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EPS of \$2.83 **misses by \$0.03** | Revenue of \$6.39B (-0.28% Y/Y) **misses by \$88.01M**

McDonald's Corporation (NYSE:[MCD](#)) Q4 2024 Earnings Conference Call February 10, 2025
8:30 AM ET

Company Participants

Scott Meader - Interim Treasurer

Chris Kempczinski - Chairman and CEO

Ian Borden - CFO

Conference Call Participants

Dennis Geiger - UBS
David Palmer - Evercore
David Tarantino - Baird
Sara Senatore - Bank of America
Brian Harbour - Morgan Stanley
Lauren Silberman - Deutsche Bank
John Ivankoe - JPMorgan
Eric Gonzalez - KeyBanc
Andrew Charles - TD Cowen
Jon Tower - Citi
Jeff Bernstein - Barclays

Operator

Hello, and welcome to McDonald's Fourth Quarter 2024 Investor Conference Call. At the request of McDonald's Corporation, this conference is being recorded. Following today's presentation, there will be a question-and-answer session for investors. [Operator Instructions] I would now like to turn the conference over to Mr. Scott Meader, Interim Treasurer for McDonald's Corporation. Mr. Meader, you may begin.

Scott Meader

Good morning, everyone, and thank you for joining us. With me on the call today are Chairman and Chief Executive Officer, Chris Kempczinski, and Chief Financial Officer, Ian Borden.

As a reminder, the forward-looking statements in our earnings release and 8-K filing also apply to our comments on the call today. Both of those documents are available on our website as are reconciliations of any non-GAAP financial measures mentioned on today's call along with their corresponding GAAP measures. Following prepared remarks this morning, we will take your questions. Please limit yourself to one question and then re-enter the queue for any additional questions. Today's conference call is being webcast and is also being recorded for replay via our website.

And now, I'll turn it over to Chris.

Chris Kempczinski

Thanks, Scott, and good morning, everyone. Thank you for joining us today to review our fourth-quarter and fiscal year results. Obviously, our performance in 2024 did not meet our expectations, but I'm still immensely proud of our McDonald's system. It was a busy year and at times, it felt like McDonald's was a part of almost every major news story, reflecting the reach and visibility of our brand. Throughout it all, McDonald's people were resilient and responsive. We stayed focused on our customers, acted swiftly when needed and continue to run our restaurants at a high level. To our employees, franchisees and suppliers, I want to say, thank you.

In 2024, global comp sales decreased 0.1% for the full year with comps up 0.4% in the fourth quarter, including positive comps across our IDL and IOM segments. In the US, comp sales were down 1.4% for Q4 amidst the impact of the E. coli outbreak linked to slivered onions on our Quarter Pounders. Ian will provide you with more texture on these results in just a minute.

As we transition into 2025, several factors give me confidence that our performance will return to proper form over the next several quarters. First, we have the right strategy, accelerating the Arches. Our MCD growth pillars still offer significant growth opportunities and I'm pleased with the 2025 market plans, particularly their balance of value and full margin food innovation.

Second, the US food safety issue is now largely behind us and we expect to have fully recovered by the beginning of Q2. At McDonald's, we always say that food safety is our number one priority and this unfortunate incident is an important reminder of that fact. The strength of our brand depends upon the absolute trust of our customers, and I'm pleased by the positive feedback we've received from so many regarding our rapid and transparent handling of this issue.

And third, we'll continue to realize incremental benefits as more markets deploy new solutions from each of our three strategic technology platforms, consumer, restaurant and company.

Later, I'll come back and provide more visibility into our 2025 plans. But for now, let's move on to Ian, who will discuss Q4 and full year results.

Ian Borden

Thanks, Chris, and good morning, everyone. As Chris noted, the QSR industry remained challenged and our performance in 2024 fell short of our expectations. Pressure on spending persists, in particular, with two significant cohorts of our consumer base, low income and families, particularly in Europe. Still, we're confident that our accelerating the arches strategy, which is rooted in customer insights and built on our inherent competitive advantages is right for our business to win in 2025 and beyond.

With respect to our quarter four performance, global comp sales growth was slightly positive. In the US, quarter four comp sales were negative, reflecting the impact of the food safety incident. When we met last quarter, we committed to bringing the full resources of McDonald's to bear to reengage the customer and we did just that. As Chris mentioned, by the beginning of Q2, we expect to have fully recovered. The immediate actions we took to identify the cause allowed us to quickly shift the focus to regaining our customers' trust and reigniting their brand affinity. Throughout November and December, we saw sequential improvement in baseline traffic performance, including slightly positive comp guest count growth for the month of December and had a positive comp guest count gap to most near-end competitors for the fourth quarter. These results were driven by our marketing efforts to amplify traffic drivers. This includes additional investment in our national value campaign and always-on digital and media plans to drive momentum.

In our International Operated Markets segment, comp sales performance this quarter was slightly positive due to mixed results across the individual markets, including negative comps in the UK. While QSR industry traffic was positive in only two of our big five markets, we had a positive comp guest count gap to most near-end competitors across the majority of our largest markets. During a difficult time for the industry, we have acted with urgency and remained steadfast in continuing to focus on what's within our control, including refining and providing compelling value propositions, introducing exciting menu innovation and leaning into our One McDonald's Way approach to marketing by driving brand strength, building cultural relevance and connecting with our customers and crew in exciting ways. For example, on our value propositions, Canada has paired everyday affordable price or EDAP menus with strong meal bundles through the Canadian McValue menu, which features the \$5.79 meal bundle and a \$1 coffee EDAP offering, which drove coffee share gains in the quarter.

