CtW Investment Group

February 13, 2015

Andrew McKenna, Chairman of the Board
Miles White, Chairman of the Governance Committee
McDonald's Corp.
One McDonald Plaza
Oak Brook, IL 60523

Dear Messrs. McKenna and White:

Returning McDonald's Corp. to a path of long-term, profitable growth requires that Mr. Steven Easterbrook's appointment as CEO is followed by a robust **refreshment of the board's membership and leadership.** The recruitment of Ms. Mary Margaret Hastings Georgiadis is a positive step, but on its own falls short of the broader renewal of experiences, backgrounds and objectivity that we believe are essential to addressing the strategic challenges facing the company. These are long-term challenges that require a more systemic solution than replacing a short-term CEO, who this board appointed.

With speculation that activist hedge funds may exert pressure to pursue short-term financial-engineering, it is vital that this rejuvenation takes place in dialogue with long-term shareholders and with the assistance of an outside recruitment firm. Accordingly, we request that the company publicly disclose the initiation of a robust board refreshment process that outlines:

- Plans to change the board's leadership;
- A comprehensive board succession plan that will, by the time of the annual shareholder meeting, have prompted both board arrivals and departures; and
- Plans to engage long-term McDonald's shareholders in this process.

The CtW Investment Group works with pension funds in order to enhance long-term shareholder value through active ownership. These funds invest over $250 billion in the global capital markets and are substantial investors in McDonald's.

The Board's Responsibilities Extend Beyond a New CEO

McDonald's problems go deeper than execution under Mr. Donald Thompson's short-lived tenure as CEO. Stagnating revenue, driven by declining same store sales in the core U.S. market and a stock that trails the S&P500 index by more than 50% over the three-year period ending February 9, 2015, point to broader weaknesses in vision and strategy. The responsibility for this faltering vision lies with the board. With the "Plan to Win" strategy under former CEO James Skinner having run its course, the company has failed to successfully evolve in response to the changing domestic competitive environment. In particular, McDonald's has not developed an effective response to millennials' evident desire for higher-quality eating experiences, which has driven the rise of fast casual restaurants. Moreover, the company's responses - in particular the addition of multiple new menu items - have made its situation worse. These new items have also required additional investments that have taxed and frustrated franchisees and have complicated restaurant operations without attracting new customers. It seems clear that neither superficial rebranding, minor revisions of the menu, nor further share repurchases can hope to address McDonald's declining sales and deteriorating customer experiences. These are challenges of vision and strategy and involve the careful balancing of short-term pressures against the investment and reorganization needed to drive long-term growth.

Unfortunately, with a core of lengthy-tenured directors who are overwhelmingly drawn from local Chicago-networks, the board has failed to evolve along with the company's changing circumstances in the United States and globally, plan for its own succession, or demonstrate its accountability for the company's malaise. As questions mount over strategy, the board needs to critically review its performance and culpability. It must ask which directors provide the relevant expertise to support the development of successful future strategies; which do not, and how can it go about ensuring it recruits talented directors. This begins with new direction from the Governance Committee and new board leadership.

The Need for New Board Leadership

At this juncture, we believe it is critical for McDonald's to have strong, independent board leadership. Fresh eyes are essential to drive the overhaul of the board's composition, form a productive partnership with CEO Easterbrook in tackling the company's strategic challenges, and restore the trust of long-term shareholders.

With over 25 years on the board, including the past 10 years as chair, Mr. Andrew McKenna has performed tremendous service to this company, including providing continuity through the tenures of seven CEOs. Regardless of best intentions, however, Mr. McKenna's role in shaping the company's strategy to date – perhaps more so than any other single individual – risks undermining the real or perceived objectivity with which he can lead the board in supporting CEO Easterbrook and a new, successful long-term strategy. Accordingly, we believe it is the appropriate moment to transition board leadership.

A Comprehensive Approach to Board Succession

The board also needs to adopt, disclose and initiate a far more robust process for introducing changes to its membership. This must begin with an overhaul of the Governance Committee itself, which, with an average director tenure of 17 years – over twice the average for the S&P500 - is far too heavily weighted to long-tenured directors to be able to effectively oversee director succession. Indeed, only one committee member, Mr. Miles White, has less than a decade of service on the board.

Besides the lengthy tenure of the independent directors – 13 years on average – other board characteristics point to the failure of the current director selection process.

While it is not uncommon for existing board members to recommend new nominee, McDonald's board appears drawn almost entirely from local or personal networks, with ten board members having significant ties to the Chicago business community either now or previously in their careers,[i] including Ms. Georgiadis, the newest board member. We also note that one additional director, Ms. Susan Arnold, was identified by existing directors, according to the company's 2008 proxy. Such a level of insularity and regional bias suggests that the current recruitment process is casting its net far too narrowly, especially for a company of McDonald's global reach.

