

MCDONALDS CORP

Form 10-Q

August 08, 2017

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 1-5231

McDONALD'S CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

36-2361282

(I.R.S. Employer Identification No.)

One McDonald's Plaza

Oak Brook, Illinois

(Address of Principal Executive Offices) (Zip Code)

60523

(630) 623-3000

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

809,996,613

(Number of shares of common stock outstanding as of June 30, 2017)

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McDONALD'S CORPORATION

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Table of Contents**PART I – FINANCIAL INFORMATION****Item 1. Financial Statements****CONDENSED CONSOLIDATED BALANCE SHEET**

In millions, except per share data	(unaudited)	
	June 30,	December 31,
	2017	2016
Assets		
Current assets		
Cash and equivalents	\$ 2,392.4	\$ 1,223.4
Accounts and notes receivable	1,457.3	1,474.1
Inventories, at cost, not in excess of market	56.7	58.9
Prepaid expenses and other current assets	597.5	565.2
Assets of businesses held for sale	1,388.6	1,527.0
Total current assets	5,892.5	4,848.6
Other assets		
Investments in and advances to affiliates	779.7	725.9
Goodwill	2,345.2	2,336.5
Miscellaneous	2,078.5	1,855.3
Total other assets	5,203.4	4,917.7
Property and equipment		
Property and equipment, at cost	35,397.9	34,443.4
Accumulated depreciation and amortization	(13,708.6)	(13,185.8)
Net property and equipment	21,689.3	21,257.6
Total assets	\$ 32,785.2	\$ 31,023.9
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable	\$ 536.0	\$ 756.0
Income taxes	212.9	267.2
Other taxes	284.9	266.3
Accrued interest	223.6	247.5
Accrued payroll and other liabilities	948.0	1,159.3
Current maturities of long-term debt	209.9	77.2
Liabilities of businesses held for sale	328.0	694.8
Total current liabilities	2,743.3	3,468.3
Long-term debt	28,150.9	25,878.5
Other long-term liabilities	2,229.9	2,064.3
Deferred income taxes	1,661.7	1,817.1
Shareholders' equity (deficit)		
Preferred stock, no par value; authorized – 165.0 million shares; issued – none	—	—
Common stock, \$.01 par value; authorized – 3.5 billion shares; issued – 1,660.6 million shares	16.6	16.6
Additional paid-in capital	6,916.7	6,757.9
Retained earnings	47,300.6	46,222.7
Accumulated other comprehensive income (loss)	(2,486.4)	(3,092.9)
Common stock in treasury, at cost; 850.6 and 841.3 million shares	(53,748.1)	(52,108.6)
Total shareholders' equity (deficit)	(2,000.6)	(2,204.3)
Total liabilities and shareholders' equity (deficit)	\$ 32,785.2	\$ 31,023.9

See Notes to condensed consolidated financial statements.

Table of Contents**CONDENSED CONSOLIDATED STATEMENT OF INCOME
(UNAUDITED)**

In millions, except per share data	Quarters Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Revenues				
Sales by Company-operated restaurants	\$3,569.6	\$3,916.6	\$6,981.5	\$7,670.1
Revenues from franchised restaurants	2,480.1	2,348.4	4,744.1	4,498.8
Total revenues	6,049.7	6,265.0	11,725.6	12,168.9
Operating costs and expenses				
Company-operated restaurant expenses	2,903.3	3,248.1	5,719.7	6,423.4
Franchised restaurants-occupancy expenses	438.0	430.9	868.1	846.0
Selling, general & administrative expenses	525.4	596.1	1,046.7	1,174.1
Other operating (income) expense, net	(112.1)	132.0	(238.0)	87.2
Total operating costs and expenses	3,754.6	4,407.1	7,396.5	8,530.7
Operating income	2,295.1	1,857.9	4,329.1	3,638.2
Interest expense	230.9	223.9	449.5	442.2
Nonoperating (income) expense, net	2.8	(16.2)	10.7	(30.6)
Income before provision for income taxes	2,061.4	1,650.2	3,868.9	3,226.6
Provision for income taxes	666.3	557.3	1,259.0	1,008.9
Net income	\$1,395.1	\$1,092.9	\$2,609.9	\$2,217.7
Earnings per common share-basic	\$1.72	\$1.27	\$3.20	\$2.53
Earnings per common share-diluted	\$1.70	\$1.25	\$3.17	\$2.51
Dividends declared per common share	\$0.94	\$0.89	\$1.88	\$1.78
Weighted-average shares outstanding-basic	811.6	864.0	815.2	876.4
Weighted-average shares outstanding-diluted	819.2	871.2	822.3	883.8

See Notes to condensed consolidated financial statements.

