McDonaldsCorporation
May 30, 2018
08:00 PM EST

Sara Senatore: Thank you all for joining us. The clock is going so I'm going to get right to this because I know we have a lot of ground to cover. I'm Sara Senatore, Bernstein's restaurant analyst. So again, thank you all in the audience for attending bright and early. But a special thank you to our presenters. Today we have to my immediate left, McDonald's CEO and President, Steve Easterbrook. Good morning, thanks for being here. And to his left, CFO and Executive Vice President Kevin Ozan. We also have in the audience from McDonald's IR team, Mike Flores and Mike Cieplak. So we have a lot of people who can answer questions during the presentation, after, throughout the day.

Everyone should have Q&A cards on their sheet, so please write down any questions you have for Steve and Kevin so we can get as many of them answered as possible in the next 48 minutes. I'm going to start with a few words of introduction about McDonald's, Steve, Kevin, and then we're going to just jump right into some Q&A.

I was still a little sheepish giving introduction to McDonald's because it is such a global iconic brand, but for those of you who don't know, because you are living in a cave or something, McDonald's has over 37,000 restaurants, both franchised and company-operated, which serve geographically wells and food at a compelling food in 120 countries. The mission that McDonald's has is to be a customer's favorite place and way to eat and drink. And McDonald's focuses on the 5 Ps, People, Product, Place, Price and Promotion, to do this. Again, I referenced an iconic brand, we all know their iconic menu items, a unique franchise model that I think is more focused than many on local entrepreneurs, and of course size and scale with which really nobody else can compete.

So I think in the past 3 years, we've seen this focus translate into consistently strong, global performance in terms of same store sales and earnings growth, and that is a trend that really began under the leadership of my guests on stage. Again, Steve has been President and CEO Of McDonald's since early 2015, but he has actually been with McDonald's since 1993 when we joined as a financial reporting manager and has held numerous leadership roles there including CEO of McDonald's UK which I think has been a real shining star in the system for a very long time, was President of McDonald's Europe and Global Chief Brand Officer. He also spent a few years leading 2 UK based restaurant chains, Pizza Express and Welcome Mama.

And then Kevin has served as Chief Financial Officer since 2015 and is responsible for all of McDonald's financial matters. He was previously corporate controller and held senior positions in the company's finance, IR and accounting departments. Prior to that, Kevin worked in Ernst & Young. So we have a great deal of institutional knowledge and experience here on the dais and so I hope to take full advantage of that with your help and your questions.

So let me start by asking you sort of a state of the business question. Again, everybody is familiar with McDonald's, but I guess what's top of mind for you right now? And maybe talk about some of the successes you've had and what opportunities and challenges you're focused on going forward.

Steve Easterbrook: Good morning, everyone. As you say, Kevin and I have been doing what we've been doing now for just over 3 years. I suppose our first, the best part of the first 2 years of that was recognizing the fact that the business was challenged in a number of different ways when we inherited our positions. We had probably the majority of our more significant, mature markets were in decline. Which when you consolidate that out, meant all of our businesses had been declining for 2 or 3 years. It's actually more than that. Customers were finding us less interesting than they used to. So the competitive landscape was changing and we really hadn't evolved at the pace that customers were expecting us to. And investors weren't too excited about how things were going, our employees, our suppliers, our owner-operators. The business was in need of some form of energizing. So we constructed a turnaround plan. Pretty simple, pretty Straightforward, getting to the nuts and bolts of us running better restaurants, getting our markets back into growth, getting our owner-operators excited, getting our leadership teams inspired.

I guess to cut that long story short, really through -- we managed to get some momentum back in the business later in 2015 and that ran through 2016. Then as we entered the second half of 2016, probably by about the fourth quarter of 2016, a smaller group of us then broke to dedicate our time to get the turnaround to manage to get traction, what's next, which is kind of just building a more sustaining, long term growth plan. Which on the 1st of March 2017, so we're about 2 years in now, we were able to launch what we call our velocity growth plan. And we felt it had a compelling combination of meaningful customer facing, modernizing the experience, the menu, how we engage with customers. Then also we layered what we call accelerators, 3 accelerators on top. So the fundamentals of our growth plan was around retaining customers we have today, regaining customers who visit less often, and converting casual customers into more committed customers. So that fundamental plan we felt had strength and was robust and was grounded in kind of a real deep consumer insight that we pulled together.

