Market Medals

COMPANY ANALYSIS · DATA AS OF 2026-10-18

COMPANY ANALYSIS · HOSPITALITY SERVICES

McDonald's

McDonald's Corporation

Price to earnings **20×**	Sales growth, last year **+6%**	Sales growth, 3 years **+5% a year**	Operating margin **46%**
Dividend yield **3.0%**	Earnings growth the price needs **1% a year for 5 years**	Growth on the recent trend **3% a year (operating profit)**	

Getting customers back through the door · established

Betting on chicken and drinks · emerging

Remodelled stores and new openings, including small towns · scaling

Burgers, fries and drinks across counters and drive-thrus, much of it served by franchisees who pay for the name, the system and often the building.

Where we land

McDonald's turns 46% of its sales into operating profit, the widest margin among its fast-food peers, and that profit has climbed every year for five years to 12.7bn. What it has not been doing lately is pulling in enough customers, and the analysts who forecast its earnings have noticed. They have cut those forecasts 15 times in six weeks and raised them not once. We are waiting to see customers come back before the profit record can carry the argument.

There is no medal this time, for one reason: the analysts who follow it are not among the more positive. The podium is kept for the three in ten that analysts back most strongly. Most companies we rate hold no medal, and going without one is not a warning. Flagging danger is what our chilli is for.

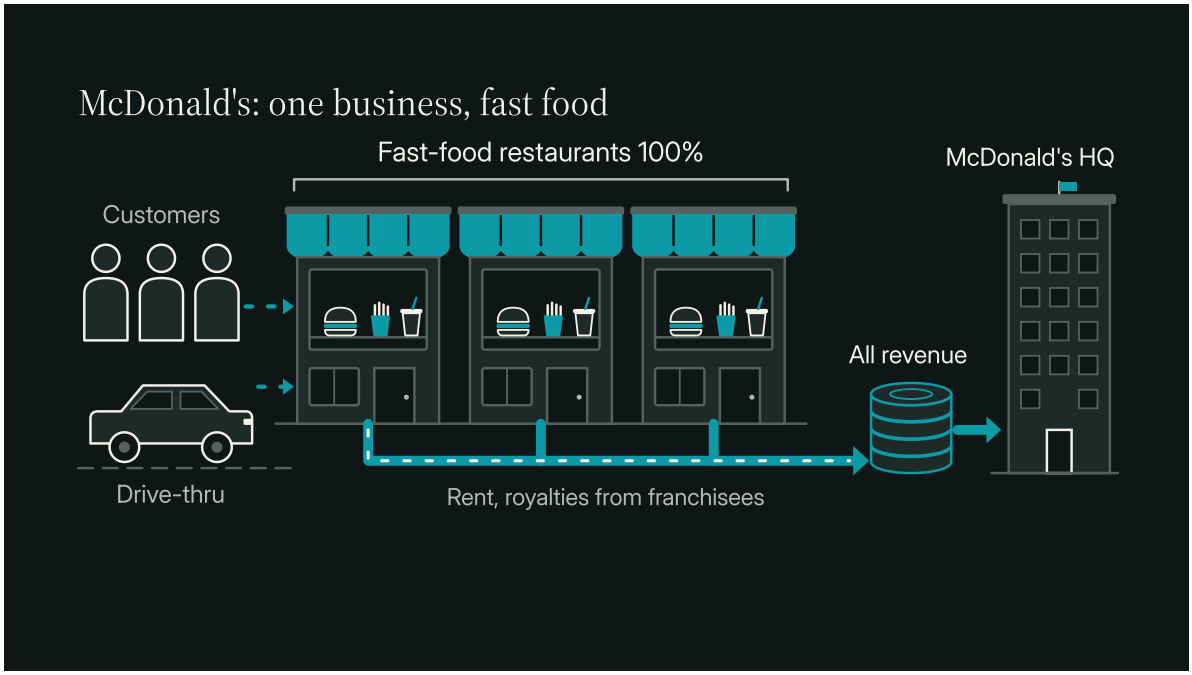


What the business is

McDonald's does one thing. All of its revenue comes from fast-food restaurants: the burgers, fries, chicken and drinks served across its counters and drive-thrus. Our figures do not split the American business from the international one. Nor do they separate the restaurants it runs itself from those run by franchisees, who pay it rent and royalties for the name, the system and often the building.

After the direct cost of the food and of serving it, 57% of each sale is left over as gross margin. After the cost of running the whole company, 46% remains as operating profit. The narrow gap between the two fits a business that earns much of its income as rent and royalties from franchisees, who carry many of the day-to-day restaurant costs.

