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REPORT ON THE FINANCIAL EVALUATION: McDONALD'S CORPORATION AND YUM! BRANDS

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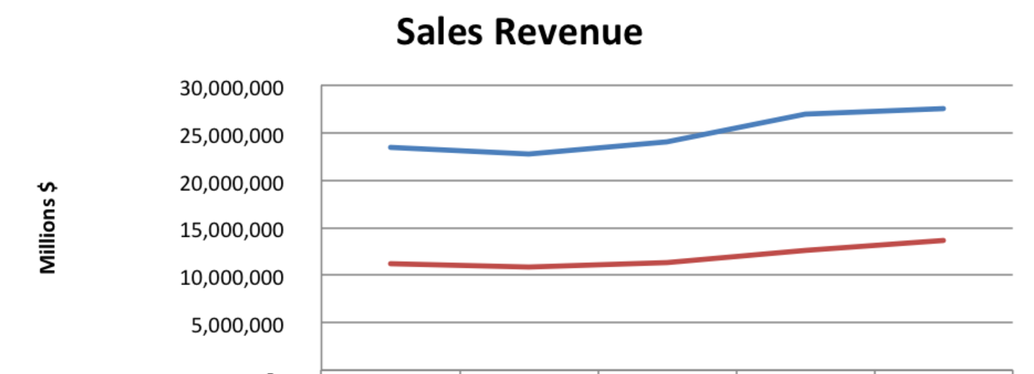
The aim of this paper is to perform financial analysis by using financial ratios and to comment, evaluate, and understand the origins of the results by using the comparison of two companies chosen as a case study.

The McDonald's Corporation is the largest fast food restaurant in the world. McDonald's Corporation statistics base it in over 119 countries and it serves more than 68 million customers daily. The company's revenues are coming not only from its primary products like hamburgers, cheeseburgers, etc., but also from rent, royalties, and fees paid by the franchisees. This report will look at the financial statements of the McDonald's Corporation over the past 3 years starting from 2010 through 2012. The author of the paper will apply financial ratios to analyze company's position and to identify patterns and trends. She will then compare the results of the analysis with one of the biggest competitors of McDonald's - Yum! Brands Inc. and the industrial averages. Yum! Brands Inc. is a US based corporation. It includes famous brands like KFC and Pizza Hut in their chain. Currently Yum! Brands are the largest competitors McDonald's has in the fast-food industry. To compare the two companies financial statements will be taken from Yahoo Finance (2013).

1.GRAPHICAL COMPARISON OF GENERAL PERFORMANCE MCDONALDS & YUM! BRANDS

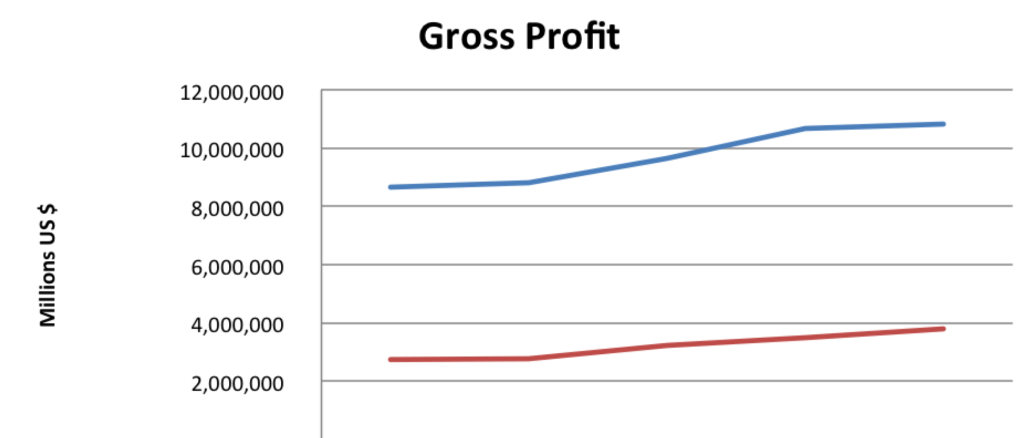
To start this paper, the author will first give graphical comparisons of several financial factors, which determine the company's performance. The author will focus on total revenue, gross and net incomes of the companies to understand if there is a tendency in the industry. The analysis consists of data from over 5 years.



	2008	2009	2010	2011	2012
McDonald's Corporate	23,520,000	22,745,000	24,074,600	27,006,000	27,567,000
Yum! Brands	11,280,000	10,840,000	11,343,000	12,626,000	13,633,000

Figure 1: Sales Revenue Comparison McDonald's vs. Yum! Brands.

As one can see from the above graph, even though Yum! Brands are the second biggest chain, the total revenues are still considerably lower in comparison to the McDonald's revenues over the same period of time. We can see that there are trends in the movement as both of the companies experienced decline in revenues during the years 2009-2010. One of the main reasons this could be is the crisis the US was experiencing during that time. Looking at the gross profit and net profit we can also see the same tendency the lines do show a decrease in profits over 2009-2010 and an increase over 2011-2012. One can also see that McDonald's has experienced much more sufficient increase in income both gross and net in 2011 than Yum! Brands.



	2008	2009	2010	2011	2012
McDonald's Corporate	8,639,200	8,791,800	9,637,300	10,686,600	10,816,300
Yum! Brands	2,740,000	2,780,000	3,223,000	3,486,000	3,781,000

Figure 2: Gross Income Comparison McDonald's vs. Yum! Brands.

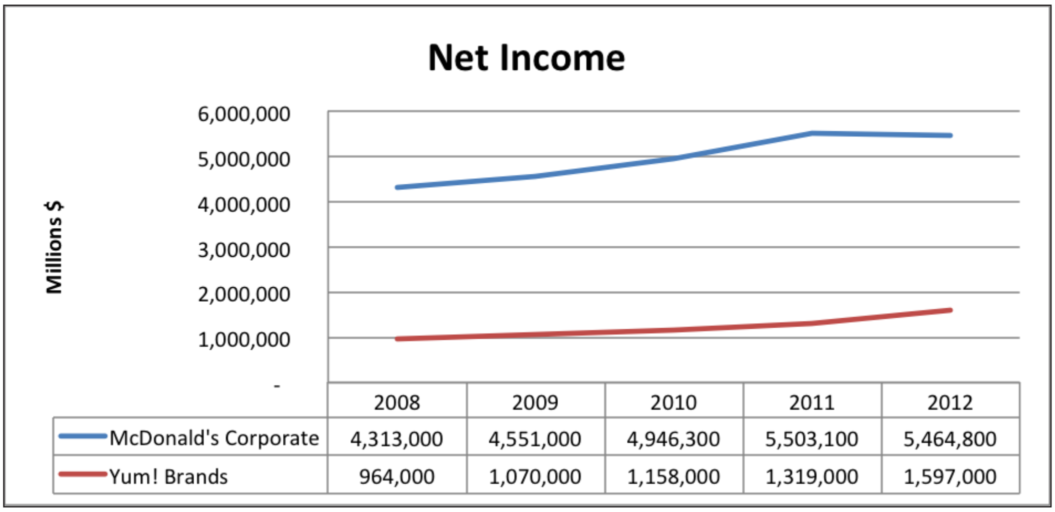


Figure 3: Net Income Comparison McDonald's vs. Yum! Brands.

2. FINANCIAL ANALYSIS

In this part of the paper we will look at the financial ratios and apply them to both of the companies. The author will firstly define the formulas used to calculate the ratios and then will comment on the results.

3.1 LIQUIDITY ANALYSIS

Liquidity ratios allow us to measure the ability of the company to meet its short-term obligations. Mainly they highlight if the company can pay off its liabilities on the due date. In this paper we will use Current Assets and Acid Test to see if McDonald's and Yum! Brands have THE necessary liquidity. Generally, the higher are the result of the ratios, the better the financial health of the company is. The desired minimum in this case would be value of 1.

$$\textbf{Current Assets} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\textbf{Acid test} = \frac{\text{Current Asset} - \text{Stock(Inventory)}}{\text{Current Liabilities}}$$

The results of those ratios one can find below:

TABLE 1 - MCDONALD'S CORPORATION

	2010	2011	2012
Current Assets	4 368 500	4 403 000	4 922 100
Current Liabilities	2 924 700	3 509 200	3 403 100
Current Asset Ratio	1,49	1,25	1,446357733

TABLE 2 - YUM! BRANDS

	2010	2011	2012
Current Assets	2 313 000	2 321 000	1 909 000
Current Liabilities	2 448 000	2 450 000	2 188 000
Current Asset Ratio	0,94	0,95	0,872486289

Current asset ratios shows the extent to which company is able to meet its short-term obligations, and as we can see, McDonald's has higher results than Yum! Brands. For all 3 years, Yum! Brands shows results lower than 1, which shows that they might have issues to pay their obligations. The reason why the results are so low is because Yum! Brands' current liabilities are higher than the assets the company holds (see Figure 4).

Looking at the Acid Test we can see similar trend:

TABLE 3 - MCDONALD'S CORPORATION

	2010	2011	2012
Current Assets	4 368 500	4 403 000	4 922 100
Intentory	109 000	116 800	121 700
Current Liabilities	2 924 700	3 509 200	3 403 100
Acid Ratio	1,46	1,22	1,41

TABLE 4 - YUM! BRANDS

	2010	2011	2012
Current Assets	2 313 000	2 321 000	1 909 000
Intentory	189 000	273 000	313 000
Current Liabilities	2 448 000	2 450 000	2 188 000
Current Asset Ratio	0,87	0,84	0,73

McDonald's has values over 1, which shows that the company is in a stable position whereas Yum! Brands are still showing results lower than 1, which shows that the company can have liquidity issues as large part of its current assets is actually inventory/stock which cannot be used to meet the obligations.

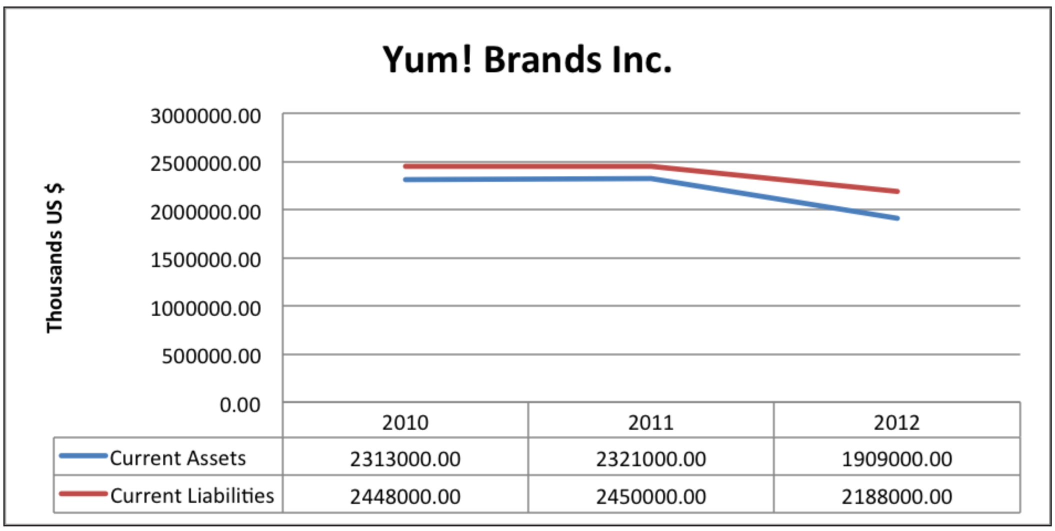


Figure 4: Current Assets to Current Liabilities Yum! Brands.

