

November 26, 2019

Enrique Hernandez, Jr.
Chairman of the Board
McDonald's Corporation
110 North Carpenter Street
Chicago, Illinois 6060

Dear Chairman Hernandez:

We are distressed by the recent decision of the McDonald's board to characterize the termination of former CEO Steven Easterbrook as "without cause," and both to provide him with substantial severance pay and to enable him to retain equity grants, at apparent variance to the policies described in the Company's proxy statement. Not only does it defy belief to claim that the termination of an executive who has admitted to violating an express and unambiguous provision of McDonald's Standards of Business Conduct was undertaken "without cause," but by allowing Mr. Easterbrook to retain the post-employment benefits he would have been entitled to were he actually terminated "without cause," the Company has failed to disincentivize violations of its code of conduct. It is hard to imagine how a board could set a worse "tone at the top" than this, particularly considering the Company's painfully slow and still inadequate response to widespread sexual harassment in McDonald's restaurants.

While these dispiriting decisions with respect to Mr. Easterbrook may not be reversible, the board can begin to restore investor confidence in its judgment and the Company's reputation by immediately taking the following steps:

- Modify McDonald's clawback policy to empower the board to apply it in cases where an executive's actions violate the Company's Standards of Business Conduct, or when those actions damage the Company's reputation.
- Require shareholder approval for any future exemption from the general policy requiring forfeiture of unvested equity grants at termination of employment.
- Adopt the enhancements to the Company's approach to preventing sexual harassment by adopting the measures described below.

As long-term investors convinced that effective oversight of human capital management is an essential board function, some of us have had several fruitful discussions with McDonald's directors and executives over the past several years. We have found the board's actions with respect to Mr. Easterbrook's termination and severance difficult to justify and hope that the board will take the proposed decisive actions to establish and restore a strong "tone at the top" for ethical conduct and compliance in order to protect the company's and shareholders' interests.

Tone Deaf at the Top

According to the press release issued by the Company on November 3, 2019, Mr. Easterbrook "has separated from the Company following the board's determination that he violated McDonald's policy and demonstrated poor judgment involving a recent consensual relationship with an employee." Other press reporting make clear that Mr. Easterbrook has acknowledged violating McDonald's Standards of Business Conduct, specifically the standard articulated under the heading "Dating," and which states

that “employees who have a direct or indirect reporting relationship to each other are prohibited from dating or having a sexual relationship.” To be absolutely clear about the applicability of this standard to Mr. Easterbrook when he was CEO, we note that the Standards state that they apply to “employees of McDonald’s Corporation and its majority-owned subsidiaries worldwide,” that supervisory employees “have special responsibilities under the Standards of Business Conduct to maintain an ethical work environment and to lead by example,” and that the board of directors “oversees the Company’s commitment to ethics and compliance with legal standards.” Finally, under the heading “Personal Accountability,” the Standards make clear that “[e]mployees who violate the law or the Standards of Business Conduct are subject to disciplinary action, up to and including termination of employment.”

This seems to us to have been an open-and-shut-case: Mr. Easterbrook clearly violated an express provision of the Standards of Business Conduct by entering into a sexual relationship with a subordinate, and the board terminated his employment for this reason. It is hard to imagine a more straightforward example of an employee being terminated for cause.

Incredibly, you and the board concluded that Mr. Easterbrook’s separation from the Company was somehow not a consequence of either his actions or the board’s discovery of those actions. One result of this convoluted reasoning is that Mr. Easterbrook is entitled not only to severance pay of approximately \$41.8 million –which he would not have been entitled to had the board acknowledged that his employment was being terminated for cause – but is also being allowed to retain unvested equity grants whose value is currently estimated at \$23.8 million. We note that in its proxy statement, McDonald’s clearly states that “Unvested options are generally forfeited on termination of employment,” and that “Unvested RSUs [restricted stock units] ...are generally forfeited on termination of employment,” while providing that

If the NEO [Named Executive Officer] qualifies for favorable treatment (by satisfying the conditions for retirement or “special circumstances,” which includes termination by the Company without “cause,” and agreeing to the restrictive covenants and a general release of claims in favor of the Company), the options continue to become exercisable on the originally scheduled dates and remain exercisable for an extended post-termination exercise period (the full term of the option in the case of retirement and for a lesser period in the case of termination by the Company without cause), as applicable.