Canada not only provided great value offers but paired them with full margin promotions that connected with our fans through culturally relevant campaigns. One example is the Grinch meal, which generated nearly 30 million impressions on social media, our highest user-generated content ever in Canada. These all helped to drive positive sales and guest count performance in the market, including positive guest count gap to near-end competitors for the entirety of the fourth quarter.

And in Germany, we've continued to meet customers where they are even with a difficult industry backdrop. While QSR industry traffic in Germany has continued to contract further since the third quarter, we have continued to drive market share gains by expanding upon the already successful McSmart menu now offering a range of meal bundle options introduced at the end of September. We are seeing incrementality to the business, driven by the extended value offerings and by layering on exciting menu news with full margin items such as Der M or the Big Arch as well as the Big Rosti, which had made its annual return.

In other markets such as Spain, we have continued to outperform the competition by driving strong execution of our Accelerating the Arches strategy, including continuing to focus on value through menu for you, which is a branded equity that we have been able to capitalize on for over three years and delivering on digital execution with a month-long Christmas calendar boosting engagement on the app and driving an increase in identified users.

We also saw success from our One McDonald's Way approach to marketing, combining cultural relevance with global reach through a Friends TV show-themed Adult Happy Meal featuring our core menu items, including six friends characters and a themed dipping sauce. The campaign provided a significant lift to our top line with a social media reach expanding well beyond just Spain. All of this contributed to the market's strong comp sales and guest count performance in the quarter as well as share gains for both the quarter and the year.

France, a market that we've talked about all year, started to see signs of improvement with positive comp sales and guest count gaps to near-end competitors for the fourth quarter. These results were driven by our partnership with Hot Ones providing three fiery sauces to fans, each one spicier than the next, being one of the most talked about campaigns over the last few years in the market. We've also seen the success of the EUR4 Happy Meal, which has resonated with families, driving an improvement in their brand perceptions around value and affordability and a lift in the Happy Meal category. We are encouraged by these signs of progress internationally and we'll continue to build upon the actions taken in 2024 so that we have a strong foundation for growth in 2025.

Finally, in our International Developmental Licensed segment, comp sales for the quarter were over 4%, largely driven by positive results in the Middle East and Japan. In the Middle East, the positive sales comp largely reflected lapping the impact of the war that began in October of 2023.

And in China, we're seeing encouraging signs of stabilization. In short, while the global QSR industry remains challenging, we're confident in our competitive strengths across our MCD growth pillars and our strong execution against the value expectations of our customers. Our ability to continually evolve to stay ahead of the customer positions us for success in any economic environment.

Turning to the P&L, adjusted earnings per share were \$2.83 for the quarter, a 4% decrease compared to the prior year in constant currencies, reflecting the pressure on our top line. Results also reflect higher other operating expense as well as the comparison to a prior year property sale gain.

For the full year, adjusted operating margin was just over 46%, with top line results generating more than \$14.5 billion in restaurant margin dollars for the year, providing evidence of the resiliency of our business model.

Lastly, before I hand it back over to Chris, I want to touch briefly on our capital expenditures and free cash flow profile. Our CapEx spend for the year was just under \$2.8 billion. More than half was invested in new restaurant unit expansion across our US and IOM segments, which enabled us to deliver on our openings target for the year. Our CapEx spend was slightly above the high-end of the range we provided for the year as we invested more toward our future year development pipeline, setting us up for success as we continue to increase our pace of openings.

Our free-cash flow conversion for the year was 81%, below our expected 90% range due to pressures on top line performance and higher capital spend to accelerate new restaurant growth. We have continued to follow our capital allocation priorities for the year. After investing to support long-term growth of the business, we returned \$7.7 billion of cash to shareholders through a combination of dividends and share buybacks. We remain committed to returning all excess free cash flow to shareholders over time.

I'll talk about our 2025 outlook shortly, but first, let me hand it back over to Chris.

Chris Kempczinski

Thanks, Ian. Our ability to stay ahead of customers' changing needs and reimagine the McDonald's experience for tomorrow is the key to achieving our 2025 ambitions. We're moving forward with agility and urgency, getting back to guest count-led growth and winning share from our competitors. Our unwavering focus on the MCD growth pillars will continue to unlock executional excellence and drive growth across our business. Our marketing efforts are reclaiming leadership in value and affordability through initiatives like everyday affordable price menus and meal bundles.

In the US, the January launch of the McValue platform provides consistent, compelling value with the choice and flexibility our customers want. In many of our international markets, we are making further enhancements to our value programs in the first quarter to ensure that we are offering industry-leading value. And with good value at the foundation, we will overlay a strong pipeline of creative marketing ideas that will delight our fans and will provide full margin check growth.

Our core menu remains at the heart of our business. We're excited about the significant opportunity we see within our chicken portfolio and see the potential to add another point of chicken market share by the end of 2026. We continue to roll out McCrispy, which is now in over 70 markets and will be available in nearly all markets by the end of 2025. This year, there is incredible energy for the return of snack wraps in the US along with a few other markets and the US will also launch a new chicken strip offering. We'll continue to pulse in the Chicken Big Mac as a limited time-only offering over time. In 2024, the Chicken Big Mac helped generate chicken market-share growth in the France and the US with positive incrementality.

Deployment of Best Burger continues. It's currently available in over 80 countries and we're on track to implement it in nearly all markets by the end of 2026. And we're excited to capture incremental growth with the Big Arch as we roll it out to more international markets this year.