This leads us to another factor to consider when looking at liquidity, which is working capital (WC). Working capital shows us operational liquidity. The higher is WC, the lower is the chance of cash flow problems, and the more liabilities are covered by the currently owned assets. The formula for WC is:

$$\textbf{Working Capital} = \text{Current Assets} - \text{Current Liabilities}$$

One can find the results for both McDonald's and Yum! Brands below:

TABLE 5 - MCDONALD'S CORPORATION

	2010	2011	2012
Current Assets	4 368 500	4 403 000	4 922 100
Current Liabilities	2 924 700	3 509 200	3 403 100
Working Capital	1 443 800	893 800	1 519 000

TABLE 6 - YUM! BRANDS

	2010	2011	2012
Current Assets	2 313 000	2 321 000	1 909 000
Current Liabilities	2 448 000	2 450 000	2 188 000
Working Capital	-135 000	-129 000	-279 000

If we look at the results for WC, one can see that Yum! Brands experience WC problems. These results go together with acid and current asset ratios. The liabilities Yum! Brands has dramatically exceeded their assets, which can cause issues for them to pay their short-term liabilities. McDonald's is doing pretty good, even though the results are not ideal in terms of coverage (not 2:1) and are showing fluctuations, for example, in the year 2011.

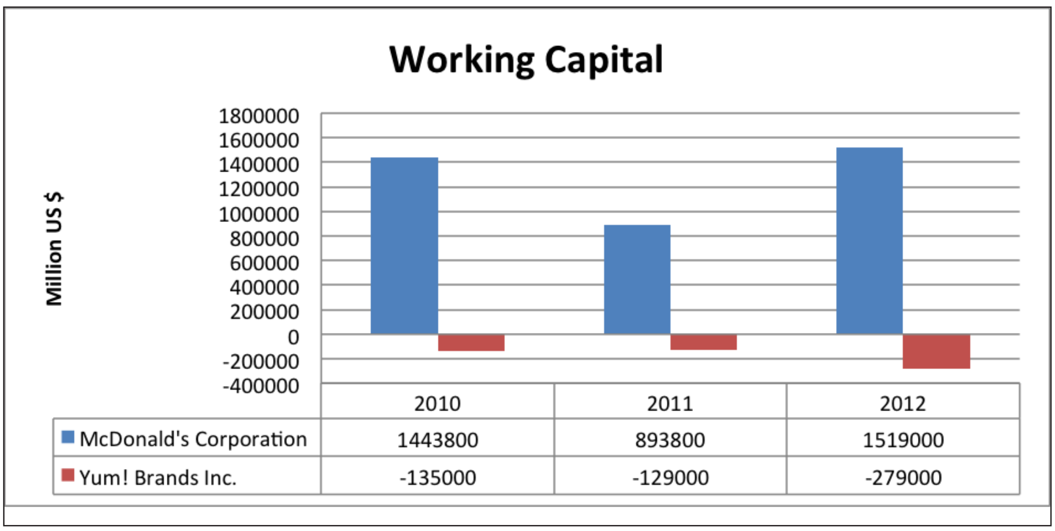


Figure 5: Working Capital McDonald's vs. Yum! Brands.

3.2 PROFITABILITY ANALYSIS

Profitability ratios help to measure a company's ability to generate earnings, profits, and cash flows by comparing the budget invested and the cash results of sales. In this paper we will use the Return on Capital Employed (ROCE) ratio to compare the cash earned with the cash invested. Gross Profit Margin is used to see the percentage by which profits exceed production costs and Net Profit Margin to see the amount of profit made after expenses and tax per sales dollar.

$$\mathbf{ROCE} = \frac{\text{Earnings Before Interest and Tax}}{\text{Capital Employed}} * 100 \quad or \quad \mathbf{ROCE} = \frac{\text{Profit Margin}}{\text{Asset Turnover}}$$

$$\mathbf{Capital\ Employed} = \text{Total Assets} - \text{Current Liabilities}$$

$$\mathbf{Gross\ Profit\ Margin} = \frac{\text{Gross Profit}}{\text{Total Revenue}} * 100$$

$$\mathbf{Net\ Profit\ Margin} = \frac{\text{Net Profit}}{\text{Total Revenue}} * 100$$

The results for both of the companies are represented below:

TABLE 7 - PROFITABILITY RATIOS - MCDONALD'S CORPORATION

	2010	2011	2012
Earnings Before Interest and Taxes	8 595 600	8 505 000	8 595 600
Capital Employed	29 050 500	29 480 700	31 983 400
ROCE	**30%**	**29%**	**27%**

Capital Employed	2010	2011	2012
Total Assets	31 975 200	32 989 900	35 386 500
Current Liabilities	2 924 700	3 509 200	3 403 100
CE	**29 050 500**	**29 480 700**	**31 983 400**

Asset Turnover	2010	2011	2012
Sales Revenue/Total Revenue	24 074 600	27 006 000	27 567 000
Total Stockholder Equity	14 634 200	11 737 000	12 489 600
AT	**1,65**	**2,30**	**2,21**

ROCE	2010	2011	2012
Profit Margin	0,3570402	0,314930016	0,311807596
Asset Turnover	0,83	0,92	0,86
PM(%) * AT	**30%**	**29%**	**27%**

	2010	2011	2012
Gross Profit	9 637 300	10 686 600	10 816 300
Net Income	4 946 300	5 503 100	5 464 800
Sales Revenue/Total Revenue	24 074 600	27 006 000	27 567 000
Gross Profit Margin	**40%**	**40%**	**39%**
Net Profit Margin	**21%**	**20%**	**20%**

TABLE 8 - PROFITABILITY RATIOS - YUM! BRANDS

	2010	2011	2012
Earnings Before Interest and Taxes	1 594 000	1 659 000	2 145 000
Capital Employed	5 868 000	6 384 000	6 823 000
ROCE	**27%**	**26%**	**31%**

Capital Employed	2010	2011	2012
Total Assets	8 316 000	8 834 000	9 011 000
Current Liabilities	2 448 000	2 450 000	2 188 000
CE	**5 868 000**	**6 384 000**	**6 823 000**

Asset Turnover	2010	2011	2012
Sales Revenue/Total Revenue	11 343 000	12 626 000	13 633 000
Total Stockholder Equity	1 576 000	1 823 000	2 154 000
AT	**7,20**	**6,93**	**6,33**

ROCE	2010	2011	2012
Profit Margin	0,140527197	0,131395533	0,15733881
Asset Turnover	1,93	1,98	2,00
PM(%) * AT	**27%**	**26%**	**31%**

	2010	2011	2012
Gross Profit	3 223 000	3 486 000	3 781 000
Net Income	1 158 000	1 319 000	1 597 000
Sales Revenue/Total Revenue	11 343 000	12 626 000	13 633 000
Gross Profit Margin	**28%**	**28%**	**28%**
Net Profit Margin	**10%**	**10%**	**12%**

From above tables one can see that McDonald's generally has high ROCE, Gross and Net Profit Margins over the 3 years. However, in the year 2012 Yum! Brands have higher ROCE than McDonald's (see Figure 6) as their earnings before tax and interest increased, whereas McDonald's capital employed increased dramatically and the actual return stayed nearly the same as in 2011 which caused decline.

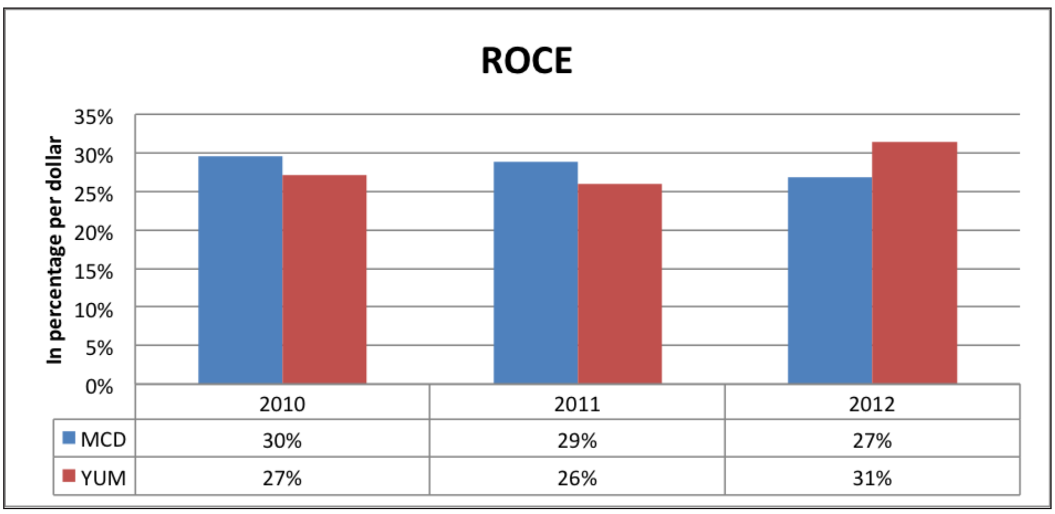


Figure 6: ROCE McDonald's vs. Yum! Brands.

When we look at the Gross and Net Profit Margins, McDonald's has much higher percentages than Yum! Brands (see Figures 7 and 8). This can be due to the better cost management systems the company has. Gross Profit Margin shows how well the company utilises and allocates its resources. In this case, McDonald's is also doing better. Looking at the Net Profit Margins, we can see that both of the companies surely do well, however Yum! Brands score substantially less than McDonald's. The main reason for such results can be that Yum! Brands have much more liabilities to pay then McDonald's. As we could see from Figure 4, they exceed the assets the company owns; due to this, the Net Profit can be very low after the company pays all of the expenses and its obligations. One can also see that over 3 years both of the companies did not experience dramatic increase or decrease in their Gross and Net Profit Margins; the numbers are nearly the same, which shows stability in their operations.

