

The background of the entire page is a photograph of a woman and a man in a professional setting. The woman, on the left, has long brown hair and wears glasses and a white button-down shirt. She is smiling and looking down at a laptop. The man, on the right, has dark curly hair and a beard, wearing a blue and white checkered shirt. He is also looking at the laptop. The scene is brightly lit, suggesting a modern office or cafe environment.

Harness the Power of Ratios: How McDonald's Scores Your Financial Viability

An interpretation guide to McDonald's financial
viability ratios for owner/operators

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Introduction

Every month, McDonald's owner/operators send their financials up the line and get a number back. That number is a financial viability score, and it is built almost entirely from ratios. This guide covers the McDonald's financial viability ratios behind it: what each one measures, what "meets" looks like, and what to do first when one of them starts to slip.

The ratios themselves are not new, and neither is the arithmetic. What changes when a franchisor scores you on them is the consequence. A ratio drifting in the wrong direction is no longer only a management signal; it becomes part of your standing in conversations about growth and reinvestment. The work is interpretation: reading your own number, knowing which ratio moved it, and knowing which lever moves it back.

In the dynamic world of restaurant franchising, success hinges on a delicate balance of operational efficiency, financial acumen, and strategic decision-making. There are several tools and metrics franchise owners can use to track financial performance and success, but perhaps the most meaningful are financial ratios, which not only monitor performance but can also help owners identify trends and improve operations to capture them.

By understanding and effectively utilizing the different types of ratios available to measure performance, franchise owners can gain a competitive edge in the marketplace and drive sustainable growth.

Aprio's Restaurant, Franchise & Hospitality team has served McDonald's owner/operators for more than three decades, and the guidance here reflects what we see in monthly reporting across that book of business.



Deanna Olton

PARTNER, CAAS | RESTAURANT,
FRANCHISE, AND HOSPITALITY
APRIO ADVISORY GROUP, LLC

How does McDonald's score your financial viability?

McDonald's reviews owner/operator financials every month and turns them into a single financial viability score.

6

The scale runs from a high of 10 to a low of negative 6. A score of six or above meets the financial standard.

9<

Nine or above is treated as a gold standard of financial health.

>5

Five or below signals financial risk.

25th

Owner/operators submit monthly financial statements through WebFFS, by the 25th of the month following the reporting period.

The score is built from the ratios defined in this guide, each contributing a set number of points. Financial viability is one of three financial standard measures McDonald's reviews. The other two are timely and accurate reporting and paying on time.

A "does not meet" rating is not a penalty on its own. It is a flag that travels with you into conversations about growth and reinvestment approvals, which is why reading the score matters more than recalculating it.

PROACTIVE STEP

Registered applicants and next-generation candidates work from the same framework before they have any history to be scored on. If you are preparing for your first business review, learn the mechanics below early; [our guide to the McDonald's registered applicant process](#) covers what else to expect.

Ratios: your financial compass

Ratios can give franchise owners valuable insight into the inner workings of the entire operation, including cash liquidity, operational efficiency, and profitability.

For the purpose of this guide, we will define the following ratios and dive a bit deeper into the bolded metrics in the list below. Those are the metrics a McDonald's financial viability review leans on hardest, and the ones owner/operators ask about most.

Overall, these metrics are key to keeping franchises financially sound and on track to meet their growth goals:

FOOD COST PERCENTAGE	NET PROFIT MARGIN	LIABILITY TURNOVER
LABOR COST PERCENTAGE	DEBT-TO-EQUITY	LEVERAGE
PRIME COST PERCENTAGE	RETURN ON INVESTMENT	ESTIMATED NET EQUITY %
GROSS PROFIT MARGIN	CASH FLOW COVERAGE	WORKING CAPITAL



Why does tracking ratios matter?

Before we look closer at these ratios, it is important to start the conversation with “why.” In other words: **why is understanding key ratios important, and how do franchises benefit from tracking ratios to measure performance?**

In the simplest terms, tracking ratios can help owners:



Get a leg up on performance benchmarking:

Measuring ratios allows franchise owners to compare their performance against industry standards, competitors, and historical data. This benchmarking process can help owners identify strengths and weaknesses and allow them to better target their improvement efforts (and the dollars they invest in them).



Maintain and attract investor confidence:

Strong financial ratios can enhance investor confidence in a franchise owner's business and brand, potentially enabling them to attract additional capital. By demonstrating a solid understanding of the business's financial performance, franchise owners can secure funding for expansion and growth.