The gross margin has also barely moved. Its middle value over five years has been 56%, and it has typically strayed only about 1 point either side. Few businesses that sell food to the public hold their pricing that steadily through rising and falling costs.



Why now

The question hanging over McDonald's is simple: are people coming through the door? In the United States, visits have stayed soft even after the company pushed cheaper value meals to lure diners back. Lower-income customers are being squeezed and are cutting back, and the pump is making it worse. American crude oil costs $102 a barrel, up 71% over a year, and fuel eats directly into the spending money of exactly the people who pull into a drive-thru. For a chain whose appeal rests on being cheap and convenient, there is no more direct pressure.

The company is not standing still. It is planning a major store overhaul and adding new chicken items. Meanwhile, its growth has slipped steadily over the past year against the wider stock market. The tension is that McDonald's still has the widest operating margin among its peers, yet the shares trade on roughly the same earnings multiple as rivals that keep far less of each sale.

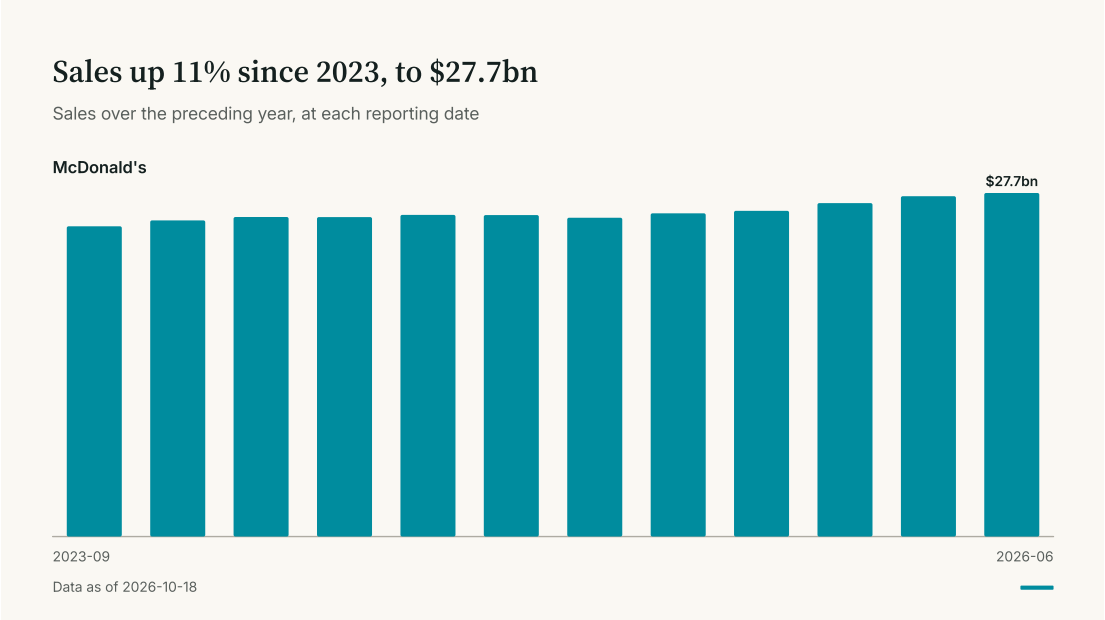


The board game matters more than it sounds. When McDonald's brought Monopoly back in October 2025, after nearly a decade, it could be played only through the company's app, and in February its finance chief called it one of the largest digital customer acquisition events McDonald's has ever had, with nearly 500 million games played. The app is the point: by McDonald's own count, a customer who joins its loyalty programme goes from about 10.5 visits a year to 26. In the quarter the game ran, US sales at established restaurants rose 6.8%, on both bigger orders and more guests. This year's game began on 6 October and again runs through the app, which makes it the clearest test of whether McDonald's can still pull lapsed customers back through the door.

The case for

The strongest argument is the profit record. Operating profit rose from 8.9bn five years ago to 12.7bn, climbing in every twelve-month period from June 2021 to June 2026. That stretch included rising costs and a stretched consumer. This is not a business lurching between good years and bad.

Sales have recently picked up rather than slowed. Revenue grew 6.3% in the latest year, ahead of its three-year average of 4.6% a year, so the traffic worry has not yet shown up as shrinking sales. Price increases and higher spending per order may be doing more of the work than extra visits. Even so, the top line is moving forward and the gross margin has held around its usual level.



