

McDonald's Sales Rose 1.8% in May, Led by U.S. Gain (Update2)
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(Adds investor's comment in the fourth paragraph.)

By Chris Burritt

June 8 (Bloomberg) -- McDonald's Corp. said May sales rose 1.8 percent, helped by a new salad and longer hours at U.S. locations. It was the smallest gain in three months for McDonald's, the world's largest restaurant chain, as sales in Europe fell.

The gain from a year earlier at U.S. restaurants open at least 13 months was 4.2 percent, Oak Brook, Illinois-based McDonald's said today in a statement. Comparable-store sales in Europe declined 1.4 percent, the third drop in four months.

McDonald's offered \$1 coupons with the \$2.99 fruit-and-walnut salad to spur a 26th straight month of sales gains. Chief Executive Officer Jim Skinner has been extending hours at U.S. restaurants and now has 2,500 that never close. Germany's near-record unemployment and nutritional concerns in the U.K. hurt sales in Europe, where McDonald's yesterday named a new chief.

U.S. growth "becomes more and more difficult," said Giri Cherukuri, head trader at Lisle, Illinois-based Oakbrook Investments LLC, which manages about \$1.3 billion including almost 1.7 million McDonald's shares as of March 31. In Europe, progress "is taking a little bit longer than expected."

Shares of McDonald's, which operates more than 31,500 restaurants in 119 countries, fell 8 cents to \$29.49 at 10:58 a.m. in New York Stock Exchange composite trading. Before today, the shares had dropped 7.8 percent this year after gaining 29 percent in 2004.

May sales in the region encompassing Asia, the Pacific, the Middle East and Africa declined 0.6 percent after weaker results in Japan blunted gains in Australia, McDonald's said.

Rent Break

U.S. sales rose for the 26th consecutive month, buoyed by new items at higher prices, such as Chicken Selects strips and meal-sized salads that Skinner has said are attracting customers who had shunned burgers and fries. Sales also got a lift from the availability of credit- and debit-card payment, he said.

"We are seeing new customers," Skinner, 60, told analysts June 2 at a Sanford C. Bernstein & Co. conference in New York.

"Now moms feel good about bringing their children."

McDonald's is offering franchisees temporarily lower rent to operate their restaurants 24 hours a day, President Mike Roberts told reporters May 11. About 20 percent of the chain's 13,664 U.S. restaurants are open around the clock, resulting in an extra \$300 to \$600 in sales per outlet from 11 p.m. to 5 a.m. weekdays, Roberts said.

Higher Prices

McDonald's plans to start selling premium chicken sandwiches in August after the debut of higher-price items increased customer visits and lifted overall revenue, Chief Financial Officer Matthew Paull told analysts last week.

A bacon, egg and cheese McGriddle breakfast sandwich costs \$2.23 on average, compared with \$1.90 for an Egg McMuffin, McDonald's spokeswoman Anna Rozenich said last month.

"The U.S. had really good numbers, a continuation of the power they've had in improving their sales with new products,"

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said Jeffrey Malcom, who helps manage \$210 million including 138,000 McDonald's shares at Towson, Maryland-based Horan & Associates. "Europe wasn't so good, but it has a lot of positives long term as they translate some of the gains in the U.S."

U.S. sales rose 7.9 percent in May 2004 and 6.3 percent in May 2003.

Europe

McDonald's yesterday promoted Denis Hennequin to president of its European unit to replace Russ Smyth, who is leaving for personal reasons, spokesman Walt Riker said.

McDonald's shares fell 84 cents, or 2.8 percent, yesterday, on investor concerns that Smyth's resignation signaled European sales had fallen more than analysts had expected.

Today's results, which were smaller than February's 3.4 percent drop, "should allay fears that Smyth resigned over a worsening of European business trends," Prudential Equity Group LLC analyst Larry Miller wrote today. The Atlanta-based analyst rates McDonald's as an "overweight."

The worldwide gain was higher than Miller's expectation of 1 percent, while Europe wasn't as weak as his forecast of a 3 percent decline. U.S. same-store sales beat his estimated 3 percent to 3.5 percent increase.

An unemployment rate of 11.8 percent in Germany hurt the debut of chicken flatbread sandwiches and smoothie drinks, Roberts said April 15. McDonald's expanded its discount menu in Germany in January with extra advertising of 11 items including a dark-meat chicken sandwich that sells for one euro.

April's jobless rate in Germany, Europe's largest economy, was just short of the record 12 percent in March. A year earlier, the rate was 10.5 percent.

In the U.K., McDonald's has distributed nutritional brochures and run a billboard campaign showing fruit, bagels and salads as menu options.

"Europe is critical to our success," accounting for about 35 percent of operating income, Paul said. "In the U.K., whether deserved or not, we tend to be a target for criticism given our size and our brand's prominence."

---with reporting by Bernardo Soriano, Lane Bajardi, Charles Pellett and Howard Liberman in New York. Editor: Zahradnik, Blooston.

Story illustration: See {MCD US <Equity> DES7 <GO>} for McDonald's sales by geographic area. To compare the company's share performance against rivals, see {S5REST <Index> MRR <GO>}. For Chief Executive Jim Skinner's profile, see {BBDP 1453821 <GO>}.

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