

McDonald's Corporation

US Satellite*

Recommended since 16.09.2020

01.02.2023



Country US	Market capitalization (bn) USD 197.3	Perf. since reco. (%)
Sector Travel & Leisure	Free float 99.9%	McDonald's Corporation 18.9
Factset MCD-US	Closing price USD 267.40	Sector 19.0
ISIN US5801351017	ESG Risk score* 24.3 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.

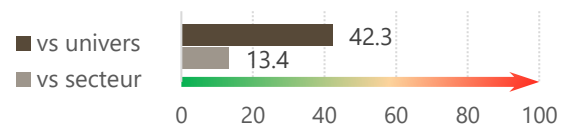
Investment case

- The nature of the business (fast food/value adapted to modern food consumption) has given the group defensive qualities in times of pandemic. Digital initiatives have responded to the new context -> increase in the average ticket price and better performance on all meals. The success of the strategy implemented in the US was reflected in better than expected 2021 results (sales growth / margin / EPS) and continued into 2022. In Q4 alone, organic sales growth in the U.S. (+10.3%) reflects an increased number of customers, menu price increases, successful marketing promotions on core menus (Cactus Plant Flea Market and McRib) and digital initiatives (reduced time spent at the drive-thru / energized customer service for ordering, payment and delivery). Internationally, McDonald's recorded better operating performances in Europe, Japan and Brazil, although China slowed (Covid restrictions). Operating profit (+8% as reported / +16% at constant exchange rates) benefited from better volumes, higher average ticket price, improved mix and lower Covid-related costs, which largely offset cost inflation (food materials / transportation) and marketing expenses.
- McDonald's is cautious in its operating margin projections for 2023 (45% vs. consensus of 46.5%). The market would have liked a little more audacity... McDonald's will deliver better than announced over the quarters. The good 2022 results reflect the group's ability to perform well and manage effectively in a more challenging environment. The focus will be on the drivers to maintain sales momentum in the US (digital gains, marketing, new menus, execution). The group appears well positioned with its value offering in the face of pressure on consumer purchasing power and benefits from its critical size and investments behind its brand that have allowed it to be resilient to Covid while building for the future: a long-term growth defensive consumer stock.

Valuation

Based on 2021 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)*



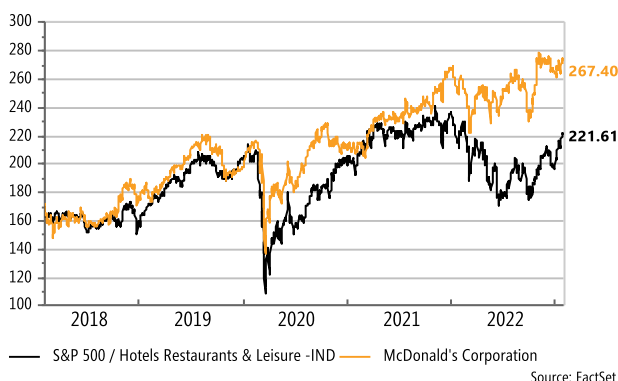
USD	12/2022	2023e	2024e
Sales revenue (mio)	23'183	24'257	25'856
Sales growth	-0.2%	4.6%	6.6%
EBIT adjusted (mio)	10'345	11'023	11'928
% of sales	44.6%	45.4%	46.1%
Net income (mio)	6'177	7'695	8'379
Net income growth	-18.1%	24.6%	8.9%
FCF/Sales	23.7%	27.9%	28.1%
Net debt/Ebitda	4.2x	2.6x	2.4x
Dividend yield	2.3%	2.3%	2.4%
PE	31.6x	25.3x	22.9x
EV/EBITDA	21.3x	17.7x	16.5x

Factset estimates

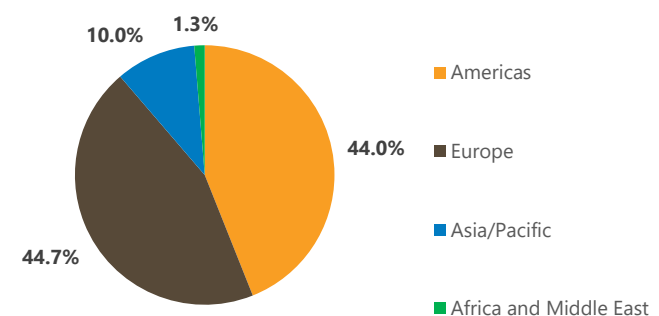
ESG - risks and key points

- 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 - 12/2021



*: 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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