

McDonald's Alvarez May Be In Line to Succeed Skinner (Update2)
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(Updates share price in seventh paragraph.)

By Chris Burritt and Danny King

Aug. 24 (Bloomberg) -- McDonald's Corp., the world's biggest restaurant company, may have put Ralph Alvarez in line to become its next chief executive officer by promoting him to president and chief operating officer yesterday.

Alvarez, 51, takes the No. 2 job at McDonald's after the resignation of Mike Roberts, who was considered by some investors to be CEO Jim Skinner's successor. Alvarez has run the company's North American restaurants since January 2005, reporting to Roberts while overseeing six consecutive quarters of sales growth at U.S. stores open at least 13 months.

"It is certainly possible the board has decided that Alvarez has the potential to assume the CEO role," said Janna Sampson, who helps manage \$932 million, including 735,000 McDonald's shares, at Lisle, Illinois-based Oakbrook Investments LLC. "I am surprised that Mike Roberts resigned."

McDonald's promoted Alvarez as revenue growth slowed to 7 percent last year from 11 percent in 2003 and 2004. Roberts was credited with helping revive McDonald's sales worldwide three years ago by luring moms with dollar menus and premium-priced salads. Efforts to replicate that success in Europe are taking hold, with same-store sales there up six consecutive months.

"We all owe Mike a tremendous debt of gratitude," Skinner, 61, said in the statement, which didn't explain why Roberts departed. "Because of his leadership, our system is stronger and more aligned than ever."

Roberts said in an e-mail to employees that the decision to resign "is right for me, my family, my career, and the company at this time." He didn't return calls seeking comment. Spokesman Walt Riker also didn't return calls.

Shares Drop

McDonald's shares fell 29 cents to \$35.30 at 9:50 a.m. in New York Stock Exchange composite trading. Before today, the stock had risen 5.6 percent this year, outpacing the 3.6 percent gain in the Standard & Poor's 500 Index.

Alvarez joined McDonald's in 1994. As president of the North American unit, he was responsible for 15,000 restaurants in the U.S. and Canada. He spearheaded the introduction of new products, unveiling a \$1.29 snack-size chicken wrap last month and an Asian salad in January.

"I don't see why he wouldn't be a contender," said Jeffrey Malcom, who helps manage \$200 million, including 210,000 McDonald's shares, at Horan Capital Management LLC in Towson, Maryland. "I'm sure he's had a considerable hand in turning the U.S. around."

Don Thompson, chief operations officer for McDonald's U.S. unit, was named president of the division, replacing Alvarez.

Non-Compete Agreement

Roberts agreed not to work for any competitor including Burger King Holdings Inc. and Wendy's International Inc. for two years, according to a filing to the U.S. Securities and Exchange Commission. He's not allowed to write a book or an article or make public disclosures about McDonald's for the next three

years without permission from the CEO.

In May, McDonald's Chairman Andrew McKenna deflected a reporter's question about a possible successor to Skinner. McKenna said at a press conference after the company's annual shareholders meeting that the board had worthy candidates to consider from executives in attendance. Among them were Roberts, Alvarez and Chief Financial Officer Matthew Paull.

"Mr. Paull could be the next CEO," Oakbrook's Sampson said. "It would be very unusual for McDonald's to recruit from outside of the company, since McDonald's is the premier name in quick-service restaurants."

Profit Increase

McDonald's had its biggest profit increase in more than a year in the second quarter on sales gains in Europe. Net income climbed 57 percent to \$834.1 million, and revenue grew 9.4 percent to \$5.57 billion, the company said in July.

Roberts, who started at McDonald's in 1977, was named president and chief operating officer in November 2004, when CEO and President Charlie Bell resigned to focus on his fight against cancer. Bell died two months later. Bell succeeded James Cantalupo, who died of a heart attack in April 2004.

"McDonald's does have a very deep bench," said Peter Jankovskis, research director at Oakbrook Investments. "They went through three CEOs in the space of about three years and didn't miss a beat."

'Confidence'

"I have tremendous confidence in Ralph's ability and look forward to working closely with him," Skinner said in the statement.

Alvarez started at McDonald's as a regional vice president in Sacramento, California. He served as a regional director for Chipotle Mexican Grill, a chain previously owned by McDonald's, and as president of McDonald's Mexico.

Alvarez earned a bachelor's degree in business administration from the University of Miami in 1976. He is married with two grown children.

--Editor: Nol (jto/cmm).

Story illustration: For a financial analysis of McDonald's, see {MCD US <Equity> FA <GO>}. For the company's management, see {MCD US <Equity> MGMT <GO>}. For today's top Bloomberg News stories on retail and consumer companies, click {RTOP<GO>}.

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