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# McDonald's Corporation (MCD) Q1 2025 Earnings Call Transcript

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## Q1: 2025-05-01 Earnings Summary

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EPS of \$2.67 **misses by \$0.00** | Revenue of \$5.96B (-3.45% Y/Y) **misses by \$170.20M**

McDonald's Corporation (NYSE:[MCD](#)) Q1 2025 Earnings Conference Call May 1, 2025 8:30 AM ET

### Company Participants

Dexter Congbalay - VP, IR

Chris Kempczinski - Chairman & CEO

Ian Borden - CFO

### Conference Call Participants

Dennis Geiger - UBS

David Palmer - Evercore

David Tarantino - Baird

Brian Harbour - Morgan Stanley

Andrew Charles - TD Cowen

Sara Senatore - Bank of America

Jon Tower - Citi

John Ivankoe - JPMorgan

Lauren Silberman - Deutsche Bank

Greg Francfort - Guggenheim

Danilo Gargiulo - Bernstein

Eric Gonzalez - KeyBanc

Jeffrey Bernstein - Barclays

### **Operator**

Hello, and welcome to McDonald's First Quarter 2025 Investor Conference Call. At the request of McDonald's Corporation, this conference is being recorded. Following today's presentation, there will be a question-and-answer session for investors. [Operator Instructions]

I would now like to turn the conference over to Mr. Dexter Congbalay, Vice President of Investor Relations for McDonald's Corporation. Mr. Congbalay, you may begin.

### **Dexter Congbalay**

Good morning, everyone, and thank you for joining us. With me on the call today are Chairman and Chief Executive Officer, Chris Kempczinski; and Chief Financial Officer, Ian Borden.

As a reminder, the forward-looking statements in our earnings release and 8-K filing also apply to our comments on the call today. Both of those documents are available on our website, as are reconciliations of any non-GAAP financial measures mentioned on today's call, along with their corresponding GAAP measures.

Following prepared remarks this morning, we will take your questions. Please limit yourself to one question and then reenter the queue for any additional questions. Today's conference call is being webcast, and is also being recorded for replay via our website.

And now, I'll turn it over to Chris.

### **Chris Kempczinski**

Thanks, Dexter, and good morning, everyone. We entered 2025 knowing that it would be a challenging time for the QSR industry, due to macroeconomic uncertainty and pressures weighing on the consumer. During the first quarter, geopolitical tensions added to the economic uncertainty and dampened consumer sentiment more than we expected.

We believe McDonald's can weather these difficult conditions better than most, as we have proven time and time again, and expect to outperform our competitors by harnessing the strength of our brand and the power of our global scale. However, we're not immune to the volatility in the industry or the pressures that our consumers are facing.

Our global comp sales in the first quarter declined by 1%, and while we expected global QSR industry traffic would be down in the first quarter, actual industry traffic fell more than we anticipated in several of our large markets, including the U.S. In the U.S., overall QSR industry traffic from the low income consumer cohort was down nearly double-digits versus the prior year quarter.

Unlike a few months ago, QSR traffic from middle income consumers fell nearly as much, a clear indication that the economic pressure on traffic has broadened. However, traffic growth from the high income cohort remains solid, illustrating the divided U.S. economy, where low and middle income consumers in particular are being weighed down by the cumulative impact of inflation, and heightened anxiety about the economic outlook.

We know that leadership in value and affordability is paramount in an environment like this, and we have been expanding and refining our value proposition to meet the needs of our consumers, especially our low and middle income cohorts, as well as families internationally. Building upon the actions we began to take in 2024, we now have every day affordable price menus, or EDAP, and entry level meal bundles in each of our big five international operated markets.

As we've said before, these are the building blocks of what good value means to us, pairing an EDAP menu with items priced at compelling entry level price points with strong meal bundles. In early January in the U.S., we launched our McValue platform, which is a new branded equity similar to the Saver Menu in the UK and the Loose Change Menu in Australia, both of which have been in place for over 10 years.

