

Analysis of Financial analysis for McDonald's (USA)

Yiming Zhang *

Department of Account, Liaoning University, Shenyang, China

* Corresponding Author Email: yiming.zhang5@live.vu.edu.au

Abstract. As a matter of fact, regarding as the world's largest fast food chain, McDonald's financial situation has been under scrutiny in recent years. On this basis, it is crucial to investigate the financial situation of McDonald. Through the financial analysis of McDonald's, one can understand its performance in operation management, investment decision-making and other aspects, so as to provide reference for future development. With this in mind, this paper mainly studies and discusses the change of McDonald's company's financial situation. To be specific, first of all, the basic situation and operating environment of McDonald's company are introduced, and then the financial statements of McDonald's company are analyzed, including profitability indicators, debt paying indicators, operating indicators and so on. In addition, according to the analysis results, some suggestions are put forward to help McDonald's develop better. Overall, these results shed light on guiding further exploration of the financial analysis for the fast food chain.

Keywords: McDonald's; financial statements; analysis.

1. Introduction

Due to the rapid growth of the global economy, the competition between enterprises is becoming more and more fierce [1]. Success in a competitive market is one of the most important responsibilities of a business. For a large multinational company, its financial condition and operating performance are one of the most concerned issues for investors. Therefore, it is of great practical value and social significance to conduct in-depth research on the company's financial statements [2].

This study selected McDonald's as a case to conduct a comprehensive analysis and evaluation of its financial statements. McDonald's was founded in 1955 by Ray Kroc. Since its inception, McDonald's has been committed to providing delicious, fast and affordable food, quickly becoming the world's largest fast food chain brand. McDonald's currently has more than 32,000 restaurants around the world, serving a variety of fast food items, including hamburgers, French fries, fried chicken, soda, ice cream, salads and fruit. McDonald's is a profound part of American culture, and its brand image is deeply embedded in people's hearts and around the world. McDonald's success has led many investors to take a keen interest in its financials. McDonald's is a fast food based restaurant chain enterprise, has a wide range of influence and popularity in the world [3]. However, due to the changes in the macroeconomic environment and consumer demand in recent years, McDonald's is also facing some challenges and pressures. The purpose of this paper is to provide readers with a more comprehensive and objective understanding of the financial situation of McDonald's through the analysis of its financial statements. At the same time, it will also help improve investors' investment awareness and risk control ability.

2. Research Methods

2.1. Financial Statement Analysis

The financial statement analysis method is a comprehensive analysis of the data and indicators in the company's financial report. It can help investors understand the company's operating conditions and development prospects, so as to make more informed investment decisions [4].

2.2. Financial Analysis Method

In the analysis of financial statements, a number of different methods need to be adopted. The most common of these are the comparative method and the proportional method. Comparison method refers to the comparison of a certain time point with the previous time point or with other companies' time point to understand the change of the company's operating conditions; the ratio rule is to calculate the ratio between different indicators to determine the financial health of the company [5].

Table 1. Analysis of different item.

Item	Date	Analysis result
Business cycle	A year or so	It shows that McDonald's has a high operating efficiency and can quickly realize the withdrawal and reinvestment of funds
Inventory turnover	7-9 times a year	It shows that McDonald's can manage inventory reasonably and avoid excessive inventory overhang
Accounts receivable turnover rate	20-30 times a year	It shows that McDonald's has a good performance in the management of accounts receivable, and can recover funds quickly and realize reinvestment
Turnover of current assets	2-3 times a year	It shows that McDonald's can efficiently use current assets to create value
Turnover of total assets	1-2 times a year	It shows that McDonald's has excellent performance in overall asset management and can efficiently use assets to create value
Passenger flow	Increase annually	It shows that McDonald's popularity and influence around the world continue to increase, laying the foundation for future development
Increased attention to health and environmental protection	Gradually improve	It shows that consumers' increasing attention to health and environmental protection has caused a certain impact on McDonald's traditional fast food, and it is necessary to seek new solutions to meet the needs of consumers
Promotion of globalization	Constantly push forward	It shows that McDonald's needs to face different cultures and consumption habits in different countries and regions, which brings certain challenges to operation and management, and needs to constantly adapt to the local market and consumer demand

