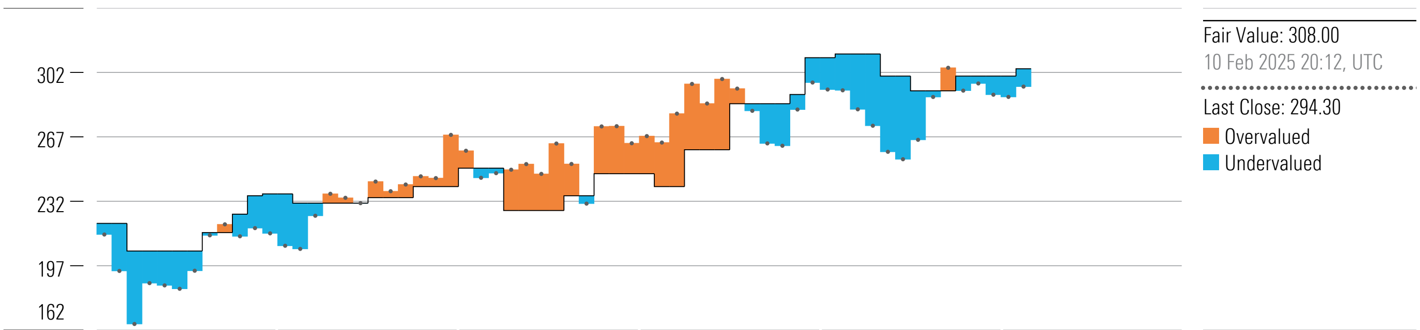
Morningstar Equity Analyst Report | Report as of 10 Feb 2025 20:18, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 1 of 24

McDonald's Corp MCD ★★★ 10 Feb 2025 20:17, UTC

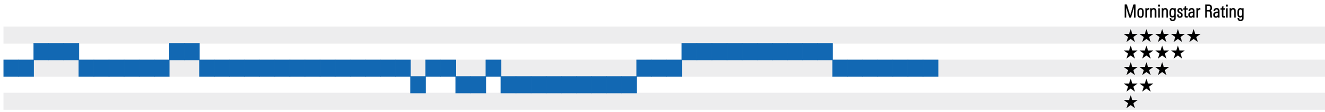
Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
294.30 USD 7 Feb 2025	308.00 USD 10 Feb 2025 20:12, UTC	0.96	220.97 USD Bil 10 Feb 2025	Wide	Large Value	Low	Standard	5 Feb 2025 06:00, UTC

Price vs. Fair Value



	2020	2021	2022	2023	2024	YTD	
	0.91	1.12	1.07	0.96	0.97	0.96	Price/Fair Value
	11.14	27.37	0.42	14.88	0.05	1.52	Total Return %

Morningstar Rating



Total Return % as of 07 Feb 2025. Last Close as of 07 Feb 2025. Fair Value as of 10 Feb 2025 20:12, UTC.

Contents

Important Disclosure

The conduct of Morningstar's analysts is governed by Code of Ethics/Code of Conduct Policy, Personal Security Trading Policy (or an equivalent of), and Investment Research Policy. For information regarding conflicts of interest, please visit: http://global.morningstar.com/equitydisclosures.

The primary analyst covering this company does not own its stock.

[1]The ESG Risk Rating Assessment is a representation of Sustainalytics' ESG Risk Rating.

McDonald's Earnings: Value Repositioning Starting to Bear Fruit; Shares Look Fairly Priced

Analyst Note Sean Dunlop, CFA, Senior Equity Analyst, 10 Feb 2025

Wide-moat McDonald's efforts to restore its value positioning drove positive guest traffic in the firm's largest US market during the fourth quarter and should drive ongoing market share gains in 2025 despite a turbulent industry backdrop, although quarterly results narrowly missed our expectations. While we plan to increase our $300 fair value estimate by a low-single-digit percentage, with time value slightly outweighing the modest quarterly miss, shares look fairly priced after a mid-single-digit jump in Feb. 10 intraday trading.

More concretely, McDonald's reported $6.4 billion in revenue and $2.83 in diluted EPS during the fourth quarter of 2024, against our expectations for $6.7 billion and $2.97 per share, respectively. Weaker results were attributable to ongoing sales softness in internationally operated markets (where comparable store sales grew just 0.1%, against our expectation for 0.5% growth) and modest operating deleverage. Overall, the firm appears to be taking the right remedial measures, leaning into its scale-driven cost advantage—one of the two pillars of our wide economic moat rating—by offering a McValue menu that has started to reverse flagging consumer value perception with deals like "buy one get one for $1," and the firm's widely publicized $5 meal deal. Importantly, it also maintained its store development targets for 50,000 stores by 2027 and planned $300 million to $500 million annual increase in near-term capital expenditures as it ramps up its shared services initiative (Global Business Services, or GBS), both of which should create long-term value for shareholders. In an environment where many

Morningstar Equity Analyst Report | Report as of 10 Feb 2025 20:18, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 2 of 24

McDonald's Corp MCD ★★★ 10 Feb 2025 20:17, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
294.30 USD 7 Feb 2025	308.00 USD 10 Feb 2025 20:12, UTC	0.96	220.97 USD Bil 10 Feb 2025	Wide	Large Value	Low	Standard	5 Feb 2025 06:00, UTC

Sector	Industry
Consumer Cyclical	Restaurants

Business Description

McDonald's is the largest restaurant owner-operator in the world, with 2023 system sales of $130 billion across nearly than 42,000 stores and 115 markets. McDonald's pioneered the franchise model, building its footprint through partnerships with independent restaurant franchisees and master franchise partners around the globe. The firm earns roughly 60% of its revenue from franchise royalty fees and lease payments, with most of the remainder coming from company-operated stores across its three core segments: the United States, internationally operated markets, and international developmental/licensed markets.

peers are pulling back on investment, it's positive to see McDonald's continue to invest in its economic moat.

We view positive guest traffic as validation of management's strategy, and expect few changes to our forecast for 5% to 6% 2025 revenue growth and mid-40% operating margin in light of similar management guidance on the analyst call.

Business Strategy & Outlook Sean Dunlop, CFA, Senior Equity Analyst, 10 Feb 2025

McDonald's' strategy emphasizes its competitive strengths through a "MCD" framework: relevant marketing, core menu development, and the four Ds: digital, drive-thru, delivery, and development. Recently, the firm has been leaning into its scale-driven cost advantage to emphasize its value offerings amid a challenging consumption spending environment. We view this strategy as prudent.

Considering each pillar in sequence, the firm's marketing creative has recently driven substantial brand buzz, with the return of the Hamburglar, a line of Grimace shakes, and an adult Happy Meal promotion representing recent successes. McDonald's marketing efforts have grown more focused and more globally scalable, with the company increasingly emphasizing its core menu properties, currently comprising 65% of global systemwide sales across 17 $1 billion brands, with the chain prioritizing menu innovation around that recognizable core. We're impressed by McDonald's' ability to reposition its menu to meet the changing demands of a global restaurant consumer, with $25 billion in chicken platform sales now rivaling the hamburger chain's beef platform sales, an impressive feat. Finally, McDonald's appears to be executing against its four "Ds," with its digital sales mix clipping up north of 40% of systemwide sales in its top markets—driven by its global loyalty base of 175 million members, with the rollout of dual-lane drive-thrus across its global restaurant estate, a delivery sales mix of 12%-13% of systemwide sales, and with an uptick in unit development targets, to 50,000 stores by 2027, from 40,000 at year-end 2022.

As competitive pressure has intensified across the industry, the burger chain has also shifted its strategy to emphasize its value-oriented roots, launching a nationwide $5 meal bundle in conjunction with its US franchisees during the second quarter of 2024 and seeking to bring traffic back into stores with a reimagined value platform. Those moves represent an important pivot, addressing the firm's recently deteriorating value gap with industry competitors after 40% cumulative price increases since 2019.

Bulls Say Sean Dunlop, CFA, Senior Equity Analyst, 10 Feb 2025

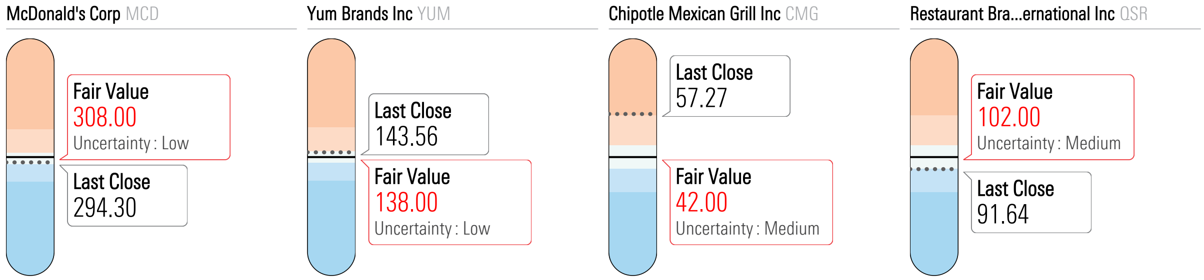
- With a modernized restaurant real estate footprint after $9 billion in remodeling investments, McDonald's is well positioned to take advantage of evolving digital ordering habits.
- McDonald's swelling loyalty member base visits 15% more frequently than they did pre-adoption, suggesting that the program could prove a multiyear driver of comparable store sales.