In this environment, we remain focused on the factors within our control, including delivering outstanding operational execution. We believe the scaled combination of our value platforms, the introduction of innovative new products, and the execution of world class promotional and marketing campaigns provide a compelling offering for our customers, not just bringing them in the door, but offering them the feel good moments they've come to count on from our brand.

For example, just a few weeks ago, we launched a marketing campaign in partnership with A Minecraft Movie, our largest global campaign yet with participation by more than 100 markets. As part of this campaign, we've combined exclusive digital in-app and gaming experiences with in-store collectibles for fans young and old through Happy Meals and the core menu inspired Minecraft Movie Meal.

We're encouraged by the consumer response to the Minecraft Movie campaign, and by our overall performance in April, which illustrates the benefit of our value platforms working in conjunction with full margin promotions and outstanding marketing execution. We continue to expect our guest count and market share performance will improve from the first quarter low point, driven by our emphasis on strong value and affordability execution that we have been addressing.

The introduction of exciting new menu items, such as the nationwide launch of McCrispy Chicken Strips in the U.S. should contribute to this growth. However, we remain cautious about the overall health of the consumer.

Before I hand it over to Ian to discuss segment performance, I also wanted to touch on the creation of McDonald's global Restaurant Experience Team. It's significant for two reasons. First, through the new integrated structure, we'll be able to execute faster, which means ideas can start showing up in our restaurants even sooner. We can achieve and scale cross functional product innovations like Best Burger, Big Arch and McCrispy faster than ever before with menu, supply chain, operations, and Speedee Lab teams all in one place.

It also increases our ability to develop and scale tech innovation in new ways, such as Ready On Arrival, Internet of Things enabled restaurant equipment, and Google Cloud connectivity through the eyes of a restaurant general manager to ensure they're all working in coordination with each other.

Second, the category structure with dedicated leaders for beef, chicken, and beverages gives us better accountability and a sharper line-of-sight into what it takes to win in each of these verticals. Increasingly, we're competing against specialists, and so we're bringing a specialist focused into McDonald's. In beverages, for example, we've discovered some interesting learnings through our CosMc's test, which has better informed our understanding of consumers' customization preferences and interests in new emerging beverage categories.

Later this year, in partnership with our franchisees, we'll be launching a beverage test in the U.S. in some of our existing McDonald's restaurants that will incorporate new menu items inspired by CosMc's. We'll share more details on this in the coming months, as we continue to test, learn, and position ourselves for growth in this space.

As Jill McDonald steps up to lead the Restaurant Experience Team, we welcome Manu Steijaert with his rich market perspective and lifelong understanding of customers' needs to the role of President of our International Operated Markets segment. Jo Sempels, previously President of the International Developmental Licensed Markets will now assume responsibility for McDonald's France, which is one of our largest and most important markets globally.

And Dario Baroni, who previously oversaw our mid-sized IOM markets will backfill Jo as our IDL President. I'm immensely proud to see these proven leaders taking on new opportunities in some of our most important roles, demonstrating the depth of talent we possess within our organization.

I'll now turn it over to Ian.

### **Ian Borden**

Thanks, Chris, and good morning, everyone. Overall, our first quarter financial results reflect the increasingly challenging industry and consumer pressures that Chris mentioned upfront. Against this backdrop, combined with severe weather conditions, primarily in North America and the impact of the Leap Day last year, our first quarter global comp sales declined 1%. Global comp sales were essentially flat when the Leap Day impact is excluded.

In the U.S., comp sales declined 3.6%, largely reflecting broad based consumer challenges, particularly amongst the lower and middle income cohorts. However, while comparable guest counts also declined versus the prior year, we delivered a positive comp guest count gap to most near end competitors supported by the launch of our McValue platform, which incorporated the \$5 Meal Deal offering; the Buy One, Add One for \$1 component; and our in-app exclusive digital offers.

As with our value platforms in other markets, we'll remain agile to ensure McValue continues to meet consumer needs and positions us for success in a challenging marketplace. While we may adjust our current McValue offerings over time, for the remainder of 2025, we'll continue to include everyday value meal deals starting at \$5, given how the current \$5 Meal Deal in particular has resonated with customers.

