

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

FORM 8-K

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

Date of report (Date of earliest event reported): April 30, 2020

McDONALD'S CORPORATION

(Exact Name of Registrant as Specified in Charter)

Delaware
(State or Other Jurisdiction
of Incorporation)

1-5231
(Commission
File Number)

36-2361282
(IRS Employer
Identification No.)

**110 North Carpenter Street
Chicago, Illinois**
(Address of Principal Executive Offices)

60607
(Zip Code)

(630) 623-3000
(Registrant's telephone number, including area code)

Not Applicable
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value	MCD	New York Stock Exchange

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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.

Item 2.02. Results of Operations and Financial Condition.

On April 30, 2020, McDonald's Corporation (the "Company") issued an investor release reporting the Company's results for the first quarter ended March 31, 2020. A copy of the related investor release is being filed as Exhibit [99.1](#) to this Form 8-K and is incorporated by reference in its entirety. Also filed herewith and incorporated by reference as Exhibit [99.2](#) is supplemental information for the quarter ended March 31, 2020. The information under this Item 2.02, including such Exhibits, shall be deemed to be "filed" for purposes of the Securities Exchange Act of 1934, as amended.

Item 9.01. Financial Statements and Exhibits.

(d) *Exhibits.*

[99.1](#) [Investor Release of McDonald's Corporation issued April 30, 2020: McDonald's Reports First Quarter 2020 Results](#)

[99.2](#) [McDonald's Corporation: Supplemental Information \(Unaudited\), Quarter Ended March 31, 2020](#)

104 Cover Page Interactive Data File (embedded within the Inline XBRL document)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

McDONALD'S CORPORATION

(Registrant)

Date: April 30, 2020

By: /s/ Catherine Hoovel

Catherine Hoovel

Corporate Vice President - Chief Accounting Officer

**FOR IMMEDIATE RELEASE**

4/30/2020

FOR MORE INFORMATION CONTACT:

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McDONALD'S REPORTS FIRST QUARTER 2020 RESULTS

CHICAGO, IL - McDonald's Corporation today announced results for the first quarter ended March 31, 2020.

"Following our strong performance in 2019, McDonald's began 2020 with exceptional global momentum, and our January and February sales were reflective of that trend. Since then, the global crisis caused by the COVID-19 pandemic has significantly disrupted our business, and we continue to operate in a very challenging and unpredictable environment," said McDonald's President and Chief Executive Officer Chris Kempczinski. "McDonald's has seen a lot over our 65 years and I'm confident that the actions we're taking will enable us to emerge from this crisis in a position of competitive strength. The determination and team spirit across the McDonald's System is evident as we continue to offer affordable, convenient food while at the same time providing for the safety of our crew and customers and continuing our legacy of supporting local communities in which we operate."

The Company delivered strong global comparable sales and results for the two months ended February 2020. The outbreak of COVID-19 and the resulting operational impact brought on by several related factors, including restaurant closures, limited operations and dramatic changes in consumer behavior, led to a marked decline in sales during the second half of March and significantly affected the Company's first quarter results. On April 8, 2020, McDonald's withdrew its 2020 Outlook and its Long-Term Outlook due to the uncertainty related to the impact of COVID-19 on global economic conditions and the Company's business operations.

First quarter financial performance and operational update:

- Global comparable sales declined 3.4%.
- Consolidated revenues decreased 6% (5% in constant currencies).
- Systemwide sales decreased 4% (2% in constant currencies).
- Diluted earnings per share of \$1.47 decreased 15% (13% in constant currencies).
- Steps to preserve financial flexibility include suspending McDonald's share repurchase program, increasing the Company's cash position with \$6.5 billion of new debt financing and reducing planned capital expenditures by approximately \$1 billion for 2020.
- Approximately 75% of McDonald's restaurants worldwide remain open to serve customers, the majority of which have adapted to focus on Drive-thru, Delivery, and/or Take-away.

COMPARABLE SALES

	Increase/(Decrease)			
	Two months ended February 29, 2020	Month ended March 31, 2020	Quarter ended March 31, 2020	Quarter ended March 31, 2019
U.S.	8.1%	(13.4)%	0.1 %	4.5%
International Operated Markets	8.5	(34.7)	(6.9)	6.0
International Developmental Licensed Markets & Corporate	3.7	(19.4)	(4.3)	6.0
Total	7.2%	(22.2)%	(3.4)%	5.4%

- Comparable Sales:** The Company delivered strong global comparable sales results for the two months ended February 2020, with all segments benefiting from Leap Day. Globally, sales results began to markedly decline during the second half of March due to COVID-19, which caused significant restaurant closures and "shelter-in-place" guidance. The sales trends from the second half of March have continued into April, and are expected to continue while these restrictions are in place.
 - U.S. and International Operated Markets:** Comparable sales results for the two months ended February 2020 reflected balanced growth in average check and guest counts. The comparable sales decline in the International Operated Markets segment for both the month of March and the quarter were primarily driven by temporary restaurant closures in France, the United Kingdom and Italy.
 - International Developmental Licensed Markets:** Comparable sales results for the quarter were primarily impacted by China, which had approximately 25% of restaurants fully closed in early February, at the peak of the Company's closures in that market.

KEY FINANCIAL METRICS - CONSOLIDATED

Dollars in millions, except per share data

Quarters Ended March 31,	2020	2019	Inc/ (Dec)	Inc/ (Dec) Excluding Currency Translation
Revenues	\$ 4,714.4	\$ 5,024.1	(6) %	(5) %
Operating income	1,693.6	2,094.0	(19)	(17)
Net income	1,106.9	1,328.4	(17)	(16)
Earnings per share-diluted	\$ 1.47	\$ 1.72	(15) %	(13) %

Results for the quarter reflected sales performance declines due to restaurant closures, limited operations and dramatic changes in consumer behavior as a result of COVID-19.

Foreign currency translation had a negative impact of \$0.02 on diluted earnings per share for the quarter.

RESTAURANT UPDATE

Below is a summary of the operating status of McDonald's restaurants around the world as of April 30, 2020. The Company continues to follow the guidance of expert health authorities to ensure the appropriate precautionary steps are taken in this evolving business environment to protect the health and safety of our people and our customers.

Percent of Operating Restaurants*

	As of April 30, 2020
U.S.	99%
International Operated Markets	45
International Developmental Licensed Markets	80
Total	75%

* Restaurants include those with limited operations including Drive-thru, Delivery, and/or Take-away.

U.S.:

- Substantially all restaurants are operating Drive-thru, Delivery, & Take-away only. Limited menus and hours may apply.
- Restaurants that are closed are primarily due to their locations (e.g., unique sites such as malls).

International Operated Markets:

- Markets, such as Australia, Canada, Germany and Russia have limited operations, which could include Drive-thru, Delivery and/or Take-away; some restaurants within these markets are temporarily closed, have limited hours, menus and/or restricted capacity.
- Several markets, such as France, Italy, Spain and the United Kingdom, have temporarily closed substantially all restaurants.

International Developmental Licensed Markets:

- China has resumed operations in 99% of restaurants, although the market continues to experience a reduced level of demand as consumers have not fully returned to their pre-COVID routines.
- Japan has limited operations including Drive-thru, Delivery and Take-away only, in substantially all restaurants.
- Brazil has 65% of restaurants operating, the majority of which have limited operations.
- Operating hours in most other countries are driven by government regulations.