Morningstar Equity Analyst Report | Report as of 10 Feb 2025 20:18, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 3 of 24

McDonald's Corp MCD ★★★ 10 Feb 2025 20:17, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
294.30 USD 7 Feb 2025	308.00 USD 10 Feb 2025 20:12, UTC	0.96	220.97 USD Bil 10 Feb 2025	Wide	Large Value	Low	Standard	5 Feb 2025 06:00, UTC

Competitors



	McDonald's Corp MCD	Yum Brands Inc YUM	Chipotle Mexican Grill Inc CMG	Restaurant Bra...ernational Inc QSR
Economic Moat	Wide	Wide	Wide	Narrow
Currency	USD	USD	USD	CAD
Fair Value	308.00 10 Feb 2025 20:12, UTC	138.00 7 Nov 2024 15:20, UTC	42.00 30 Oct 2024 16:25, UTC	102.00 7 Nov 2024 15:37, UTC
1-Star Price	385.00	172.50	56.70	137.70
5-Star Price	246.40	110.40	29.40	71.40
Assessment	Fairly Valued 10 Feb 2025	Fairly Valued 7 Feb 2025	Overvalued 7 Feb 2025	Undervalued 7 Feb 2025
Morningstar Rating	★★★10 Feb 2025 20:17, UTC	★★★7 Feb 2025 22:28, UTC	★7 Feb 2025 22:28, UTC	★★★★7 Feb 2025 22:57, UTC
Analyst	Sean Dunlop, Senior Equity Analyst	Sean Dunlop, Senior Equity Analyst	Sean Dunlop, Senior Equity Analyst	Sean Dunlop, Senior Equity Analyst
Capital Allocation	Standard	Standard	Exemplary	Standard
Price/Fair Value	0.96	1.04	1.36	0.90
Price/Sales	8.21	5.42	6.97	3.84
Price/Book	—	—	21.29	6.78
Price/Earning	24.86	26.63	49.88	15.09
Dividend Yield	2.30%	1.87%	0.00%	3.49%
Market Cap	210.90 Bil	40.06 Bil	77.62 Bil	29.66 Bil
52-Week Range	243.53—317.90	122.13—144.71	47.98—69.26	86.25—112.12
Investment Style	Large Value	Mid Blend	Large Growth	Large Blend

- As the low-cost operator in the space, input cost inflation and consumer pressure offer McDonald's a chance to gain share in key markets.

Bears Say Sean Dunlop, CFA, Senior Equity Analyst, 10 Feb 2025

- Franchise economics could deteriorate if commodity and wage inflation continue to outpace sales growth, particularly in markets like California. This could blunt development appetite for new store growth.
- While improving, low satisfaction scores relative to industry benchmarks could impair the brand if left unresolved, threatening McDonald's pricing power if the firm is unable to meet changing customer demands.
- Widespread long-term utilization of GLP-1 drugs could have a small but discernible long-term impact on QSR traffic.

Economic Moat Sean Dunlop, CFA, Senior Equity Analyst, 10 Feb 2025

Low barriers to entry and minimal switching costs render the restaurant industry very competitive, making it difficult for most operators to develop an economic moat. Those who are able to do so, as we see it, focus on generating pricing power through a substantially differentiated and recognizable brand or by developing structurally lower operating costs, generally supported by scale-driven cost advantages and leveraged systemwide investments in marketing and technology, while spreading administrative expenses over a larger revenue base. In our view, McDonald's boasts a wide economic moat, with pricing power, a healthy network of franchisees, and successful international replication underpinning its brand intangible asset. We also believe that McDonald's benefits from a durable cost advantage, with its dominant global scale allowing it to procure food and paper at favorable prices, to leverage marketing and technology investments across its global footprint, and to secure lower rates from third-party delivery aggregators. Our wide moat rating implies the assumption that the firm can continue to earn positive economic returns for the next 20 years. Our adjusted ROIC forecast of 30% over the decade to come aligns with this view, comfortably exceeding our estimated 7% WACC for the operator.

With respect to intangible assets, we cite the firm's historical ability to pass through food and labor cost inflation to customers, its competitive restaurant-level margins and impressive unit volume, and number-one quick-service restaurant market share by sales volume in every major market in which it operates (with the notable exception of China) as the pillars underpinning our wide moat rating. To the first point, McDonald's US and international developmental/licensed segments saw their average check increase roughly 5% per year during 2016-19, faster than food inflation (1.3%) and increases in food-away-from-home pricing (up 2.7%, per USDA data) during that period. While the firm suspended its reporting of that figure due to temporary store closures during the initial surge of covid-19, we view 6% annualized same-store sales growth and market share gains between 2020 and 2024 as reflective of a competitively advantaged brand, despite margin compression amid an unprecedented surge in input costs, and expect a full, if protracted, recovery to prepandemic profitability. The firm's ability to increase its industry traffic share despite 10%-plus price increases in 2023 further validates our view.

Turning to restaurant-level economics, we believe that the attractiveness of a brand to franchisees is driven by average unit volume, restaurant-level margins, systemwide stability, and franchise return on investment. McDonald's scores well across the board, with average sales per US franchised restaurant of $3.9 million in 2024 meaningfully outperforming publicly traded peers in the hamburger space. Given that restaurants feature high incremental operating margins, we estimate that higher sales lead to meaningfully better store-level operating income than many of McDonald's direct competitors, a view corroborated by franchise disclosure documents after adjusting for measurement comparability. We conservatively estimate that McDonald's franchisees earn mid-20s cash on cash returns (annual operating income as a proportion of total cash outlay), with category peers earning midsingle digits to

Morningstar Equity Analyst Report | Report as of 10 Feb 2025 20:18, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 5 of 24

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
294.30 USD 7 Feb 2025	308.00 USD 10 Feb 2025 20:12, UTC	0.96	220.97 USD Bil 10 Feb 2025	Wide	Large Value	Low	Standard	5 Feb 2025 06:00, UTC

midteens, underpinning the firm's unit development aspirations and increasing its allure in the eyes of franchisees. Our view is corroborated by management's guidance for accelerating near-term unit growth, with the firm now targeting 50,000 net stores by 2027, an increase of roughly 10,000 from its 40,000 unit base at the end of 2022. Encouragingly, these targets reflect a return to growth in the firm's home US market.

Finally, with its systemwide sales of $131 billion in 2024, we estimate that McDonald’s attracted roughly 4% of global consumer food-service sales, approximately doubling closest competitor Yum Brands’ share and illustrating the firm’s success in international concept replication. With a footprint spanning 115 countries, McDonald’s has demonstrated brand strength across geographies, tastes, and cultures. While hiccups along the way have led to philosophical changes in approach, we’re impressed by McDonald’s ability to transfer winning innovations across the system, as seen with the introduction of Spicy Chicken McNuggets, which were initially developed in the Chinese market. The pace of innovation should only accelerate moving forward as the firm migrates its international franchisees onto a more homogeneous technology stack, and we view investments in digital innovation, loyalty, new format stores, and the firm's chicken platform as evidence that management is taking appropriate strategic steps to position the firm for the ongoing evolution of the restaurant industry.

Turning to the firm’s cost advantage, we believe that McDonald’s commanding scale allows it to benefit from volume discounts in food and paper procurement from food distributors, fixed-cost leverage over general, administrative, marketing and technological expenditures, and from lower rates on third-party aggregator platforms. With respect to procurement relationships, QSR operators primarily value cost and on-time delivery. Larger case volume per store helps food distributors manage delivery costs per case, particularly with expensive last-mile delivery, while in-house technological capabilities offer chains the advantage of paying for food products without added services such as inventory management, marketing support, or other higher margin (for distributors) consultative offerings. Larger sales volume and geographic reach allow the biggest national restaurant operators to benefit from purchasing leverage, with food distributors willing to accept lower margins in exchange for higher operating income dollars. This impact can be meaningful; we've seen estimates from restaurant holding companies that centralizing purchasing can drive cost savings in the neighborhood of 3% of annual sales (roughly 10% of food cost for most restaurants) simply attributable to volume-driven breaks on pricing, and we'd imagine that McDonald's savings are proportionately larger, given the firm's massive procurement scale.

While marketing and technology spending are easy to overlook, the benefits of scale are important when building an international brand. With a 4% marketing royalty and $131 billion of 2024 systemwide sales, McDonald’s advertising cooperatives likely maintain around a $5.2 billion marketing kitty to coordinate promotions, like the firm’s popular adult happy meals, Grimace promotions, limited time offers, or top-of-funnel brand marketing through conventional print, radio, and digital advertising--though we note that international master franchisees get to set their own marketing rates, so our calculated figure is just an estimate. More concretely, strong brand awareness helps new units achieve normalized average unit sales more quickly, improving cash payback periods and, by extension, lenders' and franchisees' appetites to partner with the burger chain. To this effect, McDonald's finished fifth and seventh among all US restaurant chains in existing lending relationships and intent to lend for 2024, an important edge in an environment where banks are growing more selective about funding decisions.

On the technology side, we've seen substantial improvements, with the company rolling out a scheduling software (RGM Boss) in its China market that unlocked 30 basis points of restaurant profitability, investing in inventory management and easy RFID tracking software, standardizing functions like finance and human resources data and best practices through its global business services, or GBS, initiative, and investing heavily in its MyMcDonald's loyalty program. With a systemwide sales base of $131 billion and more than 43,000 global restaurants at the end of 2024, McDonald's finds itself in a unique position, where it can derive a return on technology investments that provide even a negligible lift to comparable sales or restaurant margin, an edge that smaller peers cannot replicate. As the firm's base of loyalty program customers continues to grow (from an estimated 8% penetration in 2023 to 14% by 2027) and as McDonald's' ability to better leverage its unparalleled access to customer ordering behavior continues to improve, we only expect the firm's ability to leverage its digital learnings to accelerate, providing a structural edge in pricing decisions, personalization, and even restaurant site selection. In truth, McDonald's technology prowess is reflective of its cost advantage but underpins its brand intangible asset, with effective technology implementation set to improve both the firm's top and bottom lines in a way that peers are unlikely to be able to replicate.

