

# Financial statements and ratios

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This paper will compare the financial aspects of McDonald's and Wendy's to each other, and the industry, from the personal investor perspective. We will look at certain ratios, financial statements, and company strategies. The results are based on a 5 year time p (2002-2006) and the primary sources of information are the SEC 10-K filings, company's websites, and trade publications. Executive Summary McDonald's is an icon and Wendy's a local Ohio business trying to grow itself into a national chain. Both companies offer relatively the same menu, hamburgers, French fries, soft drinks and for thehealthconscious, salads.

McDonald's offers a little more variety in their menu, which includes seasonal specials, like the highly addictive, yet now defunct, McRib Sandwich, and they serve breakfast. Wendy's offers a little more flexibility in their menu and emphasizes the variety of sides you can get with any combo meal like side salads, chili, and baked potato. Each company has ventured into other restaurants, with minimal success. McDonald's operates Boston Market. They did own Chipotle and Donato's Pizza; in 2005 they sold both of these companies. Wendy's owned Tim Horton's and Baja FreshMexicanGrill until 2005-06.

Each company realized that as they diversified into other types offast foodthat their core business suffered. Globally, McDonald's has a decided edge over Wendy's. McDonald's looks at overseas markets as the next big opportunity, especially in China, Wendy's does have some international operations but as overseas competition increases they are closing more and more. As I viewed the companies I saw that McDonald's as the better option

over Wendy's. I believe McDonald's is run better and their strategy is suited for the long term.

Over the past 5 years Wendy's has steadily declined in key areas and is now up for sale. Industry Overview The fast food industry is very competitive. There are approximately 200,000 restaurants with combined annual revenue of \$120 billion. The major companies include McDonald's, Burger King, Taco Bell, Subway and Panera Bread. The top 50 companies hold about 25 percent of industry sales. 1 Restaurants compete internationally, nationally, and regionally. Competition is primarily based on price, convenience and service. Companies strive for consistent high quality with their food products.

"The Industry" includes restaurants, quick-service eating establishments, pizza parlors, coffee shops, street vendors, convenience food stores, delicatessens and supermarkets. Larger companies, like McDonald's, have advantages in economies of scale, using their muscle in purchasing and financing. Their marketing budget is also bigger. Smaller companies, Wendy's, can compete by offering unique food items or focusing on certain markets. Wendy's used to focus on certain markets, like Ohio, but they now have restaurants throughout the country and a few internationally.

Location is critical when building a fast food restaurant and high traffic areas are desirable. Customer convenience, transaction speed, quality and cleanliness are key factors for any restaurant. Most fast food restaurants have drive thru windows, and more recently, double drive thru windows, both help to increase volume and speed. Technology is being utilized more

from Point of Sale cash registers, which speed up and reduce order errors, internet pre-orders, to new convection and microwave ovens. Larger companies are using integrated inventory management due to costs associated with perishable items.

Typical supplies include beef, cheese, produce, poultry, and bread.

Continuous improvement is a key factor in increasing speed and controlling costs. Industry risk has always contained the usual concerns. Cost of ingredients, increasing competition, lifestyle diet changes, market saturation, volatile weather, and natural disasters. Over the past decade there are new concerns. War, terrorism and foreign currency exchange rate have come to the fore front. As companies expand, globally, the foreign currency exchange can greatly affect earnings.