THE FOLLOWING DEFINITIONS APPLY TO THESE TERMS AS USED THROUGHOUT THIS RELEASE

Constant currency results exclude the effects of foreign currency translation and are calculated by translating current year results at prior year average exchange rates. Management reviews and analyzes business results excluding the effect of foreign currency translation, impairment and other strategic charges and gains, as well as income tax provision adjustments related to the Tax Cuts and Jobs Act of 2017, and bases incentive compensation plans on these results, because the Company believes this better represents underlying business trends.

Comparable sales are compared to the same period in the prior year and represent sales at all restaurants, whether operated by the Company or by franchisees, in operation at least thirteen months including those temporarily closed. Some of the reasons restaurants may be temporarily closed include reimagining or remodeling, rebuilding, road construction and natural disasters (which includes restaurants temporarily closed due to COVID-19 in 2020). Comparable sales exclude the impact of currency translation, and, since 2017, also exclude sales from Venezuela due to its hyper-inflation. Management generally identifies hyper-inflationary markets as those markets whose cumulative inflation rate over a three-year period exceeds 100%. Management believes that these exclusions more accurately reflect the underlying business trends. Comparable sales are driven by changes in guest counts and average check, which is affected by changes in pricing and product mix. The goal is to achieve a relatively balanced contribution from both guest counts and average check.

Comparable guest counts represent the number of transactions at all restaurants, whether operated by the Company or by franchisees, in operation at least thirteen months including those temporarily closed.

Systemwide sales include sales at all restaurants, whether operated by the Company or by franchisees. While franchised sales are not recorded as revenues by the Company, management believes the information is important in understanding the Company's financial performance, because these sales are the basis on which the Company calculates and records franchised revenues and are indicative of the financial health of the franchisee base. The Company's revenues consist solely of sales by Company-operated restaurants and fees from franchised restaurants operated by conventional franchisees, developmental licensees and affiliates.

RELATED COMMUNICATIONS

This press release should be read in conjunction with Exhibit [99.2](#) in the Company's Form 8-K filing for supplemental information related to the Company's results for the quarter ended March 31, 2020.

McDonald's Corporation will broadcast its investor earnings conference call live over the Internet at 7:30 a.m. (Central Time) on April 30, 2020. A link to the live webcast will be available at www.investor.mcdonalds.com. There will also be an archived webcast available for a limited time thereafter.

To learn more about McDonald's community response to COVID-19, visit www.mcfamily.mcdonalds.com.

UPCOMING COMMUNICATIONS

For important news and information regarding McDonald's, including the timing of future investor conferences and earnings calls, visit the Investor Relations section of the Company's Internet home page at www.investor.mcdonalds.com. McDonald's uses this website as a primary channel for disclosing key information to its investors, some of which may contain material and previously non-public information.

ABOUT McDONALD'S

McDonald's is the world's leading global foodservice retailer with over 38,000 locations in over 100 countries. Approximately 93% of McDonald's restaurants worldwide are owned and operated by independent local business owners.

FORWARD-LOOKING STATEMENTS

This release contains certain forward-looking statements, including statements regarding the impacts that the novel COVID-19 pandemic may have on our future operations, which reflect management's expectations regarding future events and operating performance and speak only as of the date hereof. These forward-looking statements involve a number of risks and uncertainties. Factors that could cause actual results to differ materially from our expectations are detailed in the Company's filings with the Securities and Exchange Commission, including the risk factors discussed in Exhibit [99.2](#) in the Company's Form 8-K filing on April 30, 2020. The Company undertakes no obligation to update such forward-looking statements, except as may otherwise be required by law.

McDONALD'S CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

Dollars and shares in millions, except per share data

Quarters Ended March 31,	2020	2019	Inc/ (Dec)	
Revenues				
Sales by Company-operated restaurants	\$ 2,025.8	\$ 2,240.5	\$ (214.7)	(10)%
Revenues from franchised restaurants	2,608.0	2,715.1	(107.1)	(4)
Other revenues	80.6	68.5	12.1	18
TOTAL REVENUES	4,714.4	5,024.1	(309.7)	(6)
Operating costs and expenses				
Company-operated restaurant expenses	1,752.8	1,886.2	(133.4)	(7)
Franchised restaurants-occupancy expenses	554.2	533.1	21.1	4
Other restaurant expenses	65.5	53.3	12.2	23
Selling, general & administrative expenses				
Depreciation and amortization	73.5	61.4	12.1	20
Other	516.3	437.7	78.6	18
Other operating (income) expense, net	58.5	(41.6)	100.1	n/m
Total operating costs and expenses	3,020.8	2,930.1	90.7	3
OPERATING INCOME	1,693.6	2,094.0	(400.4)	(19)
Interest expense	280.0	274.1	5.9	2
Nonoperating (income) expense, net	(31.3)	(11.4)	(19.9)	n/m
Income before provision for income taxes	1,444.9	1,831.3	(386.4)	(21)
Provision for income taxes	338.0	502.9	(164.9)	(33)
NET INCOME	\$ 1,106.9	\$ 1,328.4	\$ (221.5)	(17)%
EARNINGS PER SHARE-DILUTED	\$ 1.47	\$ 1.72	\$ (0.25)	(15)%
Weighted average shares outstanding-diluted	750.7	771.6	(20.9)	(3)%

n/m Not meaningful

McDonald's Corporation
Supplemental Information (Unaudited)
Quarter Ended March 31, 2020

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SUPPLEMENTAL INFORMATION

The purpose of this exhibit is to provide additional information related to the results of McDonald's Corporation (the "Company") for the quarter ended March 31, 2020. This exhibit should be read in conjunction with Exhibit [99.1](#).

Prior to January 1, 2020, the Company presented both expenditures and receipts related to technology fees charged to franchisees and revenues related to certain licensing arrangements within Other operating (income) expense, net, because these activities were not part of the Company's ongoing major or central operations. Effective January 1, 2020, the Company is presenting the revenues and expenses related to these activities within Other revenues and Other restaurant expenses, respectively, in the Condensed Consolidated Statement of Income. The change in presentation was applied retrospectively to all periods presented and had no effect on Operating income, Net income, or Earnings per share.

Management reviews and analyzes business results excluding the effect of foreign currency translation, impairment and other strategic charges and gains, as well as income tax provision adjustments related to the Tax Cuts and Jobs Act of 2017 ("Tax Act"), and bases incentive compensation plans on these results, because the Company believes this better represents underlying business trends.

Impact of Foreign Currency Translation

While changes in foreign currency exchange rates affect reported results, McDonald's mitigates exposures, where practical, by purchasing goods and services in local currencies, financing in local currencies and hedging certain foreign-denominated cash flows. Results excluding the effect of foreign currency translation (also referred to as constant currency) are calculated by translating current year results at prior year average exchange rates.

IMPACT OF FOREIGN CURRENCY TRANSLATION

Dollars in millions, except per share data

			Currency Translation Benefit/ (Cost)
Quarters Ended March 31,	2020	2019	2020
Revenues	4,714.4	\$ 5,024.1	\$ (74.8)
Company-operated margins	273.0	354.3	(3.6)
Franchised margins	2,053.8	2,182.0	(35.2)
Selling, general & administrative expenses	589.8	499.1	3.8
Operating income	1,693.6	2,094.0	(36.3)
Net income	1,106.9	1,328.4	(12.8)
Earnings per share-diluted	\$ 1.47	\$ 1.72	\$ (0.02)

The negative impact of foreign currency translation on consolidated operating results for the quarter primarily reflected the weakening of the Australian Dollar and the Euro.