An underappreciated manifestation of the firm's cost edge is reflected in McDonald's' ability and willingness to shore up the health of its franchise system, beyond pure unit economics, in our view. With the firm's commitment to selectively and temporarily shore up franchisee profitability in Europe (to the tune of $100 million-$150 million in 2023) amid an ongoing surge in food cost inflation, we see traces of a competitive advantage that only the largest global restaurant operating companies could underwrite, with support serving to avoid costly unit closures and as a proof point that the firm is committed to defending the profitability of its franchisees. It also allows franchisees to invest in long-term customer relationships, underpricing inflation and growing share of industry traffic as consumers increasingly seek value for their money. Rent holidays in 2020 amid the outbreak of covid served a similar end and helped catalyze the impressive string of subsequent results that have solidified the firm's commanding position in the global restaurant hegemony.

Finally, though restaurants and third-party aggregators are notoriously opaque regarding contract structures, we believe that McDonald’s pays lower commissions (low double digits) to aggregators like DoorDash and Uber Eats than do smaller peers, and far lower than the 30% headline rate. As a relatively early entrant in the space, partnering with Uber Eats in 2017, McDonald’s likely grandfathered in a lower commission, while a subsequent deal with DoorDash in 2019 occurred as pricing competition

Morningstar Equity Analyst Report | Report as of 10 Feb 2025 20:18, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 7 of 24

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
294.30 USD 7 Feb 2025	308.00 USD 10 Feb 2025 20:12, UTC	0.96	220.97 USD Bil 10 Feb 2025	Wide	Large Value	Low	Standard	5 Feb 2025 06:00, UTC

reached its zenith. Both were renegotiated as global deals in 2021. Management commentary from delivery firms supports this view, with QSR firms widely viewed as loss leaders—necessary to attract new consumers, but materially less profitable than independent restaurants and smaller brands, which rely on the aggregators for demand generation.

Fair Value and Profit Drivers Sean Dunlop, CFA, Senior Equity Analyst, 10 Feb 2025

We've raised our fair value estimate for McDonald's to $308 from $300 after digesting fourth-quarter earnings, largely attributable to time value, which outweighed a slight earnings miss. The firm's efforts to restore its value positioning drove positive guest traffic in the firm's largest US market during the fourth quarter and should underpin ongoing market share gains in 2025 despite a turbulent industry backdrop. Overall, the firm appears to be taking the right remedial measures, leaning into its scale driven cost advantage—one of the two pillars of our wide economic moat rating—by offering a McValue menu that has started to reverse flagging consumer value perception with deals like "buy one get one for $1," and the firm's widely publicized $5 meal deal. Importantly, it also maintained its store development targets for 50,000 stores by 2027 and planned $300 million to $500 million annual increase in near-term capital expenditures as it ramps up its shared services initiative (Global Business Services, or GBS), both of which should create long-term value for shareholders. In an environment where many peers are pulling back on investment, it's positive to see McDonald's continue to invest in its economic moat.

We remain very constructive regarding McDonald's long-term roadmap, with the expansion of the firm's 175 million-member global loyalty customer base dovetailing well with initiatives to increase store throughput capacity, while its aggressive unit development targets—for 50,000 stores by 2027—looks achievable. The firm's investments in standardizing global support services and in deploying technological innovation across markets (including developmental and licensed markets) should strengthen the chain's four-wall economic model, underpinning its growth narrative and adding another leg to its already impressive growth narrative.

We've also been impressed by McDonald's ability to drive robust comparable-store sales growth as it navigated a global pandemic, digital transformation, and the divestiture of its largely company-owned Russian market. While 2024 was a more challenging year for the burger stalwart (in which US comparable store sales were effectively flat), the firm has driven nearly 6% average annual comparable store sales growth in its home market between 2020-24 despite an exceedingly challenging backdrop, offsetting a large portion of historically high inflationary pressures without outrunning its core customer. With the industry environment turning increasingly promotional, we don't expect a full return to prepandemic restaurant margins until the back half of the decade, although we expect substantial improvement in 2026 and 2027 in conjunction with our estimates for improving comparable store sales performance.

In our view, McDonald's has had the luxury of investing through the cycle, while smaller, less capitalized peers curtailed investments and struggled to defray rising input costs, affording an opportunity to continue to take market share over the medium term, particularly in markets where independent restaurants maintain higher penetration. Driven by the firm's young loyalty program, surging digital sales volumes, and unit development, we expect the burger giant to continue to capture wallet share abroad, with our forecasts calling for average annual sales growth of 6.3% and 11.1% through 2029 in the internationally operated markets and internationally developed and licensed segments, respectively.

Our operating margin assumptions are largely driven by operating leverage and a favorable mix shift, with McDonald's selling, general, and administrative expenditures falling to just 9% of sales in 2034 from a high-water mark of 12.6% in 2020, with depreciation normalizing after extensive investments in restaurant remodeling.

Risk and Uncertainty Sean Dunlop, CFA, Senior Equity Analyst, 3 May 2024

Consistent with our quantitative methodology, we believe that McDonald's warrants a Low Morningstar Uncertainty Rating. With a heavily franchised structure and recession-resistant value proposition, the firm's cash flow sensitivity to macroeconomic health appears relatively muted.

McDonald's looks to us like one of the best positioned operators in the industry moving forward, but we note that consumer pressure tends to drive a modest mix-shift toward relatively cheaper food at home (grocery) options, which could blunt near-term sales momentum and pricing power. Industry traffic remains muted, and an uptick in discounting and promotional activity suggests limited comparable store sales growth and margin pressure through 2024 and into 2025. Concerns are more pressing for franchisees, which are likely to see flat to declining margins from a year ago while navigating modest inflation in commodity, labor, and real estate costs.

Considering environmental, social, and governance factors, we view human capital as the biggest risk for McDonald's, consistent with most restaurant operators in our coverage. More concretely, operators will be forced to palate higher minimum restaurant wages in California and a reworked NLRB joint employer rule, with the effect of swelling labor costs and oversight responsibilities. California's AB 1228 legislation imposed an industry wage floor of $20 per hour effective April 1, 2024, with many operators taking mid- to high-single-digit price increases to defend their operating profitability. Risk of similar legislation in other politically liberal state bears monitoring.

Finally, the firm's ability to appeal to changing consumer demands remains integral to its success, with brand strength demonstrated by pricing power (a big part of average check) and guest traffic. Deterioration of the firm's brand cachet could slow unit growth, soften restaurant-level profitability, and lead to declining attractiveness for potential franchisees.

Morningstar Equity Analyst Report | Report as of 10 Feb 2025 20:18, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 9 of 24

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
294.30 USD 7 Feb 2025	308.00 USD 10 Feb 2025 20:12, UTC	0.96	220.97 USD Bil 10 Feb 2025	Wide	Large Value	Low	Standard	5 Feb 2025 06:00, UTC

Capital Allocation Sean Dunlop, CFA, Senior Equity Analyst, 10 Feb 2025

We assign McDonald's a Standard Morningstar Capital Allocation Rating. Our analysis evaluates what we determine to be the three key facets of management decision-making from the perspective of shareholders: balance sheet strength, investment efficacy, and distributions. Our Standard rating results from a sound balance sheet, fair investment strategy, and assessment of shareholder distributions as appropriate.

With respect to the balance sheet, McDonald's benefits from low systematic risk, with staggered debt maturities and very low net debt/enterprise value offsetting relatively high leverage (3-3.5 times EBITDA is targeted, historically) for an operator with a company-owned footprint as large as McDonald's. That said, a highly franchised operating model reduces cash flow uncertainty, while the firm's real estate portfolio offers meaningful tangible assets, an unusual characteristic for heavily franchised restaurant operators that assuages many debtholder concerns.

We view investment decisions as fair, with returns on invested capital increasing throughout our explicit forecast period as the firm benefits from operating leverage and a modest mix shift toward more heavily franchised international markets. The firm's decision to extensively refranchise its US store base during 2015-18 strikes us as clever, bringing the percentage of franchised stores to 95% from 81% in the segment and taking $250 million out of the general and administrative cost base, if arguably at the expense of US store growth. Thus far, the firm has walked the line well between operating a heavily franchised, decentralized system and continuing to invest in store performance and unit economics, which represents a key investment risk in the space among franchisors. Recent technology investments are encouraging, with diversity in ordering options, customization, and targeted promotions likely representing table stakes in the restaurant industry moving forward. The firm's ability to cultivate an attractive end-to-end customer experience will be crucial, with increased touchpoints across systems offering McDonald's access to previously inaccessible data regarding ordering patterns, customer trends, and menu preferences by demographic. Whether or not the firm is successfully able to leverage such data remains to be seen, and while we maintain our confidence in the management team's ability to execute initiatives that were in place before the pandemic, our "neutral" strategy rating testifies to our wait-and-see approach regarding the firm's willingness to make bold and value-accretive investment decisions moving forward. The global business services, or GBS, initiative fleshed out at the firm's December 2023 investor day looks like a positive step, centralizing data and more standardized functions (finance, legal, HR) across markets.

Finally, we assess shareholder distributions as appropriate. We expect the firm's dividend to grow at a low-double-digit clip over the next three years, with a payout ratio between 50%-60%, and model just north of $30 billion in shareholder returns over that period. As long as buybacks are executed while the firm trades below our fair value estimate, they represent an attractive use of capital. We believe that the company has done a laudable job avoiding frivolous spending and value-dilutive investments, maintaining attractive returns on invested capital and focusing unit expansion in the more attractive international-operated and international developed/licensed markets. The firm's position as a landlord and willingness to buy the sites beneath its stores has imposed a degree of capital discipline for McDonald's that is uncommon elsewhere in the industry.

