

McDonald's Says Investor Ackman Plans to Buy Shares (Update5)
2006-09-01 12:48 (New York)

(Adds shares outstanding in 11th paragraph.)

By Chris Burritt

Sept. 1 (Bloomberg) -- McDonald's Corp., the world's largest restaurant company, said activist investor Bill Ackman plans to buy more than \$793.8 million of McDonald's shares, two weeks after he reported he sold all his stock.

McDonald's said in a regulatory filing today it had been notified of the stock-purchase plans of three funds managed by Ackman's Pershing Square Capital Management L.P.

Ackman sold his remaining 105,125 McDonald's shares in the second quarter after the chain bought back \$1 billion of stock and agreed to license 1,500 restaurants. He's also used his activist approach to force changes at Wendy's International Inc. McDonald's comparable-restaurant sales have increased for more than three years, led by U.S. gains from longer hours, a dollar menu and meal-sized salads.

"It's an awfully big company to make a run at," said Janna Sampson, who helps manage \$972 million including 740,000 McDonald's shares at Oakbrook Investments in Lisle, Illinois. "He may have some grand plan he has yet to reveal to us. I can't imagine he thinks he can revisit the same issues he raised last year."

Ackman declined to comment on today's filing. He had campaigned at McDonald's for share repurchases and the sale of stock in 8,000 company-owned restaurants.

Shares of Oak Brook, Illinois-based McDonald's rose 52 cents to \$36.42 at 12:46 p.m. in New York Stock Exchange composite trading. Before today, the stock had gained less than 1 percent since Jan. 24, the day before Ackman dropped his demand for the initial public offering of company restaurants.

'Positive Development'

Pershing Square, based in New York, said on Aug. 16 it owned stock options and swaps that if exercised would give it a 4 percent stake in McDonald's.

"It is a positive development," said Jeffrey Malcom, who helps manage \$210 million including 212,286 McDonald's shares as of June 30 at Towson, Maryland-based Horan Capital Management LLC. "We think the shares are undervalued so it's good to see other investors reinforce that view."

McDonald's is worth at least \$40 a share, a premium of 11 percent over yesterday's closing price of \$35.90, Malcom said.

McDonald's spokesman Walt Riker didn't immediately return telephone messages.

Buying \$793.8 million of stock would give Pershing Square about 22 million shares, based on yesterday's closing price of \$35.90. That amounts to about 1.8 percent of the company's 1.25 billion outstanding shares as of June 30.

Ackman, Peltz

Ackman and billionaire investor Nelson Peltz called for Wendy's, the third-largest U.S. hamburger chain, to improve earnings, cut costs and consider selling the Baja Fresh group.

In March, Wendy's offered shares in the Tim Hortons Inc.

chain and plans this month to spin off the Canadian coffee-and-doughnut restaurants to satisfy demands for improved share performance.

A year ago, Ackman proposed that McDonald's sell 65 percent of its company-owned restaurants in an initial public offering and sell \$14.7 billion in debt to finance a stock buyback. McDonald's Chief Financial Officer Matthew Paull rebuffed the proposal and said it would threaten the company's turnaround begun in 2003 by disrupting relations between McDonald's and its franchisees and suppliers.

Ackman dropped his demand after McDonald's said it would provide more information about the margins of company-owned stores, which lag franchisees in profitability.

'Financial Engineering'

McDonald's Chief Executive Officer Jim Skinner called Ackman's demands ``financial engineering,' ' telling shareholders at the company's May 25 annual meeting that ``we will not threaten our collective future by embracing ideas that are predicated on short-term gains.' '

The restaurant chain is taking other steps urged by Ackman including increased share buybacks. McDonald's last September lifted its annual dividend to 67 cents a share, or \$825 million of \$5 billion to \$6 billion that it plans to return to shareholders through 2007.

McDonald's second-quarter profit climbed 57 percent to \$834.1 million, or 67 cents a share, the biggest increase in more than a year, on rising sales in Europe and a gain of 10 cents a share from the sale of Chipotle Mexican Grill Inc. stock.

--Editor: Harrington (raz).

Story illustration: See {MCD US <Equity> ERN <GO>} for McDonald's earnings history. To read today's top Bloomberg News stories about retail and consumer goods companies, see {RTOP <GO>}.

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