

# Chief Financial Officer Answers Shareholder Questions



Mike Conley, Executive  
Vice President and  
Chief Financial Officer

**Q** We hear a lot about cash flow, returns and share repurchase. How do they fit into your financial strategy?

**A** Our operations generate a significant amount of cash – almost \$11 billion in the past five years. Our job is to effectively use this capital to maximize shareholder returns – by expanding our business, buying back our stock and paying dividends. We’re working hard to improve returns in several ways. First, we’re focusing significant efforts on increasing sales and profits in all our restaurants, by increasing customer satisfaction and controlling costs. Second, we improved our sales projection tools and are now opening fewer restaurants in the U.S., but better ones. In addition, we continue to explore opportunities to employ capital in the U.S. business most effectively. In 1997, our efforts lowered capital expenditures, creating more cash flow. We expect capital expenditures to remain relatively flat in 1998, with the majority invested outside the U.S., where returns are higher. That brings us to another method of maximizing shareholder returns – share repurchase and dividends. Over the past ten years, we have purchased \$3.8 billion, or 146 million shares, of our stock and paid \$1.5 billion in cash dividends. These actions increase net income per share, return cash to shareholders and increase returns. You can expect we will continue to buy our stock.

**Q** The strong U.S. dollar reduced your 1997 results. What are you doing to manage the effect of foreign currency fluctuations?

**A** It’s unfortunate that the strong U.S. dollar has masked our real international growth over the past two years. In 1997, foreign currency translation reduced our reported international operating income growth rate by seven points. Foreign currency fluctuations affect earnings primarily because we translate international results into U.S. dollars for financial reporting. Since we reinvest our foreign earnings into our growing markets rather than repatriate them, the issue is primarily one of accounting rather than economics. Foreign currency fluctuation only has an economic impact when our markets import goods and services and we receive cash payments in the U.S. denominated in foreign currencies. We manage that impact several ways. We generally buy in the same currencies in which we sell

our products, which creates a natural hedge. We finance our growth by borrowing in local currencies. We actively hedge selected currencies to reduce the effect of fluctuations on cash flows. Finally, our diverse operations in 109 markets and our long-term business approach help offset fluctuations over time.

**Q** As a U.S. customer, I have more restaurant choices than ever before. How will McDonald’s compete?

**A** We have a clear vision of what we want McDonald’s U.S.A. to be: the best. To achieve this vision, we’ve made several changes that address the heart of our business – delivering great Quality, Service, Cleanliness and Value. Our new “Made for You” food preparation system will allow us to serve hotter, fresher-tasting food. By realigning management and other resources, we’ve moved decision-making authority and accountability closer to the field. Our new advertising campaign reinforces the emotional bond people have with McDonald’s and strengthens our brand. We’re refining our core menu to better reflect our customers’ tastes. And to support value pricing, we’re continuing to reduce our restaurant operating costs – as a System, we saved over \$450 million in the U.S. in the past three years through cost reduction and avoidance. Because these initiatives improve the very foundation of our business, they lay the groundwork for McDonald’s U.S.A. for the future.

**Q** McDonald’s has always led the Standard & Poor’s 500 and Dow Jones Industrial Average in total return to shareholders. However, for the second consecutive year, McDonald’s significantly lagged these indices in 1997. How should I, as a shareholder, interpret this?

**A** Creating shareholder value is critical to all of us at McDonald’s. In fact, McDonald’s System members own about 16 percent of our outstanding common stock. And we know our recent performance has not been up to our historically high standards. This annual report describes initiatives designed to improve our customers’ experience and create more value for shareholders. I cannot tell you what the stock price will be. But I can tell you that I am encouraged by the direction our business is taking and I believe that McDonald’s management is focused on the right priorities to propel our business forward.