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

Hotels Restaurants &amp; Leisure

- We are upgrading our rating on MCD to Buy from Neutral as its ongoing re-franchising process and new digital initiatives, drives a unique growth opportunity and the recent market-related weakness creates a major buying opportunity.
- MCD's ongoing restaurant re-franchising, combined with increasing technologically focused growth initiatives are driving a reacceleration of Business Performance.
- MCD is driving growth and operating efficiency through the ongoing introduction of new digital and service initiatives.
- MCD continues to reinvest its cash flow in new growth initiatives as well as continuing to enhance shareholder returns through ongoing dividend increases and share repurchases.

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

Hotels Restaurants &amp; Leisure

**Ivan Feinseth**  
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**Research Action:**

Reiterate rating

**Rating:** Buy

**Prior Rating:** Neutral

**Price 03/11/2020:** \$188.25

**52 Week High /** \$221.93

**Low:** \$178.27

**Key Data: (TTM as of Dec-19)**
**Excess Cash per Share:** \$0.06

**Annual Dividend:** \$5.00

**Dividend Yield:** 2.66%

**Avg. Volume (30 Day):** 4.6M

**Shares Outstanding:** 745.4M

**Float:** 745.1M

**Short Interest:** 8.8M

**SI % / Float** 1.18%

**Equity MV:** \$140,330.4M

**Sales TTM:** \$21,076.5M

**Beta:** 0.72

**EBITDAR:** \$12,404.0M

**NOPAT:** \$6,898.0M

**Total Invested Capital:** \$51,809.7M

**Return on Capital:** 16.00%

**Cost of Capital:** 3.49%

**Economic Profit:** \$5,393.7M

**Market Value Added:** \$155,758.8M

**Current Operations Value:** \$197,703.1M

**Future Growth Value:** \$9,865.4M

- We are upgrading our rating on MCD to Buy from Neutral as its ongoing re-franchising process and new digital initiatives, drives a unique growth opportunity and the recent market-related weakness creates a major buying opportunity.** MCD continues to improve operating efficiencies and enhance customer experience through the ongoing introduction of new digital and service initiatives. MCD's evolving focus on the quick casual restaurant Experience of the Future, includes layout, counters, ordering kiosks, web and app ordering, table service, curbside delivery, mobile ordering and payments, and delivery initiatives along with developing and incorporating healthy alternatives into its menu choices. Recent technology enhancement initiatives and acquisitions, including the integration of artificial intelligence speech recognition into its ordering process, creating a personalized ordering experience, machine learning data analysis, and optimization, are driving improved customer experience. Ongoing re-franchising to increase profitability through a lower risk, asset-light business model, along with the global growth of its franchisee base, and MCD's powerful global brand equity will drive an increasing Return on Capital, growing Economic Profit, and greater shareholder value creation. MCD also continues to enhance shareholder returns through a long history of dividend increases as well as ongoing share repurchases. The market-driven pullback in the stock to levels not seen in over twelve months creates a major buying opportunity. MCD has a current dividend yield of 2.66%.
- MCD's ongoing restaurant re-franchising, combined with increasing technologically focused growth initiatives are driving a reacceleration of Business Performance.** For the 12 months ending December 2019, revenue increased 0.24% Y/Y from \$21.03 billion to \$21.08 billion. We forecast a further increase of 5.17% to \$22.17 billion over the NTM. Economic Operating Cash Flow (EBITDAR) increased 3.75% from \$11.96 billion to \$12.40 billion over the LTM. We forecast a further increase of 6.23% to \$13.18 billion over the NTM. Net Operating Profit After Tax (NOPAT) increased 1.66% from \$6.79 billion to \$6.90 billion over the LTM. We forecast a further increase of 12.62% to \$7.77 billion over the NTM. Return on Capital (ROC) declined from 18.75% to 16.0% over the LTM. We are expecting a significant increase to 18.68% over the NTM as ongoing re-franchising frees up invested capital and increases Return on Capital (ROC). Economic Profit increased 11.13% from \$4.85 billion to \$5.39 billion over the LTM. We are forecasting a further increase of 15.25% to \$6.22 billion over the NTM. Digital initiatives and re-franchising will drive an acceleration in Return on Capital and Economic Profit.