And we wanted to then build the momentum on top of that really through 3 further accelerators that really meant we were aggressively evolving our business on the customers' agenda. One is around digital clearly, technology and how customers and people generally are living their lives these days. One was around home delivery. And the third area we wanted to accelerate was, in particular in the US, we felt we had a very urgent need to modernize our estate. As our flagship market, as the mother country of the brand McDonald's, we'd allowed ourselves to get a little bit behind of where we wanted to be in terms of just the physical real estate, but also employer reputation, having finer energy through the menu, but also just engaging the customers in a much more meaningful way. So we've accelerated what we call our Experience of the Future.

So that was 1st of March. We're now 4, 5 quarters later. We're feeling good about how the plan is getting traction. We're fortunate enough we've had 11 quarters of consecutive top line growth now, so there is some robustness back into our business which I think we feel good about. And we believe there's plenty of legs left in the plan. We're still at the early stages of really executing against that plan that we built a year ago.

Sara Senatore: You mentioned consumer insight, which I think is something that McDonald's has been known for, just the sort of breadth of the data and ability to analyze it. We talked a little sort of big picture, let's talk about what consumers want now. And we can focus on the US because I know one of the things that you've talked about is getting that traffic back in the stores. So what are consumers looking for? What are the insights you've sort of culled from your data? And how are you addressing that such that you can get that traffic in this home market turned positive?

Steve Easterbrook: Consumers are ever more demanding. They've got a broader range of options at their disposal, both within our sector, but actually their experience across life in the consumer field is rapidly changing as well. Clearly fundamentally, food is at the heart of everything we do. So they were, because they are increasingly interested in what they eat, how they eat, how does it get here, what's in it, how is it prepared, clearly there is plenty that we have done and will continue to do right through the heart of our menu. And really on our core menu as well. Whether it's moving to cage free eggs or whether it's taking preservatives out of chicken nuggets, or whether it's taking antibiotics out of our poultry supply chain, there's lots of things we can do that customers hugely value. If we can continue to offer great value food, but still have some of those aspirational elements that we can offer them at affordable prices, they reward us with their loyalty and appreciation.

But then you can look at the other aspects of a business like ours where probably 10, 15 years ago we would have been considered one of the ultimate convenience businesses. 14,000 restaurants here in the US, a lot of long trading hours, many 24-hour, and affordable. And that makes you very accessible, very convenient. But that consumer landscape changes with the arrivals of the Amazons and the Ubers and people's definition of convenience changes. And suddenly, our somewhat historic business model is looking a little tired. Even up until 2, 3 years ago I'd say the only ways that customers would experience McDonald's would be they'd either walk into the restaurant, go up to our fun counter, line up and then take your food away and find yourself somewhere to sit or grab and go, or else you'd go through a drive-thru. In the last 2 or 3 years, we have offered 4 or 5 further different service options for customers, whether it's through mobile order/pay, whether it's through home delivery, whether it was self-order kiosks now in the modernized restaurants, that you can then get more enhanced hospitality and have table service within the restaurant. So suddenly customers have choice and that's what they're looking for. They're looking for choice, convenience and a bit of fun. And we kind of play on all those measures.

Sara Senatore: One of the things you mentioned as sort of what I would call table stakes was great value food. And so maybe we can talk a little bit about that idea of value. Just in the context of what remains I think a very value focused consumer and maybe very specifically about the value paradigm you have out now, the $1 $2 $3 Dollar Menu, how customers are responding?

Kevin Ozan: Sure. So we've put in what we call $1 $2 $3 Dollar Menu beginning January 1 this year. What we like about it is, to me the construct, the framework of that menu. Because we had tabbed dollar menu for about 10 years or so, beginning in 2002, 2003. And at some point, when you've tied all your products to $1, it's going to be a challenge sooner or later, because all the price we could take was only on the other items, and it increased the gap between the $1 menu and the rest of our menu. Now with the $1 $2 $3 Dollar Menu, it gives you some flexibility because you've got products at 3 different price points. But what consumers like about is you have an everyday predictable menu that they know they can go in and get some products for $1, $2 or $3.

As time goes on, we're able though to still evolve by either adding some products or taking some products off without I'll say deteriorating that whole framework. So to me, it's a longer lasting platform. We think of it as a platform. It's not a promotion that's going to last for a few months or anything like that. What we've seen is, it's taking customers a little bit of time to get used to the new platform. But as they do, customer awareness is high of the menu. There are some specific items that I think we can increase awareness of, but they are aware of the menu, they like the construct of the menu, and they are using it in various different ways. So some people create their own meal out of the 1-2-3 menu, some people order a meal outside of the 1-2-3 menu and then add on. What's been interesting is, people who use the 1-2-3 menu, the average check for those transactions is higher than actually the people who don't use the 1-2-3 menu. So it hasn't been a deterioration at all of average check while we've still been able to have a consistent value platform.