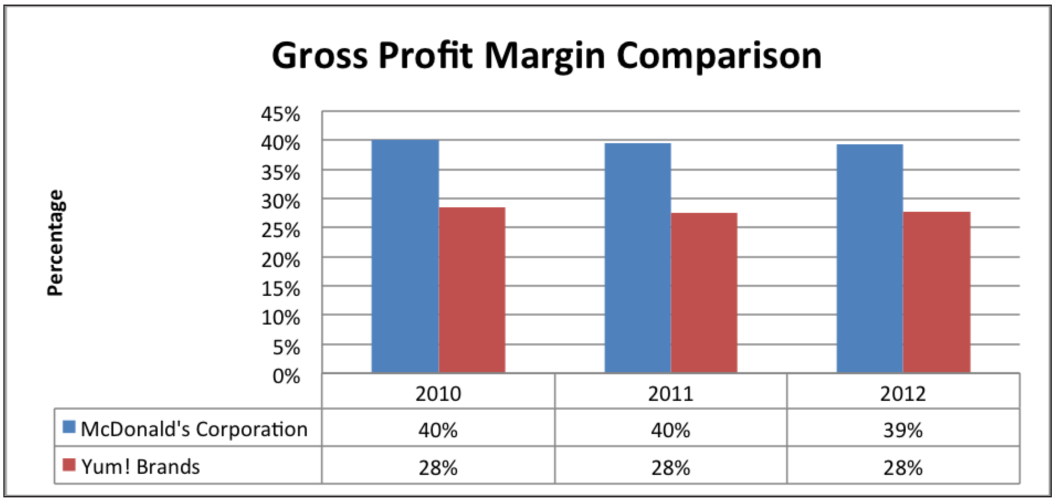


Figure 7: Gross Profit Margin McDonald' s vs. Yum! Brands.

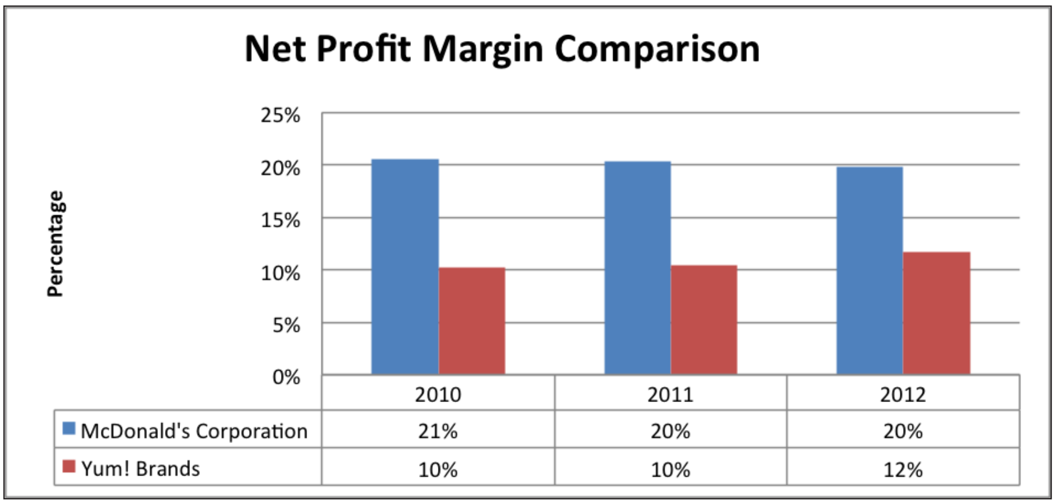


Figure 8: Net Profit Margin McDonald' s vs. Yum! Brands.

3.3 EFFICIENCY ANALYSIS

Efficiency ratios show how well the company is using its assets and liabilities. The analysis mainly focuses on the measurement of efficiency by calculating turnover of receivables, fixed assets turnover, and the trade debtor collection period along with creditor payment period. Those ratios are particularly useful when the results are compared between competitors in the same industry. It is also true that change in these ratios directly impact profitability of the organisation.

$$\textbf{Stock Turnover} = \frac{\text{Cost of goods sold (Cost of Revenue)}}{\text{Closing stock (Inventory)}}$$

$$\textbf{Fixed assets turnover} = \frac{\text{Sales (Total Revenue)}}{\text{Fixed asstes at net book value (Total Assets)}}$$

$$\textbf{Trade debtor collection period} = \frac{\text{Closing trade debtors (Net Receivables)}}{\text{Credit sales (Total Revenue)}} * 365$$

$$\textbf{Trade creditor payment period} = \frac{\text{Closing trade creditors (Accounts Payable)}}{\text{Total credit purchases (Cost of Revenue)}} * 365$$

The results of the above ratios can be found below:

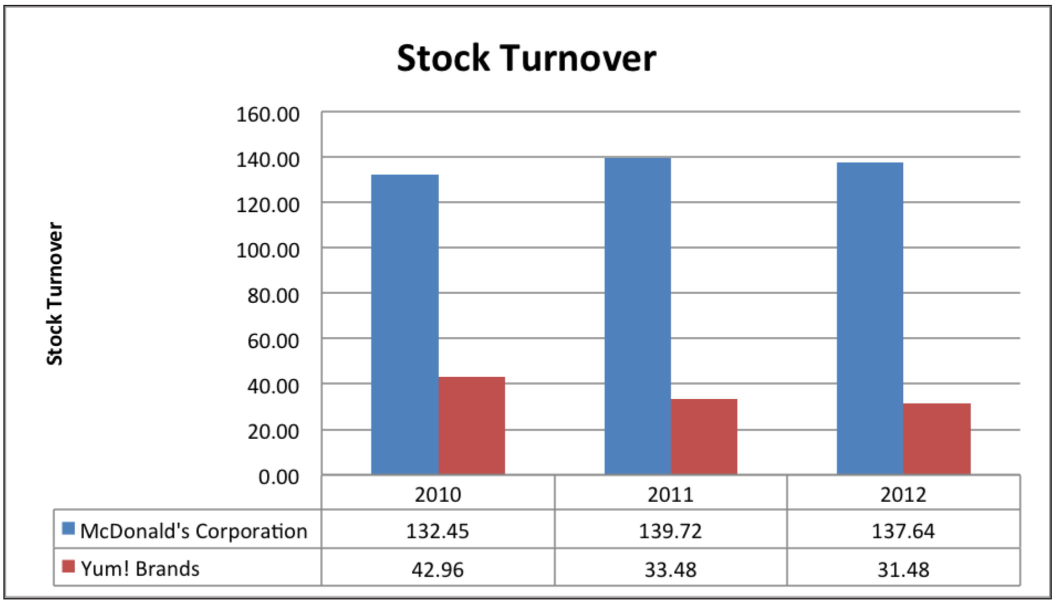
TABLE 9 - EFFICIENCY RATIOS - MCDONALD'S CORPORATION

	2010	2011	2012
Cost of Revenue	14 437 300	16 319 400	16 750 700
Inventory	109 000	116 800	121 700
Stock Turnover	**132,45**	**139,72**	**137,64**
Total Revenue	24 074 600	27 006 000	27 567 000
Total Assets	31 975 200	32 989 900	35 386 500
Fixed Asset Turnover	**0,75**	**0,82**	**0,78**
Net Receivables	1 179 100	1 334 700	1 375 300
Trade debtor collection period (days)	**17,88**	**18,04**	**18,21**
Accounts Payable	943 900	961 300	1 141 900
Trade creditor collection period (days)	**14,31**	**12,99**	**15,12**

TABLE 10 - EFFICIENCY RATIOS - YUM! BRANDS

	2010	2011	2012
Cost of Revenue	8 120 000	9 140 000	9 852 000
Inventory	189 000	273 000	313 000
Stock Turnover	**42,96**	**33,48**	**31,48**
Total Revenue	11 343 000	12 626 000	13 633 000
Total Assets	8 316 000	8 834 000	9 011 000
Fixed Asset Turnover	**1,36**	**1,43**	**1,51**
Net Receivables	317 000	398 000	412 000
Trade debtor collection period (days)	**10,20**	**11,51**	**11,03**
Accounts Payable	1 775 000	2 130 000	2 178 000
Trade creditor collection period (days)	**57,12**	**61,58**	**58,31**

Looking at the first measure which is Stock Turnover, one can see that McDonald's numbers are higher than those of Yum! Brands (see Figure 9).

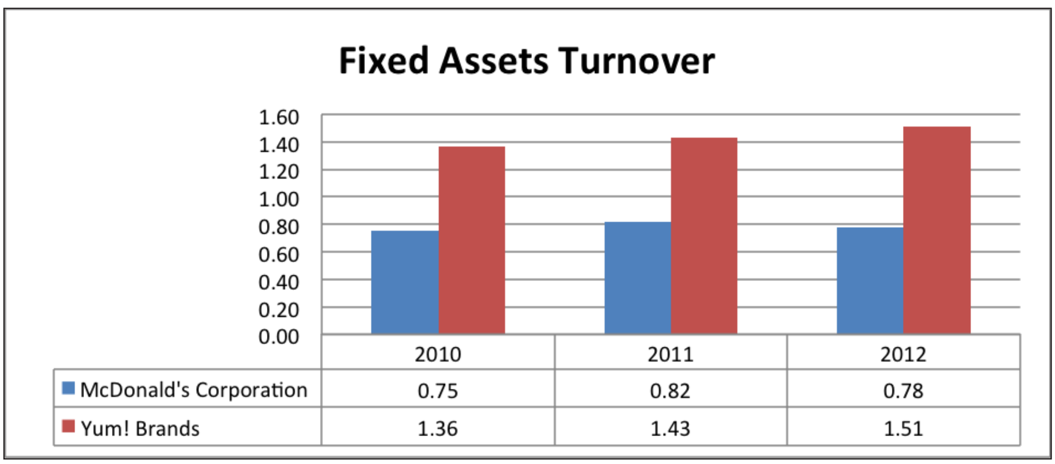


	2010	2011	2012
McDonald's Corporation	132.45	139.72	137.64
Yum! Brands	42.96	33.48	31.48

Figure 9: Stock Turnover McDonald's vs. Yum! Brands.

One can see that McDonald's has a positive trend whereas Yum! Brands has experienced a decrease in stock turnover over the 3 year period. The higher the stock turnover, the more efficient the company is in purchasing and selling goods. In this case, if we look at the numbers one can see that the inventory (stock) of McDonald's is actually nearly the same as of Yum! Brands but the Cost of Revenue is extremely higher, and this is the main reason why the results are so different.

The second measure of efficiency is fixed assets turnover (see Figure 10). Fixed assets are used to generate more sales, which means that a higher level of fixed assets tends to generate more sales. In this case the larger the result of the ratio is, the more amount of investment into fixed assets is recovered by the sales. The results can be expressed in percentages. Looking at the results of McDonald's and Yum! Brands (see Figure 10), one can see that Yum! Brands have much higher recovery on the investment into fixed assets.