Shareholders are still being paid. McDonald's has just raised its dividend, and income-focused coverage pitches it as a long-term holding for a reliable payout. A company that keeps lifting its dividend while its share price falls is signalling plainly that it believes the cash behind its profits is real and recurring.



And the company is acting on its problem rather than waiting it out. The store overhaul is meant to attract more customers. It is testing hand-breaded chicken in Ireland and adding wings in the UK, and Monopoly returns with digital play. Whether any of this lifts traffic is the open question, but a business with this much profit to reinvest has more room than most to keep trying.

Where the growth could come from

Almost everything comes back to one engine: visits to existing restaurants. They set the sales of the restaurants McDonald's runs and the rent and royalties it collects from franchisees.

Analysts still expect earnings per share to rise about 7% next year. But every recent revision has been a cut, so that figure is at risk if traffic keeps slipping. There is an upside case too: some argue that rising prices at sit-down restaurants could push diners toward McDonald's.

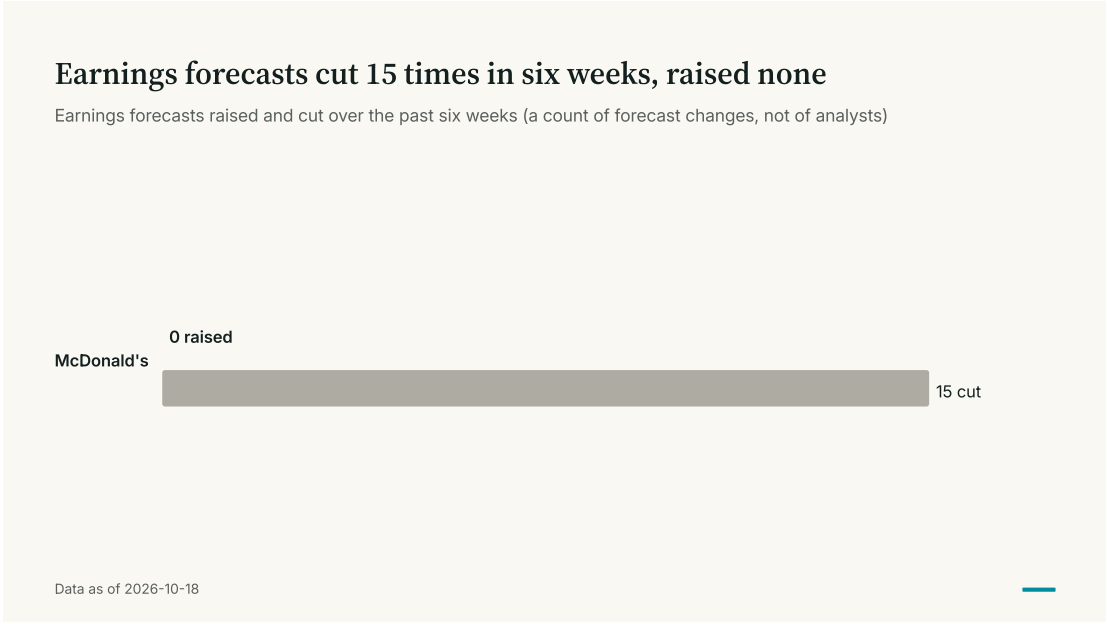
The next possible source of growth is a bigger push into chicken and drinks, widening the menu beyond burgers. Besides the Irish and UK tests, McDonald's is retiring the McRib in Germany after 37 years to make room. Our figures do not separate this business out, and its contribution today is most likely small. The sign it was working would be the Irish chicken test spreading to more European markets, or management crediting chicken and drinks with a measurable part of sales growth.

New and remodelled restaurants offer a steadier lift. Fresh sites bring new franchise rent and royalties even when existing stores are flat, which cushions a weak stretch for traffic. The company keeps opening in Europe, from a rebuild in Tulln, Austria, to openings in rural France, and suppliers are expanding their logistics in Germany to match. The test is a rising restaurant count, and remodelled stores drawing more visitors than untouched ones.

Two further threads matter less for growth than for how the shares behave. The first is a US lawsuit alleging that prices were coordinated across franchised restaurants using AI tools. A bad outcome could limit pricing tools, bring damages or harm the value image the company is rebuilding. The second is the dividend and franchise model, which do not speed up earnings but keep long-term holders patient. That anchor is slightly weaker now that the US 10-year government bond yields 5.10%, which makes a dividend payer less attractive next to the safety of bonds.

