

McDonald's Corporation

US Satellite*

Recommended since 16.09.2020

02.08.2022



Country US	Market capitalization (bn) USD 197.0	Perf. since reco. (%)
Sector Travel & Leisure	Free float 99.9%	McDonald's Corporation 17.5
Factset MCD-US	Closing price USD 264.23	Sector 4.0
ISIN US5801351017	ESG Risk score* 24.8 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.

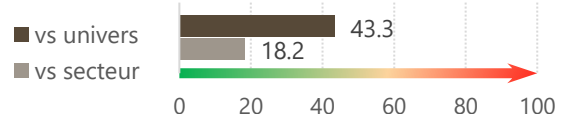
Investment case

- The nature of the business (fast food/value adapted to modern food consumption) gives the group defensive qualities that are appreciated in this period of pandemic. Resilient from the spring, its sales barely declined in H2 2020, highlighting its dynamism in the US. Initiatives such as the reduction of time spent at the drive-thru and a customer service boosted by digital) were able to respond to the new market conditions -> increase in the average ticket price and better performance on all meals of the day. The situation was more difficult internationally with the resurgence of Covid at the end of 2020 leading to new restrictions.
- The success of the strategy implemented in the US was reflected in better 2021 results (sales growth / margin / EPS) and continued in Q1 and Q2 2022. In the US, sales growth benefited from strategic menu price increases, marketing promotions on core menus and digital initiatives (enhanced customer service for ordering and payment) as well as the success of the MyMcDonalds Rewards loyalty program. Internationally, fewer Covid restrictions are translating into better results in Europe, Japan and Brazil. We see that better volumes, higher average ticket price, improved mix and lower Covid costs have helped to offset the inflation of inbound costs (commodities / fret).
- MCD confirmed its 2022 guidance of an EBIT margin of 44-45% (excluding Russia) and expects to invest \$2-2.2bn in more than 1700 new restaurants worldwide. The H1 2022 results reflect MCD's ability to effectively manage a challenging operating environment. The group is well positioned with its value proposition in the event of pressure on consumer purchasing power (trading down) and will benefit from the out-of-home restaurant sector, its critical size and investments behind its brand led 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)*



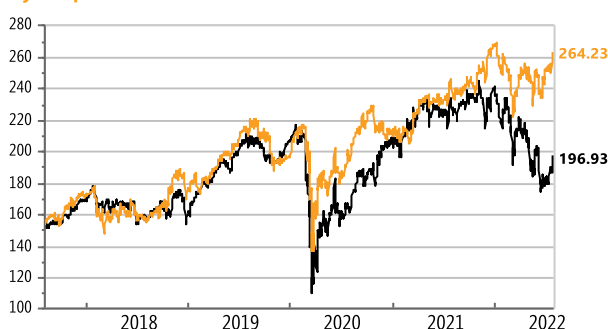
USD	12/2021	2022e	2023e
Sales revenue (mio)	23'223	22'821	23'527
Sales growth	20.9%	-1.7%	3.1%
EBIT adjusted (mio)	9'773	10'257	10'945
% of sales	42.1%	44.9%	46.5%
Net income (mio)	7'545	7'206	7'710
Net income growth	59.5%	-4.5%	7.0%
FCF/Sales	30.6%	27.3%	29.0%
Net debt/Ebitda	3.8x	2.8x	2.7x
Dividend yield	2.1%	2.1%	2.2%
PE	26.7x	26.8x	24.9x
EV/EBITDA	20.0x	18.9x	17.8x

Factset estimates

ESG - risks and key points

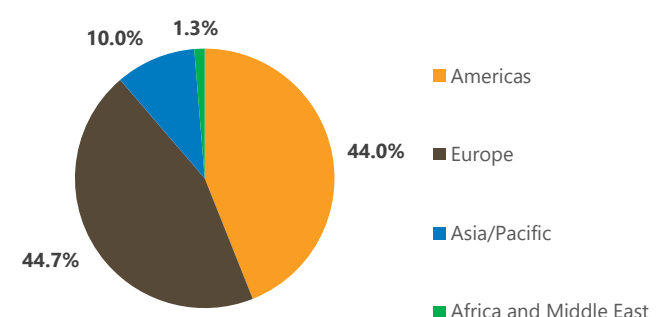
- The rating shows that McDonald's has an average level of financial risk related to ESG factors due to average exposure and management of significant issues.
- The company is regularly the target of criticism/controversy regarding the dietary quality of its products, the treatment of its employees,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

5-year performance vs sector



Source: FactSet

Sales breakdown - 12/2021



*: see overleaf

Source: Factset, Sustainalytics

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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