	2010	2011	2012
McDonald's Corporation	0.75	0.82	0.78
Yum! Brands	1.36	1.43	1.51

Figure 10: Fixed Assets Turnover McDonald's vs. Yum! Brands.

Such difference in the results can be caused by the amount of total assets the companies own. In the case of McDonald's, the number of total assets is much higher than the actual revenues. This tells us that with the number of assets McDonald's has, it could produce much more than it does. Whereas with Yum! Brands, the revenues are higher than the assets owned and there is a positive trend in sales.

Looking at the third important area, which is the trade debtor collection period used to determine the period of time a customer is required to pay back for the goods. The higher the result of this ratio is, the bigger the chance that the company will run into cash flow problems and will not be able to cover its sales costs.

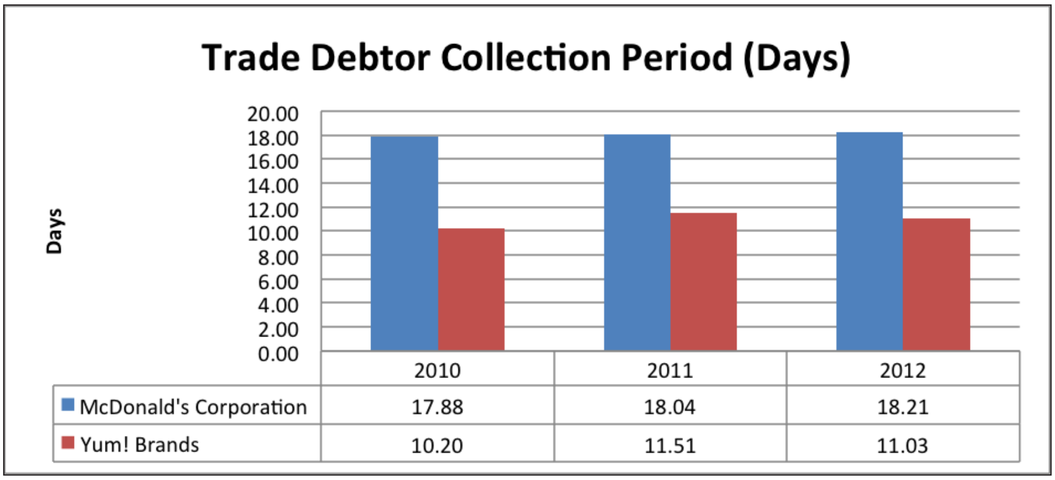


Figure 11: Trade Debtor Collection Period McDonald's vs. Yum! Brands.

As one can see from Figure 11, both of the companies have debtor collection periods lower than 1 month, which is mainly due to the origins of their business. Most of the customers will pay for their products straight away, only the payments from franchisees can come with a delay. From Figure 11 one can also see that,

> ***McDonald's has a higher debtor collection period in comparison to Yum! Brands; one of the main reasons why this could happen is that McDonald's has more headquarters and franchisees than Yum! Brands. This makes the number of Net Receivables higher for McDonald's than for Yum! Brands as the majority of their customers are end consumers of the products.***

Another criterion in efficiency analysis is trade creditor payment, which tells the settlement period for paying the suppliers. Higher results in this ratio would mean that company is experiencing issues to find a cash to pay its creditors/suppliers. Looking at the results of McDonald's and Yum! Brands in figure 12, one can see that McDonald's has a much lower creditor payment period than Yum! Brands do.

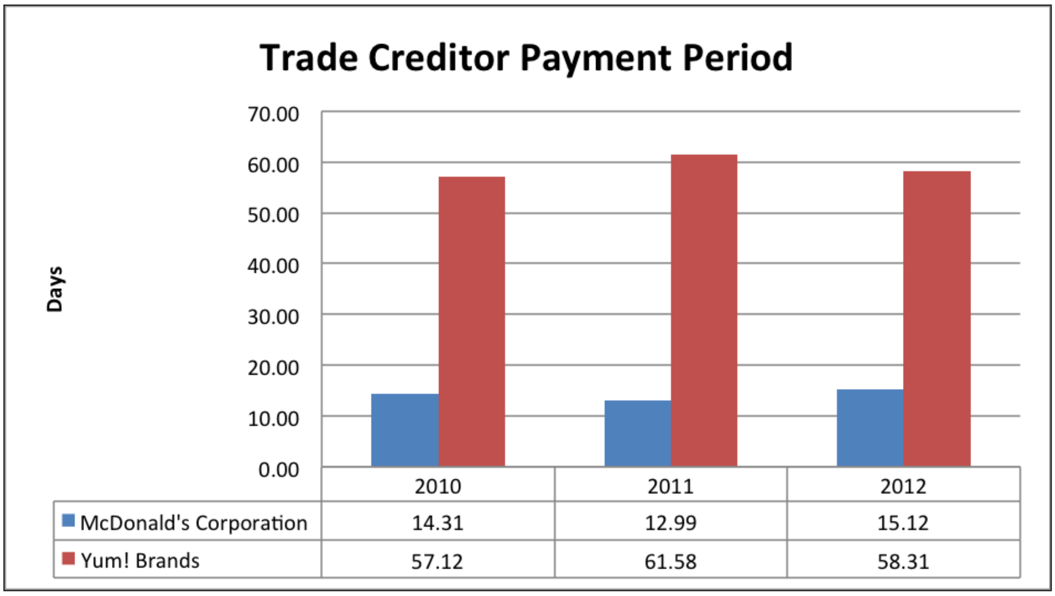


Figure 12:Trade Creditor Payment Period McDonald's vs. Yum! Brands.

One of the reasons why Yum! Brands might have such a high creditor payment period is the amount of liabilities they have to pay (Accounts Payable). Generally it is viewed that a standard credit period is 1 month, and in the case of Yum! Brands it is more than a month, and the result suggests that the company either needs to reduce the amount of liabilities or it has to generate more cash by increasing sales. The results for Yum! Brands correspond to what we have seen previously in Figure 4 and liquidity ratios.

The last metric one can consider in effectiveness analysis is Working Capital Cycle (WCC). In this paper we will calculate working capital cycle using the following formula:

$$\mathbf{WCC} = \frac{\text{Average Working Captial} * 365}{\text{Total Sales Revenue}}$$

The results for both of the companies' one can find below:

TABLE 11 - WORKING CAPITAL CYCLE - MCDONALD'S CORPORATION

	2010	2011	2012
Working Capital	1 443 800	893 800	1 519 000
Total Revenue	24 074 600	27 006 000	27 567 000
Working Capital Cycle	**21,89**	**12,08**	**20,11**

TABLE 12 - WORKING CAPITAL CYCLE - YUM! BRANDS

	2010	2011	2012
Working Capital	-135 000	-129 000	279 000
Total Revenue	11 343 000	12 626 000	13 633 000
Working Capital Cycle	**-4,34**	**-3,73**	**-7,47**

As one can see from Figure 13 and the results, McDonald's has much more WCC than Yum! Brands. The negative results Yum! Brands received were caused by the negative working capital. This as the result means that efficiency of their resources is low and that they might not be able to meet their obligations.

3.4 INVESTMENT RATIOS

Investment ratios are used by investors to estimate the attractiveness of the specific investment. In this section we will look at most widely used ratios:

$$\textbf{Dividend Yield} = \frac{\text{Annual Dividend Declared per Share}}{\text{Market Price of Share}} * 100$$

$$\textbf{Earnings Per Share} = \frac{\text{Earnings after tax and dividends(Net Income from Continuing Operations)}}{\text{Common Shares (Outstanding Shares)}}$$

$$\textbf{Price Earnings Ratio} = \frac{\text{Market Price of the Share}}{\text{EPS}}$$

(Market price of the share was taken from closing historical prices for each year ending December 1 at Yahoo Finance)

$$\textbf{Capital gearing} = \frac{\text{Long} - \text{Term Debt}}{\text{Capital Employed (Total Stockholder Equity)}} \times 100$$

Where:

$$\textbf{Capital Employed} = \text{Total Assets} - \text{Current Liabilities}$$

The results for the ratios one can find below:

TABLE 13 - INVESTMENT RATIOS - MCDONALD'S CORPORATION

	2010	2011	2012
Annual Dividend Per Share	2,26	2,53	2,87
Market Price of the Share	76,76	100,33	88,21
Dividend Yield %	**2,94**	**2,52**	**3,25**
Earnings After Tax and Dividends	4 946 300	5 503 100	5 464 800
Outstanding Shares	1 054 000	1 021 100	1 003 000
EPS	**4,69**	**5,39**	**5,45**
Market Price of the Share	76,76	100,33	88,21
Price to Earnings Ratio	**16,36**	**18,61**	**16,19**
Long-term Debt	11 497 000	12 133 800	13 632 500
Capital Employed	29 050 500	29 480 700	31 983 400
Capital Gearing	**40%**	**41%**	**43%**

Capital Employed

Total Assets	31 975 200	32 989 900	35 386 500
Current Liabilities	2 924 700	3 509 200	3 403 100
CE	**29 050 500**	**29 480 700**	**31 983 400**

TABLE 14 - INVESTMENT RATIOS - YUM! BRANDS

	2010	2011	2012
Annual Dividend Per Share	0,92	1,07	1,24
Market Price of the Share	49,05	59,01	66,25
Dividend Yield %	**1,88**	**1,81**	**1,87**
Earnings After Tax and Dividends	1 597 000	1 319 000	1 158 000
Outstanding Shares	469 000	460 000	451 000
EPS	**3,41**	**2,87**	**2,57**
Market Price of the Share	49,05	59,01	66,25
Price to Earnings Ratio	**14,40**	**20,58**	**25,80**
Long-term Debt	2 915 000	2 997 000	2 932 000
Capital Employed	5 868 000	6 384 000	6 823 000
Capital Gearing	**50%**	**47%**	**43%**

Capital Employed

Total Assets	8 316 000	8 834 000	9 011 000
Current Liabilities	2 448 000	2 450 000	2 188 000
CE	**5 868 000**	**6 384 000**	**6 823 000**

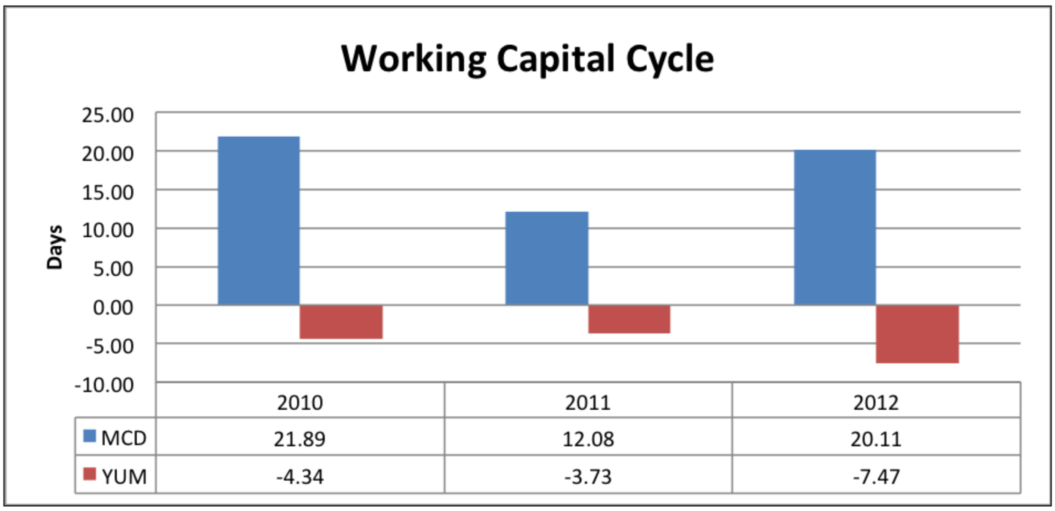


Figure 13: WCC McDonalds vs. Yum! Brands.