Beyond simply failing to acknowledge that Mr. Easterbrook was terminated for cause, the board determined that the former CEO is entitled to “favorable treatment,” which allows him to continue benefitting from equity grants that are “generally forfeited on termination of employment.”

In light of McDonald’s ongoing struggle to address widespread concerns over sexual harassment in its restaurants, the decision to ignore the Company’s stated policies and ethical commitments is both unconscionable and counter-productive. McDonald’s has effectively declared that it has just been paying lip-service to ethics and human rights, and that when push comes to shove, the board will not demand genuine accountability from executives. There is simply no plausible argument that the post-employment agreements with Mr. Easterbrook are of so much value to shareholders that abandoning McDonald’s ethical commitments could be justified.

Finally, and perhaps most importantly with respect to setting a strong tone at the top for compliance and ethical conduct, we can only question whether the board considered the message it was sending to

other employees regarding the importance of their complying with company policies if there is no accountability when the most senior employee violates those policies. Whether related or not, we were disappointed to read of the departure of David Fairhurst as Chief People Officer. We viewed David as a tremendous asset to the company and a knowledgeable credible engagement partner

A Stronger Clawback Policy

While it may be too late for the board to reverse these ill-considered decisions, the board should quickly adopt amendments to its clawback policy to make it clear that executives whose actions violate the Standards of Business Conduct or otherwise damage the reputation of the Company need not be allowed to retain equity grants and other relevant compensation. Taking this step would immediately signal to shareholders, employees, and the public that the board understands the gravity of this situation and the importance of setting the right tone at the top.

Some of us have negotiated similar clawback policies with our portfolio companies. In particular, the New York City Comptroller's Office, on behalf of the New York City Retirement Systems, has been particularly active on this reform, and successfully negotiated an enhanced clawback policy with Wells Fargo in 2013 that enabled that company's board of directors to recoup \$60 million in 2016 from the company's CEO and another executive in the aftermath of the company's fake account scandal.

Shareholder Approval of Equity Retention

Given the failure of the board to properly apply McDonald's established policies in Mr. Easterbrook's situation, we do not believe that this board should be allowed to retain unilateral authority to exempt executives from the forfeiture of unvested equity grants in exchange for post-employment agreements of dubious value to long-term shareholders. Instead, any future exemptions from the general requirement that unvested equity grants be forfeited when employment is terminated must be approved by a majority of shareholders.

Renewed Board Commitment to Stopping Sexual Harassment

Perhaps most importantly of all, McDonald's decision to insulate a powerful man from the consequences of his actions threatens to undermine the fledgling steps the Company has taken to address its sexual harassment problem. The board needs to remedy this situation by demonstrating that, going forward, it will take its responsibility for overseeing the Company's sexual harassment prevention efforts far more seriously. In particular, the board should formally acknowledge its responsibility for overseeing sexual harassment prevention system-wide, charge a standing committee with this responsibility, and add sexual harassment prevention to the director skills matrix. Additionally, the board should commit to a comprehensive review of Company policy - including executive pay, promotion, recruitment, and retention policies - to ensure that the prevention of sexual harassment throughout the McDonald's system is understood to be a top priority at every level of the Company. Finally, the board should report back to shareholders on its efforts by December 31, 2020.

As long-term McDonald's shareholders, we look to the board of directors to prioritize the comprehensive strategic goals that ultimately determine a company's survival and prosperity. We are frustrated and angered by the board's failure to utilize its authority in what seems to us to have been a very clear cut case of rule-breaking, and to instead prioritize the personal interests of executives and directors. We hope you recognize the gravity of our concerns and begin to address them promptly.

Sincerely,

A handwritten signature in black ink, appearing to read "Scott M. Stringer".

Scott M. Stringer
New York City Comptroller

A handwritten signature in black ink, appearing to read "Doug McMurdo".

Cllr Doug McMurdo
Chair, LAPFF

A handwritten signature in blue ink, appearing to read "Dieter Waizenegger".

Dieter Waizenegger
Executive Director
CtW Investment Group