

and overseas under the McDonald's banner (as of 9/30/16). About 83% are operated by franchisees or affiliates, with the remainder under the control of the company. Foreign operations contributed 67% of systemwide sales and 49% of consolidated operating inHas about 420,000 employees. Officers/directors own less than 1% of common stock (4/16 Proxy). CEO: Steve Easterbrook. Inc.: DE. Address: One McDonald's Plaza, Oak Brook, Illinois 60523. Telephone: 630-623-3000. Internet: www.mcdonalds.com

ANNUAL RATES Past Est'd '13-'15 Past 10 Yrs. 6.5% 9.5% 11.0% 5 Yrs. 5.5% 5.5% 4.5% of change (per sh) to '19-'21 4.0% 5.5% 6.0% Revenues "Cash Flow" Earnings Dividends Book Value 10.5% 5.0% -9.0%

4185.5

860.1

1887<u>.8</u>

2747.9

9643.0

874.7

2075.7

2950.4

4302.1

3624.5 4476.7

852.2

Current Assets

Accts Payable Debt Due

Current Liab.

Cal-	QUARTERLY REVENUES (\$ mill.)				Full
endar	Mar.31	Jun.30	Sep.30	Dec.31	Year
2013	6605	7083	7323	7093	28106
2014	6700	7181	6987	6572	27441
2015	5959	6498	6615	6341	25413
2016	5904	6265	6424	6037	24630
2017	5600	5900	5850	5550	22900
Cal-	EARNINGS PER SHARE AE				Full
endar	Mar.31	Jun.30	Sep.30	Dec.31	Year
2013	1.26	1.38	1.52	1.39	5.55
2014	1.21	1.40	1.09	1.12	4.82
2015	1.01	1.26	1.40	1.31	4.97
2016	1.23	1.45	1.62	1.40	5.70
2017	1.33	1.55	1.70	1.57	6.15
Cal-	QUARTERLY DIVIDENDS PAID B =				Full
endar	Mar.31	Jun.30	Sep.30	Dec.31	Year
2012	.70	.70	.70	.77	2.87
2013	.77	.77	.77	.81	3.12
2014	.81	.81	.81	.85	3.28
2015	.85	.85	.85	.89	3.44
2016	.89	.89	.89	.94	

McDonald's delivered solid quarter results. Revenues slipped 3% on a year-over-year basis, but the decline was not overly concerning since the figure was ahead of our call and the impact of refranchisings and unfavorable currency translations were largely to blame. Moreover, global same-store sales rose 3.5%, reflecting growth in all of the company's reporting segments. The metric increased 1.3% in the United States, despite ongoing industry softness. Management highlighted All Day Breakfast, value under the McPick 2 menu, and the introduction of Chicken McNuggets containing no artificial preservatives for its success on our shores. Foundational markets were the best performer (up 10.1%), as sales in Japan appeared to keep recovering from food-quality issues in that nation. In terms of profitability, total operating costs and expenses as a percentage of the top line fell sharply from a year earlier, enabling adjusted share net to handily top our \$1.49 forecast.

We think that the operating environment will remain challenging at home due to stiff competition and higher costs for things like labor. Meantime,

commodity cost deflation has made eating at home more affordable. That said, management's efforts to cut costs, refranchise, offer a better customer experience, and improve its digital strategy while not straying from the three pillars of value, convenience, and taste, should keep earnings on an upswing. We note, however, that lapping the launch of All Day Breakfast will probably keep U.S. comps negative in the fourth quarter and may well make overall results uneven in the near term. McDonald's stock has been volatile since hitting a 52-week high north of \$130 a share in May. Indeed, the issue had slipped back down to near its 52-week low heading into the third-quarter release. The figures seem to have eased some investors' concerns whether or not the earnings momentum can continue. We are of the view that it can, and believe that neutrally ranked MCD is worthy of consideration by a variety of investors, especially those with a conservative bent. Incomeseekers should note that the quarterly cash dividend was raised to \$0.94 a share, starting with the December 15th payment. Matthew Spencer, CFA November 25, 2016

(A) Based on diluted shares. Excl. nonrecur. gain/(loss): '01, (11¢); '02, (55¢); '03, (25¢); '04, (6¢); '05, 3¢; '06, 53¢; '07, (93¢); '08, 9¢ '09, 13¢; '10, (2¢); '15, (17¢); '16, (29¢). Excl. cum. effect of accting change: '02, (7¢); '03, (3¢); '04, (8¢). Incl. tax benefit: '04, 7¢. Excl. tax benefit '05, 4¢. Next egs. report due 1/23/17. (B) As of 3/08 div'ds paid mid-Mar.,

Jun., Sep., Dec. ■ Div'd. reinvestment plan available. (C) Incl. intang. At 12/31/15: \$2,516.3 mill., \$2.77/share. (D) In mill., adj. for splits. (E) May not sum due to rounding.

Company's Financial Strength Stock's Price Stability A++ 100 Price Growth Persistence **Earnings Predictability** 90