In quarter one, we also launched a national marketing campaign celebrating 50 years of breakfast at McDonald's with a national Egg McMuffin Day and expanding the availability of bagel sandwiches nationwide to strengthen our position and drive traffic in this important daypart. In addition to delivering exciting menu innovation and world class marketing efforts, we remain committed to driving operational excellence and running great restaurants.

One key measure for how we are performing is the customers' experience when visiting McDonald's. In the first quarter, we raised our customer satisfaction scores to an all-time high in the U.S.

And now, turning to our International business. In most of our major markets, we're seeing a similar story in regards to the challenging industry environment and softening consumer sentiment. In our International Operated Markets segment, comp sales declined 1% versus the prior year quarter. Results were mixed across the individual markets, including negative comps in the UK.

QSR industry traffic growth was positive in only two of our big five markets. However, we drove a positive comp guest count gap to most near end competitors across the majority of our largest markets, demonstrating the strength of our value platforms and how they're resonating with consumers. In addition, as in the U.S., we have also raised our customer satisfaction scores to all-time highs in nearly all of the international operated markets, including the big five.

In France, we continued to realize the benefits of our turnaround efforts despite a challenging industry environment. For the first-time in nearly three years, we delivered positive market share gains in the quarter, driven by the success of our value offerings, including a EUR4 Happy Meal and a Value Meal partnership with League One.

At the end of March, we also launched a new EDAP menu featuring a variety of items with price points of under EUR3. We're complementing these value offerings with strong menu news, such as the recent launch of the Big Arch with positive results, marking another step in the continued expansion of this large satiating burger.

In Germany, QSR industry traffic continued to contract in the first quarter, but we drove a positive comp guest count gap to near end competitors and increased market share behind a new comprehensive value offering, McSmart Snacks, which is an EDAP platform. We now have all aspects of good value and affordability effectively integrated in the market and working in conjunction with meal bundles, which will be complemented with exciting menu and marketing news through the year.

In Canada, where QSR industry traffic increased in the first quarter, we delivered both positive comparable sales and guest count performance, driven in part by our \$1 coffee offering and our Hockey Showdown limited time promotion. As a Canadian, I can tell you that Canadians are extremely enthusiastic hockey fans. This passion was evident in the results with the Hockey Showdown promotion being one of the top performing earned media brand affinity campaigns with over 50 million impressions and driving a lift to the overall sandwich category.

And in the UK, where QSR industry traffic declined versus the prior year quarter, we are actively addressing the opportunities that are within our control. We understand what it takes to succeed in the UK market, which continues to build upon their value and affordability foundation, and we remain confident in our ability to revitalize the business by improving our execution and leveraging successful strategies from other markets.

And lastly, to round out the big five, in Australia, we are making progress despite declining QSR industry traffic. With a new Managing Director in place, we look forward to seeing our momentum built. Finally, in our International Developmental Licensed Markets, comp sales for the quarter were up 3.5%, largely driven by positive results in the Middle East and Japan. And in China, our performance remained stable, driven by an increase in delivery share, the success of the Big Bites, Value Meal and strong performance in chicken.

Turning to the P&L. Adjusted earnings per share were \$2.67 for the quarter, which includes a \$0.04 headwind from foreign currency translation. Adjusted earnings per share increased by 1% compared to the prior year in constant currencies. Despite the challenging market conditions, top line results generated over \$3.3 billion of restaurant margins for the quarter, and adjusted operating margin was about 45.5%, highlighting the durability of our business model.



Results for the quarter included lower company operated margins, reflecting pressured top line results and commodity inflation, particularly in Europe. This was partially offset by lower G&A spend, which was primarily driven by the timing of investment and the comparison to prior year costs related to our biannual worldwide convention.

We remain focused on optimizing our run the business spend as we continue to invest in our strategic growth priorities, such as digital and technology, and our transformation efforts led by our global business services organization that will drive long term efficiency. With respect to the remainder of the year, while we remain cautious about consumer sentiment, we are reaffirming our full year 2025 financial targets that we outlined in February, which include the impact from tariffs that are currently in place.