Sara Senatore: I think that's a really interesting insight and it suggests some of which I think you've talked about, is you're getting customers, a low of whom are attaching menu items. To the extent that you are looking to bring people in for strictly that value traffic, are you seeing similar success? Is that where when you talk about maybe highlighting some price points and really strong value, is that who you're trying to speak to, to the extent that you refine the message or change it?

Steve Easterbrook: I would say our experience wide around the world, no matter which market you want to take a look at, you will never get long term sustained growth unless you have a compelling value platform. That is absolutely part of the green fees for having that strong consumer base. As you mentioned in your introduction, we've been very publicly stating our desire to serve more customers more often. Of course, if you think of the average check growth of that, then the sales come with that and the rest of the profitability. But what we're finding at the moment is that certainly on the $1 $2 $3 Dollar Menu, if you take a look at either the number of units that we're selling per week versus what we projected, or how much of our overall sales mix that builds, it's pretty much where we had expected it to be, where we'd anticipated it to be.

There are other areas of the business where we want to get stronger growth, but I think as a platform -- because you don't want to over dominate either. And that was the issue that ultimately happened with the $1 Menu was it almost over indexed its importance within our overall sales mix. And as Kevin said, that becomes a bit of a challenge when you get cost inflation and you want to have more flexibility on pricing, pricing elasticity as well. We're only 5 months in to this new program. We're not doing this for a 1 or 2 quarter hit, this is a really solid, robust framework. And as Kevin said, we can switch one or two items out, either around seasonality, we've got breakfast products on the main menu, have desserts, have beverages on there. So we feel that it's pretty much delivering what we had hoped it would do at this point. That said, we want to get guest count growth and we haven't seen that in the US through the first quarter this year. But our team is pretty attentive to decomposing our kind of business metrics and understanding exactly where that is and what we're going to do about it.

Sara Senatore: You mentioned there are other parts of the business that maybe aren't to where you had projected or expected. So let's talk about that if we can. I know in fact a little bit about the morning daypart, but I'm not sure if there are other things as well that you're really, as you said, very intently focused on as a team.

Steve Easterbrook: Yeah. You jump in, Kevin, but there's some -- our US business, and again, this is a US conversation, we're getting some incredibly strong growth around the world at the moment which we welcome it to come on too as well in Asia. But the US team, along with the owner-operators, has constructed what their version of the velocity growth plan, they call it Bigger, Bolder Vision. And it is a 3 to 4-year very aggressive, very ambitious plan which is having us co-invest together, but it's in the actual fabric of the restaurants. Modernizing our real estate, introducing the technology that we believe is important to customers. And there's a number of other elements around that and part of it is around how do we get the right balance between being exciting, interesting to customers, and run better restaurants at the same time? So we've made some choices. The team made some choices to start this year on how can we help take away some of the complexity that creeps into a business over time? So one thing we did for example, this is real nuts and bolts stuff, you know, instead of merchandising 13 EBMs on our menu boards, we cut that down to 8. We thought if we picked the compelling 8, it would be easier for consumers to navigate and order at that point in the experience. Also easier for our teams to deliver. It turns out a couple of those we probably saw we overdid the reduction. So there was a little bit of resistance, consumer resistance that actually comes with that. So we can put a couple of those back on. So it was only 3 or 4 months, it was done for a strategic purpose which is to help run better restaurants on a more consistent basis.

We continue to learn on how we can offer or how we create compelling offers through the mobile app. We've got 20 plus million people now registered on our mobile app here in the US. You want that monthly average user number to keep growing and you also want the frequency of which they engage with you through technology to increase. So we're playing with the offer mix there to see if we can just get that sweet spot between good, regular, consistent loyal consumer engaging with you. They're enjoying the value offer, you're beginning to build the data that customers are willing to share with you, and that's going to be valuable to us.

So there are certain things that we can tweak and work as the rest of this year goes on, but that we know will drive further footfall. Again, you want to get all of this right in moderation. There's a number of other things we're doing, whether it's the launch of fresh beef on the quarter pounders or whether it's building out the signature range, the premium range on the menu. So you just want to get all of this in balance. On the daypart side, you may want to talk to breakfast.

