



# McDonald's Performance

# McDonald's Stock Performance and Reasons

# Reasons Behind the Stock Price Surge of McDonald's

## McDonalds stock performance last six months



*“Our efforts to build a better McDonald's are yielding meaningful results with continued positive momentum and a strong start to 2017 that includes positive comparable sales across all segments, higher global guest counts and enhanced profitability.”*

Steve Easterbrook, CEO, McDonalds

## Why Such Surge?

Financial analysts have identified three key areas for such hike in stock price. Following are the three areas

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### Increasing Same Store Sales

- In Q1 2017, Domestic same-store sales growth up 1.7%, versus expected decline of 0.8%
- In Q4 2016, same-store sales increased 2.7% Y-o-Y on a global basis

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### Success of All-day breakfast

- The company's sales soared in 2016 following the restaurant's introduction of All-Day Breakfast, but there were concerns its pace of growth wouldn't hold after the first-year anniversary of the launch. But McDonald's expanded the menu, keeping the momentum in Q1 2017. And business thrived last quarter due to the introduction of a bigger version of its Big Mac called the "Grand Mac," along with a smaller version called "Mac Jr." as well as \$1 and \$2 deals.

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### New Announcements

- In July 2016, the company announced its plans to **refranchise 4,000 restaurants by end of 2018**
- In March 2017, McDonald's Corp began testing its **long-awaited US mobile ordering app**
- In Q3 2016, the company announced to **stop using any artificial preservatives in McNuggets**. This in turn positively impacted the company's sales in Q4 2016

Source: Forbes, Quarterly Report, SupplyChainDIVE

# McDonald's Supply Chain and Other Updates

# McDonald's – Supply Chain Update

## Overview

- For the sixth year in a row, McDonald's was awarded with a top 10 spot in Gartner's Supply Chain Top 25, securing the second-best spot for the third year in a row. The reason, Supply Chain 247 reports, is the company's horizontal (or "system") model wherein everyone, including suppliers, succeed.
- One of McDonald's main supply chain tenets is to focus on the end-product, rather than the process of production, meaning that while quality and other standards must be met, the supplier is empowered to determine the methods employed to do so.

## Going horizontal

- Supply Chain Dive recently characterized McDonald's new trajectory as an attempt at the "horizontal" supply chain. This means a system where businesses can look core closely at the relationships between different entities, something which makes a difference when product quality is as important as it is in the food service industry.
- Unlike other top brands, McDonalds is fully relying on its suppliers. A fully horizontal supply chain means supplier-buyer relationships are key, and McDonald's has shown utmost trust in its partners over the years
- The company responded to a wave of negative documentaries, like "Fast Food Nation" and "Super Size Me," by increasing the transparency in its supply chain. By tapping into its close ties with its suppliers, the company was able to weather the storm of poor publicity by revealing the veracity of its products. It also produced a campaign called "**Our Food/Your Questions,**" meant to further promote its certainty in its own products.

## Focus on Delivery

### Expansion of Delivery Partnership with UBER

- In March 2017, the company announced to expand its delivery partnership with UBER. Since December 2016, has been testing delivery through the UberEats mobile app in about 200 restaurants in Florida.
- According to the company's CEO, McDonalds will take things slow on the expansion and eventually put more marketing muscle and promotional activity behind delivery once it gets more experience under its belt with order capturing, packaging and other operational challenges.

### Launch of New Mobile App

- In 2017, McDonald's Corp began testing its U.S. mobile ordering app, with the goal of avoiding the kinds of service hiccups that have haunted digital debuts by companies such as Starbucks.
- McDonald's sees mobile as a way to win back customers after four straight years of traffic declines

Source: Forbes, Quarterly Report, SupplyChainDIVE

# McDonalds – Other Updates

Date	Headline	Description
March 2017	<b>McDonald's is ditching frozen beef for fresh in its Quarter Pounders</b>	The company announced to swap frozen beef patties for fresh ones in its Quarter Pounder burgers by sometime next year at most of its U.S. locations. Employees will cook up the never-frozen beef on a grill when ordered. <a href="#">Read More</a>
December 2016	<b>McDonald's Revamps Its \$4 Billion McCafe Brand</b>	In December, 2016, the company announced its plans to revamp its McCafe brand. The company announced to reintroduce the McCafe concept in 2017, about eight years after it debuted nationwide. The push follows efforts to upgrade its java and get more of its beans from sustainable sources, mimicking a move by its Seattle-based rival. <a href="#">Read More</a>
November 2016	<b>McDonald's To Roll Out Self-Order Kiosks and Table Service</b>	McDonald's announced that it would roll out digital self-order kiosks and table service in all of its 14,000 U.S. stores. Customers will be able to order at touch screens and then pick up a number with a digital locator, which will allow employees to serve them at their tables. Next year customers will also be able to order and pay on the company's mobile app, which has 16 million downloads. <a href="#">Read More</a>
August 2016	<b>McDonald's Cuts Preservatives From McNuggets as Part of Health Kick</b>	McDonald's Corp. announced to remove artificial preservatives from Chicken McNuggets, its most popular menu item, and making a host of other changes to its food in a bid to attract consumers looking for healthier, less-processed fare. <a href="#">Read More</a>

# McDonald's Deals and Growth Plans

# McDonald's – Significant Deals

## Major Deals

### Expansion in Brazil through acquisition

- McDonald's Brazilian master franchisee Arcos Dourados acquired exclusive right to use milkshake flavouring brand Ovomaltine.
- Bob's, the largest competitor to McDonald's in that country, offered, since 1959, milkshakes and sundaes made with Ovaltine, where it goes by the name of "Ovomaltine", which became a flagship product of the fast-food chain in Brazil. In 2016, McDonald's acquired exclusive rights to sell "Ovomaltine"-branded milkshakes.