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- **MCD is driving growth and operating efficiency through the ongoing introduction of new digital and service initiatives.** MCD continues to integrate technologically advanced growth initiatives by combining recent acquisitions and restaurant redesign to create its Experience of the Future restaurants, incorporating the latest food ordering and customer service technologies to drive traffic further and enhance the dining experience. MCD has made several technology acquisitions and partnerships. Last year MCD acquired artificial intelligence-based technology developer Dynamic Yield, enabling MCD to create personalized experiences and improve the drive-through ordering process by changing menu items based on weather, daypart, restaurant traffic, and ordering trends. The technology can also display additional menu recommendations based on a customer's ordering choices. Last year, MCD also acquired Apprente, and artificial intelligence speech recognition system company. MCD intends to integrate Apprente's technology with that of Dynamic Yield to increase order accuracy, accelerate drive-through speed, and minimize congestion, as shorter drive-through lines are a crucial factor in attracting more customers. In addition to these two acquisitions, last year, MCD made a minority investment in mobile engagement company Plexure to enhance customer engagement on their mobile devices by incorporating special offers and driving more repeat business. While MCD did not fully acquire Plexure, the minority interest includes an agreement for it not to work with specific MCD competitors. MCD continues to partner with food delivery companies, including DoorDash and GrubHub (GRUB-US, Non-Rated), as it expands delivery services, which are currently available in over 25,000 of its restaurants in over 75 countries.
- **MCD continues to reinvest its cash flow in new growth initiatives as well as continuing to enhance shareholder returns through ongoing dividend increases and share repurchases.** Over the past three years, MCD has invested over \$7 billion in key growth initiatives, paid out over \$10 billion in dividends, and repurchased \$15 billion worth of stock representing about 10% of its outstanding shares. MCD's ongoing re-franchising process continues to free up cash, along with its expected Economic Operating Cash Flow (EBITDAR) generation of \$13.18 billion over the NTM, for reinvestment into growing its growth initiatives including new technologies for improving ordering efficiency and delivery. MCD continues to enhance shareholder returns through dividend increases, and MCD has increased its dividend almost every year since it began its dividend payout policy in 1976. In September 2019, MCD increased its quarterly dividend by 7.74% from \$1.16 per share to \$1.25 per share, which followed a 15% dividend increase in 2018. MCD has a current dividend yield of 2.66%.

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**Investment Thesis**

MCD's evolving focus on the quick casual restaurant Experience of the Future includes layout, counters, ordering kiosks, web/app ordering and table service/curbside delivery, mobile ordering and payments, and delivery initiatives along with developing and incorporating healthy alternatives into its menu choices, all designed to improve customer experience and drive greater profitability. Ongoing re-franchising to increase profitability through a lower risk, asset-light business model, along with the global growth of its franchisee base, together with its powerful global brand equity, will drive an increasing Return on Capital, growing Economic Profit, and greater shareholder value creation. MCD also continues to enhance shareholder returns through a long history of dividend increases as well as ongoing share repurchases.

**Company Overview**

**McDonald's Corp. (MCD-US)** is one of the world's largest operators and franchisors of quick-service restaurants (QSR) with over 38,700 restaurants in over 120 countries and has one of the world's best-known restaurant brands. McDonald's dominates the quick service restaurant industry through its longtime focus on food quality and consistency and extensive marketing campaigns. Currently, 36,100 restaurants are franchisee-operated, while 2,600 are company-owned, and 14,000 of which are located in the United States. McDonald's has shifted its ownership structure toward increasing franchises and reducing capital needs. McDonald's continues to re-franchise many of its restaurants, working toward a longer-term goal of a 95% franchised business model. McDonald's ongoing operational improvement is driven by its focus on velocity growth accelerators, driven by its concept of an Experience of the Future, including layout (counter, kiosk, web ordering and table service/curbside delivery), mobile ordering and payments, and delivery initiatives along with developing and incorporating healthy alternatives into its menu choices, all designed to further improve customer experience and drive greater profitability.

**McDonald's operates reports revenue in three recently reorganized Geographic/Business Alignment Segments:**

**The United States:** (37% of revenue) consists of U.S.-based restaurants.

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

**International Operated Markets:** (54% of revenue) consisting of wholly-owned non-franchised markets and countries including Australia, Canada, Germany, Italy, the Netherlands, Russia, Spain, and the United Kingdom.

**International Developmental Licensed Markets & Corporate Operations:** (9% of revenues), which includes developmental license and affiliate markets in the McDonald's system along with corporate activities.