Net Income and Diluted Earnings per Share

For the quarter, net income decreased 17% (16% in constant currencies) to \$1,106.9 million, and diluted earnings per share decreased 15% (13% in constant currencies) to \$1.47. Foreign currency translation had a negative impact of \$0.02 on diluted earnings per share.

Results for the quarter reflected sales performance declines due to restaurant closures, limited operations and dramatic changes in consumer behavior as a result of COVID-19.

Diluted earnings per share benefited from a decrease in diluted weighted average shares outstanding due to share repurchases executed prior to the Company suspending its share repurchase program in early March in order to preserve financial flexibility. During the quarter, the Company repurchased 4.2 million shares of stock for \$868.9 million, and paid a quarterly dividend of \$1.25 per share, or \$930.7 million that was declared on January 23, 2020.

Revenues

The Company's revenues consist of sales by Company-operated restaurants and fees from restaurants operated by franchisees, developmental licensees and affiliates. Revenues from conventional franchised restaurants include rent and royalties based on a percent of sales with minimum rent payments, and initial fees. Revenues from restaurants licensed to developmental licensees and affiliates include a royalty based on a percent of sales, and generally include initial fees. The Company's Other revenues are comprised of fees paid by franchisees to recover a portion of costs incurred by the Company for various technology platforms, revenues from brand licensing arrangements to market and sell consumer packaged goods using the McDonald's brand, and third party revenues for the Dynamic Yield business.

Franchised restaurants represented 93% of McDonald's restaurants worldwide at March 31, 2020. The Company's heavily franchised business model is designed to generate stable and predictable revenue, which is largely a function of franchisee sales, and resulting cash flow streams. As most revenues are based on a percent of sales, the Company expects the ongoing restaurant closures, limited operations and dramatic changes in consumer behavior as a result of COVID-19 will continue to have a significant negative impact on revenue growth. The Company has granted the deferral of cash collection for certain rent and royalties earned from franchisees in substantially all markets. The extent of the deferrals is expected to differ in length by market. Although the Company may be deferring cash collection, revenue is continuing to be recognized as sales are incurred.

REVENUES

Dollars in millions

Quarters Ended March 31,	2020	2019	Inc/ (Dec)	Inc/ (Dec) Excluding Currency Translation
<i>Company-operated sales</i>				
U.S.	\$ 579.2	\$ 597.6	(3)%	(3)%
International Operated Markets	1,305.3	1,487.9	(12)	(11)
International Developmental Licensed Markets & Corporate	141.3	155.0	(9)	(3)
Total	\$ 2,025.8	\$ 2,240.5	(10)%	(8)%
<i>Franchised revenues</i>				
U.S.	\$ 1,250.7	\$ 1,248.6	0 %	0 %
International Operated Markets	1,074.0	1,175.1	(9)	(6)
International Developmental Licensed Markets & Corporate	283.3	291.4	(3)	1
Total	\$ 2,608.0	\$ 2,715.1	(4)%	(2)%
<i>Total Company-operated sales and Franchised revenues</i>				
U.S.	\$ 1,829.9	\$ 1,846.2	(1)%	(1)%
International Operated Markets	2,379.3	2,663.0	(11)	(9)
International Developmental Licensed Markets & Corporate	424.6	446.4	(5)	(1)
Total	\$ 4,633.8	\$ 4,955.6	(6)%	(5)%
Total Other revenues	\$ 80.6	\$ 68.5	18 %	19 %
Total Revenues	\$ 4,714.4	\$ 5,024.1	(6)%	(5)%

- Total Company-operated sales and franchised revenues decreased 6% (5% in constant currencies) for the quarter. The decrease primarily reflected sales performance declines as a result of COVID-19. Revenue declines for the quarter were more significant in the International Operated Markets segment, primarily driven by the temporary restaurant closures in the United Kingdom and France. In March, the Company's total revenue declines in the U.S. and International Operated Markets segments were in line with comparable sales declines.

Comparable Sales

Comparable sales is a key performance indicator used within the retail industry and is reviewed by management to assess business trends. Comparable sales exclude the impact of currency translation and sales from hyper-inflationary markets (currently, only Venezuela). Increases or decreases in comparable sales represent the percent change in constant currency sales from the same period in the prior year for all restaurants, whether operated by the Company or by franchisees, in operation at least thirteen months, including those temporarily closed (which includes restaurants temporarily closed due to COVID-19 in 2020). Comparable sales are driven by changes in guest counts and average check, the latter of which is affected by changes in pricing and product mix.

	Increase/(Decrease)			
	Two months ended February 29, 2020	Month ended March 31, 2020	Quarter ended March 31, 2020	Quarter ended March 31, 2019
U.S.	8.1%	(13.4)%	0.1 %	4.5%
International Operated Markets	8.5	(34.7)	(6.9)	6.0
International Developmental Licensed Markets & Corporate	3.7	(19.4)	(4.3)	6.0
Total	7.2%	(22.2)%	(3.4)%	5.4%

Systemwide Sales and Franchised Sales

The following tables present Systemwide sales growth rates and franchised sales. Systemwide sales include sales at all restaurants, whether operated by the Company or by franchisees. While franchised sales are not recorded as revenues by the Company, management believes the information is important in understanding the Company's financial performance, because these sales are the basis on which the Company calculates and records franchised revenues and are indicative of the financial health of the franchisee base.

SYSTEMWIDE SALES*

Quarter Ended March 31,	Inc/ (Dec)	Inc/ (Dec) Excluding Currency Translation
U.S.	0 %	0 %
International Operated Markets	(8)	(5)
International Developmental Licensed Markets & Corporate	(4)	(1)
Total	(4)%	(2)%

* Unlike comparable sales, the Company has not excluded hyper-inflationary market results (currently, only Venezuela) from Systemwide sales as these sales are the basis on which the Company calculates and records revenues.

FRANCHISED SALES

Dollars in millions

Quarters Ended March 31,	2020	2019	Inc/ (Dec)	Inc/ (Dec) Excluding Currency Translation
U.S.	\$ 8,873.7	\$ 8,850.4	0 %	0 %
International Operated Markets	6,192.7	6,664.8	(7)	(4)
International Developmental Licensed Markets & Corporate	5,447.0	5,695.3	(4)	(1)
Total	\$20,513.4	\$21,210.5	(3)%	(2)%
<i>Ownership type</i>				
Conventional franchised	\$14,986.4	\$15,466.0	(3)%	(2)%
Developmental licensed	3,228.0	3,322.8	(3)	2
Foreign affiliated	2,299.0	2,421.7	(5)	(5)
Total	\$20,513.4	\$21,210.5	(3)%	(2)%