We expect foreign currency translation to be a tailwind to 2025 earnings per share of about \$0.05 per share based on current exchange rates, that's a significant change versus our previous estimated headwind of \$0.20 to \$0.30 per share, reflecting the recent weakening of the U.S. dollar versus major currencies. As always, this is directional guidance only as rates will likely change as the year progresses.

Despite the ongoing industry headwinds, we know that McDonald's is well-positioned to succeed due to the resiliency of our business and our overall financial strength. And we remain confident in our ability to deliver long term profitable growth for the system and to create value for our shareholders.

And with that, let me turn it back over to Chris.

**Chris Kempczinski**

Thanks, Ian. A couple of weeks ago, McDonald's top leaders from around the world gathered in Hyderabad, India to discuss the path forward on our strategic priorities. We're clear on the enablers of our Accelerating the Arches growth strategy and specifically our commitments to sustaining leadership on value and affordability, capitalizing on our new category teams to strengthen customers', taste perceptions of our food and accelerate menu innovation, ensuring restaurants deliver feel good experiences where customers keep coming back and employees are excited to work, and continuing to lead with our values as the foundation of how we do business.

After meetings like this, I'm always impressed by the strength and resilience of McDonald's three legged stool. It was yet another reminder of the ways our dedicated franchisees, hardworking crew and arguably the best global supply chain in the world come together to make sure the golden arches shine brightest for our customers even during challenging times. It's a defining feature of our system.

Our commitment to serving local communities is not just our mission, it's the essence of our franchisee model. We're a global brand, but an incredibly local business. Thousands of franchisees running our restaurants have a deep connection to the communities they serve and a keen sense of how we can bring the most positive impact and add the most value. In most communities, if not markets where we operate, McDonald's and its franchisees is one of the largest employers.

When it comes to providing quality ingredients, we prioritize sourcing from local farmers and suppliers to serve the food our customers love most. While we anticipate that the economic environment will remain challenging in the near term, I'm confident that our Accelerating the Arches strategy is fit to drive, guest count led growth and market share gains, and maximize our MCD growth pillars for the long term. It's a strategy that's rooted in our customer insights and built on our inherent competitive advantages, and it's the playbook we need to regain form in 2025.

Just a couple of weeks ago, we marked McDonald's 70th anniversary. In celebrating longevity, we're actually honoring leadership, 70 years of setting the standard for innovation, pioneering the drive-thru, advancing our menu, and embracing digital transformation to build the best restaurant experience.

Time and again, we've proven that our foundation is strong, our commitment to customers unwavering, and our ambition to lead unparalleled. This business has demonstrated an innate ability to anticipate and respond to change. Our agility has always been a key strength now more than ever, and it gives us confidence in the future, even amid macroeconomic uncertainty.

We'll stay true to what makes us uniquely McDonald's, great food, exceptional value, and an inclusive environment that welcomes all. Thanks to the strength of our system, McDonald's is well positioned to seize the opportunities before us and keep shaping the future of our industry.

With that, we'll take questions.

### **Question-and-Answer Session**

#### **Operator**

Thank you. [Operator Instructions]

#### **Dexter Congbalay**

Our first question is from Dennis Geiger.

#### **Dennis Geiger**

Thank you. Good morning, guys. I wanted to ask a bit more about the U.S. and what sounds like an encouraging response to the Minecraft marketing campaign and to your value platforms into the second quarter.

Recognizing the consumer is pressured, but also that select 1Q headwinds have abated maybe a bit, could you talk a little more about how you're thinking about your recent U.S. sales trajectory, underlying momentum looking ahead over the coming quarters, given some of the exciting marketing and menu news and the overall execution that you touched on? Thank you.