**McDonald's and reports revenue in two Business Segments:** Company-Operated Restaurants (45% of revenue) and Franchised Restaurants (55% of revenue).

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McDonald's Corporation (MCD-US)

Hotels Restaurants & Leisure

Financial Data

Report Basis	LTM	LTM	LTM	LTM	LTM	LTM	LTM	NTM	5 Yr	3 Yr	Current
Reported Period Ending	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2020	Average	Average	Trend
<b>Net Sales Revenue</b>	\$27,441.3	\$25,413.0	\$24,621.9	\$22,820.4	\$21,025.2	\$21,076.5	\$22,165.3	\$22,991.4	\$21,640.7	\$21,620.9	
Sales Growth	-2.36%	-7.39%	-3.11%	-7.32%	-7.87%	0.24%	5.17%	-5.09%	-4.98%	2.70%	
Sales Growth Trend	-0.64%	-5.38%	-4.82%	-5.64%	-7.65%	-3.00%	3.20%	-5.30%	-5.43%	0.10%	
<b>Economic Operating Cash Flow (EBITDAR)</b>	\$11,867.0	\$11,116.1	\$11,489.4	\$11,739.7	\$11,956.0	\$12,404.0	\$13,177.2	\$11,741.1	\$12,033.2	\$12,790.6	
EBITDAR Margin	43.25%	43.74%	46.66%	51.44%	56.87%	58.85%	59.45%	51.51%	55.72%	59.15%	
EBITDAR Growth	-4.27%	-6.33%	3.36%	2.18%	1.84%	3.75%	6.23%	0.96%	2.59%	4.99%	
<b>Net Operating Profit Before Tax (NOPBT)</b>	\$8,290.2	\$7,721.4	\$8,158.7	\$8,731.8	\$8,952.2	\$9,179.3	\$10,017.4	\$8,548.7	\$8,954.4	\$9,598.4	
NOPBT Margin	30.21%	30.38%	33.14%	38.26%	42.58%	43.55%	45.19%	37.58%	41.46%	44.37%	
NOPBT Growth	-7.05%	-6.86%	5.66%	7.02%	2.52%	2.54%	9.13%	2.18%	4.03%	5.83%	
<b>Cash Operating Income Tax</b>	\$2,735.8	\$2,386.7	\$2,621.0	\$2,881.5	\$2,166.8	\$2,281.3	\$2,248.9	\$2,467.5	\$2,443.2	\$2,265.1	
Economic Tax Effective Rate	33.00%	30.91%	32.12%	33.00%	24.20%	24.85%	22.45%	29.02%	27.35%	23.65%	
<b>Net Operating Profit After Tax (NOPAT)</b>	\$5,554.4	\$5,334.7	\$5,537.7	\$5,850.3	\$6,785.5	\$6,898.0	\$7,768.5	\$6,081.2	\$6,511.3	\$7,333.3	
NOPAT Margin	20.24%	20.99%	22.49%	25.64%	32.27%	32.73%	35.05%	26.82%	30.21%	33.89%	
NOPAT Growth	-8.53%	-3.96%	3.81%	5.64%	15.98%	1.66%	12.62%	4.63%	7.76%	7.14%	
<b>Cash &amp; Equivalents</b>	\$2,077.9	\$7,685.5	\$1,223.4	\$2,463.8	\$866.0	\$1,099.2	\$1,134.3	\$2,667.6	\$1,476.3	\$1,116.8	
<b>Total Assets</b>	\$34,281.4	\$37,938.7	\$31,023.9	\$33,803.7	\$32,811.2	\$47,510.8	\$49,029.7	\$36,617.7	\$38,041.9	\$48,270.3	
<b>Non - Interest Bearing Liabilities (NIBLs)</b>	\$5,281.0	\$5,349.9	\$6,113.2	\$6,389.1	\$7,007.7	\$7,139.5	\$7,367.8	\$6,399.9	\$6,845.4	\$7,253.6	
<b>Net Assets</b>	\$29,000.4	\$32,588.8	\$24,910.7	\$27,414.6	\$25,803.5	\$40,371.3	\$41,662.0	\$30,217.8	\$31,196.5	\$41,016.6	
<b>Economic Asset Adjustments</b>	\$13,383.2	\$12,941.3	\$11,867.2	\$10,670.9	\$10,627.8	\$11,438.4	\$11,804.1	\$11,509.1	\$10,912.4	\$11,621.3	
<b>Net Operating Assets</b>	\$42,383.6	\$45,530.1	\$36,777.9	\$38,085.5	\$36,431.3	\$51,809.7	\$53,466.1	\$41,726.9	\$42,108.8	\$52,637.9	
<b>Debt &amp; Debt Equivalents</b>	\$26,612.5	\$35,209.2	\$36,625.6	\$39,749.1	\$41,522.8	\$58,583.5	\$60,456.5	\$42,338.0	\$46,618.5	\$59,520.0	
<b>Equity &amp; Equivalents</b>	\$12,853.4	\$7,087.9	(\$2,204.3)	(\$3,268.0)	(\$6,258.4)	(\$8,210.3)	(\$8,472.8)	(\$2,570.6)	(\$5,912.2)	(\$8,341.5)	
<b>Total Capital - Financing Sources</b>	\$39,465.9	\$42,297.1	\$34,421.3	\$36,481.1	\$35,264.4	\$50,373.2	\$51,983.7	\$39,767.4	\$40,706.2	\$51,178.5	
<b>Capital Adjustments</b>	\$1,760.4	\$1,854.2	\$1,197.3	\$458.2	\$180.3	\$410.9	\$424.0	\$820.2	\$349.8	\$417.5	
<b>Net Capital Financing Sources</b>	\$41,226.3	\$44,151.3	\$35,618.6	\$36,939.3	\$35,444.7	\$50,784.1	\$52,407.7	\$40,587.6	\$41,056.0	\$51,595.9	
