

Yum! Brands and McDonald's can Increase Enterprise Value by \$319 million and \$1.5 billion respectively for every 10% increase in Loyalty Program Penetration

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Summary

Based on our analysis, Yum! Brands, Inc. (“Yum!”) and McDonald’s Corporation (“McDonald’s”) can grow Enterprise Value by \$319 million and \$1.5 billion respectively for every 10 percent increase in loyalty program penetration. Obviously, a number of factors will impact these estimates including a more precise calculation of Customer Lifetime Value (CLV), loyalty membership, and the companies’ stance on data privacy.

Data Monetization Index (DMI)

The YDC team recently published a Data Monetization Index (DMI) for quick service restaurant companies in the United States. Yum!, McDonald's and Chick-fil-A have DMI's of 0.02%, 0.19% and 9.56% respectively (see Figure 1). The DMI is the value of a company’s data relative to Enterprise Value. Enterprise Value is a key metric used in the investment community and is computed as equity value plus long-term debt minus cash.

Company	Enterprise Value	Loyalty Data Valuation	DMI
Yum Brands Inc.	\$47,120,000,000	\$7,730,160	0.02%
McDonald's Corporation	\$231,190,000,000	\$450,136,803	0.19%
Chick-fil-a	\$33,676,110,200 ¹	\$3,219,293,426	9.56%
Average			3.26%

Figure 1: DMI at Yum!, McDonald's and Chick-fil-A

¹ Because Chick-fil-A is a private company, Enterprise Value has been estimated based on comparable multiples to Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)

A higher DMI is generally preferable across companies and industries. By way of reference, internet companies have a higher DMI because most of their enterprise value is derived from data. For example, Google's DMI is 93 percent because it generates most of its revenues from advertising based on user interaction data.

Loyalty Data Valuation

Loyalty programs have become popular tools for restaurant operators to attract and retain customers by gaining access to coveted diner data. Indeed, other industries are also investing heavily in loyalty programs. For example, consumer packaged goods companies establish loyalty programs to get valuable information about their customers who may be purchasing products from retailers like Amazon and Walmart. In the normal course of events, Amazon and Walmart own customer data that they may not share with the consumer products companies.

The Loyalty Data valuation methodology uses CLV, customer counts, loyalty membership, revenues, gross margin, ticket size, shopping frequency, churn rate, customer tenure and discount rates from publicly-available data sources only.

Yum! operates the KFC, Pizza Hut, Taco Bell and The Habit Burger Grill brands. McDonald's and Yum! have been investing heavily in their loyalty programs but are somewhat late to market compared to Chick-fil-A. Based on publicly available information, the legacy My KFC Rewards loyalty program had a U.S. customer penetration of 33 percent.² Similar information is not available for the other three Yum! Brands as well as KFC outside the U.S.. By contrast, McDonald's had 22 million loyalty customers³ in 2021, or approximately 2.99 percent of its customer base. Finally, Chick-fil-A has 13 million loyalty customers, or more than 70% of its customer base.

Both Yum! And McDonald's have significant room to improve the penetration of their loyalty programs (see Figure 2).

Company	Estimated Number of Unique Customers	Estimated Number of Loyalty Customers	Loyalty Program Penetration	Loyalty Data Valuation at Current Penetration
Yum Brands Inc.	495,462,702	1,200,000 ⁴	0.24%	\$7,730,160
McDonald's Corporation	734,731,624	22,000,000	2.99%	\$450,136,803
Chick-fil-a	18,178,089	13,000,000	71.51%	\$3,219,293,426

Figure 2: Data valuation for Yum!, McDonald's and Chick-fil-A

² <https://bobcutmag.com/2022/02/12/kfcs-loyalty-program/>

³ <https://seekingalpha.com/article/4442112-mcdonalds-corporation-mcd-ceo-chris-kempczinski-on-q2-2021-results-earnings-call-transcript>

⁴ Loyalty customer data for KFC for 2016 is 1.2 million within the U.S., loyalty membership for other Yum! Brands is assumed to be zero given the lack of public information

Based on our analysis, Yum! And McDonald's can grow Enterprise Value by \$319 million and \$1.5 billion respectively for every 10 percent increase in loyalty program penetration (see Figure 3).

**Increase in Enterprise Value when Loyalty Program Penetration
as a Percentage of Customer Count is...**

Company	10%	20%	30%	40%	50%
Yum Brands Inc.	\$311,437,005	\$630,604,170	\$949,771,335	\$1,268,938,500	\$1,588,105,665
McDonald's Corporation	\$1,053,180,217	\$2,556,497,236	\$4,059,814,256	\$5,563,131,275	\$7,066,448,295

Figure 3: Data valuation increase for Yum! and McDonald's at different loyalty penetration rates

Obviously, a number of factors will impact these estimates including a more precise calculation of CLV, loyalty membership and the companies' stance relative to data privacy.

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