There is no indication, based on the available disclosure, that the Governance Committee has periodically engaged an outside recruitment firm to assist in identifying a pool of potential candidates.

Equally troubling are the number of interrelationships among directors. Seven directors share or have shared board interlocks with at least one other board member.[ii] Four of those, Mr. John Rogers, Mr. McKenna, Mr. Enrique Hernandez, and Mr. Roger Stone – the latter three, all members of the Governance committee -- share multiple overlaps with at least one other board member.

Critically, such extensive interlocks can impair the ability of directors to objectively assess the performance and ongoing contributions of fellow members. We note that according to PricewaterhouseCoopers' 2014 *Annual Corporate Directors Survey*, 36% of directors thought at least one member of their board should be replaced, and 53% saw impediments to replacing an underperforming director; the board's lack of comfort with addressing the issue was the most frequently cited reason. Given the close personal ties of key board members, we believe this is a particularly acute risk at McDonald's. In a recent *Fortune* article Charles Elson, director of the John L. Weinberg Center for Corporate Governance at the University of Delaware, said this combination of length of tenure and interrelationships between directors "raises questions of effectiveness" at McDonald's.[iii]

We also believe the board was complacent in not refreshing its membership earlier, particularly over the past five years, given the shifts in eating behaviors and the rise of upscale competitors over this period. Competitors such as Starbucks and other large multinationals challenged by similar shifts, such as Coke and Pepsi, continued to refresh their membership over this time-frame.

Change Must go Beyond the CEO

The board is ultimately accountable for McDonald's failure to successfully respond to the changing business environment. Accordingly, personnel changes cannot be limited to the C-suite but must include new board leadership, a thorough evaluation of each director's ongoing value to the company, and a robust refreshment process that begins at this year's annual meeting. To date, the board has proven itself a poor judge of director succession and thus we urge the board to engage long-term shareholders in this process.

We look forward to a timely reply to this request and a forthcoming public announcement. In the meantime, please feel free to contact my colleague Michael Pryce-Jones at 202-721-6079.

Sincerely

Dieter Waizenegger
Executive Director

[i] Roger Stone joined the board in 1989, at which time he was serving as CEO of Chicago-based Stone Corp.; Andrew McKenna joined the board in 1991 and is described in a Dec 10, 2014 Fortune article "Where does the buck stop" as a "Chicago heavy hitter" with it being noted that *Chicago Magazine* described him as one of the "100 Most Powerful Chicagoans"; Walter Massey, a director since 1998, had a long-established career at the University of Chicago (1966-1991) before moving on to other academic institutions, and is President of the School of the Art Institute of Chicago; Cary McMillan joined in 2003 at which time he was CEO of Sara Lee Branded Apparel at the Hillshire Brands Co., a Chicago-based company; John Rogers, who also joined in 2003, founded Chicago-based Ariel Capital Management in 1983 and continues as CEO; Richard Lenny, a director since 2005, was CEO of Hershey during this period, but previously enjoyed an 18-year career at Deerfield, IL-based Kraft; Shelia Penrose, a director since 2006, served for more than 23 years at Chicago-based Northern Trust Corp until 2000, and is described by Jones Lang LaSalle, where she is a director, as a "long time resident of Chicago"; Miles White, a director since 1999, has served as CEO of Illinois-based Abbott Laboratories since 1999; Last month's appointee, Margo Georgiadis, although now based at Google, is described as a "the highest ranking woman in Chicago's tech world" and a "Chicago native" by Crain's in an Oct. 20, 2012 article "Google's Margo Georgiadis on leaving Groupon"; Robert Eckert, a director since 2003, is a 23-year veteran of Illinois-based Kraft and served as CEO from 1997 to 2000 before joining California-based Mattel.

[ii] First Chicago Corp.: Andrew McKenna (1993-1998), Roger Stone (1984-1995), John Rogers (1998); Z-Trim Holdings: Roger Stone (2012 to present - advisory board) and Richard Lenny (board 2011 to present); Nordstrom: Enrique Hernandez (1997 – to present), Jeanne Jackson (2002 – 2009); Tribune: Enrique Hernandez (2001 – 2007), Andrew McKenna (1982-2002), Miles White (2005 – 2007); Aon: Andrew McKenna (1993-2012), John Rogers (1993-2012).

[iii] http://fortune.com/2014/12/10/mcdonalds-board/