

McDonald's Investor to Seek Smaller IPO of Outlets (Update1)
2006-01-18 09:36 (New York)

(Adds details on new plan starting in first paragraph.)

By Josh Fineman and Chris Burritt

Jan. 18 (Bloomberg) -- McDonald's Corp. investor Bill Ackman will call on the chain to form a new company out of the restaurants it owns and sell 20 percent of that entity's stock to the public, less than his original proposal.

Ackman, managing director of hedge-fund Pershing Square Capital Management LP, said he will also push for the new public company to divest 1,000 of its restaurants to franchisees. He will meet with investors today in New York to present his newest proposals for change at McDonald's.

Ackman is scaling back his approach after his first plan in November was immediately rejected by McDonald's. He had urged the company to sell a 65 percent stake in its company-owned stores in an IPO that could raise \$3.27 billion. The company could also borrow \$14.7 billion secured against its real estate to fund a share repurchase, he had said.

"I think McDonald's doesn't need to do any restructuring," said Giri Cherukuri, head trader at Lisle, Illinois-based Oakbrook Investments LLC, which manages about \$1.3 billion, including McDonald's shares. "I would stick with management and let them do their job."

Shares of Oakbrook, Illinois-based McDonald's fell 11 cents to \$34.48 at 9:35 a.m. in New York Stock Exchange composite trading. The stock rose 5.2 percent in 2005, the worst performance since it fell 39 percent in 2002.

Sell 1,000 outlets

Ackman said he will propose the new company eventually sell off 1,000 restaurants in slow-growing countries such as the U.S., Canada and Britain. Pershing holds a 4.9 percent stake, mainly through options, in McDonald's, the world's biggest restaurant company.

"There's a lot more to the proposal," Ackman said in an interview this morning, saying additional details will be given at the presentation.

Pershing previously took a 9.3 percent stake in Wendy's International Inc. in April and pushed it to offer shares in its Tim Hortons coffee shops in an IPO and sell land.

The Wall Street Journal reported Pershing's new proposals today.

McDonald's said in November Pershing's proposal would not create "significant" value for shareholders. Two separate outside advisers evaluated the ideas and concluded they would pose "serious" strategic and financial risks to the company.

Chief Executive Officer Jim Skinner said on Oct. 31 McDonald's wouldn't restructure because it could create friction between the company and its franchisees and suppliers.

'Unalterably Opposed'

"We're unalterably opposed to it," Reggie Webb, chairman of McDonald's National Leadership Council, which represents the chain's franchisees in the U.S., said in an interview yesterday.

"We don't think the proposal make sense for McDonald's, the shareholders or the suppliers. It adds complexity and cost without creating any real" value, he said.

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McDonald's shares would climb to \$45 to \$50 if all of the steps in the proposal were undertaken, Ackman said in November. A spinoff would create "a world-class real estate and franchise business" since income from real estate and franchises generates 80 percent of McDonald's cash flow, he said.

Richard Adams, a former McDonald's operator in San Diego who's now a consultant to about 400 franchisees, said the franchisees aren't for or against Ackman's proposal. They're not interested in the price of the stock, as they don't own that much, he said.

'Strawman'

"This whole idea that the franchisees have something to say about this is bogus on its face," Adams said. "McDonald's is using this as a straw man not to consider Ackman's proposal. If Oakbrook wanted to do this, they could just do it."

Ackman, a specialist in finance and real estate, formed New York-based Pershing Square in November 2003 with \$54 million raised from three investors, according to a U.S. Securities and Exchange Commission filing.

McDonald's is not "going to bow to the pressure until Ackman gets more shareholders on his side and he has more leverage," Jeffrey Malcom, who helps manage \$200 million including McDonald's shares at Horan Capital Management LLC in Towson, Maryland, said last month.

McDonald's owns about 9,000 of its restaurants and 37 percent of the land at both its company-owned and franchised locations around the world.

Vornado Realty Trust, an investor in Sears Holdings Corp. and part-owner of Toys "R" Us Inc., in November disclosed it held a 1.2 percent stake in McDonald's.

Some investors expect Vornado, the third-largest U.S. real-estate investment trust, to urge McDonald's to realize the value of its real estate. Vornado bought 858,000 McDonald's shares and holds options on another 14.6 million, according to regulatory filings.

--with reporting by Brian Sullivan and Kavitha Shastry in New York. Editors: Zahradnik (agm)

Story illustration: See {MCD US <Equity> DES7 <GO>} for McDonald's sales by geography. For the company's share performance against rivals, see {S5REST MRR <GO>}. For top Bloomberg News stories on consumer and retail companies, see {RTOP <GO>}.

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