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McDonald's Corporation (NYSE: MCD)

A great business, thirty percent cheaper, at a price that still asks for growth the current quarter is not producing.

RATING	PRICE (2026-09-25)	FAIR VALUE	IMPLIED RETURN	IMPLIED GROWTH
HOLD	\$236.50	\$225	-4.9%	5.16%

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We are initiating on McDonald's with a **HOLD** and a \$225 fair value.

The business is not in question. Operating margin was 47.0 percent. Nearly 220 million people are active in the loyalty programme. The dividend was raised again this month, a fiftieth consecutive year, covered 1.42 times by normalized free cash flow.

What has deteriorated is the trajectory. Global comparable sales fell from 3.8 percent in the first quarter to 1.3 percent in the second, with US comparable sales at 0.8 percent and guest counts turning negative.

At \$236.50 the shares require free cash flow to compound at **5.16 percent** for a decade, against systemwide sales currently growing 4 percent in constant currency. The price asks for an acceleration while the largest market decelerates.

Our \$225 sits on 4.50 percent growth, slightly above what the business delivers today, crediting international strength and unit expansion but not a US recovery that has not begun.

SNAPSHOT	
Market cap	\$167.4B
Shares out	708M
Reported TTM FCF	\$7,761M
Normalized FCF	\$7,296M
FCF conversion, reported	88.3%
Company guidance	low-to-mid 80%
Price / normalized FCF	22.9x
FCF yield, normalized	4.36%
Implied FCF growth	5.16%
Dividend / yield	\$7.72 / 3.26%
Covered by FCF	1.42x
Q2 global comps	1.3%
Q2 US comps	0.8%
Operating margin	47.0%
52-week range	\$234-\$342
From 52-wk high	-31%

THE CALL IN ONE PARAGRAPH · McDonald's is a franchise royalty business with a 47 percent operating margin, fifty consecutive years of dividend increases, and a balance sheet carrying negative book equity by design. None of that is at risk on these numbers. The stock has fallen 31 percent from its high and set a fresh low on the day of our reference price, so much of the de-rating has happened. What stops us buying is that trailing free cash flow is flattered by working capital, and on a normalized figure the price still requires cash flow to compound at 5.16 percent while the business grows 4 percent and its largest market grows 0.8 percent. We would own this business. We are not willing to pay in advance for a recovery that has not started.

1 · Why book value is useless here

Choosing the framework before using it

Our two most recent reports valued banks on price to tangible book against return on tangible equity. That framework cannot be applied to McDonald's, and the reason is worth stating rather than quietly switching methods.

Negative book equity, by design

McDonald's carries a shareholders' equity deficit. Decades of debt-funded share repurchases have returned more capital than the accounting equity could support. That is not distress and it is not an accident. It is a deliberate capital structure for a business whose economics do not depend on owning assets.

Any multiple with book value in the denominator is therefore meaningless here: a negative denominator produces a negative or nonsensical multiple. A framework that breaks on the company in front of you is the wrong framework, not an interesting result.

What the business actually is

Most restaurants are franchised. Of \$7,099 million of quarterly revenue, \$4,393 million came from franchised restaurants and only \$2,525 million from company-operated ones. McDonald's collects rent and fees on systemwide sales it does not have to fund. That is closer to a royalty stream than to an operator, and it is why the operating margin is 47.0 percent.

Quarterly revenue	Amount	Share
Franchised restaurants	\$4,393M	62%
Company-operated	\$2,525M	36%
Total	\$7,099M	100%

So the question is what the cash stream is worth

Which makes this a free cash flow business, and the right method a reverse discounted cash flow: take the price as given, because it is the one number we can observe, and solve for the growth it requires. A forward model would mostly hand our own growth assumption back to us, and would put the majority of the answer in a terminal value we invented.

Free cash flow is used on the company's own definition, stated in its filings: cash provided by operations less capital expenditures. Because US accounting places interest paid inside operating cash flow, that figure is already after debt service, so it is compared against market capitalization rather than enterprise value. Getting that wrong would double-count the debt.

2 · The denominator is flattered

Checking the cash flow before reversing anything

Before solving for anything, the figure being solved against needs checking. This is where the report earns its keep.

Measure	Value
Reported trailing free cash flow	\$7,761M
Trailing operating cash flow	\$11,347M
Trailing capital expenditure	\$3,586M
Trailing net income	\$8,790M
Implied conversion rate	88.3%
Company's own guidance	low-to-mid 80%
Normalized at 83%	\$7,296M

The trailing figure converts 88.3 percent of net income into free cash flow. Management guides conversion to the low-to-mid 80 percent range. The trailing number sits above the range the company itself expects.

