growth Value is the portion of market value based on un-earned Economic Profit

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Rating:	Meaning:	Rating Distribution (11/28/2017)				
		Companies Under Coverage		Relationship Companies Under Coverage*		
		#	%	#	%	
<b>Strong Buy:</b>	Expect significant price gains in the price of the stock relative to its industry peer group and general market over the next 12 months.	16	14%	1	17%	
<b>Buy:</b>	Expect out-performance for the price of the stock relative to its industry peer group and general market over the next 12 months.	52	44%	4	66%	
<b>Neutral:</b>	Expect little or no outperformance opportunity over the next 12 months.	44	38%	1	17%	
<b>Underperform:</b>	Expect underperformance for the price of the stock relative to its industry peer group and general market over the next 12 months.	5	4%	0	0%	
<b>Sell:</b>	Expect price decline or significant relative market and industry underperformance over the next 12 months.	0	0%	0	0%	
<b>Not Rated</b>	No Current Research Rating	NA	NA	65	NA	
		<b>Total</b>	<b>117</b>	<b>100%</b>	<b>71</b>	<b>100%</b>

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