Our 4Ds continue to drive growth and we're actively doubling down on digital and development. For digital, we know loyalty customers spend more than their non-digital counterparts. We've made strong progress and we're on track toward our long-term targets of 250 million 90-day active users and \$45 billion in annual system-wide sales by the end of 2027. To date, our 90-day active users totals has reached over 170 million across 60 markets with system-wide sales to loyalty members totaling approximately \$30 billion in 2024. We will also continue to redefine convenience for our customers through ready on arrival with deployment underway in markets across the world.

For development, we delivered on our 2024 restaurant openings targets across the globe and we're on track to reach 50,000 restaurants by the end of 2027.

Finally, our close partnership with our world-class franchisees, including the recent renewal of our master franchise agreement with Arcos Dorados will be critical to driving our continued growth.

Let me now turn it back over to Ian for details on our 2025 outlook.

Ian Borden

Thanks, Chris. We're confident that our Accelerating the Arches strategy will continue to drive growth in 2025 and over the longer term. But as we discussed, there are varying levels of near-term headwinds across markets. Our approach to our 2025 outlook reflects the current environment of softer declining restaurant industry traffic in the US and many of our larger markets. That said, as Chris noted, regardless of the operating environment, we remain steadfast on the execution of our Accelerating the Arches strategy and the continued rollout of the actions we began to take in 2024 across the system to drive guest count-led growth and grow market share by outperforming our competitors.

Our financial targets for 2025 reflect the benefit of these initiatives as well as our expectation of gradual stabilization of the macroeconomic and consumer environment, but does not include any impact from potential new tariffs. Should the underlying environment improve beyond our initial expectations, especially with respect to lower-income consumers, we would expect to benefit disproportionately relative to our competitors. Specifically for 2025, driven by the durability of our business model, we're targeting our full year operating margin percent to be in the mid-to-high 40% range and above the 46.3% adjusted operating margin from 2024, primarily due to franchise margin performance. This includes our expectation that our full year company-operated margin percent will be slightly higher than the 14.8% we delivered in 2024, driven by top line growth and partly offset by continued cost pressures.

With respect to G&A, our system's financial strength enables us to invest in areas that we expect will drive long-term efficiencies for our people and for our stakeholders. Even with the muted top line growth in 2024, we maintain the right long-term investment mindset as we were able to prioritize our run the business spend. We expect 2025 G&A as a percentage of system-wide sales for the full year to be about 2.2%. Our 2025 target reflects continued investments in technology, digital and global business services or GBS. You heard Chris mention the three strategic technology platforms earlier. Through the investments in these platforms, we plan to continue to get more efficient in running the business over time and ultimately free up more resources to continue to drive long-term growth. We still have significant investment years ahead of us before these efficiencies are realized.

Below the operating line, we're projecting interest expense this year to increase between 4% and 6% compared to 2024 due to higher average debt balances and interest rates and expect our full year effective tax rate to be between 20% and 22%. Turning to restaurant development and capital expenditures, we expect net restaurant expansion in 2025, along with restaurants we opened in 2024 will contribute slightly over 2% to system-wide sales growth as we continue to accelerate our new unit development. We plan to spend between \$3 billion and \$3.2 billion this year with the majority invested in new unit openings across our US and IOM segments. This increase in CapEx versus the prior year is in line with our expectation of about \$300 million to \$500 million increases each year through 2027, as we outlined at our December 2023 Investor Day. Globally, we plan to open approximately 2,200 restaurants this year with about a quarter of these openings in our US and IOM segments. We expect to open more than 1,600 restaurants in our IDL segment, including about 1,000 in China. Overall, we anticipate slightly over 4% unit growth from the nearly 1,800 net restaurant additions in 2025.

Our capital allocation priorities remain unchanged. First, to invest in the business to drive growth including capital expenditures as well as investments in technology, digital and GBS. Second, to prioritize our dividend; and third, to repurchase shares with remaining free-cash flow over time. In 2025, we expect our net income to free-cash flow conversion to be in the low-to-mid 80% range as we continue to step-up strategic investments to drive sustainable long-term growth of the business. Over the longer term, we continue to target free-cash flow conversion in the 90% range, reflecting the resiliency of our business model. However, we do expect that the conversion percentage will be below that longer-term target during the peaks in an investment cycle. Lastly, with a strong US dollar that may continue to strengthen into 2025, we expect foreign currency to be a full year headwind to 2025 EPS totaling in the range of \$0.20 to \$0.30 based on current exchange rates. As always, this is directional guidance only as rates will likely change as we move through the remainder of the year. The resilience of our business and our overall financial strength have put us in a position to succeed in any environment and I'm confident that the continued execution of our Accelerating the Arches strategy sets us up to deliver long-term growth for our system and create value for our shareholders.

Now let me turn it back over to Chris.

Chris Kempczinski

Thank you, Ian. This year, McDonald's will celebrate its 70th anniversary, 70 years of defining what it means to be the leader in our industry through generations of ever-changing global economies, technological booms, extraordinary social and political evolution and resounding connection to the center of culture, we've grown stronger year after year by staying true to what we do best, serving delicious food with unmatched value to our customers while feeding and fostering communities around the world. McDonald's remains uniquely positioned to do just that.

By staying true to our golden rule of treating everyone with dignity, fairness and respect, we continue to build connections that strengthen our brand and make positive impacts through our 40,000-plus local businesses around the world. Our unwavering commitment to inclusion requires ongoing focus. And while we recently evolved our approach, McDonald's commitment to inclusion is steadfast.