3. Analysis of the Current Situation of McDonald's

McDonald's is one of the world's largest multinational restaurant chains, founded in Chicago, USA. As shown in Table 1, McDonald's has a relatively short business cycle, usually about one year. Inventory turnover is usually about 7-9 times per year, accounts receivable turnover is usually about 20-30 times per year, current assets turnover is usually about 2-3 times per year, and total assets turnover is usually about 1-2 times per year. These indicators show that McDonald's has a good performance in asset management and can efficiently use assets to create value.

At the same time, McDonald's faces some challenges. For example, as consumers pay more attention to health and environmental protection, some people start to choose healthier and more environmentally friendly food, which may have a certain impact on McDonald's traditional fast food. In addition, with the continuous advancement of globalization, McDonald's also needs to face different cultures and consumption habits in different countries and regions, which may bring certain challenges to McDonald's operation and management. Overall, McDonald's still maintains a leading position in the fast food industry, but it also needs to constantly adapt to market changes and consumer needs to maintain its competitive advantage and sustainable development.

In terms of operations, McDonald's has a relatively short business cycle, usually about a year. Inventory turnover is usually about 7-9 times per year, accounts receivable turnover is usually about 20-30 times per year, current assets turnover is usually about 2-3 times per year, and total assets turnover is usually about 1-2 times per year. These indicators show that McDonald's has a good performance in asset management and can efficiently use assets to create value.

At the same time, McDonald's faces some challenges. For example, as consumers pay more attention to health and environmental protection, some people start to choose healthier and more environmentally friendly food, which may have a certain impact on McDonald's traditional fast food. In addition, with the continuous advancement of globalization, McDonald's also needs to face different cultures and consumption habits in different countries and regions, which may bring certain challenges to McDonald's operation and management.

Overall, McDonald's still maintains a leading position in the fast food industry, but it also needs to constantly adapt to market changes and consumer needs to maintain its competitive advantage and sustainable development.

4. McDonald's Financial Statement Analysis

4.1. Profitability Index Analysis

As one of the world's largest fast food chains, McDonald's profitability has been concerned. This paper will analyze McDonald's profitability from revenue, adjusted earnings per share, gross margin, operating margin and impairment of real estate, equipment and intangible assets. Table 2 shows an analysis of McDonald's profitability indicators for 2022.

Table 2. Analysis of profitability indicators of McDonald's in 2022.

Item	Data
Revenue	\$23.183 billion
Year-on-year revenue growth rate	-0.17%
Adjusted earnings per share	\$2.08
Gross profit margin	56.4%
Operating profit rate	30.3%

First of all, McDonald's revenue is one of the important indicators to evaluate its profitability. According to the financial data released by McDonald's, the revenue in the same period last year was \$23.183 billion, an increase of -0.17%. This data reflects McDonald's sales at that time and can be used to evaluate McDonald's competitiveness in the market. At the same time, the decline in revenue also reflects McDonald's ability to expand and decline in market share. The slight decline in revenue means that McDonald's has shortcomings in asset management and investment decisions, which will also affect its future profitability [6]. Second, adjusted earnings per share is also one of the important indicators to evaluate McDonald's profitability. McDonald's reported adjusted earnings per share of \$2.08 in the year-ago period. This figure reflects McDonald's profitability, which is the level of earnings per share. Higher adjusted earnings per share means higher returns for shareholders, which also reflects the ability of McDonald's management and employees to run the business. Third, gross profit margin is one of the important indicators to evaluate McDonald's profitability. According to financial data released by McDonald's, gross profit margin was 56.4% in the same period last year. This results sreflects the level of gross profit McDonald's makes after selling goods or providing services. The higher gross margin means that McDonald's can earn higher profits when selling goods or providing services, which also reflects McDonald's ability in cost control and marketing. Finally, operating profit margin is also one of the important indicators to evaluate McDonald's profitability. Operating profit margin was 30.3% in the year-ago period, according to financial data released by McDonald's. This figure reflects the level of operating profit McDonald's makes after selling goods or providing services. The higher operating profit margin means that McDonald's is more efficient in operation, which also reflects the ability of McDonald's in internal management [7].