The case against

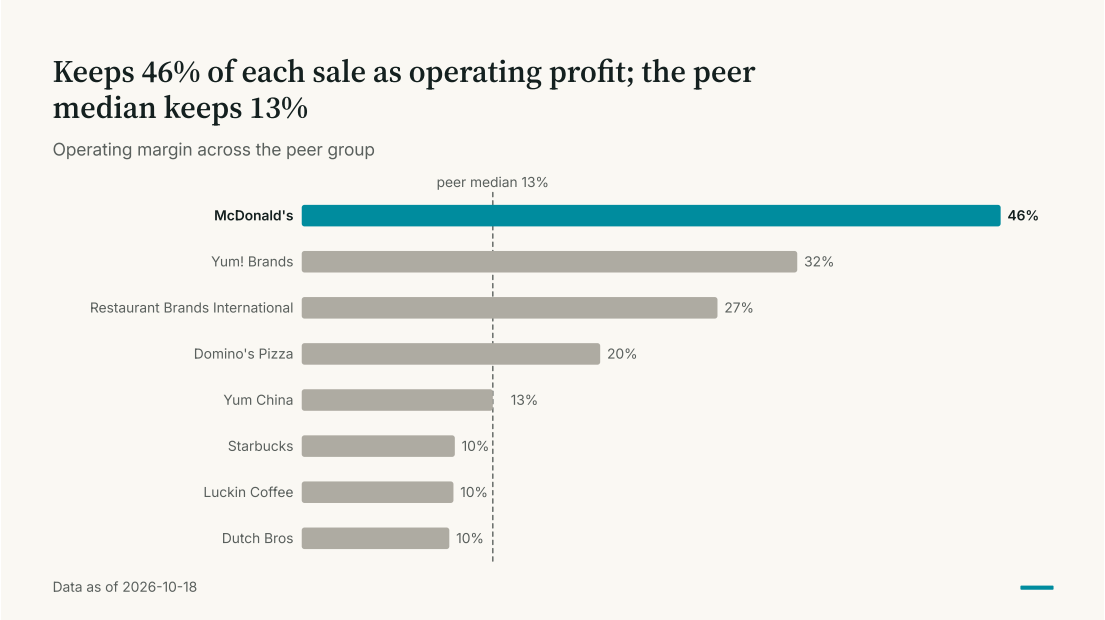
The plainest warning comes from the analysts: 15 downward revisions to earnings forecasts in 45 days, and not one upward. Forecasters rarely move in such unison. When they do, it usually reflects something they are hearing consistently from the company's results, its franchisees or its customers.



The shares tell the same story. By our figures they are down 21% over the past year. Their performance against the market has fallen from the middle of the pack to near the bottom in six months. Coverage describes a sell-off that refuses to stop and a turnaround stuck with a traffic problem even after price cuts. Cheaper meals were meant to be the fix. If they have not brought people back, the company has fewer easy levers left, and each discount risks thinning the margin that makes it special.

The new menu bets are no sure thing either. In chicken and drinks McDonald's is the challenger against strong rivals rather than the leader. Both categories are crowded, recent data suggests winning share will be hard, and reporting has questioned whether they can restore growth. The lawsuit adds a further unknown. Our figures say nothing about its likely outcome or any financial exposure, but it goes to the heart of how prices are set across thousands of franchised restaurants.

Finally, the market is not paying for the margin. McDonald's keeps 46% of sales as operating profit, against 32% at Yum! Brands, 27% at Restaurant Brands and 20% at Domino's. Yet McDonald's trades at 20 times earnings, close to Yum! Brands at 19 times and Domino's at 17 times. Starbucks and Dutch Bros sell for well over 50 times. Read pessimistically, investors are saying a wide margin is worth little if the customers behind it are drifting away, and they will not pay more until growth returns.



What the price assumes

One way to judge the price is to ask how fast earnings must grow to justify it. Suppose the share price stayed where it is and, in five years, the shares were valued like the typical profitable company we cover, at 18.6 times earnings. Earnings per share would then need to reach 13.05, compounding at only about 1% a year.

McDonald's own record clears that bar comfortably. Operating profit has grown about 3% a year over the past three years. If that simply continued, earnings per share would reach 14.52, which is 111% of what the price requires. That is the past carried forward, not a forecast. But it means the price is not asking for a recovery; it is asking for little more than standing still.