As I think about the road ahead for 2025, I'm reminded of a quote from our Founder, Ray Kroc. He said that the two most important requirements for major success are first, being in the right place at the right time and second, doing something about it. We believe no one is better positioned than McDonald's to seize on the opportunities ahead, face complexities head-on and the words of Ray do something about it. We have all the tools we need to focus on what matters most to our communities and customers.

As we look to 2025, we won't let up. We're playing to win. We have the right playbook in accelerating the Arches. We have the right advantages, our size, our scale, our brand relevance. We have the right mindset and a strong legacy of acting on our biggest and boldest ideas. And we have the power of our three-legged stool.

Thank you to our remarkable franchisees, suppliers and employees. Your dedication to our McFamily and the communities you serve is unparalleled. We are grateful for your passion and so very proud of our partnership. Together, I look forward to making the Arches shine even brighter in 2025 and beyond.

With that, we'll take questions.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question is from Dennis Geiger with UBS.

Dennis Geiger

Great. Good morning, guys. Thank you. Wondering if you could talk a little bit more about the early customer response to McValue, sort of if any updates to the latest on customer value perceptions in the US and if any thoughts to share sort of on the guest count check and margin impacts from the new platform. Thank you.

Chris Kempczinski

Sure. Good morning, Dennis. So we are -- it's obviously early days still with McValue, but we're pleased with how it's getting out-of-the gate. One of the things that we're looking at is take rates. We look at take rates on the \$5 meal deal. We look at take rates on the buy one, add one for \$1. And those take rates are very much in line with what our expectations were for that. So we're pleased with how that's getting out of the gate. From a perception standpoint, as we have increased our focus on value in the US starting last year when we did launch the \$5 meal deal and then extending into Q1, I've been pleased to see that we're seeing our improvement in getting back to leadership, most recently -- particularly on the most recent visit with value and affordability. So I think we're seeing the customers giving us credit for the value programs that we have put in place there. So feel good about that.

Ian Borden

And maybe just, Dennis, I'll just build on Chris because you were asking about check and margins. And so I think just talking specifically about the buy one, add one for a \$1, where I think we're seeing a strong kind of check in those transactions, in fact accretive to our overall check in transactions that have a buy one, add one in. Good margins, obviously. And I think just building on what Chris was talking about, I mean, I think consumers really appreciate the flexibility with that offer because it allows them to kind of build an outcome to what they want to get to from a product choice standpoint. I think the other thing I would just highlight is breakfast in particular, we've seen really strong take-up of that offer and breakfast has been a really strong daypart for the US business through '24. It's an area where we're taking share. And I think if you think ahead a little bit, this will be the 50th anniversary of breakfast in the US this year and I think there'll be some really kind of interesting and exciting things that the US business does over the next little while around breakfast. So more to come on that later.

Chris Kempczinski

Yeah, just to maybe one -- add one other thing to what Ian was talking about. If you look at the \$5 meal deal, even though that's compelling value, it's driving other purchases. So the average check on \$5 meal deal for us in the US is north of \$10. So it's doing what we were hoping for when we launched that.

Operator

Our next question is from David Palmer with Evercore.

David Palmer

Yeah, thanks. A quick follow-up on that. In the fourth quarter, US comp reflected a negative check, slightly positive traffic. Could you give us a sense of price versus mix in the quarter and why we saw what we saw there? And then my main question is really on IOM. Any color that you can offer there? A lot of brands, US brands slowed in the back half of fourth quarter '23. Did you see an acceleration through fourth quarter of '24, better exit rate in key IOM markets. And I know you've been doing some tinkering with value relaunches in key IOM markets. Any color on that would be helpful. Thank you.

Chris Kempczinski

Sure. I'll kind of just hit some high-level comments and then as always, I'll let Ian give the details. In the US, we were seeing, as you know, in early October, we were seeing strong performance in the US with both good check as well as positive GCs. And then, of course, we had the unfortunate E. coli incident. As you think about how then the quarter started to play out, we kind of hit our nadir in, I'd say, early November and then we saw sequential improvement through the balance of the quarter, which has now continued into Q1. But what you're seeing is you're seeing that we are driving GCs and stealing share from a GC standpoint, but not surprisingly, particularly now as we're into Q1 and we're launching a broader McValue platform, GCs are running ahead of check. And that's very much consistent with our experience as you're putting in new value programs, you will see check run ahead of GCs. I think Joe -- or run ahead of check. I think Joe has talked about that in the past. And then as you get that sort of bedded down and you introduce food news and other things on top of that, you get the one, two punch of check plus GC growth. So that's what we're expecting in the US. From IOM, you're right to acknowledge that we're seeing improving trends there, but it really is almost on a market-by-market basis there. So we've talked about for basically about a year some of the opportunities that we had in France. I've been very pleased to see how that French business has continued to improve their performance and that's continuing into Q1. So we feel good about France. We feel good about Canada. We continue to outperform in Germany. We continue to outperform in Italy. Our opportunities in IOM, the two markets that we are spending the most time thinking about right now are the UK and Australia where, one, it's both a challenged market and two, frankly, we're not performing to our full potential. So I'd say net-net on balance, we're seeing IOM improve. I think you saw that in the results, but there's still work to do in a few of our specific markets.