**Chris Kempczinski**

Hi, Dennis. It's Chris. Yeah. I think, the year is evolving as we expect it would. We knew that in Q1, it was about getting our McValue menu embedded, getting consumers aware of that. And then, we were going to be introducing marketing news in Q2 that was going to also soon be followed by menu news. And so, Q1 was for us always going to be sort of the toughest quarter in the year and then we were expecting to see momentum build as the year progressed.

As we mentioned in the opening comments, we were really encouraged by our Minecraft promotion globally. In the U.S., this was planned to be a four week promotion, and I think we ended up selling out of the Minecraft collectibles within 10 days to 14 days, so the response exceeded certainly what we were planning for.

And then, we've just started doing the soft sell of our chicken strips, our McCrispy Chicken Strips. Advertising hasn't yet started on that, but we're seeing in the restaurants that are selling strips a nice take rate on that as well. So, I think how we sort of expected the year, it's evolving that way.

The key for us now for the balance of the year is about execution. And you've got to -- in an environment where there is a pressured consumer, you've got to simply out execute your competitors. And that means you've got to out execute them on your value programs, you've got to out execute them when it comes to marketing and menu innovation.

And I think we've seen plenty of evidence that when you do that, there's growth out there to be had. But certainly, if your execution isn't sharp in a challenged environment, you're not going to be able to expect growth. And so that's, I think, where we're focused right now is about making sure we do world class execution.

**Dexter Congbalay**

Our next question is from David Palmer from Evercore.

**David Palmer**

Thanks. I'm wondering, if you can give us some color about some of your key IOM countries, and in what ways are the consumer economic dynamics and McDonald's value perception different today, and the challenge is different than what we see in the U.S. It sounds like so far in this earnings season, like, the global consumer companies, whether it's the informal eating out market or the instant consumable guys are doing a little bit better overseas than you would have thought. It seems to be fairly firm in terms of the consumer backdrop, but I don't know how you feel about that for your key markets. So, any sort of juxtaposition to the U.S. would be helpful. Thanks.

### **Chris Kempczinski**

Yeah. I think, generally, David, that's a fair characterization. If I were to kind of just do a survey of the world, I think, Europe, it's really country by country. As Ian mentioned, there's only two countries that we've actually seen industry growth. But I think, generally, we feel good about the value programs that we have in place in all big -- all of our big five markets. And we're seeing that -- when you pair that with good menu and marketing execution, you can see great performance or very good performance.

So, I think Europe, challenged, but, again, if you have the right value and marketing, you can get that. I think the issue in Europe, maybe a little bit different than the U.S., is just it's a very inflationary environment in Europe, particularly because of beef, and so you've got high-single digit inflation running through the P&L because of what's going on in Europe that compares to the U.S., where F&P inflation is low-single digits. So, it's a more inflationary environment in Europe, which means we just have to be really judicious about how and where we take pricing in that environment.

I think, as Ian mentioned, in China, we've seen the business stabilize there. We're encouraged by what we're seeing from our China business. Latin America, I think continues to perform okay. And then, if you go to places like Japan, the business is performing solidly there. So, I think relative to the U.S., the U.S. and the pressure on that lower income consumers, probably the most noteworthy thing, seeing traffic declines of nearly 10% with that low income consumer, I think is the defining feature of what we see in the U.S. relative to rest of world.

### **Ian Borden**

Hey, David. It's Ian. I may just add a couple of comments to what the context that Chris has outlaid, and I'll just use our big five IOM markets as a bit of a bellwether because, obviously, it's just building on what Chris laid out. But I mean, I think it's certainly there's still challenge in our industry, obviously, in particular, I think just with lower income consumers and families, which are a big part, as you know, of our international business. I think there are pressures there.

I think what we feel -- obviously, as you've heard us talk a lot about what we're focused on is what's within our control, and we feel really good as you heard us talk about upfront in the fact that in those big five markets, we've now got through the first quarter, the essential components of strong value in place in each of those big five markets with EDAP programs and then entry level meal bundles.

And so, I think despite the fact that in three of those five markets, we're seeing -- continuing to see a contracting industry traffic. We're taking share in the majority of those markets because I think we're starting to see those value platforms work. And as Chris said, when you combine that, and I'll use France as the example, with kind of new and exciting menu news like the Big Arch launch, which happened in France in early April, and we're seeing some good early results there.