<b>Net Working Capital</b>	\$1,889.1	\$1,656.6	\$2,624.5	\$2,260.0	\$2,251.6	\$1,797.9	\$1,855.4	\$2,118.1	\$2,103.2	\$1,826.7	
Cost of Net Working Capital	\$75.4	\$67.5	\$94.3	\$116.7	\$120.4	\$70.6	\$72.9	\$93.9	\$102.6	\$71.8	
% of Revenue	0.27%	0.27%	0.38%	0.51%	0.57%	0.34%	0.33%	0.41%	0.47%	0.33%	
<b>Operational Capital</b>	\$38,069.3	\$35,861.3	\$34,552.0	\$34,921.0	\$35,541.7	\$50,246.7	\$51,853.1	\$38,224.5	\$40,236.5	\$51,049.9	
Cost of Operational Capital	\$1,602.9	\$1,408.2	\$1,550.9	\$1,660.2	\$1,880.6	\$1,496.6	\$1,544.5	\$1,599.3	\$1,679.2	\$1,520.5	
% of Revenue	5.84%	5.54%	6.30%	7.28%	8.94%	7.10%	6.97%	7.03%	7.77%	7.03%	
<b>Productive Capital</b>	\$40,804.6	\$38,377.6	\$36,888.5	\$37,300.7	\$37,873.2	\$52,924.1	\$54,616.1	\$40,672.8	\$42,699.3	\$53,770.1	
Cost of Productive Capital	\$1,719.0	\$1,508.2	\$1,657.8	\$1,772.9	\$2,006.4	\$1,584.0	\$1,634.6	\$1,705.9	\$1,787.8	\$1,609.3	
% of Revenue	6.26%	5.93%	6.73%	7.77%	9.54%	7.52%	7.37%	7.50%	8.28%	7.45%	
<b>Total Operating Capital</b>	\$41,677.7	\$39,115.3	\$36,785.6	\$36,762.7	\$36,616.5	\$51,764.4	\$53,419.3	\$40,208.9	\$41,714.5	\$52,591.8	
Cost of Total Operating Capital	\$1,766.8	\$1,538.9	\$1,671.7	\$1,757.6	\$1,958.5	\$1,541.8	\$1,591.1	\$1,693.7	\$1,752.7	\$1,566.5	
% of Revenue	6.44%	6.06%	6.79%	7.70%	9.31%	7.32%	7.18%	7.44%	8.11%	7.25%	
<b>Non - Operating Capital</b>	\$705.8	\$6,414.9	(\$7.7)	\$1,322.8	(\$185.3)	\$45.4	\$46.8	\$1,518.0	\$394.3	\$46.1	
Cost of Non - Operating Capital	\$43.5	\$135.6	\$141.1	\$31.4	\$30.4	(\$2.4)	(\$2.5)	\$67.2	\$19.8	(\$2.5)	
% of Revenue	0.16%	0.53%	0.57%	0.14%	0.14%	-0.01%	-0.01%	0.28%	0.09%	-0.01%	
<b>Total Capital</b>	\$42,383.6	\$45,530.1	\$36,777.9	\$38,085.5	\$36,431.3	\$51,809.7	\$53,466.1	\$41,726.9	\$42,108.8	\$52,637.9	
Cost of Total Capital	\$1,810.2	\$1,674.5	\$1,812.9	\$1,789.1	\$1,988.8	\$1,539.4	\$1,588.6	\$1,760.9	\$1,772.4	\$1,564.0	
% of Revenue	6.60%	6.59%	7.36%	7.84%	9.46%	7.30%	7.17%	7.71%	8.20%	7.24%	
<b>Cost of Capital (WACC)</b>	4.14%	3.81%	4.41%	4.78%	5.34%	3.49%	3.49%	4.36%	4.54%	3.49%	
<b>Capital Structure</b>											
<b>Debt &amp; Debt Equivalents</b>	\$26,612.5	\$35,209.2	\$36,625.6	\$39,749.1	\$41,522.8	\$58,583.5	\$60,456.5	\$42,338.0	\$46,618.5	\$59,520.0	
Debt & Debt Equivalents % of Market Value	22.59%	24.50%	26.60%	22.46%	23.27%	28.25%	28.25%	25.08%	24.85%	28.25%	
<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>	\$91,189.2	\$108,479.7	\$101,081.6	\$137,211.6	\$136,890.5	\$148,818.8	\$153,576.5	\$126,496.4	\$140,973.6	\$151,197.7	
Common Equity % of Market Value	77.41%	75.50%	73.40%	77.54%	76.73%	71.75%	71.75%	74.92%	75.15%	71.75%	
<b>Total Economic Market Value (MV)</b>	\$117,801.7	\$143,688.9	\$137,707.2	\$176,960.7	\$178,413.3	\$207,402.3	\$214,033.0	\$168,834.5	\$187,592.1	\$210,717.7	
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>	\$705.8	\$6,414.9	(\$7.7)	\$1,322.8	(\$185.3)	\$45.4	\$46.8	\$1,518.0	\$394.3	\$46.1	
<b>Economic Enterprise Value</b>	\$117,095.8	\$137,274.1	\$137,714.9	\$175,638.0	\$178,598.5	\$207,356.9	\$213,986.2	\$167,316.5	\$187,197.8	\$210,671.6	
<b>Average Capital</b>	\$42,507.7	\$42,688.8	\$39,885.0	\$36,278.9	\$36,192.0	\$43,114.4	\$41,595.9	\$39,631.8	\$38,528.4	\$42,355.1	
Capital Δ	(\$2,562.8)	\$2,925.1	(\$8,532.7)	\$1,320.7	(\$1,494.6)	\$15,339.5	\$1,623.6	\$1,911.6	\$5,055.2	\$8,481.5	