Kevin Ozan: Yeah, the biggest challenge from a GAAP comp perspective in the US is clearly the breakfast daypart. And that's not breakfast products, because you know we sell all day breakfast now, but it's the daypart of breakfast. And I think some of that is because with everything else going on, we just lost a little focus on that breakfast daypart. It has always been our stronghold, it's 25% of sales or so, our most profitable daypart. So now there's a new, renewed intense focus on breakfast. You will have seen 2 for 4 mix and match deals in a lot of the areas around the US. You may see different products coming on $1 $2 $3 Dollar Menu related to breakfast. You may see new products by the end of the year. So it's now an area of focus where they think a little bit we took our eye off the ball on breakfast.

Sara Senatore: I guess on that note, one is, I know sort of the confluence of value and then breakfast, there's been some discussion of maybe the $1 coffee was a big driver. There was value in a piece of that. You mentioned the $1 $2 $3 Dollar, so it sounds like it is. Is there any reason to think that by offering all day breakfast, you may have seen a little bit of a shift? The people that didn't want to get up at the crack of 11:00 hour?

Steve Easterbrook: There are 1 or 2 people that are like that. You can't blame them. I mean net net, it was incremental to us. That would have been a little shift naturally. But frankly, when you look at literally our daypart of when we sell the items, you can pretty much decompose how the breakfast business is. So there's a little bit of a shift. I mean not material enough to be too mindful of, Sara.

Sara Senatore: And then the value pieces, the coffee at the $1 price point, is that -- some things that get talked about among investors or sell side analysts is, it can be overblown, but I'm just curious if part of this -- besides just taking focus off, is there just sort of a bit of a pullback on the value and that may have had an impact?

Steve Easterbrook: That is important, but we've also rolled out again across the US part of this plan, a full premium barista style coffee machine across the US. So the espresso based coffees now are a more important part of our mix as well. So as I say, you never, ever want to get away from value, but you don't want to depend on value. So for us, you're playing -- you want a street fight, you want to scrap. It's a market share fight out here. So you never want to give up business, but you don't only want to be scrapping for the short term. So you just want to get the balance right between brand advertising, launching new menu items, employer experience, server experience and still never wandering too far away from the value component.

Sara Senatore: You're right. And so let's talk a little bit about one of those, sort of the longer term, not quite the sort of knife fight. Which you mentioned the fresh beef quarter pounder which actually I'm going to say this, it is a very good sandwich.

Steve Easterbrook: It's great. It tastes great.

Sara Senatore: It really does. And it seems very competitive value, from a value perspective it's a lot of the better burgers. So I guess maybe you can talk about that. Is that in the context of when I look back at last year what the growth drivers were, I know you had signature crafted, you had the buttermilk I think chicken. So not a constant stream, but just some pretty high impact.

Steve Easterbrook: A steady drumbeat, yeah.

Sara Senatore: Is that what the fresh beef stands for this year?

Steve Easterbrook: There's probably 2 or 3 elements to it. I mean first of all, we're a burger business at our heart, clearly. And we're always looking at ways -- and you can always innovate around the menu, and you should, because there is a meaningful part of your customer base who are variety seekers. They've always been looking for something new. But the reality is, if you want to really get the core business growing day in and day out, what changes can you make to the items you sell most of that customers would value? So if you look at something like the quarter pounder, and part of the reason why we went to fresh beef on it, it is the largest patty, beef patty we have, and therefore, if you're going to bring fresh beef which basically is produced here, then you get the biggest incremental improvement on the largest patty.

I think if you take a look at the longer term, whether it's the so-called better burger guys or whatever it is, as we build the brand, build the experience and continue to engage customers in meaningful ways, we have a pricing elasticity. There's headroom for us to move over time. So any of the signature ends, that premium end, in a way that I don't think the better burger guys can necessarily come down to meet that middle ground. So if you take a real long term perspective on it, you can't just charge $5 in a $3 dining area for a burger. You just can't. Because consumers don't decompose it the way we do. They don't look at spreadsheets, they don't look at P mixes and they don't look at that stuff. They just have a perception on broadly what they experience from McDonald's which is the facilities they see, the people they meet and the food they eat. Those are the 3, if you like, hard assets they come into contact with. And yeah, we left ourselves a bit of work in all 3 of those. So we're working with those through the employer proposition, through our service standards, through hospitality, investing through the heart of the menu, whether it's through fresh beef or a number of the other improvements we made to our core items. And then clearly as I said, the reinvestment in the restaurants themselves and meaningful technology as well.