Restaurant Margins

RESTAURANT MARGINS

Dollars in millions

Quarters Ended March 31,	Amount		Inc/ (Dec)	Inc/ (Dec) Excluding Currency Translation
	2020	2019		
<i>Franchised</i>				
U.S.	\$ 961.3	\$ 979.7	(2)%	(2)%
International Operated Markets	815.3	919.0	(11)	(9)
International Developmental Licensed Markets & Corporate	277.2	283.3	(2)	1
Total	\$ 2,053.8	\$ 2,182.0	(6)%	(4)%
<i>Company-operated</i>				
U.S.	80.5	83.3	(3)%	(3)%
International Operated Markets	197.7	269.0	(26)	(25)
International Developmental Licensed Markets & Corporate	n/m	n/m	n/m	n/m
Total	\$ 273.0	\$ 354.3	(23)%	(22)%
<i>Total restaurant margins</i>				
U.S.	\$ 1,041.8	\$ 1,063.0	(2)%	(2)%
International Operated Markets	\$ 1,013.0	\$ 1,188.0	(15)	(12)
International Developmental Licensed Markets & Corporate	n/m	n/m	n/m	n/m
Total	\$ 2,326.8	\$ 2,536.3	(8)%	(7)%

n/m Not meaningful

- Due to the nature of our operating model, franchised margin expenses (primarily comprised of lease expense and depreciation expense) are mainly fixed, whereas Company-operated restaurant expenses have more variable cost components. Total restaurant margin dollars included \$350.8 million of depreciation and amortization expense for the quarter.
- For the two months ended February 2020, total restaurant margin dollars increased \$142.5 million or 9% (10% in constant currencies) as a result of the strong sales performance at the beginning of the year. For the month of March, total restaurant margin dollars decreased \$352.0 million or 37% (35% in constant currencies), primarily due to the global decline in sales results, markedly beginning during the second half of March. Approximately two-thirds of this decrease was in the International Operated Markets segment due to the significant number of restaurants temporarily closed during the month.
- Total restaurant margin dollars decreased \$209.5 million or 8% (7% in constant currencies) for the quarter. The franchised margin dollar decrease also reflected higher depreciation costs related to investments in Experience of the Future in the U.S.

Selling, General & Administrative Expenses

- Selling, general and administrative expenses increased \$90.7 million or 18% (19% in constant currencies) for the quarter. These results reflected \$40 million of costs related to the cancellation of the 2020 Worldwide Owner/Operator Convention; approximately \$20 million of incremental costs related to contractual obligations as a result of a reduction in scope of certain investments in restaurant technology and research & development; and Dynamic Yield costs which were not included in the first quarter 2019.
- Selling, general and administrative expenses as a percent of Systemwide sales was 2.6% and 2.1% for the quarters ended 2020 and 2019, respectively.

Other Operating (Income) Expense, Net

OTHER OPERATING (INCOME) EXPENSE, NET

Dollars in millions

Quarters Ended March 31,	2020	2019
Gains on sales of restaurant businesses	\$ (2.5)	\$ (29.1)
Equity in earnings of unconsolidated affiliates	(14.7)	(35.1)
Asset dispositions and other (income) expense, net	74.4	22.3
Impairment and other charges (gains), net	1.3	0.3
Total	\$ 58.5	\$ (41.6)

- Gains on sales of restaurant businesses decreased for the quarter primarily due to fewer restaurant sales in the U.S.
- Equity in earnings of unconsolidated affiliates declined for the quarter primarily due to China as a result of COVID-19.
- Asset dispositions and other expense, net increased for the quarter primarily due to increases in reserves for bad debts and litigation settlements.
- Impairment and other charges, net for the quarter reflected \$14.4 million of costs related to the write-off of software no longer being used, mostly offset by \$13.0 million of income primarily comprised of a reversal of a reserve associated with the Company's sale of its business in the India Delhi market in January 2020.

Operating Income

OPERATING INCOME & OPERATING MARGIN

Dollars in millions

Quarters Ended March 31,	2020	2019	Inc/ (Dec)	Inc/ (Dec) Excluding Currency Translation
U.S.	\$ 892.4	\$ 951.9	(6)%	(6)%
International Operated Markets	879.1	1,048.0	(16)	(14)
International Developmental Licensed Markets & Corporate	(77.9)	94.1	n/m	n/m
Total	\$ 1,693.6	\$ 2,094.0	(19)%	(17)%
Operating margin	35.9%	41.7%		

n/m Not meaningful

- **Operating Income:** Operating income decreased \$400.4 million or 19% (17% in constant currencies) for the quarter, which primarily reflected sales performance declines as a result of COVID-19.
 - **U.S.:** The operating income decrease for the quarter also reflected lower gains on sales of restaurant businesses and an increase in a reserve for a litigation settlement.
 - **International Developmental Licensed Markets & Corporate:** The operating income decrease for the quarter was also affected by higher G&A spend and additional reserves for bad debts.
- **Operating Margin:** Operating margin is defined as operating income as a percent of total revenues. Operating margin was 35.9% and 41.7% for the quarters ended 2020 and 2019, respectively. The decrease in operating margin percent was driven by a decline in sales performance, higher other operating expenses and higher G&A spend.

Interest Expense

- Interest expense increased 2% (3% in constant currencies) for the quarter, reflecting higher average debt balances, partly offset by a decrease in the amount of Euro denominated deposits incurring interest expense as a result of the Company's cash management strategies.
- Based on current interest and foreign currency exchange rates, the Company expects interest expense for the full year 2020 to increase about 10% to 12% due primarily to higher average debt balances as a result of additional debt issuances in response to COVID-19.

Nonoperating (Income) Expense, Net

NONOPERATING (INCOME) EXPENSE, NET

Dollars in millions

Quarters Ended March 31,	2020	2019
Interest income	\$ (5.4)	\$ (10.0)
Foreign currency and hedging activity	(17.8)	(9.3)
Other expense, net	(8.1)	7.9
Total	\$ (31.3)	\$ (11.4)

Income Taxes

- The effective income tax rate was 23.4% and 27.5% for the quarters ended 2020 and 2019, respectively.
- Results in 2019 included \$47 million of additional income tax costs due to regulations issued in January 2019 related to the Tax Act.

Restaurant Information

SYSTEMWIDE RESTAURANTS

At March 31,	2020	2019	Inc/ (Dec)
U.S.	13,844	13,897	(53)
International Operated Markets			
Germany	1,480	1,489	(9)
Canada	1,480	1,472	8
France	1,484	1,464	20
United Kingdom	1,326	1,294	32
Australia	997	983	14
Russia	737	682	55
Italy	598	583	15
Spain	528	516	12
Other	1,842	1,790	52
Total International Operated Markets	10,472	10,273	199
International Developmental Licensed Markets & Corporate			
China	3,485	3,082	403
Japan	2,906	2,896	10
Brazil	1,025	968	57
Philippines	669	634	35
South Korea	407	414	(7)
Other	6,176 *	5,807	369
Total International Developmental Licensed Markets & Corporate	14,668	13,801	867
Systemwide restaurants	38,984	37,971	1,013
Countries	119	120	(1)

*Includes restaurants in India Delhi that were refranchised as part of the sale of the market.