To start our comparison, we will firstly look at dividend yield. It shows the productivity of the investment, being more specific, it represents how much cash flow the investor is getting per dollar invested. In the case of McDonald's and Yum! Brands, we can see that Yum! Brands has a lower cash flow per dollar than McDonald's (see Figure 14).

One of the main reasons why McDonald's has higher results is because it has a higher net income from which it can pay higher dividends. This can be a result of efficient cost reduction strategies and utilisation of the equipment, which we have seen from the efficiency ratios.

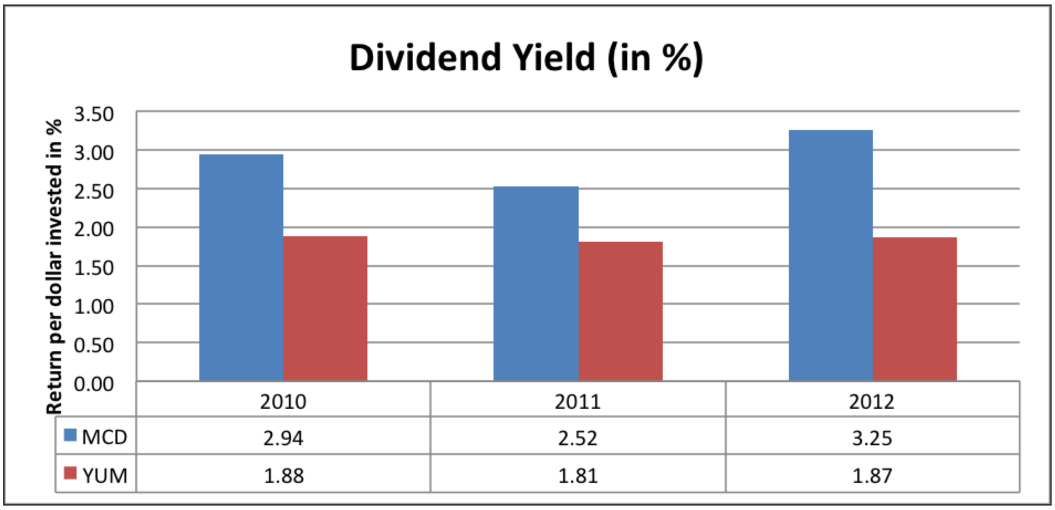


Figure 14: Dividend Yield McDonald's vs. Yum! Brands.

Looking at the EPS of the companies we can see that Yum! Brands EPS is lower than McDonald's. This ratio is very popular between investors as it tells how much the market is willing to pay for a company's earnings. The higher is the ratio, the more the market wants to pay, and the more positive is the prediction for the future growth of the share price. The reason why Yum! Brands have lower EPS can be explained by the relationship between equity and liabilities. As the company has much more liabilities then the equity, it therefore has more expenses and this decreases the net income the from which EPS is calculated. There is also a negative tendency over the years. This can be explained by an increase in the number of shares as the company grows and less increase in earnings. McDonald's in this case is more stable than Yum! Brands.

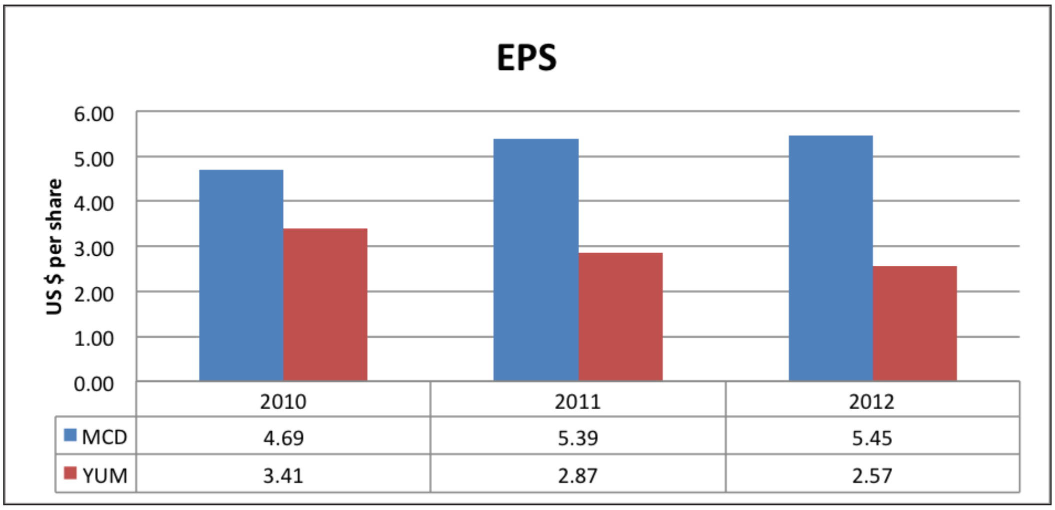


Figure 15: EPS McDonald's vs. Yum! Brands.

The next indicator is Price to Earnings Ratio (P/E). This indicator is a tricky one as most of the investors tend to forget that the lower is the result of this ratio, the more profitable is the investment. Generally, a value of 12-15 counts to be good. In this case one can see that Yum! Brands are doing much better than McDonald's (see Figure 16) in 2010; however they did much worse in 2011-2012. As this ratios links stock share price with EPS, one of the reasons why Yum! Brands had a change the results might be an increase in the pricing of their shares as they grow, but a less sufficient increase in their EPS.

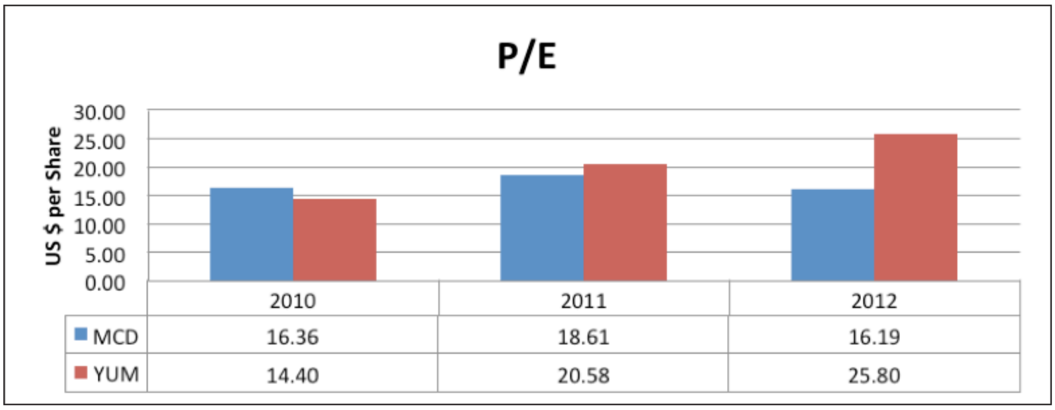


Figure 16: Price to Earnings Ratio McDonald's vs. Yum! Brands.

The next indicator we will look at in this section is the Capital Gearing Ratio. This ratio shows the capital structure of a company and its financial strength. The higher the ratio is, the more risky the investment is since the more activities of the company are supported by borrowed funds, the more interest the company has to pay for its debt. As one can see from Figure 17, Yum! Brands have much higher results than McDonald's, and this corresponds to what we have seen previously as the company has a lot of liabilities and debt. Even though McDonald's has lower results, one should notice that it still has a lot of long-term debt, which can be covered by its capital, but not in full.

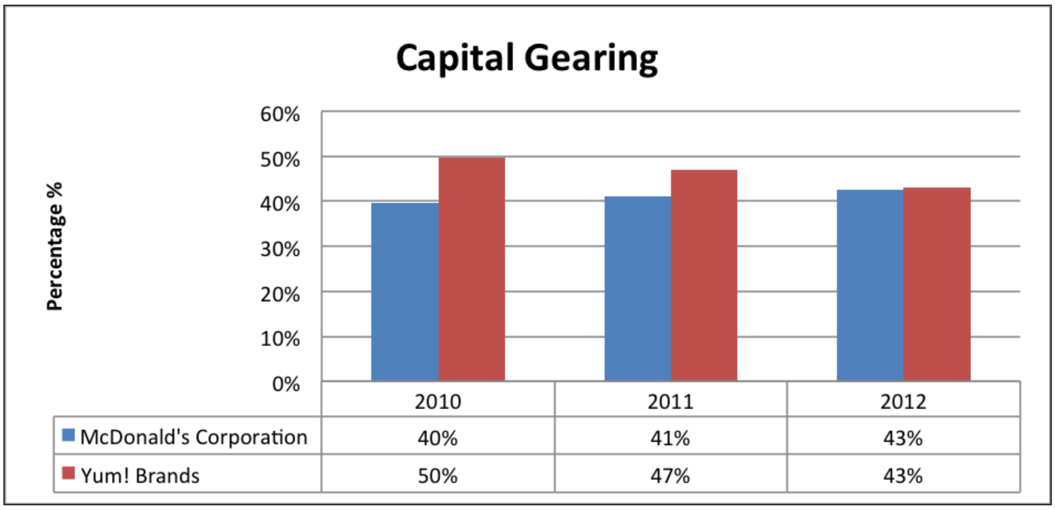


Figure 17: Capital Gearing McDonald's vs. Yum! Brands.

Normally, the ratios for a low-gearing company would be under 25%, and everything in between 25%-50% middle-gearing, and everything over 50% highly-gearing. As we can see, both McDonald's and Yum! Brands are middle-gearing companies. In this case, McDonald's still performs better than Yum! Brands. One of the main reasons is the long-term debt the company holds and its relationship with the capital employed. As we have seen previously, Yum! Brands have a lot of short-term and long-term liabilities, whereas their assets are not increasing as dramatically as needed; due to this, McDonald's is a safer investment.