## Selling Franchise Rights in Asia

### Sold controlling stake in China

- In January 2017, McDonald's Corp. agreed to sell a controlling stake in its China and Hong Kong operations to a group of investors for about \$1.7 billion, a key component of the fast-food giant's reorganization in a market where it's striving to catch up with more nimble rivals.
- Chinese state-backed conglomerate Citic Ltd., Citic Capital Holdings and U.S. private-equity firm Carlyle Group LP will acquire an 80 percent holding in a deal valuing the business at as much as \$2.08 billion

### Sold Franchisee rights for its restaurants in Singapore and Malaysia

- McDonald's has completed the sale of franchise rights for its restaurants in Singapore and Malaysia to Saudi Arabia's Lionhorn Pte Ltd as part of a plan to move away from direct ownership in Asia.
- The fast-food chain said it transferred its ownership interest in 390 restaurants, more than 80 percent of which were company-owned, on Dec. 1 to Lionhorn.



# McDonald's – Growth Plans

## 5-pronged growth agenda

- In March 2017, McDonald's unveiled its long-term global growth plan. It is primarily based on five areas focusing the following
  - ✓ Enhancing digital capabilities and the use of technology to dramatically elevate the customer experience
  - ✓ Redefining customer convenience through delivery
  - ✓ Accelerating deployment of Experience of the Future restaurants in the U.S.
  - ✓ Initiating a new 3-year target for cash return to shareholders, and
  - ✓ Establishing new financial targets for Sales, Operating Margin, Earnings per Share and Return on Incremental Invested Capital

### Accelerating Deployment of Experience of the Future Restaurants in the U.S.

- In the near-term, McDonald's is redirecting a portion of capital saved from refranchising to modernizing the U.S. estate. The Company plans to reimagine about 650 restaurants in 2017. When combined with previously modernized restaurants which will be updated with Experience of the Future elements this year, the U.S. will have approximately 2,500 Experience of the Future restaurants by the end of 2017.

### Redefining Convenience through Delivery

- Currently, McDonald's is experimenting with different delivery models including partnering with third parties for ordering and fulfillment throughout the world.

### Financial Performance expectations for 2019 and Beyond

- Systemwide sales growth of 3% to 5%;
- Grow operating margin from the high-20% range to the mid-40% range;
- Earnings per share growth in the high-single digits; and
- Raise the return on incremental invested capital target from the high-teens to the mid-20% range

### Enhancing Digital Capabilities

- Use of kiosks to place orders in the stores. Customers can place their order and skip the front counter entirely, with their food brought right to their table.
- Introduction of Mobile application in the US for food delivery

### Initiating a new 3-year target for cash return to shareholders

In November of 2015, the Company provided targets for its refranchising, G&A savings and cash return to shareholders. In 2017, the Company updated its progress against these targets, specifically noting the following:

- **Refranchising** - the Company is on track to refranchise 4,000 restaurants by the end of 2017, a full year ahead of schedule. Once completed, this will bring the Company's global franchised percentage to approximately 93%.
- **Cost Savings** - the Company achieved more than \$200 million in savings through the end of 2016 towards its goal of reducing net G&A levels by \$500 million by the end of 2018, and expects to trim another 5 to 10% from its remaining cost base by the end of 2019.
- **Cash Return to Shareholders** - 2016 marked the achievement of the Company's 3-year target of \$30 billion cash return to shareholders. Today, the Company announced a new \$22 to \$24 billion cash return target for the 3-year period ending 2019, reinforcing management's confidence in the Company's long-term strategies and financial targets.

# McDonald's Executive Movement

# McDonald's – Executive Changes

McDonald's  
U.S. Marketing  
Chief leaves  
and replaced  
by PepsiCo's  
Morgan Flatley

In May 2017, Deborah Wahl, the chain's U.S. marketing chief for the last three years was replaced by Morgan Flatley, formerly CMO of Global Nutrition at PepsiCo Inc.

## Morgan Flatley – Biography

- Morgan joined McDonalds as the CMO of US in May 2017
- Prior to this, she was CMO for the global nutrition group and senior VP-global grains of PepsiCo.
- She had been in various roles at PepsiCo over more than a decade and is most closely associated with her work on the Gatorade business. Before joining PepsiCo, Ms. Flatley handled work on Tide and Tylenol while at Saatchi & Saatchi.



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Lance Richards, head of U.S. menu, was replaced by Linda VanGosen, a former Starbucks Corp. vice president.

## Linda VanGosen – Biography

- Linda joined McDonalds as the head of U.S. menu in May 2017
- Prior to this, she was at Starbucks and was responsible for the overall vision and strategic growth plans for Starbucks Evenings
- Previously, she also worked as VP of Brand, Strategy and Insights at TGI Friday
- He is MSFS in International business from Georgetown University



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THANK YOU