

1 Consolidated Statements of Cash Flows

110718

Net income	4,946.3	
Total depreciation and amortization	1,276.2	
Accounts and notes receivable	(118.7)	
Inventories, at cost, not in excess of market	(3.7)	
Prepaid expenses and other current assets	(238.8)	
Accounts payable	307.9	
Income taxes	(91.1)	
Other taxes	(1.8)	
Accrued interest	4.9	
Accrued payroll and other liabilities	(274.1)	
Other long-term liabilities	223.8	
Deferred income taxes	53.5	
Accumulated other comprehensive income	5.5	
Interest income	(20.0)	
Cash flow from Operating activities		6,069.9
Investments in and advances to affiliates	(122.6)	
Goodwill	(160.9)	
Miscellaneous	14.5	
Property and equipment		
(1,041.9) + 512.8 + (1,276.2) = (1,805.3) = (1,805.3)		
Interest income	20.0	
Cash flow from Investing activities		(2,054.3)
Current maturities of long-term debt	(9.8)	
Long-term debt	936.7	
Additional paid-in capital	342.5	
Dividends 4,946.3 - 2,540.9 = 2,405.4	(2,405.4)	
Common stock in treasury, at cost; 607 and	(2,288.6)	
Cash flow from Investing activities		(3,424.6)
Total cash flow	591.0	591.0
Cash and equivalents	(591.0)	Change

Property and equipment, at cost			Accumulated depreciator
33,440.5		<	Beginning
		763.4	>
		<	P & E Sold
1,805.3		<	Depcn Expense
		<	>
34,482.4		<	Ending
		<	>

2 a. Debt - to - equity ratio on 12/31/2010.

		2010	2009	Average
Current maturities of long-term debt		8.3	18.1	
Long-term debt		11,497.0	10,560.3	
Total debt	a	11,505.3	10,560.3	11,032.8
Total shareholders equity	b	14,634.2	14,033.9	14,334.1
Debt - to - equity ratio	a/b	0.7862		0.7697
Total capital	a + b	26,139.5	24,594.2	25,366.9
Total assets	c	31,975.2	30,224.9	31,100.1
Operating Liabilities	c - (a + b)	5,835.7	5,630.7	5,733.2

b. Times Interest Earned (for year ending 12/31/2010)

Income before provision for income taxes	7,000.3
Interest expense net of capitalized interest of \$12, 11.7 and 12.3	450.9
Earnings before interest and taxes	7,451.2

Interest expense reported	450.9
Capitalized interest	12.0
Interest expense	462.9

Times Interest Earned $7,451.2 / 462.9 =$ **16.097**

c. Return on Equity, ROE, (for year ending 12/31/2010).

Net income \div Average equity $4,946.3 \div 14,334.1 =$ **34.51%**

d. ROA

Tax rate $= 2,054.0 \div 7,000.3 = 29.34\%$
 Net income + (1-tax rate) • Interest expense
 $= 4,946.3 + 0.7066 \cdot 450.9 = 5,264.9$
 EBIT (1-tax) $7,451.2 \cdot 0.7066 = 5,264.9$
 ROA = EBIT (1-tax)/ Average Assets $= 5,264.9 \div 31,100.1 =$ **16.93%**

e. ROTC = EBIT (1-tax)/ Average total capital
 = 5264.9/25366.9 = **20.75%**

- Interest rate $451 \cdot 11,032.8 = 4.09\%$
- After tax cost of interest (ATI Rate) $4.09\% \cdot 70.66\% = 2.89\%$
- OLLev** Operating Liabilities Leverage $5,733 \div 25,367 = 0.2260$

f ROTC = ROA + OLLev x [ROA - 0.0000]
 = 16.93% + 0.2260 x [16.93% - 0.0000] = **20.76%**

g ROE = ROTC + D/E x [ROTC - ATI Rate]
 = 20.76% + 0.7697 x [20.76% - 0.0289] = **34.51%**

h ATO = Asset turnover = Total revenues/ Average Assets
 = 24074.6 / 31,100.1 = **0.7741**

i MBIT = Earnings before interest and taxes/ Total revenues
 = 7,451.2 / 24,074.6 = **30.95%**

j ROA = MBIT • ATO • (1-tax)
 = 30.95% • 0.7741 • 0.7066 = **16.93%**

k Shares issued 1,660.6
 Common stock in treasury 607.0
 Shares outstanding 1,053.6
Book value per share as of Dec 31, 2010.
 Total shareholders equity / Shares outstanding = 14,634.2 ÷ 1,053.6 = **13.89**