The filings explain why. The first quarter report notes that cash provided by operations was relatively flat as changes in working capital offset improved operating results, and second quarter operating cash flow then jumped 40 percent year over year. That is a timing swing, not a step change in earning power.

Why this matters more than it looks

Valuing off the reported figure would be valuing off a flattered denominator. On reported cash flow the price implies 4.37 percent growth. On normalized cash flow it implies **5.16 percent**. One working capital swing moves the hurdle by most of a percentage point, and a percentage point of perpetual growth is worth a great deal in a discounted cash flow.

This is the same discipline we applied to Nike's tariff recovery and to UnitedHealth's reserve releases, and it applies to cash flow as readily as to earnings. A number that is real once is still real. It is simply not the run rate, and a valuation built on it inherits the flattery.

We note the honest counterpoint on the risks page: if the higher conversion proves durable rather than a timing effect, this report is too cautious by roughly the difference.

3 · What the price assumes

Running the valuation backwards

At a 8 percent cost of equity, 2.5 percent perpetual growth and a 10 year explicit period, today's price requires free cash flow to compound at **5.16 percent**.

If free cash flow compounds at	Growth	Value per share
Q2 comparable sales, annualized	1.30%	\$174.99
first-half comparable sales	2.50%	\$192.14
systemwide sales, constant currency	4.00%	\$216.00
implied by today's price	5.16%	\$236.50

Read the bottom row against the three above it. Every measure of what the business is currently producing sits below what the price requires. That does not make this a short. It makes the valuation dependent on a recovery rather than on continuation, which is a different and less comfortable thing to underwrite.

Where we land, and what we are crediting

Our \$225 sits on 4.50 percent growth, slightly above the 4 percent the business delivers today. We credit unit expansion of roughly 2.5 percent a year toward a 50,000 restaurant target, international markets that are visibly working, and a loyalty programme scaling faster than the business as a whole.

We decline to credit a US recovery that has not started. If it starts, we will say so on the scoreboard and the fair value moves with it.

The assumption doing the most work

The cost of equity. We use 8 percent as an equity hurdle floor. McDonald's reported beta of 0.41 would imply 6.0 percent, at which these shares are plainly cheap. We declined to use the beta figure because a discount rate below what an investor would accept from a diversified equity portfolio is not a hurdle, it is a rounding of risk to zero. But it is a judgment, and it decides the rating.

Cost of equity	2.0% terminal	2.5% terminal	3.0% terminal
7.0%	3.47%	2.59%	1.60%
7.5%	4.71%	3.91%	3.03%
8.0%	5.89%	5.16%	4.36%
8.5%	7.01%	6.34%	5.61%
9.0%	8.08%	7.46%	6.79%

At 7.5 percent the implied growth falls to 3.91 percent and the shares are roughly fairly valued. At 7.0 percent it falls to 2.59 percent and they are cheap. We show the whole grid rather than the one cell that supports our conclusion.

4 · The bull case

Why this is a HOLD and not a sell

What the bulls have right

- **The price has already fallen a long way.** The stock is 31 percent below its 52-week high and set a fresh low on the day of our reference price. Most of the de-rating has happened.
- **You are paid to wait, and the payment is safe.** A 3.26 percent yield, raised for a fiftieth consecutive year, covered 1.42 times by normalized free cash flow at a 70 percent payout.
- **International is working.** Comparable sales grew 1.5 percent in international operated markets and 1.9 percent in developmental licensed markets, led by Germany, Australia and the UK. The same playbook delivers where it is executed well, which frames the US problem as execution rather than concept.
- **The economics are extraordinary and intact.** A 47.0 percent operating margin, restaurant margins above \$4 billion in the quarter, and 220 million active loyalty users driving \$40 billion of trailing systemwide sales.
- **And our discount rate is conservative.** On the beta-implied figure this report would read as a clear buy.

Why not a sell

The gap to our fair value is 4.9 percent, far narrower than the Nike hold we published in August at 13.3 percent. Issuing a sell here would apply a lower bar than one already sitting on our own scoreboard, and a board whose ratings mean different things at different times is not a scoreboard.

That constraint is written into the model as an assertion that fails the build rather than depending on our restraint in the moment.

Why not a buy

Because the price requires an acceleration while the largest market posts 0.8 percent comparable sales with falling guest counts. Paying today for a recovery that has not begun is not a margin of safety, it is an assumption wearing one.

What a hold means here

That the distribution is centred modestly below \$236. If US comparable sales return above two percent with positive traffic, our growth assumption is too low and the shares are worth more than we say. If the deceleration continues into international markets, the relevant figures are the ones higher up the table, and those are considerably below today's price. We would own this business at a better price, and we would say so here if it got there.