Ian Borden

David, just, I'll just maybe double-click on a couple of things because Chris' response was pretty comprehensive. I think just maybe the reminder in the US and we talked about this in the Q3 call was pre-food safety incident. We were seeing almost kind of a mid-single-digit comp sale and a comp traffic just below that. So I think that just is -- the reason I highlight that is because when we get kind of value-driving momentum and then we start layering in kind of as we've talked about before, the full margin food news like the Chicken Big Mac in that instance or the great marketing execution, you start driving volume and really profitable transactions and that's where we at -- we were at. Obviously, the food safety incident had a disruptive impact on the US in the quarter and there were a couple of specific things, obviously, that happened. First is you had an impact to Quarter Pounder sales, which is a high margin, you know, high check driving transaction item and then obviously to kind of regain momentum, regain trust. Obviously, we invested a fair bit in value and affordability and obviously in digital offers to get consumers back. And so that's certainly I would call it were kind of time-bound impacts on check through the quarter that we certainly would expect to dissipate as we get kind of momentum where we want it to be through quarter one this year. On IOM, the only thing I'd add to what Chris said is, I mean, I think we're certainly, as you heard us in our upfront remarks continuing to operate in uneven conditions. And so we're really pleased, while we're really pleased with the progress that we've driven through the actions we've taken in particular in areas like value and affordability. We're still dealing in a number of markets in our top markets where the industry is contracting. And so I think momentum is certainly moving in the right direction as you heard from Chris, but it's still certainly there's an element of headwind that we're continuing to navigate.

Operator

Our next question is from David Tarantino with Baird.

David Tarantino

Hi, good morning. Just a clarification on how you're thinking about the US recovery. I think you mentioned, you expected a full recovery from the E. coli incident by the beginning of Q2. I guess, one question is what's -- I guess, what does that sort of mean in terms of kind of what type of comp momentum you're thinking once you get fully recovered? And then I guess, what's given you the line-of-sight to that? Thanks.

Chris Kempczinski

Yeah, thank you, David. So, on the US recovery from E. coli, I think right now what we're seeing is that the E. coli impact is now just localized to the areas that had the biggest impact. So think about that as sort of the Rocky Mountain region that was really the epicenter of the issue. And that continues to be down versus where we were heading into that impact. But very much seeing it at this point is just contained to that region, whereas the rest of the US, we don't see an impact on that. I think importantly, what it gives us encouragement is we're looking at the trend in those affected areas and that's what led to our comment around thinking that we'll have it behind us as we begin in Q2. To your point around what that actually means, it's going to be a function of us executing. So, it's not just that we get E. coli behind us, but it goes to -- we've got to make sure that we've got McValue off to a good start and we've got to make sure that we have strong marketing programs along with food innovation that goes with that. I think what you see is that when we do that and we do that well, this business has the potential to be putting up both positive GCs as well as positive check and ultimately that drives comp. So that's our expectation. That's the plan that we've put in place, which is if we execute that we get this business as I described in my comments back to proper form.

Ian Borden

And David, maybe just a couple of builds to Chris' comments. I mean, I think you heard us in our upfront remarks talk about the fact that we've recovered trust levels at a national basis back to where they were pre-incident level. We still got the isolated impacts that Chris talked about. And I think, obviously, what we're trying to do is get the US business back to the momentum that we were seeing to start Q4. I mean, we're very encouraged by the fact that as we talked about, we ended the year in December with positive -- slightly positive comp guest counts in the US. We know on a Q4 total basis that we were taking comparable traffic share versus the industry still in the US. But we still got, as Chris talked about, just I think, a little more work to do to get that momentum kind of fully back to where we think it can be as we work through Q1.

Operator

Our next question is from Sara Senatore with Bank of America.

Sara Senatore

Thanks. I just wanted to sort of follow up, I guess, on check a little bit, which is you mentioned digital and loyalty growth is very strong. Those checks tend to be higher, but ultimately, I guess same-store sales growth was fairly muted. As you noted, there are lots of puts and takes and perhaps breakfast has a negative check impact too. But I guess, I'm trying to understand as you think about loyalty growth and digital orders whether you would expect to see that materialize as an inflection in same-store sales or how you're thinking about it because it does seem like we broadly see higher checks, but not necessarily kind of a trajectory change? And then just quickly on the UK, that's a market that has historically, I think, been very strong for McDonald's. So is there anything to note there? Just it's negative or sort of talking as a weak point surprised me a little bit.

Chris Kempczinski

Yeah, why don't -- I'll take the UK and then let Ian address the other question that you had, Sara. So I think in the UK, if you think about that business, you're right, it's one that historically has performed quite well for us, been one of our strongest performers. I think what we've seen in the UK is certainly the consumer there is under pressure. There's a cost of living issue that exists in the UK, that is putting pressure on the low-income consumers consistent with what we've seen in the US. That's also putting pressure on families. We have a very big family business in the UK. That has impacted us as families are looking to economize that has an impact on us. And you have a very strong local competitor there who's been very aggressive from a value standpoint, particularly on breakfast. And so you put all those things together and we're not seeing the UK business perform certainly at a level that we're used to historically. I think that said, we understand what needs to go in place and there's been a lot of work with our local franchisees there to do that. It goes to making sure that we have a strong savers platform. That's been something that's been in the market for quite a while. We've introduced a GBP5 meal deal similar to what we have in the US and there's also been a focus on the Happy Meal program to reengage that family business. I think paired with that though is we need to have better marketing in the UK. I think we frankly didn't have the level of marketing execution in the back half of last year that we're used to. And so that's I think one of the big priorities for us as we head into 2025 is we've got to get that marketing to be kicking in so that we do have this one, two punch of being competitive on value, which I feel very confident we now have in the UK, but you've got to be able to pair that with strong marketing programs, strong food innovation that can give you that sort of full margin balance. We've run this playbook. Many of the things that I'm describing were the same issues that we faced in France. The progress and the momentum that we're seeing on the French business now is what gives us confidence that we'll be able to get to the same place in the UK, but certainly work to do in the UK.