So it actually kind of -- that's the ambition of the plan that the US team has. That wraps within our broader across the globe plan which is our global plan and we know -- if you take a look at the US now, 10 restaurants every day are reopening, having been reinvested through this what we call the Experience of the Future. So that's 10 local communities who are noticing a difference. That's 10 sets of local customer bases that are turning up to a restaurant which 2 weeks ago looked maybe 10, 15, 20 years old and now just looks a much modern, fresher expression of what it is we're looking to do. That makes 1,000 a quarter, that's 4,000 a year and we're going to do this for 2 years, so we're going to have 8,000 restaurants dramatically as I say representing and expressing the kind of brand direction of the journey that we are on. Before you know it, more people in the US will live near a great looking restaurant than not. When you hit that tipping point, it's incredibly powerful.

Sara Senatore: I want to get to that, I just want to inject sort of one follow-up question that's just when you talked about sort of the steady drumbeat of innovation. Presumably we should expect to see that again this year. So there are things when you think about your innovation pipeline, there are things that maybe we don't know about, but you do, and you have it sounds like from your perspective, the same caliber drivers in place that you did last year on that side.

Steve Easterbrook: Clearly, I'm not going to get into too many details, but it is -- you don't want to be frenetic. You don't want to be changing and hitting the customer with too much change too often. Because they start to -- whoa, it's becoming hard work going to McDonald's now. But you do want to get the sequencing right that you always something interesting around the corner. Clearly that could be right through the heart of the menu or it could be some other form of interesting evolution of the business. Whether it's through the way we engage with them digitally or it could be now we've managed to resume our partnership with Disney for example. That's an incredibly strong relationship now that we've reestablished after 10 years. That's going to give us a much more compelling, exiting Happy Meal premium lineup. And actually, also into the adult space given the access we have through whether it's the Star Wars franchise all the way back to The Incredibles. So there's, there will be just a consistent, steady, calm, but hope engaging stream with new news that will keep consumers excited.

Sara Senatore: So let's then now go back to this sort of Experience of the Future. Let's go back to the velocity growth accelerators. And maybe I'd be curious if, maybe Kevin, you can comment on the investment piece of this as well as, if we think about sort of the immediacy of the drivers, I think delivery has proven to be very impactful very quickly. You've talked a little bit about I think kiosk mobile order and pay taking a bit more time to build. So maybe we can talk a little bit about the consumer response, why that might be the case. And then about the decision to invest so heavily with franchisees in a way that I think a lot of your peers if you will have in many ways gone in the opposite direction.

Kevin Ozan: All right, so I'll start with delivery and Experience of the Future, and as I forget stuff, Steve, you can chime in. Delivery we got into pretty quickly I'll say early last year is when we made the decision to kind of enter that delivery arena. And one of the reasons we kind of entered that arena pretty quickly is because as we travelled to several markets around the world, we kept hearing each market of ours talk about we think there's an opportunity in delivery over the next several years, we want to test it. And we heard that about 3 or 4 times from each of our countries. And at one point, Steve basically said, I'm pretty sure that there's a demand out there for people who want the convenience of getting their food delivered, do we really need to test it in every market for several years which is kind of how the old McDonald's would have done. We would have gone and tested it in one country, seen that it worked really well, and then thought, oh, this is great, let's go test it in another country. And a couple of years from now, we may have thought about rolling it out to the rest of the world. And instead we said, you know what, there's definitely consumers want the convenience of having their food delivered, let's just go at it. So we now have it in about a third of our restaurants around the world. Because we had had it in a chunk of restaurants, mainly in Asia, for many years. In the US and several of our international markets, we use Uber Eats, but we don't use them everywhere depending on the country. And it's been a great business because it's been incremental. In general, it's about 70% incremental business. So these are generally customers who are looking to get something delivered and now they can get McDonald's delivered versus someone who knows they want to go to McDonald's and just determining how they're going to get that McDonald's.

So the fact that it is incremental has been very beneficial financially, both for us and our franchisees. And it's generally a daypart, primarily in the evening, that we have capacity in the restaurants. So that's a big positive from an operational standpoint and from a just kind of evening off the capacity in the restaurants. So delivery has been a big growth driver and probably of a few of them, they've been faster. So it's faster than mobile order and pay for example. It's taking people a little while to get used to that change in behavior. Delivery, pretty quickly people are able to get the food they want delivered because again, these are people that are used to getting food delivered. So it wasn't a significant change in consumer behavior for them not to get McDonald's delivered. So on the delivery side, we're seen good growth and we would anticipate continued growth. We will now look to expand into some other areas where we haven't been able to go into, but it's primarily how do you get the most out of where we are? Some of our countries around the world are 50 to 100 guest counts per day on delivery. The US is not there. And so what do we need to do to kind of just maximize that opportunity versus just expand to other locations? So that's the delivery side. I don't know if there's anything else you want to add on the delivery?