SYSTEMWIDE RESTAURANTS BY TYPE

At March 31,	2020	2019	Inc/ (Dec)
U.S.			
Conventional franchised	13,183	13,224	(41)
Company-operated	661	673	(12)
Total U.S.	<u>13,844</u>	<u>13,897</u>	<u>(53)</u>
International Operated Markets			
Conventional franchised	8,547	8,316	231
Developmental licensed	249	226	23
Total Franchised	<u>8,796</u>	<u>8,542</u>	<u>254</u>
Company-operated	1,676	1,731	(55)
Total International Operated Markets	<u>10,472</u>	<u>10,273</u>	<u>199</u>
International Developmental Licensed Markets & Corporate			
Conventional franchised	108	122	(14)
Developmental licensed	7,429	7,136	293
Foreign affiliated	6,831 *	6,254	577
Total Franchised	<u>14,368</u>	<u>13,512</u>	<u>856</u>
Company-operated	300	289	11
Total International Developmental Licensed Markets & Corporate	<u>14,668</u>	<u>13,801</u>	<u>867</u>
Systemwide			
Conventional franchised	21,838	21,662	176
Developmental licensed	7,678	7,362	316
Foreign affiliated	6,831	6,254	577
Total Franchised	<u>36,347</u>	<u>35,278</u>	<u>1,069</u>
Company-operated	2,637	2,693	(56)
Total Systemwide	<u>38,984</u>	<u>37,971</u>	<u>1,013</u>

*Includes restaurants in India Delhi that were refranchised as part of the sale of the market.

Risk Factors and Cautionary Statement Regarding Forward-Looking Statements

The information in this report includes forward-looking statements about future events and circumstances and their effects upon revenues, expenses and business opportunities. Generally speaking, any statement in this report not based upon historical fact is a forward-looking statement. Forward-looking statements can also be identified by the use of forward-looking words, such as “may,” “will,” “expect,” “believe,” “anticipate” and “plan” or similar expressions. In particular, statements regarding our plans, strategies, prospects and expectations regarding our business and industry are forward-looking statements. They reflect our expectations, are not guarantees of performance and speak only as of the date of this report. Except as required by law, we do not undertake to update them. Our expectations (or the underlying assumptions) may change or not be realized, and you should not rely unduly on forward-looking statements. Our business results are subject to a variety of risks, including those that are reflected in the following considerations and risks, as well as elsewhere in our filings with the SEC. If any of these considerations or risks materialize, our expectations may change and our performance may be adversely affected.

The COVID-19 pandemic has adversely affected and could continue to adversely affect our financial results, condition and outlook.

Health epidemics or pandemics can adversely affect consumer spending and confidence levels and supply availability and costs, as well as the local operations in impacted markets, all of which can affect our financial results, condition and outlook. Importantly, the global pandemic resulting from the outbreak of COVID-19 has disrupted global health, economic and market conditions, consumer behavior and McDonald’s global restaurant operations beginning in early 2020. Local and national governmental mandates or recommendations and public perceptions of the risks associated with the COVID-19 pandemic have caused, and may continue to cause, consumer behavior to change and worsening economic conditions, which could continue to adversely affect our business. In addition, our global operations have been and may continue to be disrupted to varying degrees (from limited operations including Drive-thru, Delivery and/or Take-away operations, sometimes with limited hours, menus and/or capacity, to full restaurant closures in some markets). While we cannot predict the duration or scope of the COVID-19 pandemic, it has negatively impacted our business and such impact could be material to our financial results, condition and outlook.

The COVID-19 pandemic may also have the effect of heightening other risks disclosed in these Risk Factors, such as, but not limited to, those related to consumer behavior, consumer perceptions of our brand, supply chain interruptions and labor availability and cost.

If we do not successfully evolve and execute against our business strategies, including under the Velocity Growth Plan, we may not be able to increase operating income.

To drive operating income growth, our business strategies must be effective in maintaining and strengthening customer appeal, delivering sustainable guest count growth and driving a higher average check. Whether these strategies are successful depends mainly on our System’s ability to:

- Continue to innovate and differentiate the McDonald’s experience, including by preparing and serving our food in a way that balances value and convenience to our customers with profitability;
- Capitalize on our global scale, iconic brand and local market presence to enhance our ability to retain, regain and convert key customer groups;
- Utilize our organizational structure to build on our progress and execute against our business strategies;
- Integrate and augment our technology and digital initiatives, including mobile ordering and delivery;
- Identify and develop restaurant sites consistent with our plans for net growth of Systemwide restaurants;
- Operate restaurants with high service levels and optimal capacity while managing the increasing complexity of our restaurant operations, create efficiencies through innovative use of technology and complete Experience of the Future (“EOTF”), particularly in the U.S.; and
- Accelerate our existing strategies, including through growth opportunities, acquisitions, investments and partnerships.
- Evolve and adjust our business strategies in response to, among other things, changing consumer behavior, operational restrictions and impacts to our results of operations and liquidity as a result of the COVID-19 pandemic.

If we are delayed or unsuccessful in executing our strategies, or if our strategies do not yield the desired results, our business, financial condition and results of operations may suffer.

Our investments to enhance the customer experience, including through technology, may not generate the expected returns.

Our long-term business objectives depend on the successful Systemwide execution of our strategies. We continue to build upon our investments in technology and modernization, including in EOTF (which focuses on restaurant modernization), digital engagement and delivery, in order to transform the customer experience. As part of these investments, we are placing renewed emphasis on improving our service model and strengthening relationships with customers, in part through digital channels and loyalty initiatives, as well as mobile ordering and payment systems. We also continue to offer and refine our delivery initiatives, including through growing awareness and trial, and to enhance our drive-thru technologies, which may not generate expected returns. If these initiatives are not well executed, or if we do not fully realize the intended benefits of these significant investments, our business results may suffer.

If we do not anticipate and address evolving consumer preferences and effectively execute our pricing, promotional and marketing plans, our business could suffer.

Our continued success depends on our System's ability to retain, regain and convert customers. In order to do so, we need to anticipate and respond effectively to continuously shifting consumer demographics and trends in food sourcing, food preparation, food offerings and consumer preferences and behaviors in the "informal eating out" ("IEO") segment. If we are not able to predict, or quickly and effectively respond to, these changes, or our competitors predict or respond more effectively, our financial results could be adversely impacted.

Our ability to retain, regain and convert customers also depends on the impact of pricing, promotional and marketing plans across the System, and the ability to adjust these plans to respond quickly and effectively to evolving customer preferences, as well as shifting economic and competitive conditions. Existing or future pricing strategies, marketing plans, and the value proposition they represent, are expected to continue to be important components of our business strategy; however, they may not be successful in retaining, regaining and converting customers, or may not be as successful as the efforts of our competitors, and could negatively impact sales, guest counts and market share.

Additionally, we operate in a complex and costly advertising environment. Our marketing and advertising programs may not be successful in retaining, regaining and converting customers. Our success depends in part on whether the allocation of our advertising and marketing resources across different channels, including digital marketing, allows us to reach our customers effectively and efficiently, and in ways that are meaningful to them. If the advertising and marketing programs are not successful, or are not as successful as those of our competitors, our sales, guest counts and market share could decrease.

Failure to preserve the value and relevance of our brand could have an adverse impact on our financial results.

To be successful in the future, we believe we must preserve, enhance and leverage the value of our brand. Brand value is based in part on consumer perceptions. Those perceptions are affected by a variety of factors, including the nutritional content and preparation of our food, the ingredients we use, the manner in which we source commodities and our general business practices. Consumer acceptance of our offerings is subject to change for a variety of reasons, and some changes can occur rapidly. For example, nutritional, health, environmental and other scientific studies and conclusions, which constantly evolve and may have contradictory implications, drive popular opinion, litigation and regulation (including initiatives intended to drive consumer behavior) in ways that affect the IEO segment or perceptions of our brand, generally or relative to available alternatives. Consumer perceptions may also be affected by adverse commentary from third parties, including through social media or conventional media outlets, regarding the quick-service category of the IEO segment, our brand, our operations, our suppliers, or our franchisees. If we are unsuccessful in addressing adverse commentary or perceptions, whether or not accurate, our brand and our financial results may suffer.