Ian Borden

So, just -- Sara, to circle back on your check question, and I'm going to exclude kind of the US obviously, the food-safety kind of specific disruptions, which again are kind of temporary and time-bound. I think more broadly, I mean, obviously, you've got a few things going on. I think with check, you've got obviously pricing that's continuing to moderate because of the -- of levels of inflation that are coming down. You've got us kind of making what I'll call some structural adjustments on value and affordability to ensure that we're kind of meeting the needs of consumer that's having kind of a reset on check. But obviously, I think when you get kind of past those adjustments, I mean, I think there's -- we've got a lot of ability to kind of continue to drive strong check. And obviously, we've got to start doing that by getting the right levels of momentum in the business. I mean the US and kind of where we were pre-food safety incident is I think the best demonstration of that, again, if you think about where we were for the first three weeks of October with that kind of strong sales and then strong guest count build, obviously kind of building on each other as we've had momentum and then kind of layer-in these exciting food or marketing events. France is another example. Obviously, as you know, from all the conversations we had on France throughout '24, again, as we've started to see that kind of positive momentum come into effect. And then you look at Q4 where we had the Chicken Big Mac activation, we had this kind of hot sauce, fiery sauce kind of activation, which were strong food events with great marketing execution. Again, we were able to build both guest count and check volume. I think talking about digital specifically, digital certainly and loyalty in particular are going to be really important ways for us to continue to drive check. As you know, we've talked a lot about the fact that loyalty drives more visits and those customers spend more over time. And as we are continuing to build new and incremental capabilities and sources of value for consumers, we know we're going to be able to get those customers to spend more as they visit us. So I think digital will be a really important component of how we drive check and frequency as we look forward.

Operator

Our next question is from Brian Harbour with Morgan Stanley.

Brian Harbour

Yeah, thanks. Good morning, guys. A quick one, just could you kind of spell out roughly where you'd expect unit growth to be in US versus IOM? I know you kind of gave it together. But -- and then maybe just a broader question, how has new unit performance been? Obviously, you seem to have leaned into that even more so than you spoke about a little over a year ago and you talked about kind of pulling forward some of that growth. But could you just comment on how you've seen that fare over the last year?

Ian Borden

Yeah. Good morning, Brian. Well, I think on unit growth, we said, we expect as a system about 2,200 gross openings and about a quarter of that to be in our wholly-owned market. I would say of the quarter about 70% of those openings would be in IOM and the rest roughly in the US. I mean, I think as you heard us say, we hit our development plans in '24 and you know based on what we talked about at Investor Day that we're kind of stepping up in our wholly-owned markets to get to a gross opening rate of 1,000 units a year in '27. So each year is kind of a continual step-up, '25 is a -- is a big step-up over '24 and we feel confident about our pipelines. We've done a lot of work, as you've heard us talk about previously to identify where we need to be. We've done a lot of work to get the resourcing in place to build the pipeline, which obviously you need to do well in advance of kind of actually opening units and we feel good about the health of our pipeline. And I think most importantly, obviously, the quality of the openings we're seeing are kind of in line with our expectations. We're getting those kind of strong kind of starting year volumes and seeing those kind of first year returns in that low-to mid -- mid-teens area where we expect them to be and knowing that the vast majority of our new unit openings are freestanding drive-thrus. We know those sites kind of build to their sweet spot over the first couple of years as they kind of establish their trading areas. So I think we're on pace. We're confident in getting to our 50,000 target by end of '27 and obviously, the wholly-owned openings are really important part of that.

Operator

Our next question is from Lauren Silberman with Deutsche Bank.

Lauren Silberman

Hey, thank you very much. So, it sounds like you're optimistic in the US about getting back to prior momentum. Good to hear about the return to positive comps internationally. Can you help level-set how you're thinking about comps on a full year basis in the US and IOM? And then any color on progression through the year, what we should expect for 1Q sequential improvement? Thank you very much.

Ian Borden

Yeah, good morning, Lauren. Let me maybe give a bit of context there. Look, I think if you think about at least maybe pacing and progression through '25, I can comment a bit on that. I won't get into kind of specific comp numbers. But I think it's certainly reasonable to think of Q1 as kind of a low-point quarter for the year. I mean, there are some very, I think, natural reasons for that. I mean, we've got a leap year lapping, which is obviously a negative headwind in Q1. I think we've certainly seen a sluggish start to the broader US industry in January in the US and I think if you think about everything that Chris and I have been talking about today, you've got our momentum kind of building on the back of the actions that we've put in place through '24, particular -- particularly obviously in regards to value and affordability. And some of those actions, I would say, still going into place in a couple of markets through Q1. And I think as we talked about in our opening remarks, I mean, I do think we think the kind of operating conditions get kind of gradually and progressively better as we work through the year. So I think that's a bit of the color I would give you on maybe texture. I mean, obviously, I think most importantly, as always, what we're focused on is what we -- is within our control, which is obviously our Accelerating the Arches plan, the fundamentals around that and kind of the MCD levers that underpin our strategic plan. And I think we feel confident about the progress we're making and that we're doing everything we need to do to ensure that we're taking share consistently across all of our top markets despite I think some of these more challenging conditions that we continue to navigate.

Operator

Our next question is from John Ivankoe with JPMorgan.

John Ivankoe

Hi, thank you. So we've been talking about accelerating the organization leading into global business services for some time. And I understand the last couple of years, there's a lot of work done beneath the surface on GBS specifically and the thought that we would start to see some benefits in '25 and '26. It doesn't sound like we're going to see leverage in '25 and '26 based on your earlier comments. So I did just want you to address maybe reasons why we're not seeing some leverage given some of the restructurings that would happen is kind of the first point. And then secondly, if you can talk about some of the qualitative improvements in the business that have come specifically through GBS that we could see potentially benefit the business into '25 and '26? Thank you.

