

Financial Analysis – Mc Donald’s Inc.

Final Project

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EXECUTIVE SUMMARY

McDonald's Inc. has been in operation since 1954 and has secured strong brand recognition with its quality fast foods and effectiveness in promotions. The company has been very successful throughout the decades and has grown tremendously.

As of December 2018, McDonald's has reported 37,855 restaurants worldwide, with the U.S. having the largest market segment. The company is the second largest in the industry globally with over 210,000 employees and reported in 2018 over \$21 billion in revenue, \$8.8 billion in Operating Income and \$5.9 billion in Net Income. It is part of the fast food restaurant industry, which has revenues of approximately \$856 billion worldwide.

In assessing the company's SWOT analysis, it is evident that the company has exceptional strengths and has the competitive edge in the following aspects:

- Economies of Scale
- Market strength over suppliers and competitors
- Wide audience / customer reach
- Wide product range and expansion
- Significant benefits from best practices implementation
- Exposure to several currencies
- Effective marketing strategies
- Pricing strategy that caters for a wider market segment

Although Mc Donald's has a great advantage with its strengths in the industry, there are some weaknesses that the company has to keep an eye on and try to minimize where possible.

These weaknesses include:

- Market saturation
- Globalization challenge, especially relating to culture
- Limited options for vegetarians and vegans
- Longer waiting time during busy periods
- Food is considered unhealthy
- Issues relating to animal cruelty
- Less sales in some overseas restaurants due to narrow timeframe for breakfast

The company has a very good advantage in the area of Opportunities. These include:

- Potential for unlimited menu innovations
- Potential for wider option of food, especially with vegetarian market and fish products
- Introduction of wider range of coffee, including decaffeinated beverages
- Opportunities new restaurants overseas and expansion coffee sales reach, especially in UK

However, like every business, there are also associated risks which the company has to work-around and/or mitigate where applicable. Some of these threats include:

- Continued pressure from competitors such as, Burger King Subway, KFC,
- Wendy's, Chick-Fil-a, Starbucks, Sonic, etc.
- Governmental regulations that are focusing on fast foods in relation to health issue and other concerns
- Commodity price increases could negatively affect cost

The company's SWOT analysis is very instrumental in its strategic planning. In order for the company to stay ahead of competition, several investments had to be made.

In examining Mc Donald's Strategies, as explained in 2018 Annual Report, the company has is heavily involved with a robust strategic growth plan. For example, this is evident with their investment in the Velocity Growth Plan that is designed to drive operating income growth. Some aspects of this plan include:

- ❑ Overall Enhanced Customer Experience. These involve:
 - Introduction of new hospitality experience - welcoming environment, enjoyable visits, refreshed décor
 - Increase Customer Appeal
 - Augment Digital and Delivery Initiatives
 - Innovation and differentiation to balance value, convenience and profitability

- ❑ Technological Enhancements, such as:
 - Simpler and personalized digital platforms, including kiosks digital menu boards in 17,000 restaurants
 - New mobile order and pay in over 23,000 restaurants

- ❑ Growth in International Business

Although these investments, required more spending by the company, the company's financial performance, generally was still very good.

The following is a Comparison of Mc Donald’s vs. Industry Financial Analysis (Financial Ratios) for 2018:

	McDonald's	Industry
Current Ratio	1.363	1.065
Long Term Debt/Capital	1.252	0.769
Debt/Equity Ratio	-4.965	3.355
Gross Margin	51.300	58.186
Operating Margin	41.962	35.785
EBIT Margin	41.962	36.196
EBITDA Margin	49.011	40.097
Pre-Tax Profit Margin	37.175	25.798
Net Profit Margin	28.177	11.424
Asset Turnover	0.641	0.266
Inventory Turnover Ratio	200.376	29.867
Receivable Turnover	8.612	11.852
Days Sales in Receivables	42.385	30.797
Return on Equity (ROE)	-94.662	31.620
Return on Tangible Equity	-68.968	-9.277
Return on Assets (ROA)	18.056	5.680
Return on Investment (ROI)	23.872	7.302
Book Value Per Share	-8.159	14.384
Operating Cash Flow Per Share	8.868	2.463
Free Cash Flow Per Share	5.582	2.298

Overall, Mc Donald’s is seen as a good company investment. Generally, the company has performed well as shown above, and is fairly aligned with its competitors and in many aspects, the company has the competitive advantage and even outperform industry standards.

Furthermore, the company continues to be leader in the industry, aligning and in some cases, exceeding industry in Current Ratio, Operating Margin, EBIT and EBITDA, Pre-Tax Profit Margin and Asset Turnover. The company significantly exceeded industry standards in Net Profit Margin, Return on Assets and Return on Investment. It is the industry leader in Inventory Turnover. The company is fairly in line in Gross Margin.

McDonald's equity was negatively impacted due to \$8.5 billion of stock buyback in 2018, which in turn affected shareholders equity and applicable equity-related ratios. This is part of a three-year \$25 billion share repurchase program ending in 2019.

Overall, the company has performed very well, year-over-year, growing consistently for the past 6 years – aligned with industry and even out-pacing the competition.

The company is well positioned to continue to be a future fast food giant and a great investment for investors.

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