

McDonald's Sales Rise 1.6%, Worst Showing Since 2003 (Correct)
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(Deletes incorrect sales reference in second paragraph.)

By Chris Burritt

March 8 (Bloomberg) -- McDonald's Corp., the world's largest restaurant chain, said February sales rose 1.6 percent, the smallest gain in almost two years, after 2-for-1 coupons failed to lure customers in Europe. McDonald's shares fell 2.1 percent, the biggest decline in four months.

Sales at U.S. restaurants open 13 months or more climbed 4.6 percent, the Oak Brook, Illinois-based company said today in a statement. European sales fell 3.4 percent, after rising for four months, as McDonald's offered discounts in Germany.

"The sales data isn't as sparkling as we've seen over the last 12 months," said Peter Jankovskis, director of research at Lisle, Illinois-based Oakbrook Investments LLC, which owns 1.1 million McDonald's shares among its \$1.2 billion in investments. "Europe certainly was disappointing."

Chief Executive Jim Skinner used free samples of Chicken Selects strips to boost traffic in U.S. restaurants and spur sales of higher-priced items including \$3.99 entree-size salads. McDonald's said today it will add fruit salad to its U.S. menu and start an advertising campaign with tennis stars Venus and Serena Williams to promote healthy eating and physical fitness.

Revenue was damped in part because the month had one fewer day than February 2004. Excluding the loss of the day, sales were "better than they might appear at first blush," Jankovskis said.

'Odd Month'

"It was an odd month in February, yet we maintained our momentum of 22 months of consecutive sales increases," Skinner said in an interview in New York. European sales were hurt by snow in London, Paris and Germany, he said.

Shares of McDonald's fell 73 cents to \$33.48 at 4:01 p.m. in New York Stock Exchange composite trading. They've climbed 14 percent in the past year. The company operates more than 31,500 restaurants in 119 countries.

The global sales gain was the smallest since the company began offering a wider selection of menu items and focused on improving existing restaurants rather than opening new outlets.

Burger King Corp., the No. 2 U.S. hamburger chain, increased same-store sales by 7.3 percent in February, the 13th consecutive monthly gain. The Miami-based chain is owned by buyout firms Texas Pacific Group, Bain Capital and Goldman Sachs Capital Partners.

Skinner today announced plans to introduce more nutritious foods and stress exercise with a new advertising slogan, "It's what I eat and what I do. I'm lovin' it."

'We're Evolving'

"We are evolving our menu to meet our customers' needs," Skinner said at a New York press conference.

In the U.S., McDonald's offered four days of free Chicken Selects samples and a new fat-free barbecue sauce. In exchange, customers had to eat inside the chain's restaurants. It also offered free French fries and a drink with the purchase of Chicken Selects at drive-through, according to a McDonald's

statement last month.

McDonald's introduced Chicken Selects in U.S. stores in August, selling a 10-piece box for \$8.11, more than three times the price of a Big Mac and more than nine times a plain hamburger.

Since taking over in November, Skinner has continued his predecessors' strategy of trying to drive revenue with higher-price items that appeal to health-conscious consumers.

Seven in 10 customers in the U.S. who say they visited McDonald's for its dollar menu buy more-expensive items, President Mike Roberts told analysts in January. Mothers who two years ago bought only Happy Meals for their children are now buying \$3.99 salads for themselves, the company has said.

Asia Sales

McDonald's sales in the region encompassing Asia, the Pacific, the Middle East and Africa increased 1.7 percent after improvements in menu variety and value, McDonald's said.

The chain added a "prosperity burger" in nine Asian countries including China and Taiwan as part of the celebration of the Lunar New Year, McDonald's spokeswoman Anna Rozenich said in an interview last month.

In Europe, the company's largest market after the U.S., McDonald's issued 2-for-1 coupons and an expanded discount menu to lure customers. It distributed booklets with coupons and nutritional information to 20 million U.K. households in early January, Roberts told analysts last month.

In Germany, McDonald's increased advertising of 11 items including a dark-meat chicken sandwich that sell for one euro, Roberts said. Unemployment in Germany, Europe's largest economy, rose to a postwar record in February.

Not 'Faltering'

"Comparable sales are slowing, but I don't see that as a sign of management faltering," said Jeffrey Malcom, who helps manage \$220 million at Towson, Maryland-based Horan Capital Management. It had about 218,000 McDonald's shares at Dec. 31.

"It's made progress in the past year, and they're lapping difficult comparisons."

Of the 18 analysts tracked by Bloomberg, nine rate McDonald's shares "buy" and nine rate them "hold."

Skinner, 60, took over from Charlie Bell who resigned to fight colorectal cancer. Bell, who had been diagnosed in May, weeks after taking office, died Jan. 16 at the age of 44. He became chief executive in April after James Cantalupo's death from a heart attack.

McDonald's fourth-quarter profit more than tripled to \$397.9 million, or 31 cents a share, helped by higher sales of more-expensive items and lower costs. Sales climbed 10 percent to \$5.01 billion.

--Editor: Mirabella.

Story illustration: For a tour of company functions and information, see {MCD US <Equity> CNP00317260102 <GO>}. For more Bloomberg News stories about consumer and retail companies, see {RTOP <GO>}.

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