Additionally, the ongoing relevance of our brand may depend on the success of our sustainability initiatives, which require Systemwide coordination and alignment. We are working to manage any risks and costs to us, our franchisees and our supply chain of any effects of climate change, greenhouse gases, and diminishing energy and water resources. These risks include any increased public focus, including by governmental and nongovernmental organizations, on these and other environmental sustainability matters, such as packaging and waste, animal health and welfare, deforestation and land use. These risks also include any increased pressure to make commitments, set targets or establish additional goals and take actions to meet them. These risks could expose us to market, operational and execution costs or risks.

If we are not effective in addressing social and environmental responsibility matters or achieving relevant sustainability goals, consumer trust in our brand may suffer. In particular, business incidents or practices, whether actual or perceived, that erode consumer trust or confidence, particularly if such incidents or practices receive considerable publicity or result in litigation, can significantly reduce brand value and have a negative impact on our financial results.

We face intense competition in our markets, which could hurt our business.

We compete primarily in the IEO segment, which is highly competitive. We also face sustained, intense competition from traditional, fast casual and other competitors, which may include many non-traditional market participants such as convenience stores, grocery stores and coffee shops. We expect our environment to continue to be highly competitive, and our results in any particular reporting period may be impacted by a contracting IEO segment or by new or continuing actions or product offerings of our competitors, which may have a short- or long-term impact on our results.

We compete on the basis of product choice, quality, affordability, service and location. In particular, we believe our ability to compete successfully in the current market environment depends on our ability to improve existing products, successfully develop and introduce new products, price our products appropriately, deliver a relevant customer experience, manage the complexity of our restaurant operations, manage our investments in technology and modernization, and respond effectively to our competitors' actions or offerings or to unforeseen disruptive actions. There can be no assurance these strategies will be effective, and some strategies may be effective at improving some metrics while adversely affecting other metrics, which could have the overall effect of harming our business.

Unfavorable general economic conditions could adversely affect our business and financial results.

Our results of operations are substantially affected by economic conditions, which can vary significantly by market and can impact consumer disposable income levels and spending habits. Economic conditions can also be impacted by a variety of factors including hostilities, epidemics, pandemics and actions taken by governments to manage national and international economic matters, whether through austerity, stimulus measures or trade measures, and initiatives intended to control wages, unemployment, credit availability, inflation, taxation and other economic drivers. Sustained adverse economic conditions or periodic adverse changes in economic conditions in our markets could pressure our operating performance and our business continuity disruption planning, and our business and financial results may suffer.

Our results of operations are also affected by fluctuations in currency exchange rates and unfavorable currency fluctuations could adversely affect reported earnings.

Supply chain interruptions may increase costs or reduce revenues.

We depend on the effectiveness of our supply chain management to assure reliable and sufficient supply of quality products on favorable terms. Although many of the products we sell are sourced from a wide variety of suppliers in countries around the world, certain products have limited suppliers, which may increase our reliance on those suppliers. Supply chain interruptions, including shortages and transportation issues, and price increases can adversely affect us as well as our suppliers and franchisees, whose performance may have a significant impact on our results. Such shortages or disruptions could be caused by factors beyond the control of our suppliers, franchisees or us. If we experience interruptions in our System's supply chain, our costs could increase and it could limit the availability of products critical to our System's operations.

Food safety concerns may have an adverse effect on our business.

Our ability to increase sales and profits depends on our System's ability to meet expectations for safe food and on our ability to manage the potential impact on McDonald's of food-borne illnesses and food or product safety issues that may arise in the future, including in the supply chain, restaurants or delivery. Food safety is a top priority, and we dedicate substantial resources to ensure that our customers enjoy safe food products, including as our menu and service model evolve. However, food safety events, including instances of food-borne illness, occur within the food industry and our System from time to time and could occur in the future. Instances of food tampering, food contamination or food-borne illness, whether actual or perceived, could adversely affect our brand and reputation as well as our revenues and profits.

Our franchise business model presents a number of risks.

The Company's success as a heavily franchised business relies to a large degree on the financial success and cooperation of our franchisees, including our developmental licensees and affiliates. Our restaurant margins arise from two sources: fees from franchised restaurants (e.g., rent and royalties based on a percentage of sales) and, to a lesser degree, sales from Company-operated restaurants. Our franchisees and developmental licensees manage their businesses independently, and therefore are responsible for the day-to-day operation of their restaurants. The revenues we realize from franchised restaurants are largely dependent on the ability of our franchisees to grow their sales. Business risks affecting our operations also affect our franchisees. In particular, our franchisees have also been significantly impacted by the COVID-19 pandemic, and the Company has granted the deferral of cash collection for certain rent and royalties earned from franchisees in substantially all markets. The length and terms of such deferrals will vary by market. If franchisee sales trends continue to worsen, our financial results will continue to be negatively affected, which may be material.

Our success also relies on the willingness and ability of our independent franchisees and affiliates to implement major initiatives, which may include financial investment, and to remain aligned with us on operating, value/promotional and capital-intensive reinvestment plans. The ability of franchisees to contribute to the achievement of our plans is dependent in large part on the availability to them of funding at reasonable interest rates and may be negatively impacted by the financial markets in general, by the creditworthiness of our franchisees or the Company or by banks' lending practices. If our franchisees are unwilling or unable to invest in major initiatives or are unable to obtain financing at commercially reasonable rates, or at all, our future growth and results of operations could be adversely affected.

Our operating performance could also be negatively affected if our franchisees experience food safety or other operational problems or project an image inconsistent with our brand and values, particularly if our contractual and other rights and remedies are limited, costly to exercise or subjected to litigation and potential delays. If franchisees do not successfully operate restaurants in a manner consistent with our required standards, our brand's image and reputation could be harmed, which in turn could hurt our business and operating results.

Our ownership mix also affects our results and financial condition. The decision to own restaurants or to operate under franchise or license agreements is driven by many factors whose interrelationship is complex. The benefits of our more heavily franchised structure depend on various factors including whether we have effectively selected franchisees, licensees and/or affiliates that meet our rigorous standards, whether we are able to successfully integrate them into our structure and whether their performance and the resulting ownership mix supports our brand and financial objectives.

Challenges with respect to talent management could harm our business.

Effective succession planning is important to our long-term success. The Board named Christopher Kempczinski as President and Chief Executive Officer and named Joseph Erlinger as President, McDonald's USA, effective as of November 1, 2019. In addition, on December 6, 2019, the Board named Ian Borden as President, International, effective that same day. Failure to effectively identify, develop and retain key personnel, recruit high-quality candidates and ensure smooth management and personnel transitions, including the recent leadership transitions, could disrupt our business and adversely affect our results.

Challenges with respect to labor, including availability and cost, could impact our business and results of operations.

Our success depends in part on our System's ability to proactively recruit, motivate and retain qualified individuals to work in McDonald's restaurants and to maintain appropriately-staffed restaurants in an intensely competitive environment. Increased costs associated with recruiting, motivating and retaining qualified employees to work in our Company-operated restaurants, as well as costs to promote awareness of the opportunities of working at McDonald's restaurants, could have a negative impact on our Company-operated margins. Similar concerns apply to our franchisees.