On Experience of the Future, which again is primarily -- we're doing it around the world. Again, we have it in about a third of the restaurants right now. But the big focus is on the US as you know. We're investing right now about $1.5 billion of capital in the US in 2018 and likely a similar amount in 2019, just to be able to get substantially all of our restaurants completed by the end of 2019. There will be some that spill over into 2020. In general, some of those restaurants were already modernized and so we just need to add the Experience of the Future element. Things like the self-order kiosk, the cut front counter, but some of them needed full remodels in addition to the Experience of the Future elements. It's about 2/3-1/3, 2/3 that needed just the elements and about 1/3 that need the full remodel. Cost wise, if you're doing the full remodel plus Experience of the Future, it's about $750,000. If you're just adding the Experience of the Future, it's about $160,000. Those are averages and I'm always nervous about using averages, but those are generalities.

We are partnering with the franchisees in the US on the capital side, so we're contributing about 55% of the capital. So of that $1.5 billion capital, 70% to 80% of it relates to franchise sites which again, once we get completed with all of this then, you should expect to see our capital go substantially down because of the amount that we're investing in these couple of years right now.

Sara Senatore: Is that -- I mean again, I guess we'll know soon enough if we can think about the expected return. I guess the way to think about that is the reason you do that with franchisees is because it accelerates the process and you get to this critical mass sooner? How do we again reconcile that with all these other restaurants who are spending a fraction of what you might be doing?

Steve Easterbrook: One thing I would say is, this isn't kind of a finger in the air, hope it works type thing. We've already really rolled out much of what we are looking to get done in the US. Many of our international lead markets have either substantially or are more than halfway there in their markets. So if you take a look at Australia, Canada, UK are pretty much almost fully complete in this modernization program. France had a number of elements for a long period of time, a couple more they're bringing in now. So they are about halfway. And Germany is just under 50% complete. So we know what it does to the business. We know the sales lifts we get. And therefore, that helps support our own business case of why we want to co-invest. As you say, if you can get that type of growth a year or two quicker than it just being an organic program the operators have to fund on their own, we'll take the earlier growth and co-invest with them as the option. That's the option we've chosen to do, just in part because we got the confidence of knowing what outcome we get through I guess probably now about 5,000 other restaurants around the world. So it's not a small sample, and it's not a test. This is a rollout.

Kevin Ozan: The only thing I'd say is, what we've seen internationally is generally like mid-single digits sales lifts. It's early days, but we're seeing the same types of sales lifts in the US. So it's right now playing the same pattern that we've seen on the international. That gives the operator a good return and it gives us a good return. The good check and balance is, the franchisees are only going to invest if they believe there is a good return. And so it's good discussions with us because they don't want to invest in something that's not going to create their cash flow either. And so it's working well.

Steve Easterbrook: Another thing I'd say is in terms of any competitive comparison, let's just call it that way, we generate an enormous amount of cash. And therefore, and Kevin will always say, our first priority on cash is reinvesting back in the business. And we still have a substantial amount of cash through dividends and share buybacks that we can return to shareholders. And clearly when we get the momentum in our business, the cash that we generate increases proportionately as well. So we're not -- we're certainly not flippant with our kind of financial responsibilities. I think if you take a look at the last 3 years, we've made meaningful inroads into better capital allocation and also better just fundamentals in G&A management as well. So we're not flippant around it, but if you're playing the longer game and you want to differentiate yourself from the competition in a short a time as possible, the current investment piece is a powerful enabler of that.

Sara Senatore: I have a bunch of questions in the audience and I promised you we would talk about a non-US market.

Steve Easterbrook: We've only got 119 of them.

Sara Senatore: So you will go through each one. Let's talk about the UK because it's presumably near and dear to your heart, you know it very well. How is it that it has been so consistently successful? I think last quarter that segment did almost an 8% comp, UK probably better than that, because you called it out as one of the drivers. How is that the case? And I guess maybe what is the distinction between, I can't help myself, the UK and the US? Or can you apply some of what you do in the UK to the US?

Kevin Ozan: I'll start on that and then Steve is a little more familiar with the history of the UK than I am. But the UK is a fascinating market. So they've literally had 12 years of consecutive quarterly comp sales growth. And one of the things they are really good at is kind of the discipline of just a layer -- once they got the base set and they got the base set a long time ago, they're good at layering on growth platforms and continuing to layer on growth platforms year after year that continue to drive that. So whether it's adding 24-hours, whether it's a new product, whether it's their value platform, they just have a very disciplined approach of deep consumer research and then layering on platforms. And executing really well against those. So they probably are not our most innovative market in the system. Well, that's probably kind. They're not the most innovative. But they are one of the best markets that's just executing their plan. So a lot of their plan, someone wouldn't get real excited about because they don't have a ton of new, exciting products or anything like that. But once they go do something, they just execute against it really well. They have a great planning process that sequences things in the right way and they've done a great job over the years in being patient, at changing consumer perception and brand perception I'd say in the UK. So the brand is in a little bit different place there and throughout Europe than it is in the US in that they consistently talk about all the good things they are doing and have been able to get a brand halo that's helped them consistently.