Analyst Notes Archive

McDonald's Earnings: Results Stabilize in Record Time as Value Platforms Drive Market Share Gains

Sean Dunlop, CFA,Senior Equity Analyst,29 Oct 2024

Wide-moat McDonald's has quickly righted its ship after a challenging second quarter, with 0.3% US comparable store sales growth—driven by a rebound in guest traffic—representing meaningful outperformance against quick-service restaurant, or QSR, benchmarks. The firm's ability to quickly adjust its value messaging with a $5 national meal deal and value-driven marketing resulted in traffic gains among the important low-income cohort in its core US market, while similar efforts on the international stage drove positive inflections in performance relative to the industry (though negative international industry results still drove a sales shortfall). This casts the rest of the QSR industry in a negative light as we progress through third-quarter earnings, with the combination of a widening value gap with the grocery store channel—likely to persist at least through 2025—and a challenged global consumer weighing on results. Overall, we believe that McDonald's has turned an important corner with its value messaging and traffic performance, and plan to raise our $292 fair value estimate by a low-single-digit percentage.During the quarter, $6.9 billion in sales and $3.23 in adjusted EPS aligned closely with our $6.9 billion and $3.12 respective estimates, although comparable sales performance was better in the US and worse abroad than we'd anticipated. As expected, the firm emphasized its value offerings on the menu and through its marketing, supplementing its approach with premium limited price offers like the "Collectors' Edition" campaign and its Chicken Big Mac launch. The net effect was a quick turnaround in comparable sales growth that we expect to resume after the impact of the recent E.coli outbreak works through fourth-quarter results. The emphasis on value and traffic-led growth looks prudent given the firm's scale-driven cost advantage, as guest traffic is widely regarded to be the healthiest, most durable driver of long-term growth for a restaurant brand.

McDonald's: Outbreak Should Be Quickly Contained; We Expect Modest Comparable Sales Impact

Sean Dunlop, CFA,Senior Equity Analyst,23 Oct 2024

We expect wide-moat McDonald’s to move quickly to quell the impact of a food safety scare in a handful of its US restaurants. After an E. coli outbreak that has sickened dozens of people in 10 states, including one person who died, the firm has pulled its Quarter Pounder burger—the suspected source of contamination—from stores that source from the affected distribution centers.Importantly, McDonald's appears to have traced the source of the outbreak to a single supplier of slivered onions, suggesting to us that the outbreak should be contained expediently. We expect to lower our expectations for a 1% comparable decline in the fourth quarter by a few percentage points following the news—like the impact experienced by no-moat Wendy's after its small 2022 outbreak—resulting in a low-single-digit projected cut to our $292 fair value estimate. The market's reaction, which sent shares falling 5%-6%, appears to be slightly overstated, leaving shares trading in a range we'd consider fairly priced.Food safety issues are a key environmental, social, and governance risk for restaurateurs, given that their brand strength rests heavily on consumer trust. That said, considering larger brands' sprawling store footprints and diverse supplier bases, small outbreaks happen every couple of years. Consumers tend to be most forgiving when management is transparent, takes quick remedial action, can definitively source the issue, and avoids repeating mistakes. Under such circumstances, food safety scares rarely have a long-term impact on brand health. Importantly, this appears to be the base case for McDonald's. However, the situation is fluid, and a longer-term failure to remedy concerns could result in a more punitive and longer-lasting hit to comparable-store sales than we currently project.

McDonald's Earnings: Consumer Pressure Takes a Big Bite out of Industry's Near-Term Prospects

Sean Dunlop, CFA,Senior Equity Analyst,29 Jul 2024

We remain ready buyers of wide-moat McDonald's, which stands to benefit from a durable scale-driven procurement cost advantage, an iconic core menu, robust digital penetration, and unparalleled marketing scale that should prop up its results amid a tough environment. That said, consumer pressure remains stout, as evidenced by the restaurant industry bellwether's underwhelming results, and the resultant combination of deal-seeking behavior and a mix-shift toward the cheaper grocery store channel points toward a year of weak growth in the industry. As we digest McDonald's second-quarter earnings report, we plan to trim our 2024 and 2025 systemwide sales growth estimates to 2% and 3.9%, respectively, from 5.1% and 5.4% previously, driving an expected low-single-digit downward revision to our $300 fair value estimate.During the quarter, McDonald's comparable-store sales declined 1.1% in international operated markets and 0.7% in the US, softer than the 1.5% and 2.3% respective growth numbers we'd expected. This shortfall was driven by sluggish traffic, with consumers shifting a larger share of meal occasions toward grocery stores, an effect exacerbated by 3-percentage-point-lower grocery store inflation relative to restaurants over the past few months in the US. While we expect transaction losses to stabilize as McDonald's leans into its national value platforms, this will likely come at the expense of restaurant margins, which we now expect to contract 50 basis points annually to just 15.1% on a consolidated basis, down from 15.3% prior.Longer term, McDonald's investments in value perception are prudent ones for the burger icon, and should underpin healthier transaction-led growth, even if it results in a short spell of comparable sales underperformance as average check size comes under pressure—industry net sales grew 1.7% during the quarter, per Revenue Management Solutions, suggestive of a modest market share loss.

Morningstar Equity Analyst Report | Report as of 10 Feb 2025 20:18, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 12 of 24

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
294.30 USD 7 Feb 2025	308.00 USD 10 Feb 2025 20:12, UTC	0.96	220.97 USD Bil 10 Feb 2025	Wide	Large Value	Low	Standard	5 Feb 2025 06:00, UTC

McDonald's Earnings: Firm Can't Defy Gravity During Tough Quarter but Strong Prospects Remain Intact Sean Dunlop, CFA,Senior Equity Analyst,30 Apr 2024

Consumer traffic remains tough to come by in the restaurant industry, with wide-moat McDonald's tepid results attesting to the degree of industrywide pressure that fast food stalwarts continue to navigate. While industry spending remains strong, traffic growth has been anemic, and despite 30% comparable sales growth over the past few years, McDonald's franchisees are earning the same restaurant margins that they did prior to the pandemic, given the concomitant surge in food and labor inflation over that period. As we digest soft quarterly results and a cautious outlook, we plan to lower our $312 intrinsic valuation by a mid-single-digit percentage, but shares still look attractive.During the quarter, McDonald's sales of $6.17 billion and adjusted EPS of $2.70 fell short of our $6.32 billion and $2.87 forecasts. The miss was predominately driven by softer comparable store sales than anticipated, with its respective 2.5% and 2.7% comparable store sales growth in the US and international operated markets missing our 3.5% estimate for both segments. While the firm continues to make progress toward its strategic priorities, investing behind its loyalty program (accounting for 19% of global sales) and digital businesses, it cannot fight gravity, with industry traffic falling for nearly 24 sequential months in the US. A renewed emphasis on everyday value and strategic promotions looks cogent against that backdrop, propping up our revised 2.5% and 2.7% US and IOM comparable store sales estimates (from 3.1% and 2.9%), although traffic comes at the expense of restaurant margin—we've trimmed our full-year estimate to 15.3% from 15.7%.Value for the money is currently the name of the game, and we continue to believe McDonald's is poised to emerge as one of the winners of this turbulent stretch, driven by its scale-driven cost advantage, strong digital touchpoints, and the brand equity around its 17 core menu platforms that generate more than $1 billion in annual global sales.

Biggest Restaurant Brands Set To Gain Market Share as Industry Navigates Tough Environment

Sean Dunlop, CFA,Senior Equity Analyst,15 Apr 2024

As we gear up for the release of first-quarter earnings, our top picks in the restaurant industry remain wide-moat McDonald's and wide-moat Starbucks, trading at 14% and 19% discounts to our $312 and $105 fair value estimates, respectively. While industry traffic has been depressed for two years, both brands boast strong digital platforms that allow them to defend transaction frequency without indiscriminate national discounting, and both benefit from scale-driven cost advantages that should allow them to meet the needs of the increasingly value-sensitive consumer without sacrificing financial performance. These are the two most important factors, in our view, that will distinguish the best and worst performers in our industry coverage over the coming years. The industry looks fairly priced in aggregate, trading at a 3% premium to our market-cap weighted fair value estimates. The aggregate figure masks a very bimodal return distribution: Brands like narrow-moat Wingstop (up 108% annually) and wide-moat Chipotle (74%)—which boast strong unit economics and have taken material industry

Morningstar Equity Analyst Report | Report as of 10 Feb 2025 20:18, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 13 of 24

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
294.30 USD 7 Feb 2025	308.00 USD 10 Feb 2025 20:12, UTC	0.96	220.97 USD Bil 10 Feb 2025	Wide	Large Value	Low	Standard	5 Feb 2025 06:00, UTC

transaction share—have materially outperformed brands like no-moat Wendy's (down 9%) and narrow-moat Papa John's (down 17%), which have not. Those top-performing brands are fully priced, trading at material premiums to our intrinsic valuation (163% and 52%, respectively), suggestive of meaningful execution risk.The industry looks set for a challenging couple of years, despite a recent rebound in consumer real hourly income, which tends to be strongly predictive of consumption spending. From a macroeconomic perspective, that's tied to two key factors: a divergence between income and spending, driven by recovering savings rates, and an unusually large share of wallet funneled toward food away from home (7.4% of total income, against a long-term average of 6.8%). We expect gradual normalization in 2024 and 2025, with our estimates calling for 2% real industry growth over that period.