It is important to remember that not always financing business through long-term debt gives negative outcomes, as it is most of the times cheap. It would really depend on the ability of the company to raise profits to cover this debt. In this case, both of the companies have great potential, but McDonald's has better performance in meeting its liabilities.

4. MCDONALD'S AND YUM! BRANDS VS. INDUSTRIAL AVERAGES

4.1 MCDONALD'S VS. YUM! BRANDS STOCK PERFORMANCE EVALUATION

In this section of the paper we will look at the performance of MCD and YUM stocks over a 3-year period. The author will use SharpCharts from which one could see the volume of the traded stock, the opening and closing price, the change in the price in percentage for the date of 6 Dec 2013. One can also find the MACD (Moving Average Convergence-Divergence), Slope charts, MA (50), MA (200), and RSI.

Chart 1: MCD Stock Performance (3 years). Stock Charts (2013)

At the top of Chart 1 one can find the RSI indicator. This indicator stands for Relative Strength Index and is a momentum oscillator. This indicator can vary from zero to 100. RSI can be of different parameters, and in this case the author is using the default 14-day parameter; however, if one needs to increase sensitivity, he/she should reduce it to 10 days. Since RSI is an oscillator, it determines when the market is overbought or oversold. Generally, it is considered that if RSI is above 70, then it is overbought; if it is less than 30, then it is oversold. If the stock is overbought, then it might experience a decline in price, whereas if it oversold, it has potential to grow in the future. Investors use RSI to identify the best time to sell or buy financial assets. When the asset is approaching 70, it is beneficial to sell it, whereas if the stock is approaching 30, it is time to buy. As one can see both YUM and MCD are stable stocks.

As one can see from Charts 1 and 2, the results for MCD and YUM are not falling into any of the categories. In the Chart 1, one can see the blue and the red lines which stand for moving averages (MA). This indicator helps to better analyse the price movement by eliminating 'noise' from random price fluctuations. This indicator is based on previous prices due to sometimes it can lack accuracy. Generally, there are two types of MAs, SMA (Simple Moving Average) and EMA (Exponential Moving Average). The main difference between the two is that EMA gives bigger weight to more recent prices. In this report, we will consider SMA for the period of time of 50 days and 200 days, represented respectively by blue and red lines.

As one can see, the SMA for the 50 days period is much higher than SMA for 200 days. MA (50) has the price of $95.43 and SMA (200) only $82.35. MA for a shorter period of time will have smaller lag than MA for a longer period such as 200 days. Therefore, short-term investors would prefer to refer to short-term MAs whereas long-term investors generally prefer to look at a long-term MA.

Chart 2: YUM! Stock Performance (3 years). Stock Charts (2013)

Even though the prices for MA (200) is lower, it is still on the uptrend, which indicates that the security has growth. One can also see that in the MCD case, the long-term MA and the short-term MA did not crossover, which indicates that overall the performance is on a steady growth path. Comparing MCD, MA (50) and (200) with the results for YUM represented in Chart 2, one can see that the averages are smaller for YUM- MA (50) – 69.11 and MA (200) - 56.68. One can also see the same tendency that MA (50) is larger than MA (200), and the author assumes that one of the reasons for this is the lag. Both of the companies though have a positive uptrend over the 3 years.

MA is not only a single indicator but also a contributor to the next measure which is Moving Average Convergence-Divergence (MACD). This indictor, which one can see represented in both Charts 1 and 2 below the main body, is counted to be the easiest momentum indicator. What it does is it subtracts longer moving average from the shorter moving average. The shorter the period under study, the more sensitive are the results. In this report we will use the standard setting (12, 26,9). The investors tend to look for the signal lines crossovers, centerline crossovers, and divergences to generate signals. Since MACD is based on concepts of convergence and divergence, it is important to mention that convergence occurs when the MAs move towards each other and divergence occurs when they move away from each other. As one can see from Charts 1 and 2, both of the companies have convergence in the movement of the MAs. One can also see that the averages are higher for YUM than for MCD as it experienced a negative performance during the second half of the year 2012 until 2013.

The last indicator in this section, the scope, is a result of linear regression which generates the line of best fit for a price series. This indicator is a good tool to measure the direction and strength of a trend. Investors can also use it in combination with other tools to identify the potential point of entry to the already on-going trend. The trend can fluctuate above and below zero. In this paper the author took the 52-week slope. As one can see, MCD has a positive trend until the first quarter of 2012 first when it experienced a decline which one could also see in the results of the ratios for the previous sections. From the third quarter of year 2013 until the first quarter of 2013 MCD was in negative territory; however, then it experienced growth. As for the YUM! Brands one can see that the trend is much more positive and the period where they performed under the positive region is shorter (only the first quarter of 2013). If we look at the average YUM has 0.18 and MCD 0.12, which means that YUM has a more positive price trend than MCD.

4.2 INDUSTRY COMPARISON

In this section of the paper, the author will compare stock performance of YUM and MCD to each other as well as to the industry indices like S&P 500 and Down Jones. In Chart 3 one can see the comparison of MCD and YUM, and S&P 500, and DJ Indices stock performance. S&P 500 stands for Standard & Poor's 500 Index. This index consists of 500 stocks which are chosen by market size, liquidity, etc. This index is meant to be the leading indicator of the U.S. stock market. Previously, it was the Down Jones Index which is also represented in Chart 3 in red; however, since DJ includes only 30 companies, S&P 500 is considered to be the best representation. Both of the indices are appropriate for this specific comparison since we are evaluating companies which are listed in the NYSE.

Chart 3: MCD, YUM, S&P 500, and DJ Comparison. Yahoo Finance (2013).

When we look at Chart 3 one can see that both MCD and YUM outperform S&P 500 and DJ indices, which shows that generally both of the companies have higher growth than the competitors and are attractive to investors. If one compares the performance of MCD to YUM, we can see that through the years 2007-2012 MCD has the highest prices and the best stock performance. However, starting in 2012 we can see that YUM is actually performing at the same level with periodic crossover. It is essential to highlight here that both of the companies are the benchmarks of the industry and of course even when they experience a decrease in their prices, they can outperform the competitors, as one can see from Chart 4.

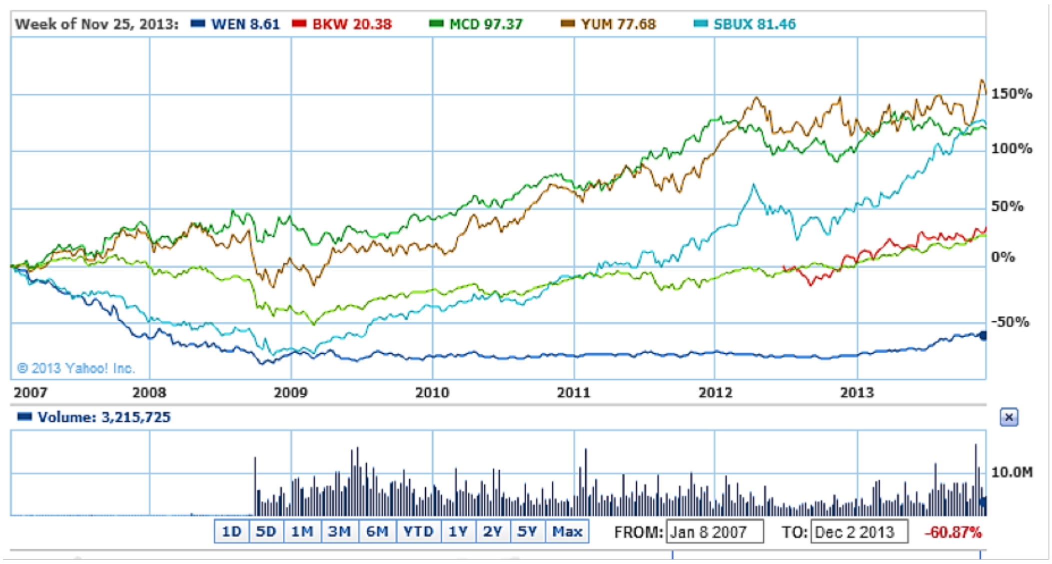


Chart 4: Comparison to Direct Competitors. Yahoo Finance (2013).

In Chart 4 one can see the comparison of several stocks, which are directly competing with MCD and YUM. Those are stock of companies – Wendy & Corporation, Burger King, and Starbucks. The chart also shows S&P 500 represented by a light-green line. As one can see, starting end of 2007 beginning of 2008, when the U.S. market experienced a crisis, the performance of S&P 500 and YUM and MCD are dramatically different.

> ***As S&P 500 shows most of the companies experienced a decline in their stock performance; however, for MCD and YUM we can see a positive trend. When we look at Wendy's Corporation, we can see that starting in the year 2007, it experienced a decline and after this, it did not experience any major growth and is beyond the S&P 500 index.***

Whereas Starbucks after experiencing a decline in the years during the crisis, experienced growth and still has a positive trend, even though it is still has lower stock prices than YUM and MCD. When we look at Burger King, the data is available only starting in the year 2012, and we can see that the stock performance is nearly the same as of S&P 500. Comparing all of the stocks one can see that MCD and YUM outperform all of their competitors and also the S&P 500 Index.

4.3 FINANCIAL RATIOS MCDONALD'S AND YUM! BRANDS INDUSTRY COMPARISON

In this section the author will compare the two companies with industrial averages for a set of ratios which are usually used by investors to evaluate the performance of the stock. The author of the report referred to Morning Stars' (2013) estimates, which one can find below:

FIGURE 18 - - MCD AND YUM! VALUATION

	MCD	YUM	Industry Avg.
Price/Earnings	17.4	32.5	29.5
Price/Book	6.3	15.8	7.7
Price/Sales	3.5	2.8	2.5
Price/Cash Flow	13.7	17.7	11.6
Dividend Yield %	3.2	1.8	1.9

When we look at the **P/E** ratio, one can see that industry average for this metric is 29.5, high P/E ratio is less attractive for investors as it means that they are paying more for the earnings. In this case, Yum! Brands is more attractive for the value investors, who a looking for undervalued stocks, with the potential growth, whereas McDonald's would be desirable for growth investors who are looking for the stock with high growth rates. Yum! Brands shows higher results than the industry average and this means that the company might face issues with solvency.

Price/Book ratio provides an understanding if the stock is overvalued or undervalued. As one can see Yum! Brands score much higher than McDonald's and the industry average, which might mean that the stock is overpriced or investors have high expectations. McDonald's in this case scores lower than the industry average, which means that the stock is underpriced, due to lower growth expectation associated with it, whereas Yum! Brands exceeds the industry average which might mean that it is overvalued.

Price/S compares the value of the stock to either its own performance in the past or to other companies. It determines how much investors pay for the dollar of company's sales. Therefore, the lower the ratio is, the more attractive the stock is. This measure can be very useful only when comparing to the industry average, and in this case, the industry average is 2.5, as we can see both Yum! Brands and McDonald's score higher than this, but Yum! Brands is performing better than McDonald's.