Sara Senatore: And is that something that -- I mean the US obviously is an extremely competitive market, but are there things that you think you can bring to, whether it's executing against the plan or deep consumer analytics, to apply?

Steve Easterbrook: Yeah, I think part of what's -- one of the early pretty substantial changes we made which really was intended to reset the culture and the s of working within our business, was we changed from the older fashioned err of the world model, which I think most companies still adhere to, into this new segment. To most onlookers at the time, that was kind of not quite sure what it's all about, it looks like just a rearrangement of whatever is going on. By doing so, we also took out layers of management. Substantially took out layers of management. So now for example, any one of about the top 15, 16 markets across the world, which makes up about 90%+ of our sales and income, there's one reporting person between the person who runs the market and myself. This isn't about me at all. It's just more the transfer of ideas is just far quicker. So we can get the marketing leads for the top 10 markets together, whether it's the CMO for the US, and she will sit alongside the CMO of the UK front. And those ideas, whether it's around how you manage your media, how you manage your brand advertising, how do you promote what time of day, through what physical media in a rapidly changing -- how to value for example. So the devil is always in the detail of the dollars because we're a scale business, and if you get the little things right, that scale is up. And that is up in a significant manner. So I think there will be some eye-catching things that the US can pick up from some of our other lead markets and there will be lots of little details that you won't inherently notice, but they all start to add up to a broad incremental improvement in the execution of the plan. Because we've been one of those businesses you can spend a lot of time crafting 100% beautiful looking plan, if you only execute it at 70%, the customer only gets the 70%. They don't care what the original -- they just get the execution gap. So for me, I've spoken in the past about progress as a perfection, get a plan that's compelling and good enough and just execute at 100% at the restaurant level. Customers will notice the quality of the execution more than they will care about what the path looks like in a meeting room somewhere.

Sara Senatore: Right. All the consultants who work for Bernstein will be so devastated. So let me jump in sort of the last 10 minutes to some of these questions. A few on delivery. And I'll sort of put them all together. So the approach in terms of using a third party versus what the pizza guys do with in-house, and the implications for profitability from that for your franchisees, needing to pay commissions I think in part. And then maybe just a little bit in that context, maybe you can give us some more insight into the ticket size which I think is bigger and does help bridge that gap.

Kevin Ozan: Yeah. So right now, we're using a third party in almost of all our markets. There's a few markets still in Asia that use a mix now of some in-house and external parties. I'd say what it has allowed us to do is get in the game quickly and expand that business. If we were going to build up our internal resources to do that, it would have taken us substantially more time to just set up the infrastructure to get riders and insurance and all that kind of stuff. I don't know what the future holds. Could there be a day where we have more in-house than third party? That's possible. It's not in the near term for us certainly. The providers we're using are really good at doing what they do and there's a reason why we're using. They have the infrastructure to be able to get the riders, they get really good data and are really good at analyzing that data to be able to market or look for repeat business. So right now, it's the perfect infrastructure for us. We do pay a commission then, the restaurants pay a commission. So on an individual delivery sale, the percent margin is lower than it would be on an in-store sale because of that. But because the business is so incremental, we're getting incremental dollars and our franchisees are getting incremental dollars. As long as that equation keeps playing out like it is, it's a good business model. And I don't now long term where the industry will go. I think some players will shake out. I don't know that everyone will survive, but I wouldn't try and guess who will and who won't. But I think for us right now, it's the right model. As the industry progresses, we'll obviously stay close to it and see if we need to evolve our business model too.

Steve Easterbrook: And you mentioned ticket size, it's about 2 times our normal ticket size. So it's a higher average check as well. And as Kevin mentioned earlier, all that part of our business comes after 5:00 in the afternoon. So that's part of how you know it's incremental. It's also satisfying a customer base that may just not come otherwise as well, so you're re-engaging. I don't want to be stereotypical, but in the college towns, it's pretty successful. Let me tell you that.

Sara Senatore: Yeah, I can imagine the 2:00 AM orders coming in. Who keeps the data? I do have to ask that question. Because one of the risks I think some people see in outsourcing is who ultimately controls that relationship?

