



McDonald's Corporation (MCD)

Updated February 12th, 2025, by Prakash Kolli

Key Metrics

| | | | | | |
|-----------------------------|-------|--|-------|----------------------------------|----------|
| Current Price: | \$310 | 5 Year CAGR Estimate: | 5.5% | Market Cap: | \$222.3B |
| Fair Value Price: | \$271 | 5 Year Growth Estimate: | 6.0% | Ex-Dividend Date: | 03/03/25 |
| % Fair Value: | 114% | 5 Year Valuation Multiple Estimate: | -2.6% | Dividend Payment Date: | 03/17/25 |
| Dividend Yield: | 2.3% | 5 Year Price Target | \$363 | Years Of Dividend Growth: | 50 |
| Dividend Risk Score: | A | Retirement Suitability Score: | B | Rating: | Hold |

Overview & Current Events

McDonald's, founded in 1940 and headquartered in Chicago, IL, is the world's leading restaurant chain with 41,822 locations in about 119 countries at end of 2023. The highest store counts are in the US (13,457), China (6,196), Japan (2,982), France (1,560), and Canada (1,466). 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 February 10th, McDonald's reported Q4 2024 results. Total revenue came in at \$6,388M, flat, compared to \$6,406M in Q4 2023 on 2% higher systemwide sales adjusting for currency headwinds. Diluted earnings were flat at \$2.80 per share compared to \$2.80 per share in comparable periods on pre-tax charges. On a geographic basis, comparable sales were -1.4% in the US, +0.1% in the International Operated Markets, and +4.1% 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 \$30 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 | \$12.33 | \$16.50 |
| 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 | 724 | 706 |

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 up since our last report on positive organic sales growth and an optimistic outlook. 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 \$363.

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% | 57% | 57% |

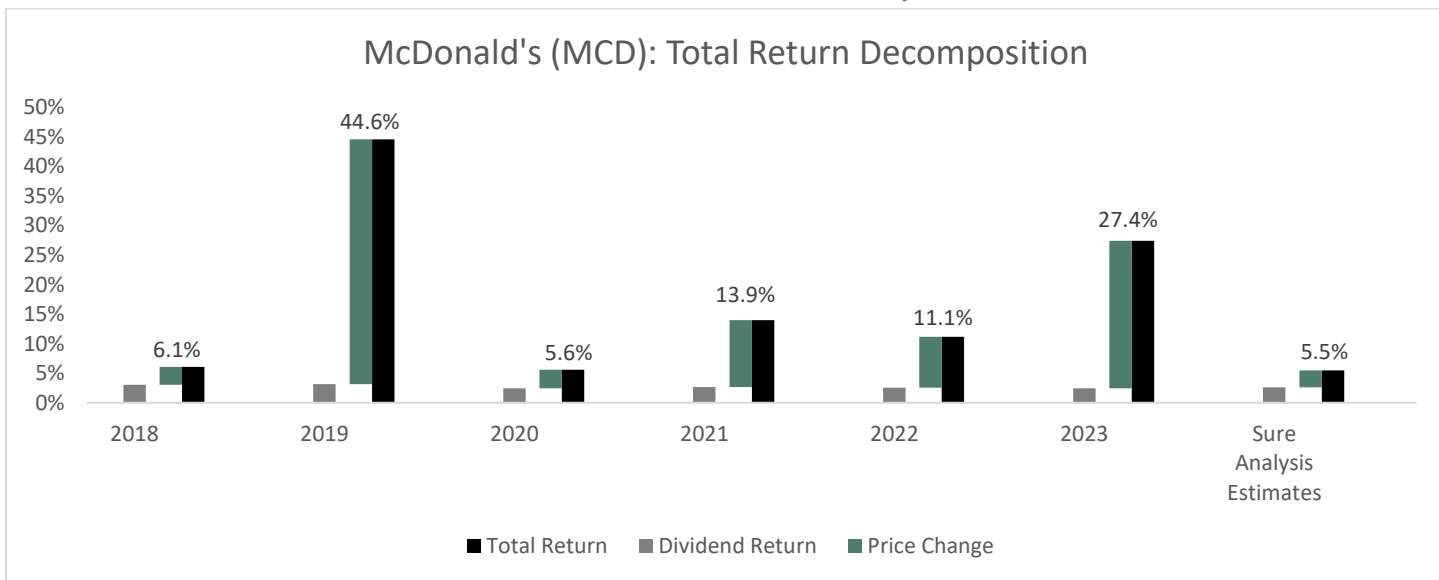
McDonald's competitive advantage lies in its global scale, cost advantages, immense network of restaurants, well-known brand, and real estate assets. The company has one of the most well-known brands in the world and has successfully replicated its business model globally. Next, McDonald's often owns 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 Q4 2024, long-term debt was \$38,424M offset by \$1,085 in cash and equivalents. The company is slowly reducing leverage after peaking in 2020. The leverage ratio is ~3.29X and interest coverage is about 7.9X.

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 (-2.6%) valuation headwind. McDonald's comparable sales returned to positive territory but are still 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 | --- |
| 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 | --- |
| Goodwill & Int. | 2516 | 2337 | 2380 | 2332 | 2677 | 2773 | 2782 | 2900 | 3040 | --- |
| Total Liabilities | 30851 | 33228 | 37072 | 39070 | 55721 | 60450 | 58460 | 56439 | 60854 | 58979 |
| Accounts Payable | 875 | 756 | 925 | 1208 | 988 | 741 | 1007 | 980 | 1103 | |
| 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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