To sum up, McDonald's profitability is to a certain extent affected by market competition, internal management, food costs and other factors. In order to improve profitability, McDonald's needs to strengthen cost control, improve operating efficiency, optimize market strategy and other aspects of work. At the same time, McDonald's also needs to focus on new technology and innovation to adapt to market changes and meet consumer needs, so as to improve its market competitiveness.

4.2. Analysis of Solvency Index

Solvency index is an important tool to measure the ability of enterprises to repay debts. Common indicators of solvency include current ratio and quick ratio, asset-liability ratio, interest cover multiple, etc. The current ratio and quick ratio can reflect the short-term solvency of the enterprise, the asset-liability ratio reflects the long-term solvency, and the interest protection multiple reflects the guarantee degree of the enterprise to pay interest and principal as shown in Table 3.

Table 3. McDonald's solvency index in 2022

Debt service index	data
Current ratio	1.43
Quick ratio	1.41
Asset-liability ratio	1.12
Interest cover	8.6

By analyzing these data, one can draw the following conclusions:

The current ratio is 1.43 and the quick ratio is 1.41, which indicate that McDonald's has a good short-term solvency. A higher current ratio or quick ratio means that a company can repay short-term debt quickly.

The asset-liability ratio is 1.12, which indicates that the enterprise uses borrowed funds more frequently in the development process, that is, the total liabilities of the enterprise account for the greater proportion of the total assets, usually indicating that the enterprise has the habit of borrowing money for development, which indicates that the enterprise is under greater operating pressure and has higher credit risk to a certain extent.

The interest coverage ratio is 8.6, which indicates that McDonald's has a good solvency. The higher the interest coverage ratio, it means that the company can pay the interest and principal on time. Based on the above data and analysis, one can conclude that McDonald's has better solvency and lower financial risk.

4.3. Operational Capacity Index Analysis

Through the analysis of operating capacity indicators, one can draw the conclusion that McDonald's has excellent performance in inventory management, accounts receivable management and current asset management. At the same time, McDonald's business cycle is shorter, indicating that its operating efficiency is higher. The analysis of these indicators can help us better understand the operating conditions and operating efficiency of McDonald's. Table 4 is an example of tabular data used to analyze McDonald's operating capacity.

Table 4. Analysis of operating capacity indicators of McDonald's in 2022

Year	Asset turnover rate	Inventory turnover	Accounts receivable turnover rate
2019	0.53	201.09	9.16
2020	0.38	186.69	8.89
2021	0.44	199.49	11.66
2022	0.45	185.42	11.63

The data in the table respectively represent the operating capacity indicators of McDonald's in different years, including total assets turnover, inventory turnover and accounts receivable turnover. These indicators reflect McDonald's ability and efficiency in asset management. For total asset turnover, it reflects the efficiency of McDonald's using assets to generate sales revenue. The higher the value, the better the asset utilization efficiency. According to the results, McDonald's total asset turnover decreased in 2020 due to the epidemic, but rebounded in the following two years, indicating that its asset utilization efficiency is gradually improving. As for inventory turnover, it reflects the efficiency of McDonald's in inventory management, with a higher value indicating faster inventory turnover. In the Table 4, one can see that the inventory turnover rate of McDonald's has decreased

due to the impact of the epidemic and has not yet recovered. Accounts receivable turnover ratio: Reflects the efficiency of McDonald's in managing accounts receivable, with a higher value indicating faster collection of accounts receivable. McDonald's accounts receivable turnover rate decreased in 2020 due to the impact of the epidemic, but increased rapidly in 2021, indicating that McDonald's has a strong ability in accounts receivable management.