Steve Easterbrook: Currently the ordering process is through the Uber Eats, if we're talking third party operators. It's through the Uber Eats app, so it's their data, they can share with us generic trends. We can get service size but in terms of individual consumer data, privacy reasons means we don't get that. But we're working with them to route that people could order through the McDonald's app and access Uber Eats that way. In which case, if those customers are registered through our app, then we would start to collect that. So we get broader trend analytics off Uber, things they can share with us. They've been a great partner to us and we've got a very constructive relationship actually. But clearly not enough to step over the privacy piece in all ways yet.

Sara Senatore: But ultimately the goal is to be able to use that, the mobile app is great, very good value on that app I have to say. But it would be great to be able to then integrate that and that's the goal?

Steve Easterbrook: It has to be. Because we want one single ecosystem for our customers. So no matter if they want to come through the drive-thru or the self-order kiosk, have mobile auto pay, or home delivery, they want to be treated as that one individual, so therefore we have to blend the technology platforms so that we can engage with them in one compelling way. That's when you get the whole CRM platform, you get the whole customer relationship management piece, it becomes a lot more compelling. So absolutely that's the goal. You never get there as quick as you want. It costs a little bit of money getting there as well. The investment to get -- I mean without kind of trying to bore you about scale, just the sheer volume of data that we process when there are over 69 million customers a day around the world in 37,000 restaurants, there's a lot of data that you've got to manage. And data is not the interesting thing. It's the insight you get from the data, that's where the value is. And that's the kind of understanding and the capability we're currently building out.

Sara Senatore: That's very helpful, because I think the data piece maybe is under appreciated. I'm going to ask one more question from the cards and then one more my own. I'll shift actually entirely to the financing strategy. So this is a question about negative equity, but I think broader, the sort of what's the appropriate amount of leverage and what's the policy going forward as you think about that balance, cash return, investing in the company.

Kevin Ozan: Yeah, the negative equity is because we bought back shares. It's an interesting question, because I have to be honest, when we first started getting close to that, I had to have a discussion that I had never seen that before. But it's just a result of buying back a lot of stock. Steve mentioned before kind of our capital allocation philosophy which is first it's clearly to reinvest in the business and invest in growth drivers. So that's number one use of capital. Second is dividends and then third is kind of what's left to buy back stock. We're currently rated BBB+ on a leveraged basis. There aren't any plans to change that in the near term. We have a little bit of room within the BBB+ section if you will. So you could -- according to our plans, we still have $1 billion to $2 billion that we can add a year and stay within where we are in the BBB+. That's our current intention. We think it's the right rating for us right now especially because our franchisees get a halo when they go out and lend from the banks. And right now, certainly in the US, it's really important as we're asking them to invest a significant amount of money in Experience of the Future, that they benefit from that. And so you shouldn't expect a change in the near term.

Sara Senatore: Very good. Thank you. And so let's see, my question is, I pose to you which is something that we're asking all of the presenters at the conference. Is that as you look 5 years into the future, what is the single biggest disruptive force in the industry? And also sort of I'll give you an opportunity to talk about how you're addressing it.

Kevin Ozan: We will be.

Sara Senatore: Yeah, McDonald's. It's a good answer. Okay. What did your peers do?

Steve Easterbrook: I wish them all the best. Clearly, I think the data, the analytics piece, it's just the way customers are living their lives that's clearly going to play an increasingly valuable part in shaping the future. I think we're in a fascinating time. I mean the world has never moved quicker than it is today. And you can see the bricks and mortar retailers are fighting hard to maintain their share or sometimes to survive. I think the restaurant industry broadly is slightly oversupplied at the moment. Whatever growth is coming out, that typically is coming from new unit additions. That means people are losing volumes and that equation never ends up in a happy place. So I think there will be some structural change within our sector and clearly we're just going to fight harder. And so are several of our competitors. I mean they are well-run businesses and everyone has got a real purposeful desire to grow their share and fight hard. I think trying to get that balance right between the physical experience and the technological relationship and getting that balance right is going to better ultimately shape the winners and the losers. And it's something that we're very focused on, we're investing in both skill set and capability, and also just the fundamental technology platforms that we believe are going to help us when we're in that fight. But I think the world will look a pretty different place in 5 years' time.

Sara Senatore: That's a great answer and a great line to close on because I think we can, I don't think anybody can disagree with that. So thank you so much.

Kevin Ozan: Thank you for having us.

Steve Easterbrook: Thank you very much. Thank you.