5 · What the investor day promised

And why the market disliked it

Two days before our reference price, management set out the financial detail of its NEXT strategy. The shares fell 4.81 percent on it and set a 52-week low. That reaction deserves taking seriously rather than dismissing as noise.

Element	Detail
Operating margin target	50 to 55%
Current operating margin	47.0%
Franchisee support committed	\$8.5B
Support runs through	2036
Franchisee investment per store	\$800k
Promised payback	4 years

Why the margin target deserves scrutiny

A franchise business can raise its reported operating margin by refranchising company-operated restaurants and cutting corporate cost, neither of which requires a single additional customer. Margin expansion driven by mix and margin expansion driven by traffic look identical in the headline figure and are worth very different amounts.

That is not an accusation. Refranchising is a legitimate strategy and McDonald's has executed it well for decades. It is a warning about what the number will and will not tell you when it arrives, and about the difference between a company earning more per customer and a company keeping a larger share of a smaller system.

The timing problem

The spending is committed now and through the next decade. The benefits depend on remodelling schedules and technology rollouts that run well past the coming quarters. Franchisees absorb the cost first, at roughly \$800k per store, against a promised 4 year payback that itself assumes the traffic returns.

Our model credits none of the margin target. A target running to 2030 is a forecast, and this report values what the business currently produces. If the plan works, our growth assumption is too low and we will say so on the scoreboard.

Note also what management said alongside it: that tough conditions should be expected to persist. Read together, the investor day committed capital without promising a near-term recovery, which is an honest thing to do and an expensive one to own in advance.

6 · The bull case

Why this is a HOLD and not a sell

What the bulls have right

- **The de-rating has happened.** The stock is 31 percent below its 52-week high, which it set two sessions before our reference price, and is working on its seventh consecutive weekly decline.
- **You are paid to wait.** A 3.26 percent yield, raised for a fiftieth consecutive year, covered 1.42 times by normalized free cash flow at a 70 percent payout.
- **International is working.** Comparable sales grew 1.5 percent in international operated markets and 1.9 percent in developmental licensed markets, led by Germany, Australia and the UK. The same playbook delivers where it is executed well, framing the US problem as execution rather than concept.
- **The economics are intact.** A 47.0 percent operating margin, restaurant margins above \$4 billion in the quarter, and 220 million active loyalty users driving \$40 billion of trailing systemwide sales.
- **And our discount rate is conservative.** On the beta-implied figure this report would read as a clear buy.

Why not a sell

The gap to our fair value is 4.9 percent, far narrower than the Nike hold we published in August at 13.3 percent. Issuing a sell here would apply a lower bar than one already on our own scoreboard, and a board whose ratings mean different things at different times is not a scoreboard. That constraint is an assertion in the model that fails the build, not a matter of restraint in the moment.

Why not a buy

Because the price requires an acceleration while the largest market posts 0.8 percent comparable sales with falling guest counts, and management has just told investors not to expect conditions to improve. Paying today for a recovery that has not begun is not a margin of safety, it is an assumption wearing one.

What a hold means here

That the distribution is centred modestly below \$236. If US comparable sales return above two percent with positive traffic, our growth assumption is too low and the shares are worth more than we say. If the deceleration spreads to international markets, the relevant figures are the ones higher up the scenario table, and those sit well below today's price. We would own this business at a better price and would say so here if it got there.

7 · What would change our mind

Stated in advance, in both directions

What would move us to BUY	What would move us to SELL
US comparable sales above two percent with positive guest counts	Deceleration spreading from the US to international markets
Chicken and beverage platforms taking the targeted share	Value perception proving structural rather than executional
Cash conversion sustaining above the guided range for real reasons	Franchisee strain: closures, refusal to invest, or weaker openings
Margin gains arriving through traffic rather than refranchising	Margin target met by mix and cost cuts while the system shrinks
The price falling toward the four percent growth case	Further cuts to consensus estimates as the plan slips

The single number we would watch

US guest counts, not US comparable sales. Comparable sales can be held up by price while traffic falls, and in a business whose whole proposition is value, traffic is the honest measure of whether the customer still believes the proposition. Second to it: free cash flow conversion, because that is the figure this entire valuation rests on.

The risk that sits outside the model

Franchisee health. McDonald's reports its own margins, not theirs. A franchise system can look healthy at the corporate level while the operators absorbing cost inflation and a \$800k per store investment requirement are not. That strain shows up late, in closures and slower openings, and by then it is in the numbers rather than ahead of them.