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	NTM	5 Yr	3 Yr	Current
Reported Period Ending	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	Average	Average	Trend
Return on Market Value (NOPAT / MV)	4.72%	3.71%	4.02%	3.31%	3.80%	3.33%	3.43%	3.63%	3.48%	3.38%
Return on Enterprise Value (NOPAT / EV)	4.74%	3.89%	4.02%	3.33%	3.80%	3.33%	3.43%	3.67%	3.49%	3.38%
Return on Capital (NOPAT / Average Capital)	13.07%	12.50%	13.88%	16.13%	18.75%	16.00%	18.68%	15.45%	16.96%	17.34%
Cost of Capital (WACC)	4.14%	3.81%	4.41%	4.78%	5.34%	3.49%	3.49%	4.36%	4.54%	3.49%
Economic Return Spread	8.93%	8.69%	9.48%	11.35%	13.41%	12.51%	12.91%	11.09%	12.42%	12.71%
Capital Charge	\$1,760.1	\$1,626.2	\$1,757.0	\$1,734.0	\$1,931.9	\$1,504.3	\$1,552.4	\$1,710.7	\$1,723.4	\$1,528.3
Economic Profit (EP)	\$3,794.3	\$3,708.5	\$3,780.8	\$4,116.3	\$4,853.5	\$5,393.7	\$6,216.1	\$4,370.6	\$4,787.9	\$5,804.9
Economic Profit Improvement (EPI)	(\$211.7)	(\$85.8)	\$72.3	\$335.6	\$73.2	\$540.2	\$822.4	\$319.9	\$537.7	\$681.3
EP Growth	-5.28%	-2.26%	1.95%	8.88%	17.91%	11.13%	15.25%	7.52%	12.64%	13.19%
Economic Profit Margin on Sales	13.83%	14.59%	15.36%	18.04%	23.08%	25.59%	28.04%	19.33%	22.24%	26.82%
Economic Profit Per Share	\$3.87	\$3.95	\$4.43	\$5.10	\$6.24	\$7.11	\$7.34	\$5.36	\$6.15	\$7.23
GAAP Earnings Per Share	\$4.85	\$4.83	\$5.47	\$6.42	\$7.62	\$7.95	\$8.53	\$6.46	\$7.33	\$8.24
Excess Cash Per Share	\$0.73	\$7.02	(\$0.01)	\$1.67	(\$0.24)	\$0.06	\$0.06	\$1.70	\$0.50	\$0.06
<b>Performance Drivers</b>										
Sales Growth	-2.36%	-7.39%	-3.11%	-7.32%	-7.87%	0.24%	5.17%	-5.09%	-4.98%	2.70%
Sales Growth Trend (ROC Sales Growth)	-0.64%	-5.38%	-4.82%	-5.64%	-7.65%	-3.00%	3.20%	-5.30%	-5.43%	0.10%
EBITDAR Margin	43.25%	43.74%	46.66%	51.44%	56.87%	58.85%	59.45%	51.51%	55.72%	59.15%
EBITDAR Growth	-4.27%	-6.33%	3.36%	2.18%	1.84%	3.75%	0.96%	0.96%	2.59%	4.99%
NOPBT Margin	30.21%	30.38%	33.14%	38.26%	42.58%	43.55%	45.19%	37.58%	41.46%	44.37%
NOPBT Growth	-7.05%	-6.86%	5.66%	7.02%	2.52%	2.54%	9.13%	2.18%	4.03%	5.83%
NOPAT Margin	20.24%	20.99%	22.49%	25.64%	32.27%	32.73%	35.05%	26.82%	30.21%	33.89%
NOPAT Growth	-8.53%	-3.96%	3.81%	5.64%	15.98%	1.66%	12.62%	4.63%	7.76%	7.14%
Economic Profit Margin on Sales (EP / Sales)	13.83%	14.59%	15.36%	18.04%	23.08%	25.59%	28.04%	19.33%	22.24%	26.82%
Economic Profit Growth	-5.28%	-2.26%	1.95%	8.88%	17.91%	11.13%	15.25%	7.52%	12.64%	13.19%
Economic Return Spread (ROC-WACC)	8.93%	8.69%	9.48%	11.35%	13.41%	12.51%	15.19%	11.09%	12.42%	13.85%
