

CHICAGO--([BUSINESS WIRE](#))--Fitch Ratings has assigned an 'A' rating to McDonald's (NYSE: MCD) approximate \$1.5 billion of proposed multi-tranche multi-currency notes. The issuance includes \$500 million 10-year USD notes, EUR400 million 15-year notes (about \$545 million) due 2029, and GBP300 million 40-year notes (approximately \$503 million) due 2054. At March 31, 2014, McDonald's had \$13.9 billion of total debt.

The notes, which rank pari passu with existing debt, are being issued under McDonald's U.S. medium-term notes shelf registration dated Sept. 28, 2012 and global medium-term notes program dated Nov. 20, 2013. Terms do not include financial covenants. Proceeds will be used for general corporate purposes.

KEY RATING DRIVERS:

Three-Year Total Cash Shareholder Return Target: McDonald's plans to return \$18 billion-\$20 billion of cash to shareholders between 2014 and 2016 through dividends and share repurchases. The vast majority will be funded with internally generated cash flow, proceeds from refranchising, and other sources of liquidity, but some incremental debt is anticipated. Credit metrics are expected to remain acceptable for current ratings but a slight increase in leverage would eliminate room to accommodate additional weakening of same-store sales (SSS), operating income, or margins.

Substantial Cash Flow: McDonald's cash flow from operations (CFO) has grown at an 8% compound annual growth rate since 2003 to \$7.1 billion in 2013. CFO growth slowed recently due to more modest sales and operating income growth but remains substantial. Free cash flow (FCF - defined as cash flow from operations less capital expenditures and dividends) has averaged \$1.5 billion since 2003. Fitch believes McDonald's efforts to reignite SSS growth could result in a re-acceleration of operating earnings and cash flow growth.

Consistent Financial Strategy: McDonald's financial strategy is to reinvest in its business, return cash to shareholders, and maintain credit statistics appropriate for an 'A' credit rating. Capital expenditures are projected to approximate \$2.9 billion to \$3 billion in 2014 while cash returned to shareholders will consider the firm's recently announced three-year total cash return target. During the first quarter of 2014, McDonald's paid total

Fitch Rates McDonald's Proposed \$1.5B Notes Issuance 'A'; Outlook Stable

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dividends of \$0.81 per share or \$801.7 million and repurchased 4.5 million shares for \$432.4 million.

Strong Global Market Position: McDonald's is the world's largest restaurant company, based on nearly \$90 billion of system-wide sales, and a widely respected brand. During 2013, McDonald's generated \$28.2 billion of total revenue and \$8.8 billion of operating income. The firm's geographic segments and their percentage of 2013 revenue and operating income were: the U.S. (32% and 43%), Europe (40% and 38%), APMEA (Asia/Pacific, Middle East, and Africa) (23% and 17%), and Other Countries and Corporate (5% and 2%). At March 31, 2014, the system consisted of 35,493 units.

Significant Franchise Revenue: At Dec. 31, 2013, franchisees and affiliates operated 81% of McDonald's units while the remaining 19% were company-operated. Revenue from franchising totaled \$9.2 billion or 33% of McDonald's total revenue in 2013. Revenue from franchising includes sales-based royalties and contractual rent payments. McDonald's owns about 45% of the land and 70% of the buildings for its system of restaurants. Net property and equipment had a book value of \$25.7 billion at Dec. 31, 2013. Fitch views McDonald's recently announced plan to refranchise at least 1,500 units with an emphasis on APMEA and Europe favorably but expects the firm to continue to operate a material percentage of its units.

Comprehensive Operating Strategy: McDonald's three global priorities include optimizing its menu, modernizing the customer experience, and broadening accessibility to its brand. Annual global SSS have only declined twice since 1997, despite multiple economic recessions. McDonald's long-term average annual constant currency system-wide sales and operating income growth targets are 3%-5% and 6%-7%, respectively. Fitch views McDonald's financial targets as achievable but operating income growth could continue to be below target levels over the near term as costs continue to rise and efforts to regain SSS momentum take time to resonate with consumers.

Credit Statistics: For the latest 12-month period ended March 31, 2014, total debt-to-operating EBITDA and rent-adjusted leverage (total debt plus 8x gross rent expense divided by EBITDA plus gross rents) were 1.4x and 2.4x, respectively. Rent-adjusted interest coverage (EBITDAR divided by gross interest expense plus gross rent) was 4.6x and funds from operations (FFO) fixed-charge coverage was 3.9x. McDonald's FCF margin to sales was 5.1%.

Significant Liquidity, Manageable Maturities: McDonald's liquidity at March 31, 2014, totaled \$4.2 billion and consisted of \$2.7 billion of cash and full availability under the firm's undrawn \$1.5 billion committed revolver, which expires Nov. 1, 2016. Aggregate maturities of long-term debt as of March 31, 2014 were zero in 2014, approximately \$1.2 billion in 2015 and roughly \$900 million in 2016. About 60% of the firm's \$13.9 billion of debt at March 31, 2014 was USD denominated and roughly 40% was foreign denominated.

RATING SENSITIVITIES

Future developments that may, individually or collectively, lead to a positive rating action include:

--An upgrade is not anticipated in the intermediate term given McDonald's recent SSS trends, margin contraction, and plan to partially finance share buybacks with incremental debt.

Future developments that may, individually or collectively, lead to a negative rating action include:

--Total debt-to-operating EBITDA and rent-adjusted leverage sustained over approximately 1.5x and 2.5x, respectively, and materially lower FCF;

--Two years of flat to negative global SSS and continued margin contraction;

--Weak or declining operating cash flow concurrent with meaningful incremental debt.

Fitch currently rates McDonald's debt as follows:

--Long-term Issuer Default Rating (IDR) 'A';

--Bank credit facility 'A';

--Senior unsecured debt 'A';

--Short-term IDR 'F1';

--Commercial paper 'F1'.

The Rating Outlook is Stable.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:

--'Corporate Rating Methodology' (May 2014);

--'Fitch Affirms McDonald's IDRs at 'A1/F1' on Shareholder Return Plan; Outlook Stable' (May 2014);

--'2014 Outlook: U.S. Restaurants - Shareholder Demands to Rise, Even as Market Share Battle and Cost Pressures Continue' (December 2013).

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http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=724335

Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=749393

Additional Disclosure

Solicitation Status

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