Chris Kempczinski

Hi, John. Well, you're right to acknowledge there's been a lot of work going on in getting this GBS organization set up. I'd say, we certainly didn't expect to see us getting any of the benefits of that in '24 or '25 because we're very much in an investment phase. I don't think we communicated at all that we expected to see any benefit sort of in the early years of this. But what -- the whole reason why we're doing this is, of course, because of the capabilities that we think it's going to bring as it comes more fully online in '26 and then I think probably steady-state in '27. And it's the new capabilities paired with, I think, a much more efficient operating platform where you're going to start to see the benefits of that. So we're very much on track. We're pleased with all the work there. As you, I'm sure know from other organizations that you cover, setting these things up is a herculean effort and there's a lot of people involved in getting this done, but I'm pleased with where we're at. We're very much on track, but I don't expect to see in '25 that you're going to be getting any material benefits out of this, which is very consistent with how we've built the whole business case on this. Ian, I don't know if you have anything to add.

Ian Borden

Yeah, John, just maybe a couple of points of texture. I think, as Chris touched on, we're kind of in our peak investment years, '25, '26 and into frankly a part of '27. As you've heard me talk about before, we've kind of got four key work streams. We've got finance, people, indirect sourcing and then what we call data and analytics. We're pleased with the progress. But as Chris said, these things take time and effort. We certainly believe when we get past these kind of more significant investment years, we'll see substantive kind of efficiencies being driven. And I think maybe just to give you a bit of a kind of a textural example, we put kind of the first deployment of our people system in place in kind of 2024 and it just, it goes to kind of the ways of working, which if you remember, that was really about what accelerating the organization was about. It was about moving us from vertical to kind of horizontal ways of working across the organization. And a small example would be, I think we've reduced the kind of time to hire for restaurant managers in Australia, which is -- was one of the first markets to go live with our new people system by 50%. So there'll be many examples like that just as we get to these kind of common systems and processes and we remain really enthusiastic about the opportunities ahead. But as Chris said, this obviously always takes a bit of time to kind of get to the full benefit.

Chris Kempczinski

Yeah. The only thing I would add to what Ian just said is, if you look at G&A as a percent of system-wide sales, we've been able to hold that constant in 2024, even as we're making all of these investments. And we're certainly looking to continue to stay very disciplined on our overall absolute G&A spend with the potential over-time as we bring these on to get further reductions on that as a percent of sales. So, stay tuned, more to come on this.

Operator

Our next question is from Eric Gonzalez with KeyBanc.

Eric Gonzalez

Hi, thanks. The second half of '24 was difficult from a capital margin perspective and fourth quarter particularly challenging with E. coli incident in the US and the traffic and check dynamics discussed earlier. And I think, you said, you expect the capital margins to improve year-over-year in '25 driven by top line growth. Beyond that recovery from E. coli, can you discuss how much of that margin degradation that you saw in the second half and where you expect to get back just given the heavier emphasis on value and the value initiatives that you rolled out in the start of year and what the drivers of that improvement will be as the year progresses? Thanks.

Chris Kempczinski

Yeah, let me take that one, Eric. Well, look, I mean, I think as you've heard me say previously, I think we remain really confident in our ability to kind of drive margin improvement over time as we get that stronger top line growth. So certainly, nothing fundamentally has changed, I think, in that regard. I mean, obviously, as you highlighted, '24 was clearly a year where we didn't get the strong top line growth that we need to kind of drive margin improvement. And I think that combined with kind of some of the inflationary pressure areas like food and paper and labor as well as what you highlighted, which is kind of the -- are the mix shifts as we kind of get stronger value and affordability in place certainly put pressure on margins through the course of the year. And then as you note, in the US, we had those specific impacts through quarter four, which was obviously, as I talked about earlier that kind of impact specifically the Quarter Pounder sales, which is a very strong profitable margin item. And then the investments that we made in kind of customer recovery, which had impacts. So I think the actions that we've taken across the business to get that really strong guest count momentum back in place combined with, as you always hear us talk about then adding on kind of the full margin food news and the great marketing execution are what get us back to growing improvement. That's obviously what we're expecting in '25, which is why we've said, we expect margins to be slightly up from where they were in '24 on a percentage basis. And I think that's despite obviously the fact that there is kind of continued inflation pressure and more limited pricing ability in the current context. So I think we feel confident about getting momentum back and it's obviously volume ultimately and then that pairings for that kind of one, two punch that gives us confidence in our ability to grow margin in '25 and that's certainly beyond as we continue to get that strong top line growth.

Operator

Our next question is from Andrew Charles with TD Cowen.

Andrew Charles

Great. Thanks. Ian, just a good segue from the last question. Based on the McOpCo disclosure, we're estimating about a 14% decline in US McOpCo's 2024 store-level cash flows. So I'm curious at first, that's a fair proxy for the owner-operators in the past year. And then looking ahead, curious about your confidence in US store-level cashflow growth in 2025, just as the industry does not appear to be backing down on value in '25. Thanks.