Economic Return Ratio (ROC / WACC)	315.58%	328.05%	315.19%	337.39%	351.23%	458.55%	535.27%	358.08%	382.39%	496.91%
Economic Profit Momentum ( $\Delta$ EP/Capital)	-0.51%	-0.19%	0.20%	0.91%	2.08%	1.06%	1.57%	0.81%	1.35%	1.32%
Economic Profit Momentum Margin ( $\Delta$ EP/Sales)	-0.77%	-0.34%	0.29%	1.47%	3.51%	2.56%	3.71%	1.50%	2.51%	3.14%
Capital Growth	-5.85%	7.10%	-19.33%	3.71%	-4.05%	43.28%	3.20%	6.14%	14.31%	23.24%
Capital Turns	0.67X	0.58X	0.69X	0.62X	0.59X	0.42X	0.42X	0.58X	0.54X	0.42X
EVC Acceleration Margin	-0.75%	-0.31%	0.28%	1.36%	3.23%	2.57%	3.90%	1.44%	2.34%	3.15%
EVC Acceleration Spread	-0.50%	-0.20%	0.17%	0.84%	2.03%	1.49%	1.91%	0.77%	1.36%	1.77%
<b>Risk Factors</b>										
Free Cash Flow (NOPAT - $\Delta$ Capital)	\$8,117.2	\$2,409.7	\$14,070.4	\$4,529.6	\$8,280.1	(\$8,441.4)	\$6,144.9	\$4,169.7	\$1,456.1	(\$1,148.3)
Free Cash Flow Rate (FCF / Capital)	19.69%	5.46%	39.50%	12.26%	23.36%	-16.62%	11.73%	12.79%	6.33%	-2.45%
Free Cash Flow Yield (FCF / MV)	6.89%	1.68%	10.22%	2.56%	4.64%	-4.07%	2.87%	3.01%	1.04%	-0.60%
Total Debt / Total Capital	64.55%	79.75%	102.83%	107.61%	117.15%	115.36%	115.36%	104.54%	113.37%	115.36%
Total Debt / EBITDAR	224.26%	316.74%	318.78%	338.59%	347.30%	472.29%	458.79%	358.74%	386.06%	465.54%
Excess Cash	\$705.8	\$6,414.9	(\$7.7)	\$1,322.8	(\$185.3)	\$45.4	\$0.0	\$1,518.0	\$394.3	\$22.7
Financial Leverage ((Total Debt - Excess Cash) / Pension Leverage (Net Pension Liability / MV))	21.99%	20.04%	26.60%	21.71%	23.38%	28.22%	28.25%	23.99%	24.44%	28.24%
Equity Risk Index (S&P 500 = 1.00)	0.53	0.50	0.51	0.51	0.73	0.73	0.73	0.60	0.66	0.73
Stock Price Volatility	1.69	2.05	2.22	2.29	2.43	2.44	2.44	2.29	2.39	2.44
Sales Index (NL Sales)	10.22	10.14	10.11	10.04	9.95	9.96	10.01	10.04	9.98	9.98
Market Value Index (NL Market Value)	11.68	11.88	11.83	12.08	12.09	12.24	12.27	12.03	12.14	12.26
Size Index (NL Sales: MV)	10.95	11.01	10.97	11.06	11.02	11.10	11.14	11.03	11.06	11.12
Beta	0.30	0.25	0.27	0.27	0.59	0.60	0.60	0.40	0.49	0.60
TFP Adjusted Beta	0.53	0.50	0.51	0.51	0.73	0.73	0.73	0.60	0.66	0.73
Stock Price Volatility	1.69	2.05	2.22	2.29	2.43	2.44	2.44	2.29	2.39	2.44
<b>Valuation Measures</b>										
Total Economic Market Value (MV)	\$117,801.7	\$143,688.9	\$137,707.2	\$176,960.7	\$178,413.3	\$207,402.3	\$214,033.0	\$168,834.5	\$187,592.1	\$210,717.7
Economic Enterprise Value	\$117,095.8	\$137,274.1	\$137,714.9	\$175,638.0	\$178,598.5	\$207,356.9	\$213,986.2	\$167,316.5	\$187,197.8	\$210,671.6