Make more informed decisions:

Ratios provide franchise owners with the quantitative information they need to support strategic growth and to make financial and business decisions. Whether it's evaluating a new menu item, adjusting pricing tiers, or investing in new marketing initiatives, ratios offer owners a data-driven perspective owners might not have otherwise.



Spot early warning signs:

By tracking changes in key ratios over time, franchise owners can detect potential issues early on, allowing them to take corrective action before issues and roadblocks impact their bottom line.

The most common ratios for restaurant franchise owners

Below, we have defined the most common restaurant ratios owners can use to monitor their franchise operations. For the most holistic, accurate, and up-to-date data, we recommend calculating these ratios monthly, at the very least.

FOOD COST PERCENTAGE

This is the ratio of the cost of food sold to total food sales. This metric is significant because a high food-cost percentage can erode your franchise's profitability. By monitoring this ratio regularly, franchise owners can pinpoint opportunities to reduce food waste, negotiate better deals with suppliers, or even adjust menu pricing.

PRIME COST PERCENTAGE

This is the ratio of the combined percentage of food and labor costs relative to total sales. Prime cost percentage is a critical metric for controlling operational expenses. When franchise owners monitor this ratio consistently, they can better reduce food and labor costs while maintaining quality and service. Benchmark ranges for quick service are in the next section.

NET PROFIT MARGIN

This is the ratio of net income (i.e., profits after all expenses) to total revenue. Net profit margin is the ultimate measure of the franchise business' overall profitability. By tracking this ratio, owners can better evaluate the overall financial health of their franchise operations.

RETURN ON INVESTMENT (ROI)

ROI is the ratio of net profit to total investment, and it measures a franchise's capital utilization efficiency. By tracking ROI, owners can evaluate the profitability of different investments and allocate resources more effectively to achieve their franchise's financial goals.

LABOR COST PERCENTAGE

This metric compares labor costs (e.g., wages, salaries, benefits) to total sales. The labor cost percentage ratio is critical to track, especially in today's tight labor market where excessive labor costs can significantly impact profitability. Franchise owners can monitor this ratio and capture opportunities to improve staffing levels, improve scheduling efficiency, and implement labor-saving technologies.

GROSS PROFIT MARGIN

This metric compares gross profit (i.e., total revenue minus cost of goods sold) to total revenue. Gross profit margin reflects the profitability of the core franchise operations; therefore, a strong gross profit margin is essential for owners to cover operating expenses and generate net income.

DEBT-TO-EQUITY RATIO

This metric tracks the ratio of total debt to total equity. If a franchise has a lower debt-to-equity ratio, it is likely in a healthier financial position. Monitoring debt-to-equity on a regular, consistent basis allows franchise owners to assess their ability to meet debt obligations and raise additional capital for their franchise.

ESTIMATED NET EQUITY %

This is the share of the estimated value of the business that is owned outright rather than financed by debt. It sits inside the McDonald's financial viability review and is defined in full below.

What is a healthy restaurant prime cost benchmark for quick service?

Prime cost is food cost plus labor cost as a share of total sales, and it is the fastest read on whether the two largest controllable costs in a restaurant are in line. A restaurant prime cost benchmark of 55% to 60% of sales is typical for quick service, tighter than the 60% to 65% common in full service, because the quick-service model runs standardized products at high volume.

Food cost generally runs from 28% to 35% across the industry. Labor cost generally runs 25% to 30% in full service, with quick service operators benchmarking toward the lower end of that range.

For McDonald's specifically, Aprio's Restaurant, Franchise & Hospitality team has published benchmark averages from its 2025 benchmarking report: food cost year to date of 24.73%, base food cost of 19.77%, food over base of 3.69%, and paper costs of 3.67%.

Ratio review works best on a rhythm rather than a monthly scramble. Here is what owner/operators and their finance leads typically watch, and when:

- Daily: cash position, liability turnover in days, and sales against plan.
- Weekly: food over base, waste, and labor hours against forecast.
- Monthly: the full ratio set, reviewed before the WebFFS submission goes out rather than after, so a slipping number is caught while there is still time to explain or correct it.



Food over base is the gap between what the food should have cost and what it did, and it is the number operational discipline actually moves

A closer look: the McDonald's financial viability ratios behind your score

In addition to the common ratios we outlined above, this is the set that carries the most weight in a financial viability review. Each one below comes with the threshold McDonald's looks for and the first moves when the number is off target.

Cash flow coverage (CFC)

CFC measures a franchise's ability to generate cash to cover debt service. It is usually the first ratio discussed in a business review, precisely because it is the clearest read on whether the business can service its debt out of operations. Franchise owners should monitor CFC monthly and be keenly attuned to financial activities that could negatively impact it (e.g., excessive draws, increased debt).

