May 15, 2020

Dear McDonald's shareholder,

While finalizing your voting decisions for the annual meeting on May 21, please consider the following important information. Please let me know if you would like to discuss the concerns on the phone in the next days.

We urge you to vote AGAINST the following proposals at McDonald's Corp (NYSE: MCD): Management Say-on-Pay proposal (2), the Reelection of Chairman of the Board Enrique Hernandez, Jr. (1e), and the Reelection of Compensation Committee Chair Richard Lenny (1g).

As we wrote to you on April 23, the compensation committee exercised its discretion to award fired CEO Steve Easterbrook three years of continued option vesting. Recently, one proxy advisor, Institutional Shareholder Services (ISS), stated in its report that it did not appear that the committee exercised "any discretion at all" in the treatment of Easterbrook's outstanding equity awards. We disagree with this conclusion. We reached out to ISS repeatedly to attempt to get clarification on their analysis, they did not definitively respond.

We will show below that the board and the compensation committee did indeed exercise discretion and in doing so set a double standard in how the company responds when employees violate key company policies. Shareholders should vote against the Say-on-Pay (Proposal 2) and the chairs of the board and compensation committee (Proposals 1e and 1g) for the following reasons:

- The board and compensation committee had, in fact, not only exercised discretion, but excessively so. Specifically, the board's decision to add an additional year of continued vesting for Easterbrook's stock options does not appear to be dictated by the terms of the company's various compensation related agreements.[1]
- Ultimately, the Board had discretion in determining whether to classify Easterbrook's termination as "for cause" or "without cause"; the board decided to classify his termination as "without cause" despite violating the corporate ethics policy.

Why did Easterbrook receive the maximum amount of additional stock option vesting?

To substantiate the claim that no discretion was applied, ISS refers to the 2019 Executive Stock Option Agreement Award Agreement,[2] which lays out a formula for what sum of age and years of company service grant additional option vesting. As a maximum, an executive is entitled to 3 years of continued option vesting once he or she has a combined 68 years of company service and age:

[1] There can be no doubt that the Committee had the discretion to approve severance packages that are more generous than the terms in any grant agreement, as that power is granted under section 12(b) of the 2012 Omnibus Stock Ownership Plan, retrieved from Retrieved from https://www.sec.gov/Archives/edgar/data/63908/000006390812000044/mcd-9302012xex10h.htm

[2] McDonald's Corporation. (2019, May 8). Form of 2019 Executive Stock Option Award Agreement (p. 3). Retrieved from https://www.sec.gov/Archives/edgar/data/63908/000006390819000039/mcd-3312019xex10r.htm

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Age and Years of Company Service	Additional Vesting and Time to Exercise
68 plus years	3 Years
58 to 67 years	2 Years
48 to 57 years	1 Year

Last November, Easterbrook received all three years. At the time of his termination, he was 52 years old. Thus, he would have needed **16 years of service** to attain “68 plus years” of combined age/service to qualify for 3 years of continued option vesting. The option agreement does not contain specifics on how to calculate “Years of Company Service,” a somewhat strange omission. Therefore, we must look to other company agreements and disclosures to infer how the company calculated his years of service.

Chief among these documents are McDonalds’ Officer Severance Plan[3] and Easterbrook’s Separation Agreement. The Officer Severance Plan states that Easterbrook is entitled to 2 weeks of severance pay for every 1 year of service and the Separation Agreement states that Easterbrook shall receive 26 weeks of severance pay.[4] Taken together, we conclude that the board determined that Easterbrook’s years of service was at or below 13 years.[5] This is for Easterbrook’s cash severance, not equity – but keep in mind the claim that no discretion was used in determining option vesting continuation.

Adding 13 years of service to Easterbrook’s age at termination (52), we arrive at 65 years of combined age/service, not 68, thus entitling him to less than three years of option continuation. As the Stock Option Agreement itself contains no formula for calculating Years of Company Service, investors would likely assume that the same years of service calculation for cash severance would apply to equity. However, the board awarded Easterbrook 3 years of option continuation, one more year than calculation of the cash severance seems to indicate. Did the board use different methods to calculate two numbers of years of service (one for cash arriving at 13 or below years, and another for equity arriving at 16+ years), or did the committee decided to increase the option vesting continuation to 3 years using its *discretion*?[6]

What difference does one year make? Probably several million dollars.

This may seem like we are splitting hairs; after all, what difference does one year make? The board awarded Easterbrook a total severance package of potentially $44 million, $28 million of which pertains to his outstanding options – each additional year of vesting continuation could mean several millions more in compensation to Easterbrook. This, in our view, is not just discretion, but excessive discretion.

[3] Easterbrook appears to be a covered as a Schedule A employee. As stated on page 21, Schedule A employees are entitled to a minimum of 26 weeks and a maximum of 52 weeks’ severance pay. McDonald’s Corporation Officer Severance Plan - As Amended and Restated Effective January 1, 2019 (page 21). Retrieved from https://www.sec.gov/Archives/edgar/data/63908/000006390819000039/mcd-3312019xex10q.htm

[4] McDonald’s Corporation. (2019b, November 4). Separation Agreement and General Release between Stephen Easterbrook and the Company (page 1). Retrieved from https://www.sec.gov/Archives/edgar/data/63908/000089882219000080/mcdsepagmt.htm

[5] 2:1 ratio weeks to years of service. 26 weeks divided by 2 equals 13 years.

[6] Easterbrook worked for the company from 1993-2011 and again from 2013-2019. If the company was including some or all of that earlier period in its calculations, why would his cash severance be calculated at under 13 years?

And lastly, but most importantly, the committee ultimately had discretion in determining whether to classify Easterbrook's termination as "for cause" or "without cause," with a "without cause" termination triggering the compensatory windfall we are writing to you about today. Proxy advisor Glass Lewis said it best: "exempting CEOs from key provisions of crucial rules around corporate policy sets a questionable tone at the top." We agree wholeheartedly.

Therefore, we urge you to vote AGAINST the Management Say-On-Pay proposal (Proposal 2) as well as vote AGAINST the reelections of Chairman of the Board Enrique Hernandez, Jr. and Compensation Committee Chair Richard Lenny (Proposals 1e and 1g, respectively).

Please contact my colleague Michael Varner, Director, Executive Compensation at michael.varner@ctwinvestmentgroup.com with any questions.

Sincerely,

Dieter Waizenegger
Executive Director

This is not a solicitation of authority to vote your proxy. Please DO NOT send us your proxy card as it will not be accepted