

McDonald's Sales Increase 4 Percent on Longer Hours (Update4)
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(Updates with fourth-quarter costs in sixth paragraph.)

By Chris Burritt

Dec. 8 (Bloomberg) -- McDonald's Corp., the world's largest restaurant chain, said November sales increased 4 percent, boosted by longer hours and the debut of gift cards in the U.S.

Sales at U.S. restaurants open at least 13 months rose 4.8 percent from a year earlier, Oak Brook, Illinois-based McDonald's said today in a statement. Same-store sales in Europe increased 0.1 percent, the worst performance in six months.

Chief Executive Jim Skinner rolled out the new Arch Card in the U.S. Nov. 23, spurring demand through advertising and the giveaway of 9 million \$1 gift cards with the purchase of premium chicken sandwiches. The company said extended hours at 4,000 U.S. restaurants and advertising of breakfast items including the McGriddle sandwich lifted sales.

"They continue to execute well with premium-priced products and promotions," said Chris Scheuer, an analyst at Thrivent Financial for Lutherans in Appleton, Wisconsin. The Minneapolis-based firm owns 1.6 million McDonald's shares among \$66.8 billion in assets.

Shares of McDonald's, which operates 31,700 restaurants, fell 11 cents to \$35.15 at 12:58 p.m. in New York Stock Exchange composite trading. The shares are up 9.6 percent this year and headed for their worst annual performance since 2002.

The company said it expects asset writedowns, primarily in South Korea, to cut profit in the current quarter by 2 cents a share. McDonald's expects the stronger dollar to reduce profit by "at least" 1 cent, the statement said.

Asia Gains

Comparable-store sales rose 3.8 percent in the first 11 months of 2005, slower than growth of 7.1 percent in the same period last year. Last month's sales in the Asia/Pacific, the Middle East and Africa regions increased 7.1 percent, led by gains in Australia, Japan and Taiwan, McDonald's said, after falling 0.2 percent in 2004.

U.S. sales also got a boost from the return of a Monopoly game promotion that started in October and extended into early November, Prudential Equity Group LLC analyst Larry Miller in Atlanta wrote Dec. 7. He's among 11 analysts tracked by Bloomberg who rate McDonald's shares as "buy." Six have a "hold" rating on the shares.

The Monopoly promotion offered prizes such as free meals and Hewlett-Packard Co. computers from Best Buy Co. McDonald's also brought back the McRib sandwich during November.

"It's part of a strategy of rotating among various items that will bring people into the store," Oakbrook Investments LLC research director Peter Jankovskis said Nov. 8. Based in Lisle, Illinois, he helps manage \$1 billion including 1 million McDonald's shares.

Europe

Europe's sales were basically flat from a year earlier when McDonald's used discount coupons in Germany and the U.K. to spur sales, the statement said. The increase was the lowest since May when sales dropped 1.4 percent. Sales in Europe rose 1.1 percent

in November 2004.

In Europe, the turnaround has not been as robust as it has been in the U.S.," said Jeffrey Malcom, who helps manage \$200 million including 179,000 McDonald's shares at Horan Capital Management LLC in Towson, Maryland. "They're trying a lot of the same initiatives there that they're doing in the U.S., but it's not working as strongly."

Healthier Offerings

The company has also used healthier offerings including salads to spur sales in Europe, its largest market after the U.S. It started selling the toasted deli sandwiches in September and spent more on advertising in the U.K. to try to improve its image among consumers who view its food as unhealthy, Denis Hennequin, president of McDonald's Europe, said on an analysts' conference call on Oct. 20.

Europe's sales missed Prudential's estimate of a 2 percent gain, as "all three major markets -- U.K., France and Germany -- were all negative during the month," Miller wrote today. Sales of the toasted deli sandwiches in the U.K. are "running slightly below planned levels."

Skinner, who took charge in November 2004, said Oct. 25 that McDonald's will place nutrition information on its packaging starting next year, after its reputation for selling unhealthy food hurt sales. The chain debuted \$3.89 premium-chicken sandwiches in the U.S. in late July, after adding \$2.99 fruit-and-walnut salads in May.

In June, McDonald's increased to 4,000 from 2,500 the number of U.S. restaurants open 24 hours by offering temporary rent discounts to prod operators to lengthen their hours, Chief Financial Officer Matthew Paull told analysts July 21.

McDonald's shares have gained 2.2 percent since Sept. 16 on a report Pershing Square Capital Management LP, the hedge fund that pressured Wendy's International Inc. to sell assets, acquired a 4.9 percent stake in McDonald's.

Sale Proposal

Bill Ackman, Pershing Square's managing partner, told investors Nov. 14 McDonald's should sell two-thirds of the restaurants it owns and borrow almost \$15 billion to finance a stock buyback. He said he'd try to solicit support from institutional investors before returning to McDonald's to talk further about a restructuring to boost shareholder returns.

Ackman's proposal is "an exercise in financial engineering" that wouldn't create "significant" value for shareholders, Paull said in a statement Nov. 14. He said while McDonald's is open to ideas, it is unwilling to "jeopardize the long-term health of our company."

Skinner, 61, said Oct. 31 McDonald's won't restructure because it could create friction between the company and its franchisees and suppliers and disrupt 10 consecutive quarters of global same-store sales gains.

--with reporting by Howard Liberman, Charlie Stein and Tony Kono in New York. Editor: Harrington.

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