Risks to our own reasoning

The cost of equity is the load-bearing assumption. We use 8 percent against a beta-implied 6.0 percent. At 7.5 percent the implied growth falls to 3.91 percent and these shares are roughly fairly valued. If you accept the beta figure, this report is far too cautious.

The second is the normalization. If the higher cash conversion proves durable rather than a working capital swing, the implied growth is 4.37 percent rather than 5.16 percent, and our fair value is too low by roughly that difference compounded. We think the filings support the timing explanation, but we would rather state the alternative than bury it.

8 · The numbers

Second quarter 2026, as filed

\$ millions unless stated	Q2 2026	Q2 2025	Change
Revenues from franchised restaurants	4,393	4,213	+4%
Sales by company-operated restaurants	2,525	2,458	+3%
Total revenues	7,099	6,843	+4%
Operating income	3,338	3,232	+3%
Operating margin	47.0%	47.2%	-0.2 pts
SG&A	817	—	+17%
Net income	2,362	2,253	+5%
Diluted EPS	\$3.32	\$3.14	+6%
Adjusted EPS	\$3.38	—	+5% cc
Effective tax rate	19.5%	21.3%	—
Operating cash flow	2,810	2,000	+40%
Systemwide sales	37,000	—	+5%
Global comparable sales	1.3%	3.8% (Q1 26)	—
U.S. comparable sales	0.8%	3.9% (Q1 26)	—

Dashes indicate figures not disclosed on a comparable basis in the release we read. We have left them blank rather than estimate them.

Full year 2026 outlook, as filed

Measure	Guidance
Capital expenditure	\$3.7B to \$3.9B
SG&A as % of systemwide sales	2.2%
Net restaurant additions	about 2,100
Free cash flow conversion	low-to-mid 80%
Effective tax rate	21% to 23%

9 · Valuation summary

The call on one page

Measure	Value
Reference price	\$236.50
Market capitalization	\$167.4B
Reported trailing free cash flow	\$7,761M
Normalized free cash flow	\$7,296M
Price / normalized free cash flow	22.9x
Free cash flow yield	4.36%
Cost of equity used	8%
Implied free cash flow growth	5.16%
Our growth assumption	4.50%
Fair value	\$225
Implied return	-4.9%

10 · Method, sources, and conflicts

How this report was built

The reference price

The \$236.50 reference price is the close on Friday, September 25, 2026, verified before any modeling against four independent sources: Yahoo Finance, stockanalysis, Morningstar and CNN, each reporting the same \$0.52 decline from a \$237.02 previous close. We deliberately did not use the September 23 close. That was the company's investor day, when the shares fell 4.81 percent and set a 52-week low of \$234.03 intraday. Anchoring a twelve-month call to a single unusually eventful session is worth avoiding when a later, quieter close is available.

Sources

Second quarter 2026 results, segment detail and the outlook from the Form 10-Q for the quarter ended June 30, 2026 and the Form 8-K earnings release of August 4, 2026, read directly from the filings. First quarter figures and the capital expenditure and cash conversion guidance from the Form 10-Q for the quarter ended March 31, 2026. Trailing free cash flow was confirmed by two independent sources, each computing it from the company's own quarterly filings, and then normalized against management's stated conversion guidance rather than used as reported. Investor day figures are as reported from the September 23 presentation.

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One figure carries a caveat: reported beta differs between sources at 0.41 and 0.44. We use 0.41, and nothing in the valuation depends on it, because we deliberately used a cost of equity well above what either would imply.

Method

Every figure is computed by a model script rather than typed, and the script runs three self-checks before producing output: that the reverse solve reconciles to market capitalization, that normalized cash flow sits below the flattered trailing figure, and that this rating does not apply a lower bar than a hold already published on our scoreboard. Valuation is a reverse discounted cash flow, because McDonald's negative book equity makes any price to book measure meaningless.

Conflicts

The author holds no position in MCD, has no plans to initiate one, and received no compensation from any party in connection with this report. 2 Comma Investor accepts no payment for coverage, has no banking, advisory or consulting relationships, and does not accept sponsored research of any kind. If that ever changes it will be disclosed on the page and in this section before publication.

Scoring

This call is dated and public. It joins the scoreboard as an open position at \$236.50 and will be scored against the S&P; 500 on September 26, 2027, on the same terms as every other call we have made, whether it works or not. We publish misses with the same prominence as hits. A record this short proves nothing in either direction, which applies to us before it applies to anyone else.

Nature of this publication

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Initiated 2026-09-26 at \$236.50. Rating HOLD. Fair value \$225. Scoring date September 26, 2027.