

McDonald's Sales Rise 4.7% on Spicy-Chicken Sandwich (Update1)  
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(Adds details on European sales in seventh paragraph.)

By Chris Burritt

March 8 (Bloomberg) -- McDonald's Corp., the world's largest restaurant chain, said February sales increased 4.7 percent after it introduced a \$3.29 spicy-chicken sandwich and the European business recovered.

Sales at U.S. restaurants open at least 13 months rose 3.6 percent from a year earlier, Oak Brook, Illinois-based McDonald's said today in a statement. Same-store sales in Europe grew 5.4 percent after falling a month earlier.

Chief Executive Officer Jim Skinner debuted the spicy-chicken sandwich in late January, the first of three new products McDonald's plans to roll out through May. McDonald's drove sales in Europe to the biggest gain in five months with promotions and premium burgers.

"They are pushing new products through the pipeline," said Jeffrey Malcom, who helps Towson, Maryland-based Horan Capital Management LLC manage \$200 million including 166,000 McDonald's shares.

Shares of McDonald's, which operates 31,900 restaurants, fell 3 cents to \$34.64 yesterday in New York Stock Exchange composite trading. The stock has increased 2.7 percent this year after a gain of 5.2 percent in 2005, the worst performance since 2002.

Miami-based Burger King Holdings Inc., the second-biggest U.S. hamburger chain, last week cut the price of the whopper Jr. to \$1 and added the sandwich to a new discount menu. McDonald's debuted a dollar menu in 2002 and subsequently added premium lines of sandwiches and salads, leading to higher global comparable-store sales in every month since April 2003.

France, Germany, U.K.

Higher same-store sales in France, Germany and the U.K. boosted results in Europe, the chain's second largest market, after sales fell 0.5 percent in January, the first decline in eight months. They dropped 3.4 percent in February 2005 amid high unemployment.

Skinner, 61, added spicy-chicken sandwiches after debuting three varieties of premium-chicken sandwiches in August and \$2.99 fruit-and-walnut salads in May. McDonald's rolled out a stronger coffee blend in late February and plans to add an Asian-chicken salad in May.

"The business was driven by the new spicy-premium chicken sandwich, continued strength from core items and from extended hours," Prudential Equity Group LLC analyst Larry Miller in Atlanta wrote on March 2. Miller, who rates McDonald's as "overweight," lifted his 2006 earnings per share estimate by 1 cent to \$2.20.

Asia/Pacific

Same-store sales in the Asia/Pacific, Middle East and Africa region rose 3.9 percent.

In June, the company increased to 4,000 from 2,500 the number of U.S. restaurants open 24 hours by offering temporary rent discounts to operators. It had 13,727 U.S. restaurants at the end of 2005.

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Increased advertising spurred U.S. sales of breakfast items including McGriddle sandwiches. McDonald's yesterday announced the national rollout of premium coffee, after deciding to switch to a stronger blend because the growth of coffee chains including Starbucks Corp. had raised consumers' expectations, McDonald's North America President Ralph Alvarez said in an interview Jan. 16.

McDonald's last month promoted toasted-deli sandwiches and distributed coupons in the U.K., according to CIBC World Markets Corp. analyst John Glass in Boston. He rates the shares as "sector outperform."

The company spent more on advertising in the U.K. last year to try to improve its image among consumers who view its food as not healthy, Denis Hennequin, president of McDonald's Europe, said on an analysts' conference call on Oct. 20.

"They have issues, especially in the U.K., with what seems to be a national upheaval over questions of obesity and diet, and overall safety of the food supply," said David Kolpak, who helps manage \$56 billion, including 4.4 million McDonald's shares, at Cleveland-based Victory Capital Management Inc. "McDonald's seems to be a magnet for all of this attention."

--Editor: Zahradnik (jmh).

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

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