Question 3

110718

a Year	MLP	Factor at ÷ 5.00%	Present Value			
2011	1,200.5	÷ 1.0500	1,143.3			
2012	1,115.6	÷ 1.1025	1,011.9			
2013	1,034.2	÷ 1.1576	893.4			
2014	925.9	÷ 1.2155	761.7			
2015	827.0	÷ 1.2763	648.0	sum	=	4,458.3
After 5 years: annual MLP			6,018.1	÷ 7.0	=	859.7
Annuity Factor at 0.05 for 7 years			5.786			
5 year present value factor			0.784			
Present value now			0.784	•	5.786	• 859.7 = 3,897.8
Present value of minimum lease payments				Dec 31, 2010		8,356.1
Lease payments in year ending				Dec 31, 2010		1,576.7
Future value						9,932.8
Present value of minimum lease payments				Dec 31, 2009		
			9,932.8	÷ 1.050	=	9,459.8

Entries

Dec 31, 2009

Fixed assets	9,459.8		
Capital lease obligations - Short term			1,103.7
Capital lease obligations - Long term			8,356.1

Changes from operating lease treatment

Depreciation expense	9,459.8	÷ 8.0	=	1,182.5		
Accumulated depreciation						1,182.5

Interest expense	5.00%	• 9,459.8	=	473.0		
Capital lease obligations - Short term				1,103.7		
Rental Expense						1,576.7

Capital lease obligations - Long term	1,200.5	-	5.00%	• 8,356.1	=	782.7		
Capital lease obligations - Short term								782.7

Income Statement

Year ended Dec 31, 2010

Earnings before interest and taxes more by	1,576.7 - 1,182.5 =	394.2
Interest expense more by		473.0
Earnings before taxes more by		<u>(78.8)</u>
Income tax expense	78.8 • 35.00%	27.6
Net Income more by	78.8 • 65.00%	<u>(51.2)</u>

Balance sheet

Dec 31, 2010

Fixed assets	9,459.8	Capital lease obligations - Short term	782.7
Accumulated depreciation	1,182.5	Capital lease obligations - Long term	7,573.4
Net	8,277.4		
Deferred tax Asset	27.6	Retained Earnings	<u>(51.2)</u>
Total	8,304.9		8,304.9

b. Debt - to - Equity

Dec 31, 2010

Total debt as reported	11,505.3	11,505.3 ÷ 14,634.2 =	0.7862
Capitalized Operating leases	8,356.1		as reported
Adjusted debt	<u>19,861.4</u>		
Equity as reported	14,634.2	19,861.4 ÷ 14,634.2 =	1.3572
Adjustment	<u>(51.2)</u>		adjusted
Adjusted equity	14,583.0	19,861.4 ÷ 14,583.0 =	1.3620

c. Times Interest Earned.

Year ended Dec 31, 2010

	EBIT	Int Expen	Times Interest Earned.
As reported	7,451.2 /	462.9	##### as reported
Adjustment	394.2	<u>473.0</u>	
Adjusted	<u>7,845.4 /</u>	935.9	8.3828 adjusted

Question 4

110718

a Provision for income taxes	2,054.0	
Net deferred tax liabilities increase = \$ 546.8 - 611.4	<u>(64.6)</u>	
Current tax expense	2,118.6	
Income taxes payable increase	<u>(91.1)</u>	
Taxes did McDonalds actually pay in the year ending 12/31/07	2,209.7	
 b Statutory U.S. federal income tax rate	35.00	
State income taxes, net of related federal income tax benefit	1.60	The other items do
Benefits and taxes related to foreign operations	<u>(6.90)</u>	not affect the marginal
Marginal Tax Rate	29.70	rate
 Depreciation expense on Property and Equipment	1,276.2	
Increase in deferred tax liability	\$ 1,655.2 - 1,609.4 =	45.8
Increase in deferred tax asset	<u>(352.4) - (287.7) =</u>	<u>(64.7)</u>
		<u>(18.9)</u>
Tax Depreciation - Reported Depreciation	45.8 / 29.70% =	154.2
Tax Depreciation =	1,276.2 + 154.2 =	1,430.4
OR		