P/C metric compares stock market price to cash flow generated per-share. This ratio is similar to P/E, however a lot of investors consider it much more solid. The main reason behind this is that cash flow is generally harder to manipulate, whereas earnings are affected by such factors like depreciation. The same way as the P/E ratio, the lower the results, the better. The industry average for this ratio is 9.6 which both of the companies outperform. However, McDonald's has lower scores than Yum! Brands. These results correspond to the working capital issues Yum! Brands currently has.

When we look at the last metrics, **Dividend Yield**, which represents the return (in percentage) the company pays out in dividends. The average for this metrics is 1.9%, which is higher than what Yum! Brands pays out. McDonald's, though, exceeds this amount and it pays 3.2%. It is important to notice here that generally older companies tend to pay higher dividends, and their dividends history tends to be more stable.

To summarise the above, the author wants to highlight that generally McDonald's is performing better than Yum! Brands. It is more stable and has better return on the investment. As in most of the ratios, it scored less than Yum! Brands. Even though Yum! Brands show concerns in areas of cash flow, working capital and debt, their growth rates are high and are increasing from 2012. This might help the companies to increase revenues to cover liabilities.

5. CONCLUSIONS

In this paper the author has performed financial analyses for McDonald's and Yum! Brands. She has compared the results of the liquidity, profitability, efficiency, and investment ratios as well as looked at the industrial averages to better evaluate the companies' performance.

From the above analyses, the author can conclude that McDonald's performed much better than Yum! Brands in all of the areas investigated. Yum! Brands are experiencing issues with working capital and might face problems with covering their short-term and long-term liabilities. They are also less efficient in managing their costs of production, even though they utilise their assets better than McDonald's. Yum! Brands performed better in ROCE in 2012 due to an increase in their Gross Profit; however, they have a lower Net Profit Margin than McDonald's. This can be explained by the expenses the company encounters and their costs management and pricing systems. Another reason why McDonald's performed better nearly in all profitability ratios was because of the number of liabilities Yum! Brands need to pay. As we have seen from the liquidity ratios, those exceed their assets.

If we look at the efficiency ratios, McDonald's has higher debtor collection period and lower fixed asset turnover than YUM, but the company still does not have problems with the Working Capital Cycle. It also performs better in the creditor collection period, which shows that the company has enough cash to pay to its creditors in the short-term.

When one considers investment ratios, he/she can see that McDonald's also scored better. It has a lower P/E ratio meaning that investors pay less for the earnings they receive than Yum! Brands. Its EPS is higher and therefore the Dividend Yield is also higher than that of Yum! Brands, and exceeds the industry average. Its Capital Gearing Ratio shows that it is a low-gearing company and is less risky as an investment. If we look at the stock performance one can see that McDonald's has a positive trend of growth and outperforms the S&P 500 and DJ Indices. It also outperforms all of the competitors in its sector, including Burger King and Wendy's Corporation. However, when we look at Yum! Brands we can see that they entered into competition with McDonald's in 2012, and in the future it can be a very attractive stock to invest in for the growth investors. McDonald's, on the other hand, would be an option for value investors who are seeking for long-term investments. ■

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APPENDIX 1 - MCDONALD'S CORPORATION

Income Statement

Get Income Statement for: GO

View: **Annual Data** | Quarterly Data

All numbers in thousands

Period Ending	Dec 31, 2012	Dec 31, 2011	Dec 31, 2010
Total Revenue	**27,567,000**	**27,006,000**	**24,074,600**
Cost of Revenue	16,750,700	16,319,400	14,437,300
Gross Profit	**10,816,300**	**10,686,600**	**9,637,300**
Operating Expenses			
Research Development	-	-	-
Selling General and Administrative	2,203,700	2,160,800	2,135,100
Non Recurring	8,000	(3,900)	29,100
Others	-	-	-
Total Operating Expenses	-	-	-
Operating Income or Loss	**8,604,600**	**8,529,700**	**7,473,100**
Income from Continuing Operations			
Total Other Income/Expenses Net	(9,000)	(24,700)	(21,900)
Earnings Before Interest And Taxes	8,595,600	8,505,000	7,451,200
Interest Expense	516,600	492,800	450,900
Income Before Tax	8,079,000	8,012,200	7,000,300
Income Tax Expense	2,614,200	2,509,100	2,054,000
Minority Interest	-	-	-
Net Income From Continuing Ops	5,464,800	5,503,100	4,946,300
Non-recurring Events			
Discontinued Operations	-	-	-
Extraordinary Items	-	-	-
Effect Of Accounting Changes	-	-	-
Other Items	-	-	-
Net Income	**5,464,800**	**5,503,100**	**4,946,300**
Preferred Stock And Other Adjustments	-	-	-
Net Income Applicable To Common Shares	**5,464,800**	**5,503,100**	**4,946,300**

Income Statement | Cash Flow | Balance Sheet | Credit Rating

Income Statement	2012	2011	2010	2009	2008
Revenue	$27,567	$27,006	$24,074.6	$22,744.7	$23,522.4
Gross Profit	$10,816.3	$10,686.6	$9,637.3	$8,791.8	$8,639.2
Operating Income	$8,604.6	$8,529.7	$7,473.1	$6,841	$6,442.9
Net Income	$5,464.8	$5,503.1	$4,946.3	$4,551	$4,313.2
Diluted EPS	$5.36	$5.27	$4.58	$4.11	$3.76

Balance Sheet

Get Balance Sheet for: GO

View: Annual Data | Quarterly Data

All numbers in thousands

Period Ending	Dec 31, 2012	Dec 31, 2011	Dec 31, 2010
Assets			
Current Assets			
Cash And Cash Equivalents	2,336,100	2,335,700	2,387,000
Short Term Investments	-	-	-
Net Receivables	1,375,300	1,334,700	1,179,100
Inventory	121,700	116,800	109,900
Other Current Assets	1,089,000	615,800	692,500
Total Current Assets	**4,922,100**	**4,403,000**	**4,368,500**
Long Term Investments	1,380,500	1,427,000	1,335,300
Property Plant and Equipment	24,677,200	22,834,500	22,060,600
Goodwill	2,804,000	2,653,200	2,586,100
Intangible Assets	-	-	-
Accumulated Amortization	-	-	-
Other Assets	1,602,700	1,672,200	1,624,700
Deferred Long Term Asset Charges	-	-	-
Total Assets	**35,386,500**	**32,989,900**	**31,975,200**
Liabilities			
Current Liabilities			
Accounts Payable	3,403,100	3,142,600	2,916,400
Short/Current Long Term Debt	-	366,600	8,300
Other Current Liabilities	-	-	-
Total Current Liabilities	**3,403,100**	**3,509,200**	**2,924,700**
Long Term Debt	13,632,500	12,133,800	11,497,000
Other Liabilities	1,526,200	1,612,600	1,586,900
Deferred Long Term Liability Charges	1,531,100	1,344,100	1,332,400
Minority Interest	-	-	-
Negative Goodwill	-	-	-
Total Liabilities	**20,092,900**	**18,599,700**	**17,341,000**
Stockholders' Equity			
Misc Stocks Options Warrants	-	-	-
Redeemable Preferred Stock	-	-	-
Preferred Stock	-	-	-
Common Stock	16,600	16,600	16,600
Retained Earnings	39,278,000	36,707,500	33,811,700
Treasury Stock	(30,576,300)	(28,270,900)	(25,143,400)
Capital Surplus	5,778,900	5,487,300	5,196,400
Other Stockholder Equity	796,400	449,700	752,900
Total Stockholder Equity	**15,293,600**	**14,390,200**	**14,634,200**
Net Tangible Assets	**12,489,600**	**11,737,000**	**12,048,100**

Cash Flow

Get Cash Flow for: GO

View: Annual Data | Quarterly Data

All numbers in thousands

Period Ending	Dec 31, 2012	Dec 31, 2011	Dec 31, 2010
Net Income	**5,464,800**	**5,503,100**	**4,946,300**
Operating Activities, Cash Flows Provided By or Used In			
Depreciation	1,488,500	1,415,000	1,276,200
Adjustments To Net Income	135,900	192,000	248,100
Changes In Accounts Receivables	(29,400)	(160,800)	(50,100)
Changes In Liabilities	(66,500)	253,000	(28,100)
Changes In Inventories	(27,200)	(52,200)	(50,800)
Changes In Other Operating Activities	-	-	-
Total Cash Flow From Operating Activities	**6,966,100**	**7,150,100**	**6,341,600**
Investing Activities, Cash Flows Provided By or Used In			
Capital Expenditures	(3,049,200)	(2,729,800)	(2,135,500)
Investments	-	-	-
Other Cash flows from Investing Activities	(118,100)	158,900	79,500
Total Cash Flows From Investing Activities	**(3,167,300)**	**(2,570,900)**	**(2,056,000)**
Financing Activities, Cash Flows Provided By or Used In			
Dividends Paid	(2,896,600)	(2,609,700)	(2,408,100)
Sale Purchase of Stock	(2,286,500)	(3,029,100)	(2,235,400)
Net Borrowings	1,204,600	1,003,900	787,400
Other Cash Flows from Financing Activities	(13,600)	(10,600)	(1,300)
Total Cash Flows From Financing Activities	**(3,849,800)**	**(4,533,000)**	**(3,728,700)**
Effect Of Exchange Rate Changes	51,400	(97,500)	34,100
Change In Cash and Cash Equivalents	**400**	**(51,300)**	**591,000**

6-Year Summary

Dollars in millions, except per share data	**2012**	2011	2010	2009	2008	2007
Company-operated sales	**$18,603**	18,293	16,233	15,459	16,561	16,611
Franchised revenues	**$ 8,964**	8,713	7,842	7,286	6,961	6,176
Total revenues	**$27,567**	27,006	24,075	22,745	23,522	22,787
Operating income	**$ 8,605**	8,530	7,473	6,841[1]	6,443	3,879[4]
Income from continuing operations	**$ 5,465**	5,503	4,946	4,551[1,2]	4,313[3]	2,335[4,5]
Net income	**$ 5,465**	5,503	4,946	4,551[1,2]	4,313[3]	2,395[4,5,6]
Cash provided by operations	**$ 6,966**	7,150	6,342	5,751	5,917	4,876
Cash used for investing activities	**$ 3,167**	2,571	2,056	1,655	1,625	1,150
Capital expenditures	**$ 3,049**	2,730	2,135	1,952	2,136	1,947
Cash used for financing activities	**$ 3,850**	4,533	3,729	4,421	4,115	3,996
Treasury stock purchases[7]	**$ 2,605**	3,373	2,648	2,854	3,981	3,949
Common stock cash dividends	**$ 2,897**	2,610	2,408	2,235	1,823	1,766
Financial position at year end:						
Total assets	**$35,386**	32,990	31,975	30,225	28,462	29,392
Total debt	**$13,633**	12,500	11,505	10,578	10,218	9,301
Total shareholders' equity	**$15,294**	14,390	14,634	14,034	13,383	15,280
Shares outstanding *in millions*	**1,003**	1,021	1,054	1,077	1,115	1,165
Per common share:						
Income from continuing operations-diluted	**$ 5.36**	5.27	4.58	4.11[1,2]	3.76[3]	1.93[4,5]
Earnings-diluted	**$ 5.36**	5.27	4.58	4.11[1,2]	3.76[3]	1.98[4,5,6]
Dividends declared	**$ 2.87**	2.53	2.26	2.05	1.63	1.50
Market price at year end	**$ 88.21**	100.33	76.76	62.44	62.19	58.91
Company-operated restaurants	**6,598**	6,435	6,399	6,262	6,502	6,906
Franchised restaurants	**27,882**	27,075	26,338	26,216	25,465	24,471
Total Systemwide restaurants	**34,480**	33,510	32,737	32,478	31,967	31,377
Franchised sales[8]	**$69,687**	67,648	61,147	56,928	54,132	46,943

(1) Includes pretax income due to Impairment and other charges (credits), net of $61.1 million ($91.4 million after tax or $0.08 per share) primarily related to the resolution of certain liabilities retained in connection with the 2007 Latin America developmental license transaction.