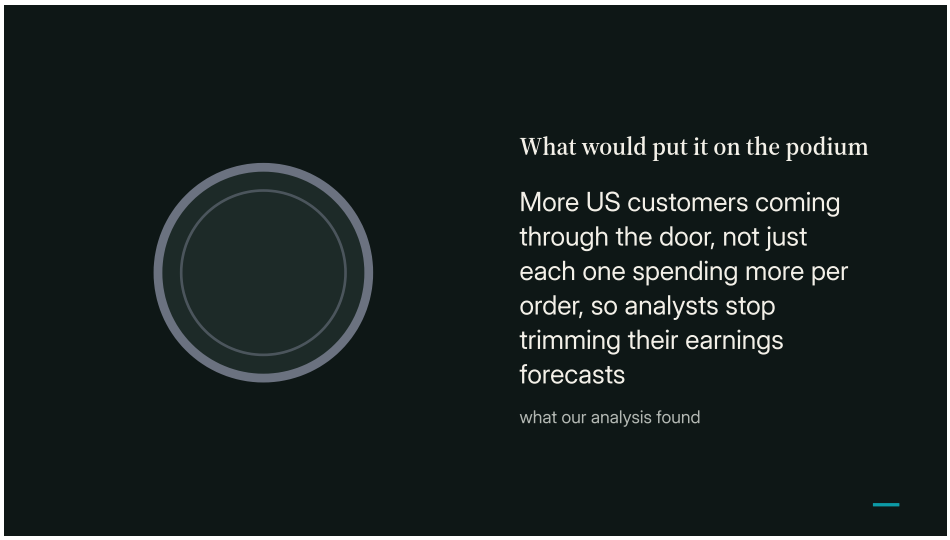
That is the uncomfortable symmetry here. The price demands very little, yet analysts keep trimming their expectations. The modest bar explains why the shares look undemanding; the

one-way revisions explain why nobody is yet rushing to pay more.

What would put it on the podium

One thing matters above the rest: more American customers coming through the door, not just each one spending more per order. Profits are rising and margins are steady; what is missing is evidence that visits have turned. Until that evidence appears, every result is read as higher prices papering over thinner crowds, and forecasts keep getting trimmed.

If guest counts climb while the value meals and Monopoly are running, the story changes. It stops being a chain charging loyal customers more and becomes one winning back the customers it lost. That is what would turn analysts from cutting their forecasts to raising them, which is the shift a medal needs.



What to watch

The first signal is the direction of analysts' forecast changes. After a run of cuts with no raises, even a handful of upward revisions would show that the people closest to the franchisees and the monthly figures had seen traffic stabilise. They tend to move before the results confirm it. Alongside that, watch how many people the game brings into the app: the number of US 90-day active app users, which McDonald's put at about 46 million in February, and, before the company reports, the outside estimates of restaurant visits that foot-traffic trackers publish while the game runs. A rise in visits rather than in spending per order is the specific evidence the story is waiting for.

Watch the pump too. A fall in crude from $102 a barrel would ease the pressure on lower-income diners before it showed up in sales. A further climb would make winning them back harder.

What would prove the patient reading wrong is clear. Suppose falling traffic pushed sales growth below its recent 4-6% pace and the operating margin slipped from around 46%.

McDonald's would then no longer look like a steady compounder in a soft patch, and the analysts' run of cuts would turn out to have been right.

The numbers

Gross margin	**57.4%**
Operating margin	**45.7%**
Net margin	**31.7%**
Sales growth, year on year	**6.3%**
Sales growth, 3-year compound	**4.6%**
Price to earnings	**19.7x**
Enterprise value to operating profit	**17.8x**
Operating profit, by year	**2021 8.9bn · 2022 10.1bn · 2023 11.1bn · 2024 11.7bn · 2025 12.0bn · 2026 12.7bn**
Net profit, by year	**2021 6.9bn · 2022 6.1bn · 2023 8.0bn · 2024 8.3bn · 2025 8.4bn · 2026 8.8bn**

The same industry, for comparison

McDonald's Corporation (this company)	**57% gross margin, 20x earnings**
Starbucks Corporation	**17% gross margin, 56x earnings**
Yum! Brands, Inc.	**45% gross margin, 19x earnings**
Restaurant Brands International, Inc.	**49% gross margin, 23x earnings**
Yum China Holdings, Inc.	**17% gross margin, 17x earnings**
Domino's Pizza, Inc.	**40% gross margin, 17x earnings**
Luckin Coffee, Inc. Sponsored ADR Class A	**58% gross margin, 19x earnings**
Dutch Bros, Inc. Class A	**25% gross margin, 58x earnings**

DISCLOSURES

Market Medals publishes research and model portfolios for information. This is not personal investment advice and not a recommendation to buy, sell or hold any security. Conflicts of interest: the people behind Market Medals may hold shares, or manage funds that hold shares, in companies covered in this report. Data as of 2026-10-18.