Equity Market Value	\$91,189.2	\$108,479.7	\$101,081.6	\$137,211.6	\$136,890.5	\$148,818.8	\$153,576.5	\$126,496.4	\$140,973.6	\$151,197.7
Total Capital	\$42,383.6	\$45,530.1	\$36,777.9	\$38,085.5	\$36,431.3	\$51,809.7	\$53,466.1	\$41,726.9	\$42,108.8	\$52,637.9
Market Value Created MVC (MV - Capital)	\$75,418.1	\$98,158.8	\$100,929.3	\$138,875.2	\$141,982.0	\$155,592.6	\$160,566.9	\$127,107.6	\$145,483.3	\$158,079.7
MVC Margin (MVC / Sales)	274.83%	386.25%	409.92%	608.56%	675.29%	738.23%	724.41%	552.85%	672.27%	731.14%
MVC Spread (MVC / Capital)	177.94%	215.59%	274.43%	364.64%	389.73%	300.32%	300.32%	304.62%	345.49%	300.32%
Current EVC Value (EP / WACC)	\$91,636.0	\$97,350.5	\$85,827.3	\$86,124.1	\$90,924.5	\$154,588.7	\$178,158.8	\$100,145.5	\$105,563.4	\$166,373.8
Current Operations Value COV	\$134,143.7	\$140,039.3	\$125,712.3	\$122,403.0	\$127,116.5	\$197,703.1	\$219,754.7	\$139,777.3	\$144,091.9	\$208,728.9
Current Operations Value Per Share	\$136.81	\$149.07	\$147.14	\$151.60	\$163.35	\$260.79	\$265.56	\$168.92	\$184.44	\$263.28
Future Growth Value (MVC - EVA Value)	(\$16,342.0)	\$3,649.6	\$11,995.0	\$54,557.7	\$51,296.8	\$9,699.2	(\$5,721.7)	\$29,057.2	\$43,500.2	\$1,988.8
Future Growth Value Reliance (FGV / MV)	-13.87%	2.54%	8.71%	30.83%	28.75%	4.68%	-2.67%	17.21%	23.19%	0.94%
Share Price	\$93.70	\$118.14	\$121.72	\$172.12	\$177.57	\$197.61	\$197.61	\$157.43	\$182.43	\$197.61
Dividend Yield	3.50%	2.91%	2.97%	2.23%	2.36%	2.39%	2.39%	2.33%	2.58%	8.32%
Total Shareholder Return (TTM)	0.07%	29.00%	6.00%	43.63%	5.53%	13.68%	0.00%	-20.33%	15.88%	8.32%
MV to IC Ratio	2.78X	3.16X	3.74X	4.65X	4.90X	4.00X	4.00X	4.05X	4.45X	4.00X
EV / EBITDAR Multiple	9.87X	12.35X	11.99X	14.96X	14.94X	16.72X	16.24X	14.25X	15.56X	16.47X
EV / NOPBIT Multiple	14.12X	17.78X	16.88X	20.11X	19.95X	22.59X	21.36X	19.57X	20.91X	21.95X
EV / NOPAT Multiple	21.08X	25.73X	24.87X	30.02X	26.32X	30.06X	27.55X	27.51X	28.75X	28.73X
EV / EP Multiple	30.86X	37.02X	36.43X	42.67X	36.80X	38.44X	34.42X	38.28X	39.10X	36.29X
Future Growth Value (% of MV)	-13.87%	2.54%	8.71%	30.83%	28.75%	4.68%	-2.67%	17.21%	23.19%	0.94%
Current Operations Value (% of MV)	113.87%	97.46%	91.29%	69.17%	71.25%	95.32%	102.67%	82.79%	76.81%	99.06%
Market Value (COV + FGV %)	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Basic Shares Outstanding	980.5	939.4	854.4	807.4	778.2	758.1	827.5	827.5	781.2	792.8