To better manage CFC, franchise owners may consider a range of different financial and debt management strategies, such as:

- Switching over to making steady monthly draws for taxes instead of taking lump-sum distributions;
- Watching for non-capitalized reinvestments to help confirm they are coded correctly on financial statements; and
- Implementing proactive cash flow management strategies to help keep CFC from dropping too low (i.e., franchise owners should generally avoid letting CFC drop to less than 1.0).

Our article on [effective cash flow management for restaurants](#) covers the forecasting and working capital routines that sit behind this ratio, including how to build a rolling cash flow forecast for a growing group.

McDonald's looks for a cash flow coverage ratio of 1.2 or higher, calculated on the trailing twelve months (TTM) rather than a single month. Draws move this ratio faster than almost anything else.

Estimated net equity %

Estimated net equity % is the share of your business's estimated value that is free of debt. In plain terms: how much of it you own outright. The McDonald's guideline is 25% or above.

The calculation starts with pre-debt cash flow, less standard general and administrative (G&A) costs. A 5.25x cash flow multiplier is applied to that figure to reach an estimated business value. Net debt (i.e., current and long-term liabilities, excluding amounts owed to stockholders) is then netted off, and net equity is expressed as a percentage of the value.

Treat the result as a foundation, not a market value. It does not account for brand, location, reinvestment history, or any of the other things a buyer would pay for.

Two things move it:

- Increasing cash flow by lowering costs and cutting expenses raises it;
- Taking on new debt lowers it, which is how a single new loan can improve one ratio and damage another in the same month.

Working capital

Working capital is current assets less current liabilities: whether this month's liquid assets cover this month's bills. There is no fixed threshold here because working capital behaves as an input rather than a target. It feeds liability turnover, which is where it shows up in the review.

Liability turnover (LTO)

LTO measures a franchise's working capital reserves and ability to pay its bills. The most common calculation businesses use to measure the LTO ratio is **current working capital/average daily sales**. Positive working capital is shown as a negative number in days (i.e., excess in reserves to cover bills), while negative working capital is shown as a positive number in days (i.e., using future days' sales to cover today's liabilities).

Franchise owners should monitor LTO daily to help maintain a strong working capital position and make sure the number is trending in the right direction.

Here are a few more points owners should remember when tracking LTO:

- Keep a higher amount of cash in the business to help increase working capital and strengthen LTO.
- On a monthly basis, review the asset/liability mapping to confirm that noncurrent items are classified appropriately.
- Keep a log of current working capital to maintain a strong cash position, which will help keep liquidity high.