You start providing those reasons for consumers to visit. So, again, it's certainly not an easy landscape, but we certainly feel like the business is well-positioned on the back of the work that we did through '24 and into the beginning of this quarter.

**Dexter Congbalay**

Our next question is from David Tarantino from Baird.

**David Tarantino**

Hi. Good morning. My question is on the U.S. McValue platform. And I was hoping maybe you can elaborate on how you think the current construct of that value is working in the current environment and whether you think adjustments are needed. And I guess the nature of my question is, when you think back to the last kind of major downturn in consumer spending, you had the dollar menu in place, and that worked quite well and allowed for significant share gains. So, I'm wondering if you need sharper entry level price points on the value menu in today's environment?

**Chris Kempczinski**

Yeah. Thanks for the question, David. Just as background. So, the introduction of McValue, as you'll recall was about getting a branded platform established that we expect to sustain over time. And the point of that was to allow for flexibility, to allow for us over time to change the individual items within that based on what we're seeing from a competitive set, based on what we're seeing in terms of consumer responsiveness, etc. So, it's designed to be agile.

As you think about McValue, we feel really good about how the \$5 Meal Deal is performing, and Ian talked about in his comments the fact that there's alignment in the U.S. system that \$5 Meal is going to continue through the balance of the year. There may be some additional meal at different price points that get offered on top of that. But at a \$5 Meal, there's going to be -- that is continuing for the balance of the year.

I think when you look at the Buy One, Add One for \$1, I'd say, our view on that is, it's performing okay. But frankly, it's not driving nearly the amount of incrementality that we're seeing with the buy one or with the \$5 Meal Deal. And at the end of the day, value programs -- the ultimate barometer for performance of a value program is its ability to drive incrementality and we're seeing incrementality for the meal deal, 10 points, 13 points, 12 points higher than what we're seeing with the Buy One, Add One for \$1. The Buy One, Add One for \$1, certainly, there is a strong take rate, but it's not driving as much incrementality.

And so, I think this is a question for the U.S. team with franchisees is any value program requires an investment of margin dollars to get that established. And is the Buy One, Add One for \$1 the best investment of margin dollars? I think there's probably an opportunity to look for greater incrementality, but that's going to be a conversation that happens in the U.S., and as to any pivots, that -- I think time will tell on that.

### **Dexter Congbalay**

Our next question is from Brian Harbour of Morgan Stanley.

### **Brian Harbour**

Yeah. Thank you. Good morning. Maybe just on that topic, I think you're still running something like mid-single digit menu pricing in the U.S. And obviously, I know you don't control that, but I wonder as that kind of continues to go up, but then you talk more about the value platform and then you may be put more items on it. I mean, does that sort of -- does the spread between the different sides of the menu become a problem?

Do you think there is going to be sort of like continued negative mix shift as you talk more about value? I don't know if maybe innovation is a way to solve that because you can sort of introduce items that are at a lower price point. I mean, maybe strips kind of fit that mold. But how do you think about that dynamic kind of over the medium to longer term?

### **Chris Kempczinski**

Sure. Well, it's certainly something that you need to be mindful of. We're always taking a look at it. I think part of what we've described here is, you've got to have strong value and affordability programs, but they have to be paired with great full margin marketing and menu innovation, and that when you do the two of those in combination, you get an outcome or result that is positive for the franchisee P&L, positive for our P&L, etc.



I think, what you're talking about there in terms of trade and how we think about F&P inflation, you have to just be very disciplined on these things. And I think one of the things that we spend a lot of time with our franchisees on is looking at pass through rates, making sure that we're being judicious about how and where we take pricing, and I think there's been a lot of good progress on that.

And then, as you think about other incremental programs that you may need to do, certainly, we test those, we'll do different modelling on those to make sure that in total that the P&L works. I think you can't really decompose and take each individual item, you have to look at it in totality and say, does this program work for our franchisees for the company. But Ian, I don't know if you have anything else you want to add to that.