$$\begin{aligned} \text{Tax Depreciation - Reported Depreciation} &= (18.9) / 29.70\% = (63.6) \\ \text{Tax Depreciation} &= 1,276.2 + (63.6) = 1,212.6 \end{aligned}$$

c Average State income Tax rate for McDonalds report in the year ending Dec 31, 2010

$$\begin{aligned} \text{Taxes paid} &= 1.60\% \cdot 7,000.3 / 65.00\% = 172.3 \\ \text{State income tax rate} &= \text{Taxes paid} / \text{US pretax income} \\ &= 172.3 / 2,763.0 = 6.24\% \end{aligned}$$

d Foreign operations at US rate

$$\begin{aligned} \text{at US rates} &= 35.00\% \cdot 4,237.3 = 1,483.1 \\ \text{Saving from US levels} &= -6.90\% \cdot 7,000.3 = (483.0) \\ \text{Foreign taxes} &= 1,000.0 \\ \text{Foreign tax rate} &= 1,000.0 \div 4,237.3 = 23.60\% \end{aligned}$$

e f

	McDonalds Worldwide	US
ROA [pre interest and taxes]		
Operating Income ÷ Average total assets		
7,473.1 ÷ 31,100.1	24.03%	
3,446.5 ÷ 10,448.5		32.99%
Asset Turnover		
Sales ÷ Average total assets		
24,074.6 ÷ 31,100.1	77.41%	
8,111.6 ÷ 10,448.5		77.63%
Margin before Interest and Taxes.		
Operating income ÷ Sales		
7,473.1 ÷ 24,074.6	31.04%	
3,446.5 ÷ 8,111.6		42.49%

g McDonalds is far more profitable in the US compared to other countries. Asset Turnover is similar in both regions fae less than one. US may have truly a lower asset turnover and the numbers could be overstating it as assets in US may tend to be older, more depreciatedqqThe assets could be far from market value especially for land. Assets abroad may be newer. There is a dramatic difference in Margin before Interest and Taxes. US has much higher Margin before Interest and Taxes. Why? It is possible US residents LOVE McDonalds more and so are willing to pay more. McDonalds should Invest in more in US based on this analysis.

Question 5

	2010	2009	2008	2007	2006
a Cash used for investing activities	2,056	1,655	1,625	1,150	1,274
Capital expenditures	2,136	1,952	2,136	1,947	1,742

Capital expenditures seems to equal depreciation expense; no real growth
There is slow revenue growth.

b Cash provided by operations	6,342	5,751	5,917	4,876	4,341
Capital expenditures	2,136	1,952	2,136	1,947	1,742
Free cash flow	<u>4,206</u>	<u>3,799</u>	<u>3,781</u>	<u>2,929</u>	<u>2,599</u>
Treasury stock repurchased(11)	2,648	2,854	3,981	3,949	3,719
Common stock cash dividends	2,408	2,235	1,823	1,766	1,217
	<u>5,056</u>	<u>5,089</u>	<u>5,804</u>	<u>5,715</u>	<u>4,936</u>

MCD has used free cash flow to pay stockholders.

c Low bet, less than one.

In 2008, market crashed business MCD stock went up.
MCD has a recession proof business.

	2010	2005
d EPS	4.58	2.02
EPS has gone	4.58/2.02=2.2673	
in spite of paying all FCF as dividends		
The stock also has gone up to 2.5 times the value.		

e Stock Price of MCD on	Dec 31, 2010	\$ 74.00
Dividends declared		\$ 2.26
From the chart		<u>\$ 76.26</u>
MCD Index on	Dec 31, 2010	260
MCD Index on	Dec 31, 2009	205
Return	260 / 205	1.2683
Stock Price of MCD on	Dec 31, 2009 \$	76.26 / 1.2683 = 60.12773