

December 17, 2020

Mr. Miles White
Chair, Governance Committee
Board of Directors
McDonald's Corporation

Dear Mr. White:

As investors of McDonald's Corporation, we have, over the past year, monitored events related to the termination of former CEO Steve Easterbrook and, in particular, the Board of Directors' role in managing the litigation and operational risks associated with his misconduct. We believe that the decision to terminate Mr. Easterbrook "without cause," coupled with the Board's handling of the related, independent investigation into his misconduct, were not in the best interests of the company or its shareholders. The directors most responsible for the termination of Mr. Easterbrook and his excessive severance package – Board Chairman Enrique Hernandez, Jr., with 24 years on the board and Compensation Committee Chair Richard Lenny, with 15 years on the board -- should be held accountable and replaced. Accordingly, we request that the Board accelerate its refreshment process and announce, by January 31, 2021, that Messrs. Hernandez and Lenny will not stand for re-election in 2021.

McDonald's is engaged in costly litigation against its former CEO to recoup millions of dollars of severance payments. Had the Board terminated Mr. Easterbrook for cause instead, given his clear violation of McDonald's *Standards of Business Conduct*, the Company could have avoided awarding him equity valued in excess of \$44 million (now worth over \$50 million) and over \$675,000 in cash severance – all at the cost to long-term investors. It also could have sent a strong message to all employees that sexual misconduct and other violations of the *Standards of Business Conduct* will not be tolerated at any level of the corporation. At McDonald's, this appears to be a significant risk to be mitigated, given that our research indicates the existence of at least 72 lawsuits filed over the past decade against the Company and its franchisees for fostering an environment where sexual harassment is pervasive.

The corrosive "tone at the top" with respect to sexual harassment appears to have been known among McDonald's executives and employees, and to have made them uneasy. Mr. Easterbrook had reportedly developed a reputation for flirting with female employees — at least one former executive was aware of this conduct and was quoted as saying: "it was enough for them [women] to feel uncomfortable."ⁱ Mr. Easterbrook was not, however, the only senior executive exhibiting inappropriate behavior toward women. Just days after his termination, McDonald's reportedly fired David Fairhurst, the Company's former Global Chief People Officer (whom Mr. Easterbrook promoted to this position in 2015 when he became CEO), **for cause** as a result of behavior that, similar to Mr. Easterbrook, was making the women at the Company feel uncomfortable.ⁱⁱ The Company has not disclosed the circumstances of Mr. Fairhurst's abrupt departure. Like Mr. Easterbrook, Mr. Fairhurst, who had the role of leading human capital management at the Company, reportedly participated in McDonald's so-called "party culture" and often frequented corporate parties that involved heavy drinking.ⁱⁱⁱ On at least one occasion in 2018, Mr. Fairhurst allegedly pulled a female staffer onto his lap, which eventually led to a formal complaint with McDonald's legal department.^{iv} Though the Company recently started an internal investigation of its

human resources department, it is becoming increasingly clear to shareholders that the Board is too slow to initiate investigations even when McDonald's foundational values are at risk.

It is evident from the Company's lawsuit, which includes information on the Board's investigation that was not previously disclosed to shareholders, that the unwarranted severance payments and subsequent litigation could have been avoided had the Board effectively handled its investigation. The Board has never disclosed the scope of its investigation into Mr. Easterbrook's conduct before he was fired in 2019. In addition, at no time has the Board or the law firm that conducted the purportedly independent outside investigation (Wachtell, Lipton, Rosen, & Katz) identified the directors or the committee responsible for directing and overseeing this review. It is unclear who on the McDonald's Board was qualified to provide such active oversight and direction. Other than Chairman Hernandez at the beginning of his career, no other Board member has a regulatory or legal compliance background.

It is also apparent from the complaint against Mr. Easterbrook that, by failing to adhere to standard investigative practice regarding electronic information, the investigators overlooked "undisputable evidence"^v of broader sexual misconduct by Mr. Easterbrook. The complaint alleges that Mr. Easterbrook withheld information from the Board in its initial investigation and states that new photo and video evidence he sent from his Company email address showed that he had sexual relationships with no less than three employees in the year before his termination, and that he sanctioned an extraordinary stock grant, worth hundreds of thousands of dollars, for one of those employees in the midst of their sexual relationship.^{vi} While Mr. Easterbrook deleted these emails from his Company-issued iPhone, which the investigators reviewed, they remained undisturbed in his McDonald's e-mail account backed up on Company servers, which the investigators ostensibly neglected to examine.

When conducting an internal investigation in response to allegations of executive misconduct, it is precisely the review of such electronic information contemplated by the Association of Corporate Counsel in its recommendation that investigators "suspend the scheduled deletion of email files on the Company's e-mail server, so that email deleted beforehand by the subjects can be preserved."^{vii} While Mr. Easterbrook's deleted email files may have remained on the Company server, the investigators failed to search for them -- a costly and preventable omission on the part of the investigators and McDonald's Board, which is responsible for actively overseeing and directing the investigation.

The Board's clear disregard of violations of its own codes of conduct by the highest level of the Company's management not only set a corrosive "tone at the top," but has also undermined investor confidence in the Board's independent oversight, judgment and leadership. We also question the Board's judgment in re-hiring the law firm that bungled the internal investigation to represent the Company in its lawsuit against Mr. Easterbrook.

As a result, we believe that board refreshment is necessary, and that long-tenured Chairman Hernandez, as well as Compensation Committee Chair Lenny, should cede their seats. As part of its accelerated refreshment process, we encourage the Board to consider candidates who will fill in the glaring gaps of legal and compliance expertise.

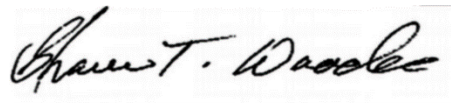
We would be happy to work with the Board to identify qualified candidates who will ensure robust oversight of the Company's corporate culture and policies.

We look forward to your response. Please contact Dieter Waizenegger at dieter.waizenegger@ctwinvestmentgroup.com to arrange a time to discuss these concerns before January 31, 2021.

Sincerely,



Scott M. Stringer
New York City Comptroller



Shawn T. Wooden
State Treasurer
State of Connecticut



Dieter Waizenegger
Executive Director
CtW Investment Group

ⁱ Haddon, Heather and Vranica, Suzanne Vranica “McDonald’s Looks Beyond Party Culture, The Wall Street Journal, January 5, 2020. Retrieved from <https://www.wsj.com/articles/mcdonalds-looks-beyond-party-culture-11578243600>

ⁱⁱ Taylor, K. (2020, September 1). Insiders say “gross and dirty” behaviour by a former head of HR at McDonald’s sparked internal concerns long before his ouster in late 2019. Retrieved from <https://www.businessinsider.com.au/mcdonalds-fired-head-of-hr-faces-renewed-scrutiny-2020-8>

ⁱⁱⁱ Ibid.

^{iv} Ibid.

^v McDonald’s Corporation. (2020, August 10). Form 8-k. Retrieved from <https://www.sec.gov/Archives/edgar/data/63908/000089882220000056/complaint.htm>

^{vi} Ibid.

^{vii} Booden, M. (2004). 204: Conducting Effective Internal Investigations. Retrieved from https://www.acc.com/sites/default/files/resources/vl/public/ProgramMaterial/20439_1.pdf