### **Ian Borden**

Yeah, Brian. Good morning. Just maybe a couple of things I'd add. I mean, you're right. If we use the U.S. as the example that menu pricing, obviously, as you would expect has been coming down as inflation has been coming down, and I think we were just under mid-single digit in Q1, most of that frankly was carryover from price taken in 2024. So, assuming inflation keeps coming down, I would expect the contribution from price to kind of continue to moderate in line with that.

As Chris said, I mean, obviously, what we've been doing in the U.S. and we're kind of in this non-comparable period is, we've obviously responded to the kind of needs of the consumer, and we've put stronger value and affordability in place. If you remember, the \$5 Meal went in place at the end of June in 2024. And so, there certainly is -- until we kind of get more comparable, there is a bit of a mix adjustment.

Obviously, the purpose of that mix adjustment, as Chris was talking to is, we want to drive stronger underlying momentum in the business. We want to drive guest count led growth. And then, as you get that guest count led growth and you start complementing that with things like Minecraft or Chicken Strips, you get the check growth, the profit growth, which is obviously the kind of total outcome that you're looking for. But I think until we get to quarter three this year, you're going to continue to see a bit of that mix play in check and margin until we get more comparable.

**Dexter Congbalay**

Our next question is from Andrew Charles from TD Cowen.

**Andrew Charles**

Great. Thank you. Ian, last quarter, you talked about moderate U.S. same-store sales embedded within your 2025 U.S. McOpCo outlook. And I'm curious just following 1Q's challenged performance and your cautious view on the consumer, but couple that with the sharp improvement in April sales, if moderate U.S. same-store sales growth still holds for 2025, or has your embedded assumption changed? And maybe just quickly, if you could also touch on your expectations for 2025 U.S. McOpCo margins, that would also be helpful.

**Ian Borden**

Yeah, I think -- Good morning, Andrew. I think what I would say is, I think on margins, I think we continue to believe if we use McOpCo margins as the example in the U.S. for this year, for the total year on a percentage basis, we expect to be slightly up on a percentage basis versus where we were in 2024. Obviously, as we've talked about a fair bit this morning, there's still a fair bit of uncertainty in the external environment.

And as we've talked about, we're obviously focused on what we can control. We feel really good about the lineup of activities that the U.S. business and the U.S. system have got for the rest of the year, including things obviously like Minecraft and Chicken Strips, which are coming to life over the next few days, but the environment around us is uncertain.

And as you've heard me say many times before, obviously, margin growth ultimately is going to be driven by strong top line growth, and obviously, that's what we're working hard in regards to the things that are within our control to deliver over the remainder of the year.

**Dexter Congbalay**

Our next question is from Sara Senatore from Bank of America.

**Sara Senatore**

Great. Thank you. I guess, one -- maybe one clarification and a question. The clarification was on the UK. I know that's been historically a very strong business for you. And I couldn't tell if you -- that was one of the markets where you were taking share, and if not, if there was any role of new competition that might be affecting you.

And then, the question is on the US. Like, do you have a sense whether those declines in the QSR traffic maybe are coming because people are shifting into other segments? I ask because I think there's a view that maybe the gap between QSR value in other segments, whether it's fast casual or full service has narrowed. So, I didn't know if that was a -- just maybe an intra-industry share shift. Thanks.

**Chris Kempczinski**

Yeah. Hi, Sara. To the UK, the UK is not yet gaining share. So, there's still work for us to do in the UK. I'd say, the share losses are to the people that we should be beating. So, I don't think that new competitors are the issue that we need to focus on in the UK. It's about our execution and just doing a better job in that market. So, that's the UK.

As it relates to the U.S., just the relative size of the QSR industry versus fast casual, for example, or casual dine, the math just doesn't work. I mean, the gains that you might see with a couple of the players in casual dine are dwarf relative to the size of the QSR industry. So, I don't think it's really accurate to say that this is just a shift amongst the different components.

