

McDonald's Sales Rise 3.4%, Spurred by Sandwiches (Update3)
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(Adds hurricane impact starting in ninth paragraph.)

By Chris Burritt

Sept. 9 (Bloomberg) -- McDonald's Corp., the world's largest restaurant chain, said August sales rose 3.4 percent on new chicken sandwiches in the U.S. and an economic recovery in Europe.

Sales at U.S. stores open at least 13 months climbed 3.2 percent, Oak Brook, Illinois-based McDonald's said today in a statement. Same-store sales rose 3.6 percent in Europe, the third straight increase after two months of decline, helped by more advertising in the U.K.

Chief Executive Jim Skinner started selling \$3.89 premium chicken sandwiches aimed at health-conscious consumers after the May debut of a fruit-and-walnut salad. Europe's sales outpaced the U.S. for the second straight month as McDonald's distributed nutritional booklets and coupons to 23 million households in the U.K. and unemployment declined in Germany and France.

"Management is innovating, trying to keep the customers coming," said John Kornitzer, who oversees \$6 billion including about 300,000 McDonald's shares at Kornitzer Capital Management in Shawnee Mission, Kansas. "Three months is only the start, but they're on the right track in Europe."

Shares of McDonald's, which operates more than 31,000 restaurants in 119 countries, rose 74 cents to \$34.11 at 4 p.m. in New York Stock Exchange composite trading. The shares have climbed 6.5 percent this year and may have their worst performance since 2002 as comparable-store sales growth slows from last year's 6.9 percent gain.

Europe

August sales in the region encompassing Asia, the Pacific, the Middle East and Africa rose 4 percent, the company said.

McDonald's has used discount menus and healthier offerings including salads to spur sales in Germany and France. In June, Skinner promoted Denis Hennequin to president of its 51-country European region.

"For the stock to go to the next level, we are going to need to see better results out of Europe," said Chris Scheuer, an analyst at Appleton, Wisconsin-based Thrivent Investment Management, which manages \$65.9 billion including 1.2 million McDonald's shares.

Business lost to Hurricane Katrina, which shut down about 200 of McDonald's 600 restaurants in the Gulf Coast region after it came ashore Aug. 29, may end McDonald's string of 29 consecutive months of rising U.S. comparable-store sales, UBS Securities LLC analyst David Palmer wrote today.

Power Outages

The New York-based analyst, who rates McDonald's shares as "buy," now expects September same-store sales to decline 1 percent, from an earlier forecast of flat sales. The chain faces a difficult comparison from a year earlier when the August debut of Chicken Selects strips spurred a 10.6 percent gain in September comparable-store sales, he wrote.

Power outages were responsible for shutting most of the McDonald's restaurants in Katrina's path. About 100 had reopened as of 6 p.m. Sept. 7, "with more and more coming back on line

every day," McDonald's spokesman William Whitman said at that time. He didn't immediately return telephone messages today.

August's U.S. comparable-store increase was at the lower end of expectations by J.P. Morgan Securities Inc. analyst John Ivankoe, who had expected a gain of 3 percent to 4 percent.

"While we thought new premium chicken sandwiches could have driven comps at the high end or above expectations, results are still commendable in the generally softer restaurant consumer environment," Ivankoe wrote today. The New York-based analyst rates McDonald's shares "overweight."

Gasoline Prices

Higher gasoline prices and a slowing of home mortgage refinancing that in recent years have put extra cash in consumers' pockets are damping restaurant sales, according to a Sept. 5 report by CIBC World Markets Corp. analyst John Glass. Fast-food chains such as McDonald's are less vulnerable since they may pick up customers trading down from more-expensive restaurants, he wrote.

"If energy prices continue to stay high, eventually it is going to hit McDonald's as well," said Janna Sampson, who helps Lisle, Illinois-based Oakbrook Investments LLC, which manages \$1.3 billion including 1 million McDonald's shares.

In the U.S. McDonald's has added more-expensive items, starting with \$3.99 meal-sized salads, to boost U.S. comparable-store sales. It debuted a \$2.99 fruit-and-walnut salad May 8. Longer hours and new credit and debit card payment options have also lifted results, Chief Financial Officer Matthew Paull told analysts July 21.

"Adding healthier food gets rid of the veto vote," said Jeffrey Malcom, who helps manage \$215 million, including 184,000 McDonald's shares, at Horan Capital Management in Towson, Maryland. "If there is a group of people who wants to go to McDonald's and one of them is health conscious, a lot of times he'll say we don't want to go there because they don't have anything I can eat."

Longer Hours

In June, McDonald's increased to 4,000 from 2,500 the number of U.S. restaurants open 24 hours by offering several months of rent discounts to operators, Paull said. Most of the chain's 13,700 U.S. outlets accept credit and debit cards. McDonald's plans to add gift cards during the Christmas holiday, he said.

"The sustainability of positive U.S. sales has surprised investors and we think will continue to do so," Bear, Stearns & Co. analyst Joseph Buckley wrote Sept. 7 when he upgraded McDonald's shares to "outperform" from "peer perform." He's based in New York.

Skinner, 60, took charge in November. He succeeded Charlie Bell, who died in January at 44 after being diagnosed with colorectal cancer. Bell had replaced James Cantalupo, 60, who died of a heart attack in April 2004.

--with reporting by Phil Gregory, Tony Kono, Peter Shacknow and Minako Kawai in New York. Editor: Blooston, Bielski

Story illustration: See {MCD US <Equity> DES7 <GO>} for McDonald's sales by geographic area. For its share performance against rivals, see {S5REST MRR <GO>}. For Chief Executive Jim Skinner's profile, see {BBDP 1453821 <GO>}.

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To contact the reporters 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:
Vincent Bielski in New York at (1) (212) 617-2077 or
vbielski@bloomberg.net.

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