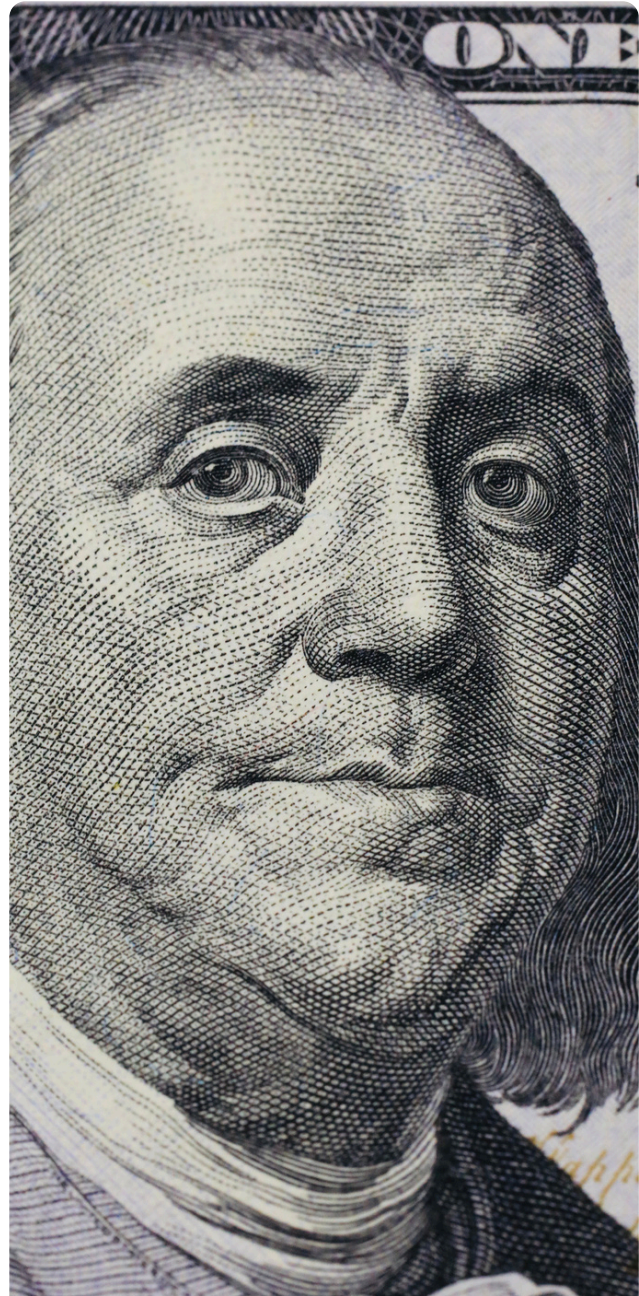
Leverage

This ratio measures the franchise's ability to obtain external financing. Leverage is calculated by balance sheet debt/pre-debt cash flow less actual general & administrative (G&A) expenses. This ratio is often used by lenders in conjunction with the CFC ratio to make financing decisions.

If the business is owned by a larger franchise organization, the owner may be required to meet a certain leverage threshold. For instance, some organizations have a lower leverage standard to help ensure there is enough capacity to reinvest in the business or take advantage of growth opportunities as they arise. In general, most banks prefer businesses to have a leverage ratio below 4.0 before they grant lending opportunities.

It's also worth noting that if your organization has Business Financial and Leasing Services (BFLS), its pre-debt cash flow is excluded from the calculation.

Before adding units, run the test forward. Estimate pre-debt cash flow for the new restaurant, add the debt you would take on to get there, and recalculate. That forward test is also the cleanest piece of financial due diligence when you are evaluating an acquisition, because it shows the breakeven the new unit has to clear before it stops dragging on the rest of the organization.



Aim for 3.0 or lower. While 4.0 is a general lending preference, 3.0 is the level that leaves room to reinvest and add units.

How to read your score, ratio by ratio

No single ratio tells the story on its own. The table below is the short version: what “meets” looks like, what the number is measuring, and where to start if you are below target.

RATIO	WHAT “MEETS” LOOKS LIKE	WHAT IT MEANS	IF YOU ARE BELOW TARGET
Cash flow coverage ratio (CFCR)	Generally, above 1.0. For McDonald’s, 1.2.	Ability to cover debt service from operating cash.	Review draws, reinvestment timing, and debt structure.
TTM liability turnover	A positive working capital position. Ideally fewer than zero days.	Ability to pay bills from reserves rather than relying on future sales.	Increase cash reserves and review asset and liability classification.
Estimated net equity %	Generally, 25% or above.	Equity cushion relative to total investment. Measures net worth in the business.	Increase cash flow by lowering costs and cutting expenses.

What should you do first if your score is below the standard?

Three moves cover most of the ground, and none of them require new financing:

- 1 Steady the draws:**
Switching from lump-sum distributions to steady monthly draws for taxes smooths cash flow coverage without changing what you ultimately take out of the business.
- 2 Work the controllable costs:**
Food over base, waste, oil management, condiment control, and labor hours during soft sales periods are the levers that move cash flow, and cash flow moves three ratios at once. This is usually faster than any balance sheet maneuver.
- 3 Check the classification before you change the business:**
Non-current items mapped as current will understate working capital and push liability turnover the wrong way. A monthly review of asset and liability mapping sometimes recovers points that were never really lost.

Decisions rarely land on one line. Limiting draws improves cash flow coverage and can lift working capital. Taking on debt can improve working capital in the short term while raising leverage and lowering estimated net equity. Model the whole picture before committing, not only the ratio you are trying to move.

Foster stronger financial health for your franchise

No matter how large your franchise is or what your growth plan looks like, financial ratios are indispensable tools to help you gain insights to give you a competitive edge, improve operations, and drive sustainable business growth. By consistently monitoring ratios and relevant key performance indicators (KPIs) to fuel data-driven decisions, you can boost your franchise's financial health and better navigate the ever-changing landscape of the restaurant industry.

Aprio helps McDonald's franchisees Account for Anything®

Aprio's Restaurant, Franchise & Hospitality team can help you take the next step. As a national leader in the restaurant franchise industry, Aprio has worked with McDonald's owner/operators for more than three decades and provides the back office, financial reporting, and business advisory services you need to increase profitability and prepare for future growth.

Aprio prepares and sends monthly financial statements to McDonald's Corporation, reconciles bank, credit card, and delivery accounts, and reviews the ratios alongside them, so a slipping number surfaces in a conversation with your advisor rather than in a "does not meet" rating. Contact our team today.

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