McDonald's Earnings: Slight Miss Doesn't Change Our Constructive Stance on Industry Stalwart

Sean Dunlop, CFA,Senior Equity Analyst,5 Feb 2024

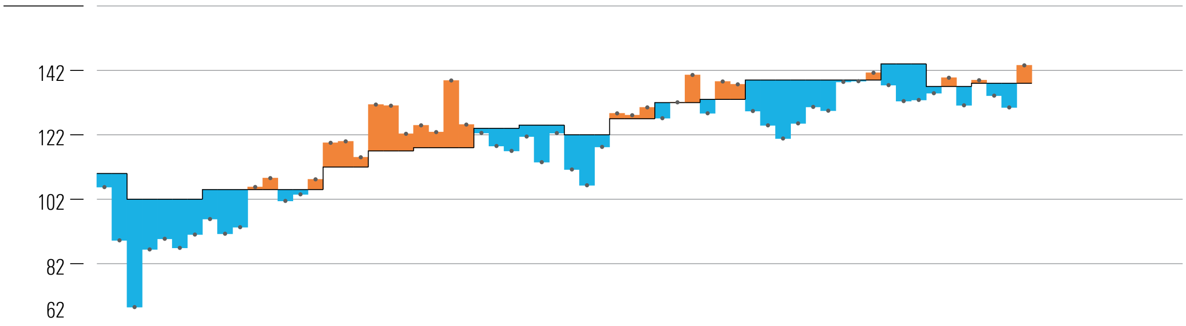
While wide-moat McDonald's slightly missed our earnings expectations across the board during its fourth quarter of 2023, we continue to believe the firm is arguably the best positioned in our global coverage to benefit from restaurant digitization, particularly through its loyalty program, and an ongoing global mix-shift toward chained restaurant brands. Investors should capitalize on an opportunity to load up on shares at a slight discount after a 3%-4% pullback in intraday trading, leaving the firm trading at about an 8% discount to our $310 intrinsic valuation, which we expect to leave largely unchanged.During the quarter, pressure in the Middle East drove the firm's comparable store sales in its developmental and licensed segment down sharply to 0.7%–a huge drop from the prior quarter's 10.5%–with commentary suggesting that headwinds are unlikely to abate in that region until the regional war does. While the decline was substantial, that segment represented just 12% of company operating profit in 2023, and we view further deterioration as unlikely, suggesting that the impact may be overstated. Comparable store sales remained decent in the U.S. (4.3% growth) and internationally operated markets, or IOM (4.4% growth), with $6.4 billion in consolidated sales and $2.95 in adjusted EPS only narrowly missing our $6.6 billion and $2.96 per share estimates despite the unexpected regional pressure.Importantly, McDonald's full-year guidance for 2024 for 3%-4% comparable store sales growth arrived in line with our prior estimates for the firm's U.S. and IOM segments, and it remains on track to achieve its ambitious 50,000-unit target by 2027. The firm's multilegged growth narrative, learning on the expansion of its 150 million global loyalty member base, cost-savings through its global business services initiative, and historically strong unit development provide a compelling investment case for the largest global restaurant brand.

Morningstar Equity Analyst Report | Report as of 10 Feb 2025 20:18, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 14 of 24

McDonald's Corp MCD ★★★ 10 Feb 2025 20:17, UTC

Competitors Price vs. Fair Value

Yum Brands Inc YUM



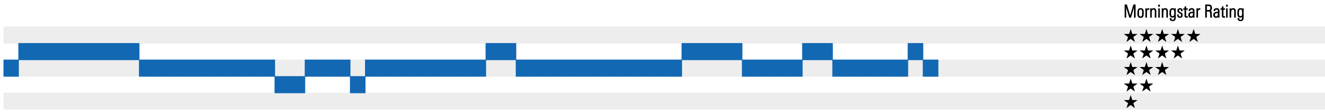
Last Close: 143.56

Fair Value: 138.00
7 Nov 2024 15:20, UTC

Overvalued
Undervalued

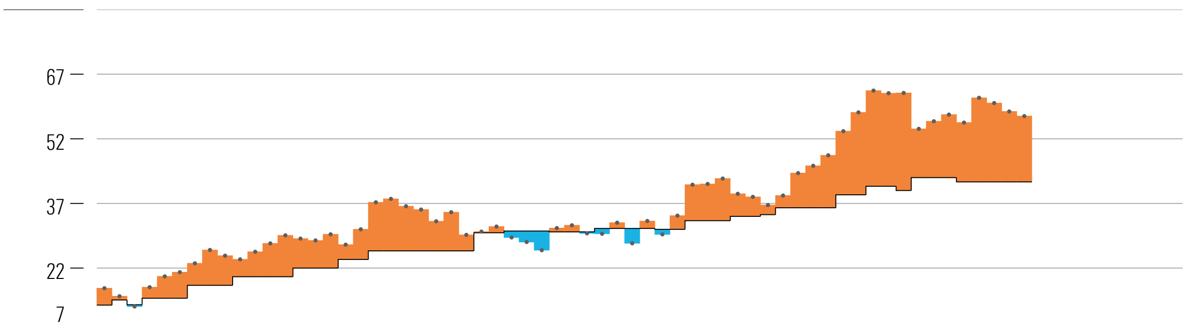
2020	2021	2022	2023	2024	YTD	
1.03	1.18	1.01	0.94	0.97	1.04	Price/Fair Value
9.64	29.75	-6.12	3.90	4.73	7.01	Total Return %

Morningstar Rating



Total Return % as of 07 Feb 2025. Last Close as of 07 Feb 2025. Fair Value as of 7 Nov 2024 15:20, UTC.

Chipotle Mexican Grill Inc CMG



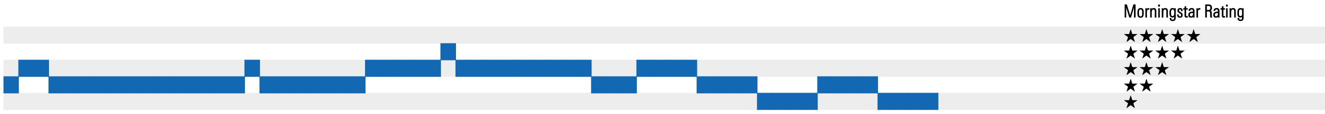
Last Close: 57.27

Fair Value: 42.00
30 Oct 2024 16:25, UTC

Overvalued
Undervalued

2020	2021	2022	2023	2024	YTD	
1.39	1.34	0.89	1.27	1.44	1.36	Price/Fair Value
65.65	26.07	-20.64	64.83	31.83	-5.02	Total Return %

Morningstar Rating



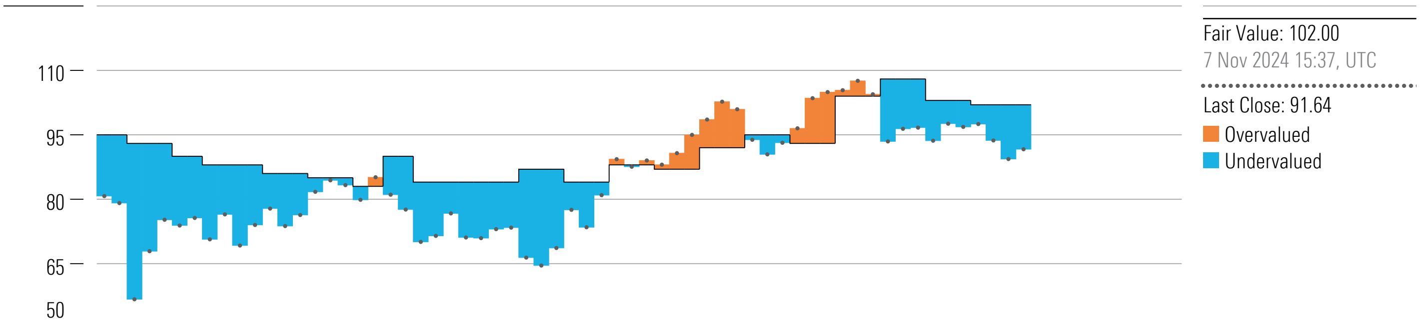
Total Return % as of 07 Feb 2025. Last Close as of 07 Feb 2025. Fair Value as of 30 Oct 2024 16:25, UTC.

Morningstar Equity Analyst Report | Report as of 10 Feb 2025 20:18, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC.

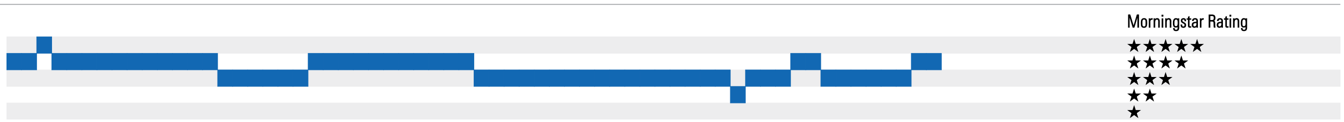
McDonald's Corp MCD ★★★ 10 Feb 2025 20:17, UTC

Competitors Price vs. Fair Value

Restaurant Brands International Inc QSR



	2020	2021	2022	2023	2024	YTD
Price/Fair Value	0.91	0.91	1.00	1.11	0.92	0.90
Total Return %	-2.61	2.00	17.87	21.59	-6.41	-2.19



Total Return % as of 07 Feb 2025. Last Close as of 07 Feb 2025. Fair Value as of 7 Nov 2024 15:37, UTC.