We are also impacted by the costs and other effects of compliance with U.S. and international regulations affecting our workforce, which includes our staff and employees working in our Company-operated restaurants. These regulations are increasingly focused on employment issues, including wage and hour, healthcare, immigration, retirement and other employee benefits and workplace practices. Claims of non-compliance with these regulations could result in liability and expense to us. Our potential exposure to reputational and other harm regarding our workplace practices or conditions or those of our independent franchisees or suppliers, including those giving rise to claims of sexual harassment or discrimination (or perceptions thereof) could have a negative impact on consumer perceptions of us and our business. Additionally, economic action, such as boycotts, protests, work stoppages or campaigns by labor organizations, could adversely affect us (including our ability to recruit and retain talent) or the franchisees and suppliers that are also part of the McDonald's System and whose performance may have a material impact on our results.

Information technology system failures or interruptions, or breaches of network security, may impact our operations or cause reputational harm.

We are increasingly reliant upon technology systems, such as point-of-sale, technologies supporting McDonald's digital and delivery solutions, and technologies that facilitate communication and collaboration with affiliated entities, customers, employees, franchisees, suppliers, service providers or other independent third parties to conduct our business, whether developed and maintained by us or provided by third parties. Any failure or interruption of these systems could significantly impact our franchisees' operations, or our customers' experience and perceptions. Additionally, we provide certain technology systems to businesses that are unaffiliated with the McDonald's System and a failure, interruption or breach of these systems may cause harm to those unaffiliated parties, which may result in liability to the Company or reputational harm.

Despite the implementation of security measures, those technology systems could become vulnerable to damage, disability or failures due to theft, fire, power loss, telecommunications failure or other catastrophic events. Certain technology systems may also become vulnerable, unreliable or inefficient in cases where technology vendors limit or terminate product support and maintenance. Our increasing reliance on third party systems also present the risks faced by the third party's business, including the operational, security and credit risks of those parties. If those systems were to fail or otherwise be unavailable, and we were unable to recover in a timely manner, we could experience an interruption in our or our franchisees' operations.

Furthermore, security incidents or breaches have from time to time occurred and may in the future occur involving our systems, the systems of the parties we communicate or collaborate with (including franchisees), or those of third party providers. These may include such things as unauthorized access, phishing attacks, account takeovers, denial of service, computer viruses, introduction of malware or ransomware and other disruptive problems caused by hackers. Our technology systems contain personal, financial and other information that is entrusted to us by our customers, our employees, our franchisees, our business customers and other third parties, as well as financial, proprietary and other confidential information related to our business. An actual or alleged security breach could result in disruptions, shutdowns, theft or unauthorized disclosure of personal, financial, proprietary or other confidential information. The occurrence of any of these incidents could result in reputational damage, adverse publicity, loss of consumer confidence, reduced sales and profits, complications in executing our growth initiatives and regulatory and legal risk, including criminal penalties or civil liabilities.

If we fail to comply with privacy and data collection laws, we could be subject to penalties, which could negatively affect our financial results or brand perceptions.

We are subject to legal and compliance risks and associated liability related to privacy and data collection, protection and management, as it relates to information associated with our technology-related services and platforms made available to business partners, customers, employees, franchisees or other third parties. For example, the General Data Protection Regulation (“GDPR”) requires entities processing the personal data of individuals in the European Union to meet certain requirements regarding the handling of that data. We are also subject to U.S. federal and state and foreign laws and regulations in this area. These regulations have been subject to frequent change, and there may be markets or jurisdictions that propose or enact new or emerging data privacy requirements in the future. Failure to meet GDPR or other data privacy requirements could result in substantial penalties and materially adversely impact our financial results or brand perceptions.

The global scope of our business subjects us to risks that could negatively affect our business.

We encounter differing cultural, regulatory, geopolitical and economic environments within and among the more than 100 countries where McDonald’s restaurants operate, and our ability to achieve our business objectives depends on the System’s success in these environments. Meeting customer expectations is complicated by the risks inherent in our global operating environment, and our global success is partially dependent on our System’s ability to leverage operating successes across markets and brand perceptions. Planned initiatives may not have appeal across multiple markets with McDonald’s customers and could drive unanticipated changes in customer perceptions and guest counts.

Disruptions in operations or price volatility in a market can also result from governmental actions, such as price, foreign exchange or changes in trade-related tariffs or controls, sanctions and counter sanctions, government-mandated closure of our, our franchisees’ or our suppliers’ operations, and asset seizures. Trade policies, tariffs and other regulations affecting trade between the U.S. and other countries could adversely affect our business and operations. These and other government actions may impact our results and could cause reputational or other harm. Our international success depends in part on the effectiveness of our strategies and brand-building initiatives to reduce our exposure to such governmental actions.

Additionally, challenges and uncertainties are associated with operating in developing markets, which may entail a relatively higher risk of political instability, economic volatility, crime, corruption and social and ethnic unrest. Such challenges may be exacerbated in many cases by a lack of an independent and experienced judiciary and uncertainties in how local law is applied and enforced, including in areas most relevant to commercial transactions and foreign investment. An inability to manage effectively the risks associated with our international operations could have a material adverse effect on our business and financial condition.

We may also face challenges and uncertainties in developed markets. For example, as a result of the U.K.’s decision to leave the European Union and the ongoing transition period, it is possible that there will be increased regulatory complexities and uncertainty in European or worldwide economic conditions. The decision created volatility in certain foreign currency exchange rates that may or may not continue, and may result in increased supply chain costs for items that are imported from other countries. Any of these effects, and others we cannot anticipate, could adversely affect our business, results of operations, financial condition and cash flows.

If we do not effectively manage our real estate portfolio, our operating results may be negatively impacted.

We have significant real estate operations, primarily in connection with our restaurant business. We generally own or secure a long-term lease on the land and building for conventional franchised and Company-operated restaurant sites. We seek to identify and develop restaurant locations that offer convenience to customers and long-term sales and profit potential. As we generally secure long-term real estate interests for our restaurants, we have limited flexibility to quickly alter our real estate portfolio. The competitive business landscape continues to evolve in light of changing business trends, consumer preferences, trade area demographics, consumer use of digital and delivery, local competitive positions and other economic factors. If our restaurants are not located in desirable locations, or if we do not evolve in response to these factors, it could adversely affect Systemwide sales and profitability.

Our real estate values and the costs associated with our real estate operations are also impacted by a variety of other factors, including governmental regulations; insurance; zoning, tax and eminent domain laws; interest rate levels and the cost of financing. A significant change in real estate values, or an increase in costs as a result of any of these factors, could adversely affect our operating results.

Changes in tax laws and unanticipated tax liabilities could adversely affect the taxes we pay and our profitability.

We are subject to income and other taxes in the U.S. and foreign jurisdictions, and our operations, plans and results are affected by tax and other initiatives around the world. In particular, we are affected by the impact of changes to tax laws or policy or related authoritative interpretations. We are also impacted by settlements of pending or any future adjustments proposed by taxing and governmental authorities inside and outside of the U.S. in connection with our tax audits, all of which will depend on their timing, nature and scope. Any significant increases in income tax rates, changes in income tax laws or unfavorable resolution of tax matters could have a material adverse impact on our financial results.

Changes in commodity and other operating costs could adversely affect our results of operations.