Table of Contents**CONDENSED CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME (UNAUDITED)**

In millions	Quarters Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Net income	\$1,395.1	\$1,092.9	\$2,609.9	\$2,217.7
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments:				
Gain (loss) recognized in accumulated other comprehensive income (AOCI), including net investment hedges	245.7	(275.5)	533.3	204.3
Reclassification of (gain) loss to net income	(4.6	) —	104.4	18.3
Foreign currency translation adjustments-net of tax benefit (expense) of \$227.6, \$(168.2), \$272.1, and \$(97.3)	241.1	(275.5)	637.7	222.6
Cash flow hedges:				
Gain (loss) recognized in AOCI	(23.2	) 2.9	(30.3	) (7.1)
Reclassification of (gain) loss to net income	(2.0	) (1.2)	(5.9	) (12.0)
Cash flow hedges-net of tax benefit (expense) of \$14.3, \$(1.1), \$20.5, and \$10.7	(25.2	) 1.7	(36.2	) (19.1)
Defined benefit pension plans:				
Gain (loss) recognized in AOCI	—	0.1	(0.3	) (0.8)
Reclassification of (gain) loss to net income	2.7	1.5	5.3	2.3
Defined benefit pension plans-net of tax benefit (expense) of \$0.0, \$0.0, \$(0.5), and \$0.0	2.7	1.6	5.0	1.5
Total other comprehensive income (loss), net of tax	218.6	(272.2)	606.5	205.0
Comprehensive income (loss)	\$1,613.7	\$820.7	\$3,216.4	\$2,422.7

See Notes to condensed consolidated financial statements.

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(UNAUDITED)**

In millions	Quarters Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Operating activities				
Net income	\$1,395.1	\$1,092.9	\$2,609.9	\$2,217.7
Adjustments to reconcile to cash provided by operations				
Charges and credits:				
Depreciation and amortization	339.5	383.3	664.8	767.0
Deferred income taxes	64.6	(190.3)	150.5	(158.7)
Share-based compensation	21.3	27.3	44.0	67.8
Other	(76.0)	238.7	(188.7)	186.2
Changes in working capital items	(531.1)	(303.5)	(523.1)	(86.4)
Cash provided by operations	1,213.4	1,248.4	2,757.4	2,993.6
Investing activities				
Capital expenditures	(368.7)	(352.5)	(796.4)	(744.3)
Purchases of restaurant businesses	(15.0)	(11.6)	(18.1)	(37.0)
Sales of restaurant businesses	304.1	156.0	849.9	316.0
Sales of property	28.8	25.3	94.1	38.4
Other	(96.0)	(20.9)	(138.2)	(32.7)
Cash used for investing activities	(146.8)	(203.7)	(8.7)	(459.6)
Financing activities				
Net short-term borrowings	(9.3)	146.7	(778.5)	(662.9)
Long-term financing issuances	537.1	3,371.4	2,530.1	3,372.1
Long-term financing repayments	(1.4)	(600.4)	(403.5)	(813.9)
Treasury stock purchases	(1,107.7)	(3,380.7)	(1,855.7)	(7,692.4)
Common stock dividends	(761.5)	(759.3)	(1,532.1)	(1,540.1)
Proceeds from stock option exercises	174.4	82.5	290.6	213.8
Other	1.9	3.0	(4.6)	7.9
Cash used for financing activities	(1,166.5)	(1,136.8)	(1,753.7)	(7,115.5)
Effect of exchange rates on cash and cash equivalents	98.7	(90.0)	153.4	24.0
Cash and equivalents increase (decrease)	(1.2)	(182.1)	1,148.4	(4,557.5)
Change in cash balances of businesses held for sale	(18.6)	—	20.6	—
Cash and equivalents at beginning of period	2,412.2	3,310.1	1,223.4	7,685.5
Cash and equivalents at end of period	\$2,392.4	\$3,128.0	\$2,392.4	\$3,128.0

See Notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Basis of Presentation

The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements contained in the Company's December 31, 2016 Annual Report on Form 10-K. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation have been included. The results for the quarter and six months ended June 30, 2017 do not necessarily indicate the results that may be expected for the full year.

Restaurant Information

The following table presents restaurant information by ownership type:

Restaurants at June 30, 2017	2016
Conventional franchised	21,317 21,329
Developmental licensed	7,263