

McDonald's July Sales Rise, Led by Gains in Europe (Update2)
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(Updates with investor comment in fourth paragraph, opens share price.)

By Chris Burritt and Heather Burke

Aug. 8 (Bloomberg) -- McDonald's Corp., the world's largest restaurant company, said July sales rose 3.8 percent, buoyed by a gain in Europe and sales of stronger coffee in the U.S.

Sales at U.S. restaurants open at least 13 months rose 1.9 percent from a year earlier, Oak Brook, Illinois-based McDonald's said today in a statement. Same-store sales increased 5 percent in Europe and 5.4 percent in Asia, the Middle East and Africa on growth in Japan.

Chief Executive Officer Jim Skinner lifted sales in Europe for a sixth straight month with premium sandwiches and special summer desserts including Flake Deluxe McFlurry ice cream and Rolo milkshakes. U.S. same-store sales fell the most in more than three years. A breakfast menu with stronger coffee helped lift U.S. sales, which have risen for the past three years.

"I'm not surprised the U.S. is slowing down. They've had such robust performance over the past few years," said Jeffrey Malcom, who helps manage \$200 million, including 210,000 McDonald's shares, at Horan Capital Management LLC in Towson, Maryland. "It's nice to see Europe is picking up the slack."

Shares of McDonald's, which operates 32,000 restaurants in 118 countries, lost 42 cents to \$35.11 at 9:36 a.m. in New York Stock Exchange composite trading. The stock has increased 17 percent since Skinner took over in November 2004, less than half the gain by Wendy's, the third-largest U.S. burger chain.

Lifted by Dollar Menu

Global comparable sales have expanded every month since May 2003, led by the U.S. where McDonald's rolled out a dollar menu and then added premium-price salads and chicken salads to lure moms who don't want to eat burgers and fries. U.S. same-store sales were the lowest since a 1.3 percent gain in April 2003.

McDonald's started selling a \$1.29 snack-size chicken wrap in late July, after the debut of a stronger coffee blend and an Asian chicken salad accelerated sales in the first half of the year. The company has made U.S. stores about one-third more productive in the last three years, said Malcom.

The company also extended restaurant hours in Europe and the U.S., where promotions for Walt Disney Co.'s "Pirates of the Caribbean" film sequel gave away toys, gift cards and music downloads and a Volvo car a day.

"They've humming along with promotions and products that people want," said Giri Cherukuri, head trader at Lisle, Illinois-based Oakbrook Investments LLC, with \$932 million in assets including 735,000 McDonald's shares.

McDonald's tie-in with "Pirates of the Caribbean: Dead Man's Chest," ran July 4 through July 31. The movie, a sequel to the 2003 Disney film starring Johnny Depp, collected \$358.4 million in its first four weeks and led the U.S. box office the first three, according to film tracker Exhibitor Relations Co.

Burger King

Comparable sales by Miami-based Burger King Holdings Inc., the world's second-biggest hamburger chain, rose 2 percent in

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North America in the fiscal fourth quarter. That missed the 5 percent estimate of Jeffrey Omohundro, an analyst at Wachovia Securities Inc. in Richmond, Virginia.

Dublin, Ohio-based Wendy's International Inc. posted the biggest monthly sales increase in two years in July, spurred by the debut of a cold-deli sandwich, the Frescata, and a 99-cent chicken sandwich. Comparable sales rose about 3.5 percent through July 26 when Wendy's said it lost \$29.1 million, or 25 cents a share, in the second quarter after writing off part of the value of its Baja Fresh division and eliminating jobs.

McDonald's struggled to extend its U.S. success to Europe, its second-largest market by revenue, from 2003 to 2005.

The U.S. really has been the strong performer the last three years and Europe has been the lagger," said Malcom.

In June 2005, McDonald's promoted Denis Hennequin to European president from executive vice president. He oversaw an increase in coupons to spur sales in Germany and the U.K. and opened restaurants to public tours to try and ease nutritional concerns about McDonald's food.

--Editor: Harrington.

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