



December 8, 2009

## McDonald's US same-store sales dip amid price fight

By Brad Dorfman and Lisa Baertlein

CHICAGO (Reuters) - McDonald's Corp said sales at established U.S. restaurants fell for the second-straight month as competitors like Burger King and Taco Bell pushed low prices to attract customers.

Weakness in countries like Germany and China also pressured sales and shares of the world's largest hamburger chain fell 2.3 percent.

Sales at U.S. restaurants open at least 13 months fell 0.6 percent, the latest sign that the fast-food sector that had performed well through most of the recession is weakening.

The decline in U.S. sales at stores open at least 13 months was McDonald's second straight monthly decline and comes less than a week after rival fast-food chain operator Yum Brands Inc forecast weaker than expected fourth-quarter sales.

**"It does not bode well for spending in the (U.S.) restaurant category," said Tom Forte, an analyst at Telsey Advisory Group. He added that high unemployment among 18- to 34-year-olds is weighing on the fast-food industry that McDonald's dominates.**

Stepped up competition in the food sector also caused grocery chain operator Kroger Co to post worse-than-expected quarterly profit.

Same-restaurant sales were up 0.7 percent overall for November, helped by a 2.5 percent rise in Europe, McDonald's said. Same-restaurant sales fell 1 percent in the company's Asia/Pacific, Middle East and Africa region.

Several analysts said sales were weaker than expected across the board, but Europe's soft results stood out.

"Europe dropped off much more than expected as Germany went 'south' again," Stifel Nicolaus analyst Steve West said.

Fast-food chains like McDonald's were outperforming other restaurant categories until just recently, when rising unemployment began to take a noticeable bite of sales, particularly at breakfast -- where McDonald's leads the industry.

Despite the monthly same-store sales declines in the United States, McDonald's remains a leader in the fast-food industry it had a pivotal role in pioneering.

McDonald's has been outperforming Wendy's/Arby's Group Inc , Burger King Holdings Inc and other chains in the United States by offering a variety of items on its popular Dollar Menu.

But its rivals are stepping up with a broad range of inexpensive fare, including a new \$1 double cheeseburger from Burger King, a new 99-cent menu from Dunkin Donuts and a value menu from Yum's Taco Bell that offers items for less than \$1.

"They'll probably have to get into the promotional, discounting game a little more than they have in the past," Edward Jones analyst Jack Russo said of McDonald's.

McDonald's CEO Jim Skinner said on Tuesday that the company remained "focused on growing market share with a disciplined pricing strategy."

McDonald's also said that it expects to record a fourth-quarter benefit of about \$85 million, or 8 cents a share, related to a 2007 Latin American developmental license transaction.

The company had no news on a successor to Chief Operating Officer Ralph Alvarez. The company said last week that Alvarez would retire due to chronic knee pain.

McDonald's shares fell \$1.42 to \$60.51 Tuesday, on the New York Stock Exchange.

(Reporting by Brad Dorfman and Lisa Baertlein, editing by Dave Zimmerman)