

McDonald's August Sales Rise on Europe's 8.8% Gain (Update7)
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(Updates share price.)

By Chris Burritt

Sept. 12 (Bloomberg) -- McDonald's Corp., the world's largest restaurant chain, said August comparable sales rose 6 percent, paced by a seventh straight monthly gain in Europe and the introduction of a new snack-wrap sandwich in the U.S.

Sales at European restaurants open at least 13 months increased 8.8 percent from a year earlier, the Oak Brook, Illinois-based company said today in a statement. In Asia, the Middle East and Africa, sales gained 6.1 percent, led by strong results in Japan.

McDonald's lifted Europe's sales to their biggest gain since a 9.3 percent increase in April with discount menus and more-expensive sandwiches such as the U.K.'s Deluxe Bacon Quarter Pounder with Cheese. The debut of a \$1.29 chicken snack wrap in July and better-tasting coffee bolstered sales 3.5 percent in the U.S., the chain's largest market by revenue.

"It's encouraging that Europe has put a string like that together," said Herb Achey, an analyst at New York-based U.S. Trust. The firm manages \$109 billion including 1.9 million McDonald's shares as of June 30. "The U.S. is doing OK."

McDonald's shares have risen 5.7 percent since Aug. 31, the day before it disclosed in a securities filing that activist investor Bill Ackman planned to buy more than \$793.8 million of the company's shares. The stock has increased 11 percent this year. It rose 83 cents, or 2.2 percent, to \$37.95 at 12:47 p.m. in New York Stock Exchange composite trading and is trading at its highest since May 2000.

European Recovery

European sales have recovered in 2006 after trailing the performance in the U.S., where McDonald's Chief Executive Officer Jim Skinner lengthened restaurant hours and increased advertising for the stronger coffee blend, an Asian chicken salad and other new products.

Europe contributed 33 percent of McDonald's revenue in the first half of the year while the U.S. generated 34 percent, according to a securities filing. Almost 14 percent came from the Asia region with the rest coming from Latin America, Canada and other regions.

Rising sales in Germany, the U.K. and France, Europe's three biggest markets, will help profit margins and may push earnings higher than expected later this year and in 2007, wrote Andrew Barish, Banc of America Securities LLC analyst, today in a note to investors. Barish is based in San Francisco and rates McDonald's "buy."

McDonald's said it's appealing to local tastes by selling porridge in the U.K., pasta salads in Italy and croissants in France.

"Being a global brand shouldn't mean we can't find local relevancies," Denis Hennequin, the chain's European president, said today in an interview after a press briefing in Brussels.

Public Tours

Hennequin has overseen an increase in coupons to spur sales in Germany and the U.K. since he took charge in June 2005. He

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also opened restaurants to public tours to try and ease nutritional concerns about McDonald's food. McDonald's is extending restaurant hours in Europe, Skinner, 61, told analysts on July 25.

Europe had been a laggard over the past several years," said Jeffrey Malcom, a fund manager at Towson, Maryland-based Horan Capital Management, which oversees \$210 million including more than 200,000 McDonald's shares. August's gain bodes well for this being a longer-term trend for Europe."

Chicken-wrap Debut

The July debut of the snack-size chicken wrap increased sales from consumers who had been buying dollar-menu double cheeseburgers and McChicken sandwiches, wrote David Palmer, a UBS Securities LLC analyst, in New York today. He rates the shares "buy."

Three funds managed by Ackman's Pershing Square Capital Management LP may acquire McDonald's stock "significantly in excess" of \$793.8 million, according to a Sept. 8 securities filing by Chipotle Mexican Grill Inc., the burrito chain being sold by McDonald's.

McDonald's said in a filing Sept. 1 it had been notified of the stock-purchase plans by Ackman, Pershing Square's principal. The funds planned to file for regulatory approval to buy more than \$793.8 million of McDonald's stock, the company said in the filing.

--with reporting by Suzy Assaad in New York and Andrew Clapham in Brussels. Editor: Harrington.

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