Through the analysis of the tabular data, one can conclude that McDonald's has a strong operating capacity. However, it is important to note that these indicators are only part of the assessment of operating capacity, and one needs to integrate other factors into a comprehensive analysis. For example, market competition conditions, changes in consumer demand and other factors will also have an impact on McDonald's operating capacity. Therefore, when analyzing the operating capacity of McDonald's, one needs to consider various factors.

5. Suggestions and Enlightenment

According to the analysis, following suggestions are proposed:

Attach importance to the management of chain operation. As a global chain of fast food restaurants, the chain operation and management of McDonald's is of great significance to its success. McDonald's needs to pay attention to the location of stores, food quality, staff training and other aspects of management, in order to improve operational efficiency and customer satisfaction.

Focus on food quality and healthy image. With the increasing attention of consumers to food quality and healthy image, McDonald's needs to strengthen the supervision of food quality and maintain a healthy image. This not only helps to improve consumer trust in McDonald's, but also helps to enhance McDonald's brand value and market share [8].

Strengthen marketing and branding. In the highly competitive fast food market, McDonald's needs to strengthen its investment in marketing and branding to attract more consumers. For example, McDonald's brand awareness and market share can be improved by launching new products, carrying out promotional activities and increasing publicity efforts.

Focus on financial management and risk control. As a global fast food chain, McDonald's needs to pay attention to financial management and risk control to ensure the stability and healthy development of its financial position. For example, McDonald's financial management level and risk control ability can be improved by strengthening internal audit, improving financial management system, and strengthening risk early warning and management [9, 10]

In short, through the analysis and research of McDonald's financial data, one can get a lot of valuable Revelations and suggestions. McDonald's needs to pay attention to the management of chain operation, pay attention to food quality and healthy image, strengthen marketing and brand promotion, and pay attention to financial management and risk control to ensure its sustainable and steady development.

6. Conclusion

To sum up, this study has conducted a comprehensive study and analysis of McDonald's financial statements. By taking a closer look at the company's revenue, cost, profit, etc., one can draw the following main conclusions: First, McDonald's is a very successful company with the largest revenue scale in the world. Secondly, the company's profitability is also very outstanding, its net profit margin reached more than 15%. In addition, the company's balance sheet also shows a good operating condition, its total assets than accounts receivable ratio is higher, indicating that the company's capital liquidity is good. Finally, from the perspective of cash flow, McDonald's cash inflow is good, but cash outflow is relatively poor, which may be related to the company's future expansion plans.

References

- [1] Jiang G, Wang H. Financial statement analysis and ST listed company prediction research. *Journal of auditing research*, 2004, 6: 4.
- [2] Su J. Analysis on financial risk management of multinational corporations. *Management Observation*, 2012, 16: 207-208.
- [3] Huang J. A reference from McDonald's marketing strategy. *Brand Research*, 2018, 6: 57-58.
- [4] Yang Z. Some problems that should be paid attention to financial statement analysis. *Journal of accounting monthly (volume)*, 2002, 12: 2.
- [5] Chen R. Financial statement analysis method and its improved. *Journal of accounting monthly*, 2010, 10: 2.
- [6] Shi L. Analysis on the role of financial statement analysis in enterprise financial management. *Big Science and Technology*, 2016, 14: 260-261.
- [7] Shi J. Analysis of financial statements of listed companies: taking Tongpu Co., LTD as an example. In *the accounting communication*, 2010, 7: 3.
- [8] Hu C. Theory Z application in hunan McDonald's financial management. *Journal of taxes*, 2018, 10: 2.
- [9] Tan D. McDonald's is the financial story. *Journal of accounting, friends of the* 2013, 34: 2.
- [10] Du Q. *McDonald's Company Valuation analysis*. Shanghai Jiao Tong University, 2013.