

MCD

McDonald's Increases Dividend by 49% on Higher Sales (Update4)  
2006-09-27 11:53 (New York)

(Adds analyst's comment in eighth paragraph.)

By Chris Burritt

Sept. 27 (Bloomberg) -- McDonald's Corp., the world's largest restaurant company, raised its annual dividend almost 50 percent, the biggest gain in three years, as sales climbed.

The increase to \$1 from 67 cents follows more than three years of higher sales at stores open at least a year. The dividend is payable Dec. 1 to shareholders of record Nov. 15, Oak Brook, Illinois-based McDonald's said today in a statement.

Chief Executive Officer Jim Skinner plans to return at least \$10 billion to shareholders in dividends and stock buybacks through 2008, including \$1.25 billion with today's increase. The move comes as investor Bill Ackman is planning to wage a proxy fight to pressure McDonald's into taking steps to raise its share price.

"I was surprised to see such a large increase," said Jeffrey Malcom, who helps manage \$220 million including 210,000 McDonald's shares at Horan Capital Management in Towson, Maryland. "I wonder whether it's kind of a pro-active measure on their part to circumvent Mr. Ackman's initiative."

John Glass, a CIBC World Markets Corp. analyst, had estimated a dividend increase of 20 percent. He rates the shares "sector outperform."

The stock of McDonald's gained 82 cents, or 2.1 percent, to \$39.88 at 11:51 a.m. in New York Stock Exchange composite trading. The stock has climbed 36 percent since Skinner took charge in November 2004. McDonald's stock has risen 18 percent this year and is headed for its fourth straight annual increase.

McDonald's had almost \$3.3 billion in cash at the end of the second quarter, more than double the \$1.56 billion it had a year earlier, according to regulatory filings.

#### Returning \$10 Billion

Returning at least \$10 billion to shareholders is an increase from McDonald's previous plan to spend as much as \$6 billion on dividends and stock buybacks this year and in 2007. It paid \$850.1 million in dividends in the past year.

The \$10 billion payout includes an estimated \$1 billion from McDonald's selling restaurants to independent operators known as developmental licensees, according to a note today by John Ivankoe, a J.P. Morgan Securities Inc. analyst in New York. He rates the company as "overweight."

Over the next three years, McDonald's plans to license 1,500 company-owned restaurants in as many as 20 countries to operators who pay royalties as a percentage of sales, Chief Financial Officer Matthew Paull told analysts in January.

McDonald's said it anticipates reducing its total outstanding shares by 5 percent by the end of 2006 from a year earlier. McDonald's had 1.25 billion shares as of June 30, a decline of 1.7 percent from the same period in 2005.

#### Chipotle Swap

McDonald's said the number of outstanding shares will drop from its exchange offer allowing shareholders to swap their stock for Class B shares of Chipotle Mexican Grill Inc. The offer, which expires Oct. 5, will reduce outstanding shares by

MCD

\$800 million to \$900 million, Paull said in a May 25 interview. McDonald's posted the biggest quarterly profit increase in more than a year in July on revenue gains in Europe and sales of better-tasting coffee in the U.S.

Today's 49 percent increase in the dividend is McDonald's largest since a 70 percent boost in 2003. McDonald's raised its annual dividend by 22 percent last year.

--with reporting by Charlie Stein in Boston and Karen Moskow, Bernardo Soriano and Vonnie Quinn in New York. Editors: Harrington (bqs).

Story illustration: For McDonald's dividend history, see {MCD US <Equity> DVD <GO>}. Click on {RTOP <GO>} for other Bloomberg News stories about consumer and retail companies.

To contact the reporter on this story:  
Chris Burritt in Greensboro, North Carolina at (1) (336) 808-1348 or cburritt@bloomberg.net.

To contact the editor responsible for this story:  
Michael Nol at (1) (212) 617-2384 or mnol@bloomberg.net.

[TAGINFO]

MCD US <Equity> CN

NI DIV  
NI FOD  
NI BVG  
NI RES  
NI COS  
NI CONS

#<328758.3978699.1.0.7.4.25>#

#<107114.1230382.1.0.7.4.96>#  
-0- Sep/27/2006 15:13 GMT

#<259206.2312903.1.0.7.4.25>#  
-0- Sep/27/2006 15:53 GMT