The profitability of our Company-operated restaurants depends in part on our ability to anticipate and react to changes in commodity costs, including food, paper, supplies, fuel, utilities and distribution, and other operating costs, including labor. Any volatility in certain commodity prices or fluctuation in labor costs could adversely affect our operating results by impacting restaurant profitability. The commodity markets for some of the ingredients we use, such as beef and chicken, are particularly volatile due to factors such as seasonal shifts, climate conditions, industry demand, international commodity markets, food safety concerns, product recalls and government regulation, all of which are beyond our control and, in many instances, unpredictable. We can only partially address future price risk through hedging and other activities, and therefore increases in commodity costs could have an adverse impact on our profitability.

Increasing regulatory and legal complexity may adversely affect our business and financial results.

Our regulatory and legal environment worldwide exposes us to complex compliance, litigation and similar risks that could affect our operations and results in material ways. Many of our markets are subject to increasing, conflicting and highly prescriptive regulations involving, among other matters, product packaging, marketing, the nutritional and allergen content and safety of our food and other products, labeling and other disclosure practices. Compliance efforts with those regulations may be affected by ordinary variations in food preparation among our own restaurants and the need to rely on the accuracy and completeness of information from third-party suppliers. Our success depends in part on our ability to manage the impact of regulations that can affect our business plans and operations, and have increased our costs of doing business and exposure to litigation, governmental investigations or other proceedings.

We are also subject to legal proceedings that may adversely affect our business, including class actions, administrative proceedings, government investigations and proceedings, shareholder proceedings, employment and personal injury claims, landlord/tenant disputes, supplier related disputes, and claims by current or former franchisees. Regardless of whether claims against us are valid or whether we are found to be liable, claims may be expensive to defend and may divert management's attention away from operations.

Litigation and regulatory action concerning our relationship with franchisees and the legal distinction between our franchisees and us for employment law purposes, if determined adversely, could increase costs, negatively impact our business operations and the business prospects of our franchisees and subject us to incremental liability for their actions. Similarly, although our commercial relationships with our suppliers remain independent, there may be attempts to challenge that independence, which, if determined adversely, could also increase costs, negatively impact the business prospects of our suppliers, and subject us to incremental liability for their actions.

Our results could also be affected by the following:

- The relative level of our defense costs, which vary from period to period depending on the number, nature and procedural status of pending proceedings;
- The cost and other effects of settlements, judgments or consent decrees, which may require us to make disclosures or take other actions that may affect perceptions of our brand and products; and
- Adverse results of pending or future litigation, including litigation challenging the composition and preparation of our products, or the appropriateness or accuracy of our marketing or other communication practices.

A judgment significantly in excess of any applicable insurance coverage or third party indemnity could materially adversely affect our financial condition or results of operations. Further, adverse publicity resulting from claims may hurt our business. If we are unable to effectively manage the risks associated with our complex regulatory and legal environment, it could have a material adverse effect on our business and financial condition.

We may not be able to adequately protect our intellectual property or adequately ensure that we are not infringing the intellectual property of others, which could harm the value of the McDonald's brand and our business.

The success of our business depends on our continued ability to use our existing trademarks and service marks in order to increase brand awareness and further develop our branded products in both domestic and international markets. We rely on a combination of trademarks, copyrights, service marks, trade secrets, patents and other intellectual property rights to protect our brand and branded products.

We have registered certain trademarks and have other trademark registrations pending in the U.S. and certain foreign jurisdictions. The trademarks that we currently use have not been registered in all of the countries outside of the U.S. in which we do business or may do business in the future and may never be registered in all of these countries. It may be costly and time consuming to protect our intellectual property, and the steps we have taken to protect our intellectual property in the U.S. and foreign countries may not be adequate. In addition, the steps we have taken may not adequately ensure that we do not infringe the intellectual property of others, and third parties may claim infringement by us in the future. In particular, we may be involved in intellectual property claims, including often aggressive or opportunistic attempts to enforce patents used in information technology systems, which might affect our operations and results. Any claim of infringement, whether or not it has merit, could be time-consuming, result in costly litigation and harm our business.

We cannot ensure that franchisees and other third parties who hold licenses to our intellectual property will not take actions that hurt the value of our intellectual property.

Changes in accounting standards or the recognition of impairment or other charges may adversely affect our future operations and results.

New accounting standards or changes in financial reporting requirements, accounting principles or practices, including with respect to our critical accounting estimates, could adversely affect our future results. We may also be affected by the nature and timing of decisions about underperforming markets or assets, including decisions that result in impairment or other charges that reduce our earnings. In assessing the recoverability of our long-lived assets, we consider changes in economic conditions and make assumptions regarding estimated future cash flows and other factors. These estimates are highly subjective and can be significantly impacted by many factors such as global and local business and economic conditions, operating costs, inflation, competition, consumer and demographic trends, and our restructuring activities. If our estimates or underlying assumptions change in the future, we may be required to record impairment charges. If we experience any such changes, they could have a significant adverse effect on our reported results for the affected periods.

A decrease in our credit ratings or an increase in our funding costs could adversely affect our profitability.

Our credit ratings may be negatively affected by our results of operations or changes in our debt levels. As a result, our interest expense, the availability of acceptable counterparties, our ability to obtain funding on favorable terms, collateral requirements and our operating or financial flexibility could all be negatively affected, especially if lenders impose new operating or financial covenants.

Our operations may also be impacted by regulations affecting capital flows, financial markets or financial institutions, which can limit our ability to manage and deploy our liquidity or increase our funding costs. If any of these events were to occur, they could have a material adverse effect on our business and financial condition.

Trading volatility and the price of our common stock may be adversely affected by many factors.

Many factors affect the volatility and price of our common stock in addition to our operating results and prospects. The most important of these factors, some of which are outside our control, are the following:

- The unpredictable nature of global economic and market conditions;
- Governmental action or inaction in light of key indicators of economic activity or events that can significantly influence financial markets, particularly in the U.S., which is the principal trading market for our common stock, and media reports and commentary about economic, trade or other matters, even when the matter in question does not directly relate to our business;
- Trading activity in our common stock or trading activity in derivative instruments with respect to our common stock or debt securities, which can be affected by market commentary (including commentary that may be unreliable or incomplete); unauthorized disclosures about our performance, plans or expectations about our business; our actual performance and creditworthiness; investor confidence, driven in part by expectations about our performance; actions by shareholders and others seeking to influence our business strategies; portfolio transactions in our stock by significant shareholders; or trading activity that results from the ordinary course rebalancing of stock indices in which McDonald's may be included, such as the S&P 500 Index and the Dow Jones Industrial Average;
- The impact of our stock repurchase program or dividend rate; and
- The impact on our results of corporate actions and market and third-party perceptions and assessments of such actions, such as those we may take from time to time as we implement our strategies, including through acquisitions, in light of changing business, legal and tax considerations and evolve our corporate structure.

Events such as severe weather conditions, natural disasters, hostilities and social unrest, among others, can adversely affect our results and prospects.

Severe weather conditions, natural disasters, hostilities and social unrest, any shifting climate patterns or terrorist activities (or expectations about them) can adversely affect consumer spending and confidence levels and supply availability and costs, as well as the local operations in impacted markets, all of which can affect our results and prospects. Our receipt of proceeds under any insurance we maintain with respect to some of these risks may be delayed or the proceeds may be insufficient to cover our losses fully.