Ian Borden

Yeah. Well, I won't, Andrew, try and reconcile the numbers. I think the team can do that with you in follow-up just in where you're kind of getting your numbers from, but because there are a few things, I think, that are kind of moving within margin and including some kind of structural changes that I think you can give more texture to. But I think, on a broad basis, we feel, I mean, there's certainly some pressure points in '25 when you think about some of the inflationary headwinds, particularly in some of our European markets where there's a little bit more inflationary pressure on '25 on food and paper, for example, beef prices. But I think if we look at our plans in total across the majority of our markets, we certainly feel good that we can drive improvement to cash flow and that will be based on obviously driving that strong top line volume and then obviously taking McOpCo margin from a percentage basis up slightly versus where it was in 2024.

Chris Kempczinski

And the only thing I would add is certainly we had a number of things in the US business that we were navigating last year, inflation, investment in value, we had an E. coli. All that said, our US franchisees still achieved very strong cash flows north of \$0.5 million per unit. So those businesses -- that business continues to perform well. Franchisee cash flow continues to be strong and as we get some of those headwinds behind us and hopefully back to stronger momentum that obviously would work its way through to the bottom line.

Operator

Our next question is from Jon Tower with Citi.

Jon Tower

Great. Thanks for taking the question. I'm just curious, Chris, you outlined a number of the initiatives that you're going after in '25 with respect to new product news. And noticeably absent was any commentary regarding kind of your beverage platform, specifically in the US and I know at your Investor Day in late '23, there was a lot of discussion around McCafe and how large of a platform that is globally and the opportunity there to improve consistency across the globe. So I'm just hoping you could provide some color around where you see that platform going over time. And do you see that as a strategic opportunity over the next several years?

Chris Kempczinski

Sure. Thanks, Jon. Well, certainly, we are very bullish on the opportunity in beverages. And we think there's a lot of growth potential in beverages, both in coffee, the coffee side, whether it's hot or iced, but also in some of these other beverage areas that you're seeing emerging like a refreshers, like energy drinks, et cetera, et cetera. So a lot of opportunity in beverages. That industry is or that category is growing about 2x, the rest of the business with very strong margins. So excited about that. As you noted at Investor Day, we talked about kind of going after it in a couple of different ways, looking at how do we do that within the restaurant, that work continues. And then we also talked about a test that we're doing around this CosMc's brand that we put in Texas and looking at a number of stores there. I'd say that the learning with CosMc's continues. So you saw us announce a few months ago, we're closing some stores, we're adding some stores. I think what we're learning there is that there's certainly an opportunity in that space. The smaller units tend to perform better. You want to drive through with that. Some of the things that we're closing were sort of end-caps with no drive-thrus. So I think we're continuing to learn there. And as we kind of further refine our plans, I think you'll hear more from us about how much of that opportunity needs to come through new units with something standalone like CosMc's or how much of the potential do we think we can capture by doing more within the existing restaurants and there's a lot of work going to thinking about what we might be able to do to capture that opportunity in the current restaurant. So our focus is still very much on it, but I don't have a whole lot more new news to share on that at this point.

Operator

We have time for one more question with Jeff Bernstein of Barclays.

Jeff Bernstein

Great. Thank you very much. So, a question on the US commentary that's been made on the call. I think you mentioned at one point seeing sequential improvement in the US comp since the trough with E. coli in November. And I know in response to a different question, you said that you noticed maybe a sluggish start to 2025 for the QSR segment. So I was wondering, first and foremost, whether you can comment on whether or not that sluggish start is really weather-led or whether you think there's some maybe change in consumer behavior in recent weeks or the past month or two? And I know separately you mentioned new product news. So I'm just wondering if there's any color you can share on the snack wrap relaunch timing and I think you mentioned something about chicken strips. So any color on those two new products that seem like exciting new news would be great. Thank you.

Chris Kempczinski

Well, thanks, Jeff, for the question. So I think, yes, we were seeing improvement certainly from kind of the trough of where we were with E. coli. I think the important thing to just recognize in the US is more broadly both in Q4, but frankly, it continues into Q1. There is a -- the overall market is pretty muted. And a big part of it that sort of I think more mixed consumer is still at that low-income consumer. So if you look at the low-income consumer in the US and I'm talking industry numbers right now, but that low-income consumer in the US in Q4 was still down double-digits. And as you know, that low-income consumer is overweighted in the industry relative to the US in total. If you think about middle and higher income, a very robust consumer in those things -- in those areas. So I think that's the landscape that we're looking to navigate through. It's why it's so important that we make sure that we have a strong value program, which is the focus in Q1 and getting McValue launched. And then as you alluded to, we do have, I think, some very exciting food news, food innovation coming in the US, but my US team would kill me if I gave any more details about the when and the exact specifics of how we're going to plan on doing that, but certainly expect that to come online later in the year. Ian, I don't know if you have anything else to add.

Ian Borden

Well, just -- I think just double-clicking on what Chris already talked about, Jeff, which is sequential improvement. But -- and I think goes back to what we've talked a fair bit about is obviously what we're focused on is what we can control, which is our share performance. Obviously, we continue to grow share from a traffic standpoint. But as Chris said, the industry is still seeing a fair bit of headwind and that's certainly what we were giving an indication of in terms of January. So even though we may continue -- we expect to continue to grow share, I think the industry itself has certainly had a sluggish start and that's certainly, as Chris said, partly due to that lower-income consumer, although we continue to do well with lower-income consumers. In fact, quarter-four was our high point for '24 in terms of share with that particular consumer group, even though they are under a fair bit of pressure as you heard from Chris. So that's just a bit of texture maybe to kind of put the context of our comments together.

Scott Meader

Okay. That concludes our call. Thank you, Chris. Thank you, Ian. Thanks everyone for joining. Have a great day.

Operator

This concludes McDonald's Corporation investor call. You may now disconnect and have a great day.

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