Source: Company Data, Financial statements and Tigress Research

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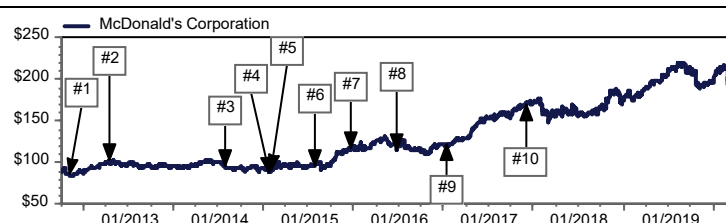
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**McDonald's Corporation (MCD-US)**
**Hotels Restaurants & Leisure**
**Ratings History**

McDonald's Corporation (MCD-US)				
Item #	Date	Research Action	Rating	Price
#10	11/29/2017	Reiterate Rating	Neutral	\$170.43
#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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**Rating Distribution (03/11/2020)**

Rating:	Meaning:	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.	17	14%	1	15%
<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.	56	46%	5	70%
<b>Neutral:</b>	Expect little or no outperformance opportunity over the next 12 months.	44	36%	1	15%
<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

\*Relationship Companies under research coverage are companies in which Tigress Financial Partners LLC or one of its affiliates has received compensation for investment banking or non-investment banking services from the company, affiliated entities and / or its employees within the past twelve months or expects to do so within the next three months.

Total	122	100%	72	100%
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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.

**Glossary of Key Terms and Measures**

<b>Excess Cash per Share:</b>	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.
<b>EBITDAR:</b>	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.
<b>NOPAT:</b>	Net Operating Profit After Tax represents a company's after-tax cash operating profit excluding financing costs.
<b>Total Invested Capital:</b>	Total Invested Capital the total cash investment that shareholders and debt holders have made during the life of the company.
<b>Return on Capital:</b>	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.
<b>Cost of Capital:</b>	Is the proportionately weighted cost of each category of capital – common equity, preferred equity, and debt.
<b>Economic Profit:</b>	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.
<b>Current Operations Value:</b>	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.
<b>Future Growth Value:</b>	Future Growth Value is the portion of market value based on un-earned Economic Profit

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<b>Company:</b>	<b>Disclosure:</b>
McDonald's Corporation (MCD-US)	14

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