McDonald's Corp MCD ★★★ 10 Feb 2025 20:17, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
294.30 USD 7 Feb 2025	308.00 USD 10 Feb 2025 20:12, UTC	0.96	220.97 USD Bil 10 Feb 2025	Wide	Large Value	Low	Standard	5 Feb 2025 06:00, UTC

Morningstar Historical Summary

Financials as of 30 Sep 2024

Fiscal Year, ends 31 Dec	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	YTD	TTM
Revenue (USD K)	25,413,000	24,621,900	22,820,400	21,257,900	21,364,400	19,207,800	23,222,900	23,182,600	25,493,700	—	19,532,000	25,938,700
Revenue Growth %	-7.4	-3.1	-7.3	-6.9	0.5	-10.1	20.9	-0.2	10.0	—	2.3	3.7
EBITDA (USD K)	8,749,700	9,267,300	10,858,200	10,279,300	10,757,900	9,110,200	12,181,800	10,903,000	13,861,200	—	10,477,000	13,849,200
EBITDA Margin %	34.4	37.6	47.6	48.4	50.3	47.4	52.5	47.0	54.4	—	53.6	53.4
Operating Income (USD K)	7,354,900	7,820,200	8,389,500	8,632,400	8,950,000	7,206,500	9,872,700	10,344,600	11,745,600	—	8,972,000	11,804,600
Operating Margin %	28.9	31.8	36.8	40.6	41.9	37.5	42.5	44.6	46.1	—	45.9	45.5
Net Income (USD K)	4,529,300	4,686,500	5,192,300	5,924,300	6,025,400	4,730,500	7,545,200	6,177,400	8,468,800	—	6,207,000	8,245,800
Net Margin %	17.8	19.0	22.8	27.9	28.2	24.6	32.5	26.7	33.2	—	31.8	31.8
Diluted Shares Outstanding (K)	944,600	861,200	815,500	785,600	764,900	750,100	751,800	741,300	732,300	—	722,700	723,975
Diluted Earnings Per Share (USD)	4.80	5.44	6.37	7.54	7.88	6.31	10.04	8.33	11.56	—	8.59	11.39
Dividends Per Share (USD)	3.44	3.61	3.83	4.19	4.73	5.04	5.25	5.66	6.23	—	5.01	6.68

Valuation as of 31 Jan 2025

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Recent Qtr	TTM
Price/Sales	4.4	4.3	6.0	6.6	7.3	8.5	8.9	8.4	8.7	8.1	8.1	8.1
Price/Earnings	25.6	22.9	24.9	26.9	25.9	32.8	27.6	33.2	26.2	25.4	25.4	25.3
Price/Cash Flow	17.0	16.2	26.9	21.4	19.6	26.2	23.8	25.0	23.4	22.6	22.6	22.5
Dividend Yield %	2.91	2.97	2.23	2.36	2.39	2.35	1.96	2.15	2.1	2.34	2.34	2.35
Price/Book	12.9	-61.3	-39.4	-20.0	-17.2	-18.9	-35.2	-29.3	-44.1	-40.2	-40.2	-40.0
EV/EBITDA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Operating Performance / Profitability as of 30 Sep 2024

Fiscal Year, ends 31 Dec	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	YTD	TTM
ROA %	12.6	13.6	16.0	17.8	15.0	9.5	14.2	11.9	15.9	—	—	15.2
ROE %	45.4	191	—	—	—	—	—	—	—	—	—	—
ROIC %	16.8	19.2	—	—	—	—	—	—	—	—	—	—
Asset Turnover	0.7	0.7	0.7	0.6	0.5	0.4	0.4	0.4	0.5	—	—	0.5

Financial Leverage

Fiscal Year, ends 31 Dec	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Recent Qtr	TTM
Debt/Capital %	77.3	—	—	—	—	—	—	—	—	—	—	—
Equity/Assets %	18.7	—	—	—	—	—	—	—	—	—	—	—
Total Debt/EBITDA	2.8	—	—	—	—	—	—	—	—	—	—	—
EBITDA/Interest Expense	13.7	10.5	11.8	10.5	9.6	7.5	10.3	9.0	10.2	Infinite	9.3	9.3

Morningstar Analyst Historical/Forecast Summary as of 10 Feb 2025

Financials

			Estimates		
Fiscal Year, ends 31 Dec 2024	2023	2024	2025	2026	2027
Revenue (USD Mil)	25,494	25,917	27,421	28,877	31,167
Revenue Growth %	10.0	1.7	5.8	5.3	7.9
EBITDA (USD Mil)	13,903	13,841	14,876	16,525	18,140
EBITDA Margin %	54.5	53.4	54.3	57.2	58.2
Operating Income (USD Mil)	11,647	11,709	12,516	13,481	14,779
Operating Margin %	45.7	45.2	45.6	46.7	47.4
Net Income (USD Mil)	8,747	8,461	9,009	9,272	10,176
Net Margin %	34.3	32.7	32.9	32.1	32.7
Diluted Shares Outstanding (Mil)	732	722	703	686	661
Diluted Earnings Per Share(USD)	11.94	11.72	12.82	13.52	15.39
Dividends Per Share(USD)	6.23	6.78	7.08	8.07	9.16

Forward Valuation

			Estimates		
	2023	2024	2025	2026	2027
Price/Sales	7.6	8.3	7.7	7.3	6.8
Price/Earnings	24.8	24.7	23.0	21.8	19.1
Price/Cash Flow	—	—	—	—	—
Dividend Yield %	2.1	2.3	2.4	2.7	3.1
Price/Book	-46.1	-55.1	-77.9	-47.2	-31.2
EV/EBITDA	17.1	18.9	17.7	15.9	14.5

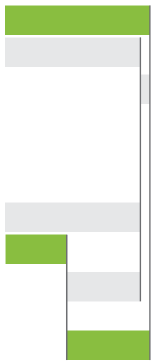
Morningstar Equity Analyst Report | Report as of 10 Feb 2025 20:18, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 17 of 24

McDonald's Corp MCD ★★★ 10 Feb 2025 20:17, UTC

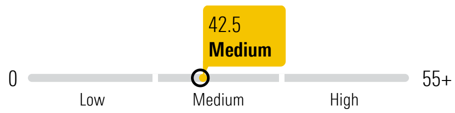
Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
294.30 USD 7 Feb 2025	308.00 USD 10 Feb 2025 20:12, UTC	0.96	220.97 USD Bil 10 Feb 2025	Wide	Large Value	Low	Standard	5 Feb 2025 06:00, UTC

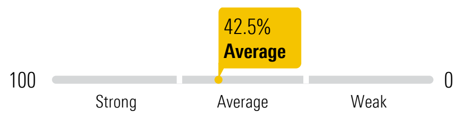
ESG Risk Rating Breakdown

Exposure		
Company Exposure[1]	42.5	
– Manageable Risk	39.7	
Unmanageable Risk[2]	**2.7**	
Management		
Manageable Risk	39.7	
– Managed Risk[3]	16.9	
Management Gap[4]	**22.9**	
Overall Unmanaged Risk	**25.6**	



● Subject ○ Subindustry (42.0)

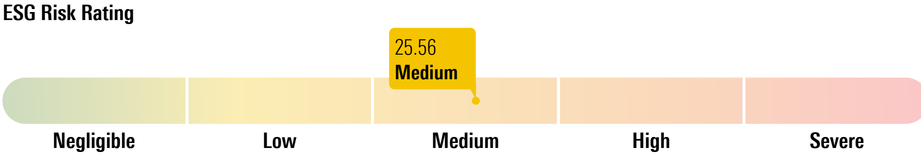




- Exposure represents a company's vulnerability to ESG risks driven by their business model
- Exposure is assessed at the Subindustry level and then specified at the company level
- Scoring ranges from 0-55+ with categories of low, medium, and high-risk exposure

- Management measures a company's ability to manage ESG risks through its commitments and actions
- Management assesses a company's efficiency on ESG programs, practices, and policies
- Management score ranges from 0-100% showing how much manageable risk a company is managing

ESG Risk Rating



ESG Risk Ratings measure the degree to which a company's value is impacted by environmental, social, and governance risks, by evaluating the company's ability to manage the ESG risks it faces.

1. A company's Exposure to material ESG issues 2. Unmanageable Risk refers to risks that are inherent to a particular business model that cannot be managed by programs or initiatives 3. Managed Risk = Manageable Risk multiplied by a Management score of 42.5% 4. Management Gap assesses risks that are not managed, but are considered manageable 5. ESG Risk Rating Assessment = Overall Unmanaged Risk = Management Gap plus Unmanageable Risk

ESG Risk Rating Assessment[5]

ESG Risk Rating is of Feb 05, 2025. Highest Controversy Level is as of Feb 08, 2025. Sustainalytics Subindustry: Restaurants. Sustainalytics provides Morningstar with company ESG ratings and metrics on a monthly basis and as such, the ratings in Morningstar may not necessarily reflect current Sustainalytics' scores for the company. For the most up to date rating and more information, please visit: sustainalytics.com/esg-ratings/.

Peer Analysis 05 Feb 2025

Peers are selected from the company's Sustainalytics-defined Subindustry and are displayed based on the closest market cap values

Company Name	Exposure			Management			ESG Risk Rating		
McDonald's Corp	42.5 | Medium	0	55+	42.5 | Average	100	0	25.6 | Medium	0	40+
Yum Brands Inc	41.5 | Medium	0	55+	54.1 | Strong	100	0	20.5 | Medium	0	40+
Chipotle Mexican Grill Inc	40.2 | Medium	0	55+	46.9 | Average	100	0	22.6 | Medium	0	40+
Restaurant Brands International Inc	42.9 | Medium	0	55+	52.9 | Strong	100	0	21.6 | Medium	0	40+
Yum China Holdings Inc	38.8 | Medium	0	55+	60.4 | Strong	100	0	16.9 | Low	0	40+

Morningstar Equity Analyst Report | Report as of 10 Feb 2025 20:18, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC.