(2) Includes income of $58.8 million ($0.05 per share) for gain on sale of investment related to the sale of the Company's minority ownership interest in Redbox Automated Retail, LLC.

(3) Includes income of $109.0 million ($0.09 per share) for gain on sale of investment from the sale of the Company's minority ownership interest in U.K.- based Pret A Manger.

(4) Includes pretax operating charges of $1.7 billion ($1.32 per share) due to Impairment and other charges (credits), net primarily as a result of the Company's sale of its businesses in 18 Latin American and Caribbean markets to a developmental licensee.

(5) Includes a tax benefit of $316.4 million ($0.26 per share) resulting from the completion of an Internal Revenue Service examination of the Company's 2003-2004 U.S. federal tax returns.

(6) Includes income of $60.1 million ($0.05 per share) related to discontinued operations primarily from the sale of the Company's investment in Boston Market.

(7) Represents treasury stock purchases as reflected in Shareholders' equity.

(8) While franchised sales are not recorded as revenues by the Company, management believes they are 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. Franchised restaurants represent more than 80% of McDonald's restaurants worldwide.

APPENDIX 2 - YUM BRANDS INC.

Income Statement

Get Income Statement for: GO

View: Annual Data | Quarterly Data

All numbers in thousands

Period Ending	Dec 29, 2012	Dec 31, 2011	Dec 25, 2010
Total Revenue	**13,633,000**	**12,626,000**	**11,343,000**
Cost of Revenue	9,852,000	9,140,000	8,120,000
Gross Profit	**3,781,000**	**3,486,000**	**3,223,000**
Operating Expenses			
Research Development	-	-	-
Selling General and Administrative	1,450,000	1,536,000	1,407,000
Non Recurring	37,000	135,000	47,000
Others	-	-	-
Total Operating Expenses	-	-	-
Operating Income or Loss	**2,294,000**	**1,815,000**	**1,769,000**
Income from Continuing Operations			
Total Other Income/Expenses Net	-	-	-
Earnings Before Interest And Taxes	2,145,000	1,659,000	1,594,000
Interest Expense	-	-	-
Income Before Tax	2,145,000	1,659,000	1,594,000
Income Tax Expense	537,000	324,000	416,000
Minority Interest	(11,000)	(16,000)	(20,000)
Net Income From Continuing Ops	1,597,000	1,319,000	1,158,000
Non-recurring Events			
Discontinued Operations	-	-	-
Extraordinary Items	-	-	-
Effect Of Accounting Changes	-	-	-
Other Items	-	-	-
Net Income	**1,597,000**	**1,319,000**	**1,158,000**
Preferred Stock And Other Adjustments	-	-	-
Net Income Applicable To Common Shares	**1,597,000**	**1,319,000**	**1,158,000**

Balance Sheet

Get Balance Sheet for: GO

View: Annual Data | Quarterly Data

All numbers in thousands

Period Ending	Dec 29, 2012	Dec 31, 2011	Dec 25, 2010
Assets			
Current Assets			
Cash And Cash Equivalents	912,000	1,312,000	1,538,000
Short Term Investments	-	-	-
Net Receivables	412,000	398,000	317,000
Inventory	313,000	273,000	189,000
Other Current Assets	272,000	338,000	269,000
Total Current Assets	**1,909,000**	**2,321,000**	**2,313,000**
Long Term Investments	72,000	167,000	154,000
Property Plant and Equipment	4,250,000	4,042,000	3,830,000
Goodwill	1,034,000	681,000	659,000
Intangible Assets	690,000	299,000	475,000
Accumulated Amortization	-	-	-
Other Assets	575,000	775,000	519,000
Deferred Long Term Asset Charges	481,000	549,000	366,000
Total Assets	**9,011,000**	**8,834,000**	**8,316,000**
Liabilities			
Current Liabilities			
Accounts Payable	2,178,000	2,130,000	1,775,000
Short/Current Long Term Debt	10,000	320,000	673,000
Other Current Liabilities	-	-	-
Total Current Liabilities	**2,188,000**	**2,450,000**	**2,448,000**
Long Term Debt	2,932,000	2,997,000	2,915,000
Other Liabilities	1,579,000	1,471,000	1,284,000
Deferred Long Term Liability Charges	-	-	-
Minority Interest	99,000	93,000	93,000
Negative Goodwill	-	-	-
Total Liabilities	**6,798,000**	**7,011,000**	**6,740,000**
Stockholders' Equity			
Misc Stocks Options Warrants	59,000	-	-
Redeemable Preferred Stock	-	-	-
Preferred Stock	-	-	-
Common Stock	-	18,000	86,000
Retained Earnings	2,286,000	2,052,000	1,717,000
Treasury Stock	-	-	-
Capital Surplus	-	-	-
Other Stockholder Equity	(132,000)	(247,000)	(227,000)
Total Stockholder Equity	**2,154,000**	**1,823,000**	**1,576,000**
Net Tangible Assets	**430,000**	**843,000**	**442,000**

Cash Flow

Get Cash Flow for: GO

View: Annual Data | Quarterly Data

All numbers in thousands

Period Ending	Dec 29, 2012	Dec 31, 2011	Dec 25, 2010
Net Income	1,597,000	1,319,000	1,158,000
Operating Activities, Cash Flows Provided By or Used In			
Depreciation	645,000	628,000	589,000
Adjustments To Net Income	(176,000)	(8,000)	(82,000)
Changes In Accounts Receivables	(18,000)	(39,000)	(12,000)
Changes In Liabilities	135,000	253,000	165,000
Changes In Inventories	9,000	(75,000)	(68,000)
Changes In Other Operating Activities	91,000	76,000	198,000
Total Cash Flow From Operating Activities	2,294,000	2,170,000	1,968,000
Investing Activities, Cash Flows Provided By or Used In			
Capital Expenditures	(1,099,000)	(940,000)	(796,000)
Investments	-	-	-
Other Cash flows from Investing Activities	94,000	(66,000)	217,000
Total Cash Flows From Investing Activities	(1,005,000)	(1,006,000)	(579,000)
Financing Activities, Cash Flows Provided By or Used In			
Dividends Paid	(544,000)	(481,000)	(412,000)
Sale Purchase of Stock	(903,000)	(693,000)	(269,000)
Net Borrowings	(282,000)	(262,000)	313,000
Other Cash Flows from Financing Activities	(85,000)	(43,000)	(38,000)
Total Cash Flows From Financing Activities	(1,716,000)	(1,413,000)	(337,000)
Effect Of Exchange Rate Changes	5,000	21,000	21,000
Change In Cash and Cash Equivalents	(422,000)	(228,000)	1,073,000

YUM! Brands, Inc. and Subsidiaries
(in millions, except per share and unit amounts)

	Fiscal Year				
	2011	2010	2009	2008	2007
Summary of Operations					
Revenues					
Company sales	$ 10,893	$ 9,783	$ 9,413	$ 9,843	$ 9,100
Franchise and license fees and income	1,733	1,560	1,423	1,461	1,335
Total	12,626	11,343	10,836	11,304	10,435
Closures and impairment income (expenses)[a]	(135)	(47)	(103)	(43)	(35)
Refranchising gain (loss)[a]	(72)	(63)	26	5	11
Operating Profit[b]	1,815	1,769	1,590	1,517	1,357
Interest expense, net	156	175	194	226	166
Income before income taxes	1,659	1,594	1,396	1,291	1,191
Net Income – including noncontrolling interest	1,335	1,178	1,083	972	909
Net Income – YUM! Brands, Inc.	1,319	1,158	1,071	964	909
Basic earnings per common share	2.81	2.44	2.28	2.03	1.74
Diluted earnings per common share	2.74	2.38	2.22	1.96	1.68
Diluted earnings per common share before Special Items[c]	2.87	2.53	2.17	1.91	1.68
Cash Flow Data					
Provided by operating activities	$ 2,170	$ 1,968	$ 1,404	$ 1,521	$ 1,551
Capital spending, excluding acquisitions and investments	940	796	797	935	726
Proceeds from refranchising of restaurants	246	265	194	266	117
Repurchase shares of Common Stock	752	371	—	1,628	1,410
Dividends paid on Common Stock	481	412	362	322	273
Balance Sheet					
Total assets	$ 8,834	$ 8,316	$ 7,148	$ 6,527	$ 7,188
Long-term debt	2,997	2,915	3,207	3,564	2,924
Total debt	3,317	3,588	3,266	3,589	3,212
Other Data					
Number of stores at year end					
Company	7,437	7,271	7,666	7,568	7,625
Unconsolidated Affiliates	587	525	469	645	1,314
Franchisees[d]	26,928	27,852	26,745	25,911	24,297
Licensees	2,169	2,187	2,200	2,168	2,109
System[d]	37,121	37,835	37,080	36,292	35,345
China Division system sales growth[e]					
Reported	35 %	18%	11 %	33%	34%
Local currency[f]	29 %	17%	10 %	22%	28%
YRI system sales growth[e]					
Reported	13 %	10%	(4)%	10%	15%
Local currency[f]	8 %	4%	5 %	8%	10%
U.S. same store sales growth[e]	(1)%	1%	(5)%	2%	—%
Shares outstanding at year end	460	469	469	459	499
Cash dividends declared per Common Stock	$ 1.07	$ 0.92	$ 0.80	$ 0.72	$ 0.45
Market price per share at year end	$ 59.01	$ 49.66	$ 35.38	$ 30.28	$ 38.54