

McDonalds Corp. (MCD)

Rating: Hold	Price \$319.65	Yield 2.2%	Market Cap. \$228.5B	52-Week Range \$326.32 – \$243.53
Data as of 04/30/2025				

Sector	Consumer Discretionary
Subsector	Consumer Services
Investment Category	Large Cap
Price Movement	Below Average

Company Overview

With its first restaurant opening in 1955 in Des Plaines, Ill., McDonald's Corporation is one of the leading fast-food retailers in the world with over 40,000 franchised and company-operated stores. Key competitors include Wendy's, Burger King, Taco Bell and KFC.	
Revenues International	69%
Standard & Poor's/Moody's	BBB+/Baa1
MSCI ESG Rating	A/Average

Dividend Outlook (1-Year): Rising

Annualized Payment	\$7.08
Last Change	6% (Sep 25, 2024)
Consec. Yrs Increased	48
Paid Since	1976
5-Yr. Trailing Growth	8%
Long-Term Growth Est.	7%
Payout Ratio ('25)	58%
Dividends Paid	Mar, Jun, Sep, Dec

Commentary: The company generates significant cash flow, and the consistent nature of the highly franchised model should support our long-term growth outlook.

Valuation & Earnings

	'23A	'24A	'25E
Earnings Per Share	11.94	11.72	12.30
P/E	26.8x	27.3x	26.0x
PEGY	2.6x	2.7x	2.5x
LT EPS Growth Est.			8%
Est. Earnings Date	July 31, 2025		

Annualized Total Returns	1yr	3yr	5yr
McDonalds Corp.	20%	11%	14%
S&P Cons. Discr. Index	11%	8%	11%
S&P 500 Index	12%	12%	16%

Data as of 4/30/25. Source: FactSet. Indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results.

Investment Summary

We rate shares of McDonald's Corp (McDonald's) a Hold. Our rating is supported by McDonald's leading position in the quick-service restaurant segment, multiple programs to drive sales, and McDonald's emphasis on returning cash to shareholders. These are balanced by a share price that most likely reflects the positive growth over the longer term from these initiatives.

Outlook

Size Advantages in Fast Food - McDonald's has the leading position in the U.S. fast-food industry with roughly 15% of the market. The chain's size gives it advantages over peers in terms of having enhanced buying power and more convenient locations.

Multiple Programs to Drive Sales - The management team has spent the past few years focusing on initiatives to drive sales, such as faster drive-thru times, improving the breakfast menu, upgrading restaurants, curbside pickup, delivery, increasing mobile order & pay, sending offers through mobile phones, and product innovation, which should drive sales. Also, the company has recently launched a loyalty program that is driving many repeat customers and increased traffic into restaurants.

Increased Franchise Revenues Drive Stability - McDonald's has sold many company restaurants to franchisees, which has increased the franchise units to 93% of the store base from 80% a few years ago. We expect that the higher percentage of franchise locations should lead to less volatile results. McDonald's collects a high-profit-margin royalty stream off of franchised business models, and this royalty stream tends to be much less susceptible to potential headwinds vs. the company owning and running the restaurants itself. We believe these more stable and consistent expectations will increase the value of the shares.

Valuation and Recent Performance- McDonald's is trading at about 26 times our 2025 earnings estimate, which is above the five-year average of 24 times. We believe shares are fairly valued and adequately reflect our growth outlook. The stock has outperformed the Consumer Discretionary Index over all three time periods due the defensive nature of the shares relative to sector peers.

Risks - The primary downside risks include potential increased promotional

activity and the potential for food contamination. The primary upside risks are stronger sales in the U.S. and a faster turnaround in international sales.

Key Developments

5/01/25: McDonald's reported first-quarter earnings per share (EPS) of \$2.67, in line with the average analyst estimate, and representing a 1% decline from the same period a year ago. Sales at restaurants open at least one year declined 1.0%, which was below expectations for an increase of 0.5%. Sales softness was led by the U.S. market, which declined by 3.6% due to lower guest traffic. Profitability declined modestly due to the lower sales despite good management of expenses by the company.

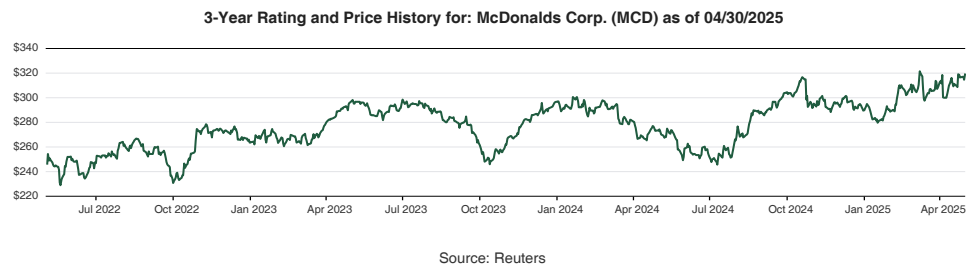
We think the quarter was slightly disappointing overall. Sales growth had started to recover in the fourth quarter of 2024, but dipped back negative in the first quarter of this year. In our view, the lower sales reflect a challenging environment for consumers as they grapple with higher prices, particularly lower-income families. The large price increases in the restaurant industry over the past few years is most likely a headwind that is causing consumers to cut back on certain discretionary purchases. While McDonald's has long-term growth opportunities from menu innovation, digital initiatives, and store expansion, we believe our outlook is appropriately reflected in the share price.

Analyst: Matt Arnold, CFA

Analyst Certification

I certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers; and no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report. Matt Arnold, CFA

Required Research Disclosures



May 1, 2025	BUY	HOLD	SELL
Stocks	55%	44%	0%
Investment Banking	4%	6%	0%
Services			

The table lists the percent of stocks we follow globally in each of our rating categories. Investment banking services indicate the percentage of those companies where the firm has acted in furtherance of a public offering of the issuer within the past 12 months.

- Initiated Coverage PRE-1993.....(H) 09/18/02-04/16/12...(B) 04/16/12-12/20/21...(H) 12/20/21-
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Opinion Rating Definitions: **Buy (B)** - We believe the valuation is attractive and total return potential is above average over the next 3-5 years compared with industry peers. **Hold (H)** - We believe the stock is fairly valued and total return potential is about average over the next 3-5 years compared with industry peers or a special situation exists, such as a merger, that warrants no action. **Sell (S)** - We believe the stock is overvalued and total return potential is below average over the next 3-5 years compared with industry peers. In some cases we expect fundamentals to deteriorate considerably and/or a recovery is highly uncertain. **FYI (FYI)** - For informational purposes only; factual, no opinion. **Under Review (UR)** - Our rating, estimates, and opinion for this company are under review and should not be relied upon for making investment decisions until updated.

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