Appendix
Historical Morningstar Rating

McDonald's Corp MCD 10 Feb 2025 16:50, UTC

Dec 2025	Nov 2025	Oct 2025	Sep 2025	Aug 2025	Jul 2025	Jun 2025	May 2025	Apr 2025	Mar 2025	Feb 2025	Jan 2025
—	—	—	—	—	—	—	—	—	—	★★★	★★★
Dec 2024	Nov 2024	Oct 2024	Sep 2024	Aug 2024	Jul 2024	Jun 2024	May 2024	Apr 2024	Mar 2024	Feb 2024	Jan 2024
★★★	★★★	★★★	★★★	★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★
Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
★★★★	★★★★	★★★★	★★★	★★★	★★★	★★	★★	★★	★★	★★	★★
Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
★★	★★	★★	★★★	★★	★★	★★★	★★★	★★	★★★	★★★	★★★
Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★★
Dec 2020	Nov 2020	Oct 2020	Sep 2020	Aug 2020	Jul 2020	Jun 2020	May 2020	Apr 2020	Mar 2020	Feb 2020	Jan 2020
★★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★★	★★★★	★★★★	★★★	★★★

Yum Brands Inc YUM 7 Feb 2025 22:28, UTC

Dec 2025	Nov 2025	Oct 2025	Sep 2025	Aug 2025	Jul 2025	Jun 2025	May 2025	Apr 2025	Mar 2025	Feb 2025	Jan 2025
—	—	—	—	—	—	—	—	—	—	★★★	★★★★
Dec 2024	Nov 2024	Oct 2024	Sep 2024	Aug 2024	Jul 2024	Jun 2024	May 2024	Apr 2024	Mar 2024	Feb 2024	Jan 2024
★★★	★★★	★★★	★★★	★★★	★★★★	★★★★	★★★	★★★	★★★	★★★	★★★★
Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
★★★★	★★★★	★★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★
Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
★★★	★★★	★★★★	★★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★
Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
★★	★★★	★★★	★★★	★★	★★	★★★	★★★	★★★	★★★	★★★	★★★
Dec 2020	Nov 2020	Oct 2020	Sep 2020	Aug 2020	Jul 2020	Jun 2020	May 2020	Apr 2020	Mar 2020	Feb 2020	Jan 2020
★★★	★★★	★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★

Chipotle Mexican Grill Inc CMG 7 Feb 2025 22:28, UTC

Dec 2025	Nov 2025	Oct 2025	Sep 2025	Aug 2025	Jul 2025	Jun 2025	May 2025	Apr 2025	Mar 2025	Feb 2025	Jan 2025
—	—	—	—	—	—	—	—	—	—	★	★
Dec 2024	Nov 2024	Oct 2024	Sep 2024	Aug 2024	Jul 2024	Jun 2024	May 2024	Apr 2024	Mar 2024	Feb 2024	Jan 2024
★	★	★★	★★	★★	★★	★	★	★	★	★★	★★
Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
★★	★★	★★★	★★★	★★★	★★★	★★	★★	★★	★★★	★★★	★★★
Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
★★★	★★★	★★★	★★★	★★★	★★★	★★★★	★★★	★★★	★★★	★★★	★★★
Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
★★	★★	★★	★★	★★	★★	★★	★★★	★★	★★	★★	★★
Dec 2020	Nov 2020	Oct 2020	Sep 2020	Aug 2020	Jul 2020	Jun 2020	May 2020	Apr 2020	Mar 2020	Feb 2020	Jan 2020
★★	★★	★★	★★	★★	★★	★★	★★	★★	★★★	★★★	★★

Morningstar Equity Analyst Report | Report as of 10 Feb 2025 20:18, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 19 of 24

Dec 2025	Nov 2025	Oct 2025	Sep 2025	Aug 2025	Jul 2025	Jun 2025	May 2025	Apr 2025	Mar 2025	Feb 2025	Jan 2025
—	—	—	—	—	—	—	—	—	—	★★★★	★★★★
Dec 2024	Nov 2024	Oct 2024	Sep 2024	Aug 2024	Jul 2024	Jun 2024	May 2024	Apr 2024	Mar 2024	Feb 2024	Jan 2024
★★★	★★★	★★★	★★★	★★★	★★★	★★★★	★★★★	★★★	★★★	★★★	★★
Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★
Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
★★★	★★★	★★★	★★★	★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★
Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
★★★★	★★★★	★★★★	★★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★★	★★★★
Dec 2020	Nov 2020	Oct 2020	Sep 2020	Aug 2020	Jul 2020	Jun 2020	May 2020	Apr 2020	Mar 2020	Feb 2020	Jan 2020
★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★★	★★★★	★★★★

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, indepth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss shortterm market-price movements), but we believe these negatives are mitigated by deep analysis and our longterm approach.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our singlepoint star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

When considering a company's moat, we also assess whether there is a substantial threat of value destruction, stemming from risks related to ESG, industry disruption, financial health, or other idiosyncratic issues. In this context, a risk is considered potentially value destructive if its occurrence would eliminate a firm's economic profit on a cumulative or midcycle basis. If we deem the probability of occurrence sufficiently high, we would not characterize the company as possessing an economic moat.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in workingcapital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

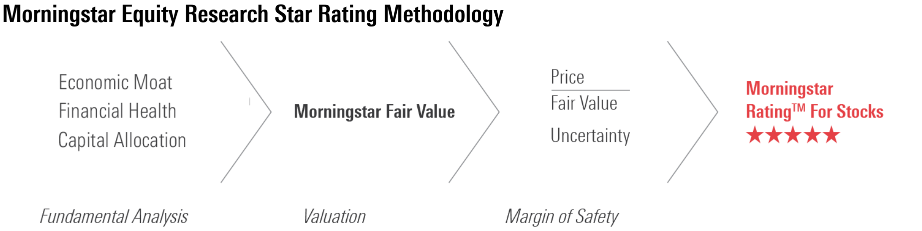
Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating is designed to capture the range of potential outcomes for a company's intrinsic value. This rating is used to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating is aimed at identifying the confidence we should have in assigning a fair value estimate for a given stock.

Our Uncertainty Rating is meant to take into account anything that can increase the potential dispersion of future outcomes for the intrinsic value of a company, and any-

Morningstar Equity Research Star Rating Methodology



Morningstar Equity Analyst Report | Report as of 10 Feb 2025 20:18, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 21 of 24

Research Methodology for Valuing Companies

thing that can affect our ability to accurately predict these outcomes. The rating begins with a suggested rating produced by a quantitative process based on the trailing 12-month standard deviation of daily stock returns. An analyst overlay is then applied, with analysts using the suggested rating, historical rating data, and their own knowledge of the company to inform them as they make the final Uncertainty Rating decision. Ultimately, the rating decision rests with the analyst. Analysts take into account many characteristics when making their final decision, including cyclical factors, operational and financial factors such as leverage, company-specific events, ESG risks, and anything else that might increase the potential dispersion of future outcomes and our ability to estimate those outcomes.

Our recommended margin of safety—the discount to fair value demanded before we'd recommend buying or selling the stock—widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the potential dispersion of outcomes, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the Uncertainty Rating provides guidance in portfolio construction based on risk tolerance.

Our Uncertainty Ratings are: Low, Medium, High, Very High, and Extreme.

Qualitative Analysis Uncertainty Ratings	Margin of Safety ★★★★★Rating	★Rating
Low	20% Discount	25% Premium
Medium	30% Discount	35% Premium
High	40% Discount	55% Premium
Very High	50% Discount	75% Premium
Extreme	75% Discount	300% Premium

Our uncertainty rating is based on the interquartile range, or the middle 50% of potential outcomes, covering the 25th percentile–75th percentile. This means that when a stock hits 5 stars, we expect there is a 75% chance that the intrinsic value of that stock lies above the current market price. Similarly, when a stock hits 1 star, we expect there is a 75% chance that the intrinsic value of that stock lies below the current market price.

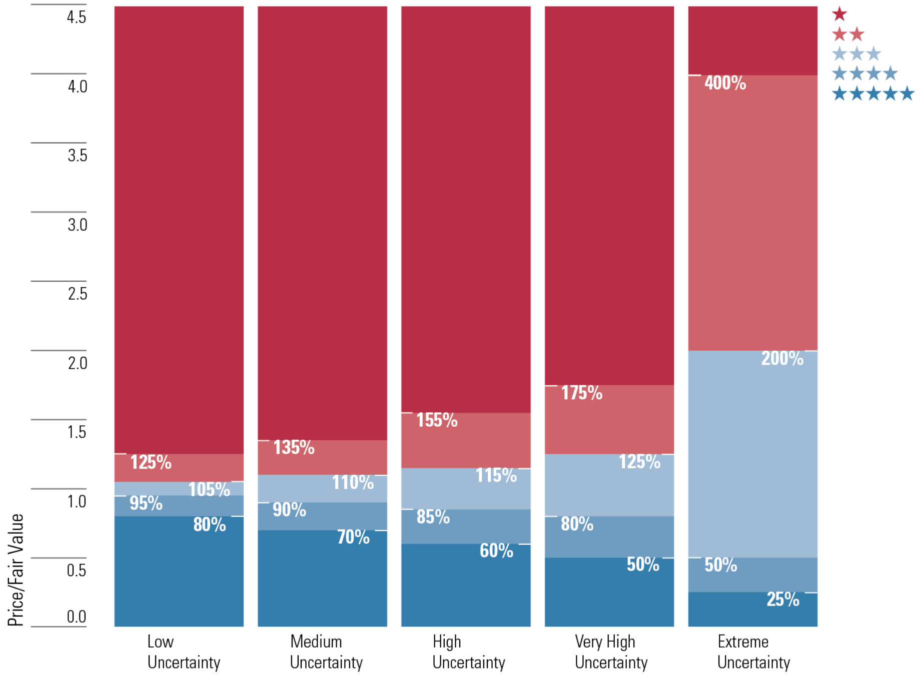
4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com

Morningstar Star Rating for Stocks

Morningstar Equity Research Star Rating Methodology



Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider compan-

Research Methodology for Valuing Companies

ies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

Sustainalytics ESG Risk Rating Assessment: The ESG Risk Rating Assessment is provided by Sustainalytics; a Morningstar company.

Sustainalytics' ESG Risk Ratings measure the degree to which company's economic value at risk is driven by environment, social and governance (ESG) factors.

Sustainalytics analyzes over 1,300 data points to assess a company's exposure to and management of ESG risks. In other words, ESG Risk Ratings measures a company's unmanaged ESG Risks represented as a quantitative score. Unmanaged Risk is measured on an open-ended scale starting at zero (no risk) with lower scores representing less unmanaged risk and, for 95% of cases, the unmanaged ESG Risk score is below 50.

Based on their quantitative scores, companies are grouped into one of five Risk Categories (negligible, low, medium, high, severe). These risk categories are absolute, meaning that a 'high risk' assessment reflects a comparable degree of unmanaged ESG risk across all subindustries covered.

The ESG Risk Rating Assessment is a visual representation of Sustainalytics ESG Risk Categories on a 1 to 5 scale. Companies with Negligible Risk = 5 Globes, Low Risk = 4, Medium Risk = 3 Globes, High Risk = 2 Globes, Severe Risk = 1 Globe. For more information, please visit sustainalytics.com/esg-ratings/

Ratings should not be used as the sole basis in evaluating a company or security. Ratings involve unknown risks and uncertainties which may cause our expectations not to occur or to differ significantly from what was expected and should not be considered an offer or solicitation to buy or sell a security.

Risk Warning

Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

General Disclosure

Unless otherwise provided in a separate agreement, recipients accessing this report may only use it in the country in which the Morningstar distributor is based. Unless stated otherwise, the original distributor of the report is Morningstar Research Services LLC, a U.S.A. domiciled financial institution.

This Report is for informational purposes, should not be the sole piece of information used in making an investment decision, and has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. This publication is intended to provide information to assist investors in making their own investment decisions, not to provide investment advice to any specific investor. Therefore, investments discussed herein may not be suitable for all investors; investors must exercise their own independent judgment as to the suitability of such investments and recommendations in the light of their own investment objectives, experience, taxation status and financial position. Morningstar encourages Report recipients to read all relevant issue documents (e.g., prospectus) pertaining to the security concerned, including without limitation, information relevant to its investment objectives, risks, and costs before making an investment decision and when deemed necessary, to seek the advice of a financial, legal, tax, and/or accounting professional. The information, data, analyses and opinions presented herein are not warranted to be accurate, correct, complete or timely. Unless otherwise provided in a separate agreement, neither Morningstar, Inc. or the Equity Research Group represents that the report contents meet all of the presentation and/or disclosure standards applicable in the jurisdiction the recipient is located.

Except as otherwise required by law or provided for in a separate agreement, the analyst, Morningstar, Inc. and the Equity Research Group and their officers, directors and employees shall not be responsible or liable for any trading decisions, damages or other losses resulting from, or related to, the information, data, analyses or opinions within the report.

The Report and its contents are not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Morningstar, Inc. or its affiliates to any registration or licensing requirements in such jurisdiction.

Where this report is made available in a language other than English and in the case of inconsistencies between the English and translated versions of the report, the English version will control and supersede any ambiguities associated with any part or section of a report that has been issued in a foreign language. Neither the analyst, Morningstar, Inc., or the Equity Research Group guarantees the accuracy of the translations.

This report may be distributed in certain localities, countries and/or jurisdictions ("Territories") by independent third parties or independent intermediaries and/or distributors ("Distributors"). Such Distributors are not acting as agents or representatives of the analyst, Morningstar, Inc. or the Equity Research Group. In Territories where a Distributor distributes our report, the Distributor is solely responsible for complying with all applicable regulations, laws, rules, circulars, codes and guidelines established by local and/or regional regulatory bodies, including laws in

Research Methodology for Valuing Companies

connection with the distribution third-party research reports.

Conflicts of Interest

- No interests are held by the analyst with respect to the security subject of this investment research report.
- Morningstar, Inc. may hold a long position in the security subject of this investment research report that exceeds 0.5% of the total issued share capital of the security. To determine if such is the case, please click http://msi.morningstar.com and http://mdi.morningstar.com
- Analysts' compensation is derived from Morningstar, Inc.'s overall earnings and consists of salary, bonus and in some cases restricted stock.
- Neither Morningstar, Inc. or the Equity Research Group receives commissions for providing research nor do they charge companies to be rated.
- Morningstar's overall earnings are generated in part by the activities of the Investment Management and Research groups, and other affiliates, who provide services to product issuers.
- Morningstar employees may not pursue business and employment opportunities outside Morningstar within the investment industry (including but not limited to, working as a financial planner, an investment professional or investment professional representative, a broker-dealer or broker-dealer agent, a financial writer, reporter, or analyst) without the approval of Morningstar's Legal and if applicable, Compliance teams.
- Neither Morningstar, Inc. or the Equity Research Group is a market maker or a liquidity provider of the security noted within this report.
- Neither Morningstar, Inc. or the Equity Research Group has been a lead manager or co-lead manager over the previous 12-months of any publicly disclosed offer of financial instruments of the issuer.
- Morningstar, Inc.'s investment management group does have arrangements with financial institutions to provide portfolio management/investment advice some of which an analyst may issue investment research reports on. However, analysts do not have authority over Morningstar's investment management group's business arrangements nor allow employees from the investment management group to participate or influence the analysis or opinion prepared by them.
- Morningstar, Inc. is a publicly traded company (Ticker Symbol: MORN) and thus a financial institution the security of which is the subject of this report may own more than 5% of Morningstar, Inc.'s total outstanding shares. Please access Morningstar, Inc.'s proxy statement, "Security Ownership of Certain Beneficial Owners and Management" section https://shareholders.morningstar.com/investor-relations/financials/sec-filings/default.aspx
- Morningstar, Inc. may provide the product issuer or its related entities with services or products for a fee and on an arms' length basis including software products and licenses, research and consulting services, data services, licenses to republish our ratings and research in their promotional material, event sponsorship and website advertising.

Further information on Morningstar, Inc.'s conflict of interest policies is available from http://global.morningstar.com/equitydisclosures. Also, please note analysts are subject to the CFA Institute's Code of Ethics and Standards of Professional Conduct.

Risk Warning Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security's investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. For investments in foreign markets there are further risks, generally based on exchange rate changes or changes in political and social conditions.

For more information about Morningstar's methodologies, please visit global.morningstar.com/equitydisclosures

For a list of securities which the Equity Research Group currently covers and provides written analysis on please contact your local Morningstar office. In addition, for historical analysis of securities covered, including their fair value estimate, please contact your local office.

For recipients in Australia: This Report has been issued and distributed in Australia by Morningstar Australasia Pty Ltd (ABN: 95 090 665 544; ASFL: 240892). Morningstar Australasia Pty Ltd is the provider of the general advice ('the Service') and takes responsibility for the production of this report. The Service is provided through the research of investment products.

To the extent the Report contains general advice it has been prepared without reference to an investor's objectives, financial situation or needs. Investors should consider the advice in light of these matters and, if applicable, the relevant Product Disclosure Statement before making any decision to invest. Refer to our Financial Services Guide (FSG) for more information at http://www.morningstar.com.au/fsg.pdf

For recipients in New Zealand: This report has been issued and distributed by Morningstar Australasia Pty Ltd and/or Morningstar Research Ltd (together 'Morningstar'). This report has been prepared and is intended for distribution in New Zealand to wholesale clients only and has not been prepared for use by New Zealand retail clients (as those terms are defined in the Financial Markets Conduct Act 2013).The information, views and any recommendations in this material are provided for general information purposes only, and solely relate to the companies and investment opportunities specified within. Our reports do not take into account any particular investor's financial situation, objectives or appetite for risk, meaning no representation may be implied as to the suitability of any financial product mentioned for any particular investor. We recommend seeking financial advice before making any investment decision.

For recipients in Hong Kong: The Report is distributed by Morningstar Investment Management Asia Limited, which is regulated by the Hong Kong Securities and Futures Commission to provide services to professional investors only. Neither Morningstar Investment Management Asia Limited, nor its representatives, are acting or will be deemed to be acting as an investment professional to any recipients of this information unless expressly agreed to by Morningstar Investment Management Asia Limited.

For recipients in India: This investment research is issued by Morningstar Investment Adviser India Private Limited. Morningstar Investment Adviser India Private Limited is registered with SEBI as a Portfolio Manager (registration number INP000006156) and as a Research Entity (registration number INH000008686). Morningstar Investment Adviser India Private Limited has not been the subject of any disciplinary action by SEBI or any other legal/regulatory body. Morningstar Investment Adviser India Private Limited is a wholly owned subsidiary of Morningstar Investment Management LLC. In India, Morningstar Investment Adviser India Private Limited has one associate, Morningstar India Private Limited, which provides data-related services, financial data analysis, and software development. The research analyst has not served as an officer, director, or employee of the fund company within the last 12 months, nor have they or their associates engaged in market-making activity for the fund company.The ESG-related information, methodologies, tool, ratings, data and opinions contained or reflected herein are not directed to or intended for use or distribution to India-based clients or users and their distribution to Indian resident individuals or entities is not permitted, and Morningstar/Sustainalytics accepts no responsibility or liability whatsoever for the actions of third parties in this respect.

*The Conflicts of Interest disclosure above also applies to relatives and associates of Manager Research Analysts in India # The Conflicts of Interest disclosure above also applies to associates of Manager Research Analysts in India. The terms and conditions on which Morningstar In-

Research Methodology for Valuing Companies

vestment Adviser India Private Limited offers Investment Research to clients, varies from client to client, and are detailed in the respective client agreement.

For recipients in Japan: The Report is distributed by Ibbotson Associates Japan, Inc., which is regulated by Financial Services Agency, for informational purposes only. Neither Ibbotson Associates Japan, Inc., nor its representatives, are acting or will be deemed to be acting as an investment professional to any recipients of this information.

For recipients in Singapore: For Institutional Investor audiences only. The Report is distributed by Morningstar Investment Adviser Singapore Pte. Limited, which is licensed by the Monetary Authority of Singapore to provide financial advisory services in Singapore. Morningstar Investment Adviser Singapore Pte. Limited is the entity responsible for the creation and distribution of the research services described in this presentation. Investors should consult a financial adviser regarding the suitability of any investment product, taking into account their specific investment objectives, financial situation or particular needs, before making any investment decisions.

For recipients in Korea: The report is distributed by Morningstar Korea Ltd., which has filed to the Financial Services Committee, for informational purposes only. Neither Morningstar Korea Ltd. nor its representatives are acting or will be deemed to be acting as an investment advisor to any recipients of this information.