I think we are seeing that people are just being more judicious about cutting back on visits. And so, what you're seeing is you're seeing a decline in frequency where perhaps morning, which is usually, I think, a bellwether daypart occasion, morning now is a place that you're seeing people are choosing either to skip breakfast or they're choosing to eat at home for breakfast. And I think that's more to explain what's going on in the U.S. versus any kind of segment shift.

**Ian Borden**

Hey, Sara. It's Ian. Maybe just a couple of points of texture to build on what Chris has mentioned. I think in the UK, as he said, I mean, I think we clearly believe we've got opportunities that are within our control from an execution standpoint. We've got work to do there. I would just point a little bit to France.

I think UK has a much narrower set of opportunities to address. But I think if you think of the complexity of challenge that we've had in France, the progress we've made, I think that gives us a lot of confidence in our ability to translate the appropriate learnings and get our UK business back to where we expect it to be.

On the U.S., just to kind of emphasize what Chris said, I mean, the big thing is people are just visiting less, and that speaks to I think the pressure on consumers, consumer sentiment, obviously, that the -- things that we've been talking about for a while now, inflationary pressures, interest rates that are weighing, obviously, particularly on lower consumers, and that's spilling over into middle income consumers right now.

And I think when we get value and affordability right, like, the \$5 Meal, as we've talked about before, we know that is bringing consumers back in to visit us, and we know when they buy something like the \$5 Meal, they're visiting us more frequently. And so, we know if we can get value and affordability right, we can win in the context of what's going on in the marketplace.

### **Dexter Congbalay**

Our next question is from Jon Tower of Citi.

### **Jon Tower**

Great. Good morning. Thanks for taking the question. You had mentioned, Chris, earlier expanding a beverage test. And I was curious, if you could dig into that opportunity a little bit more. Perhaps, what you're expecting from this over time? Are there investments you're anticipating in the franchisees will need to make on an equipment side?

And frankly, what -- how you see positioning this platform for the company over time? Do you see this as a full margin product, or perhaps playing on the value front as well? Just maybe sizing up the opportunity and how you see it being communicated to the consumer over time?

**Chris Kempczinski**

Sure. Well, I think as we look at the opportunity from a macro perspective, there's a lot of growth that we see in beverages, and the profitability of beverages is very attractive. So, when you think about profit pool growth in the industry, we expect beverages is going to be a place where there's significant growth in the profit pool, and we're frankly, we think there's more that we can be doing to capture our fair share of that.

And we capture on coffee, for example, we're probably roughly around 10% of the coffee share. We think we can do be doing better than that, and then there's growth in other places where you're seeing energy and some other areas that are also strong growth where we don't participate at all.

And so, when we think about that, we think there's a lot that we can do. Part of what we've tried to be thinking through is, how do we get after that opportunity. And part of the impetus for us to go do CosMc's was a belief that if we try to do it within an existing restaurant that the complexity may be too great and would impact speed of service and some other things.

And so, the thought was, do we need to maybe look at quarantining the complexity in a standalone concept like we did with CosMc's. And one of the things -- I think there's two big things that we've learned out of CosMc's, which are informing the next phase of learning here. The first is that while there is some customization, actually 80% of the order that the consumer wants it to be recipe-ed.

So, this is not sort of give me a blank slate and I'm going to design endless customization. 80% of it is recipe-ed, and then there's some customization that goes on the end. So, the complexity or the risk of complexity as we've discovered with CosMc's isn't as great as what we thought it would be.

I think the other thing that we've learned on CosMc's is, anytime it has a McDonald's brand attached to it, the consumer is going to want to buy food with that. And so, versus some others that are largely food -- or largely beverage dominated concepts, food is still going to always be an important part of whatever our beverage offering is because that's consumers' expectation for the McDonald's brand.

And so, all of that is informed now. Let's take that into a McDonald's restaurant and see what an expanded lineup of beverages could look like and let's understand what that means in terms of driving incremental traffic, but also food attachment that goes with that. So, as to the ultimate investment that's going to be required, I don't think we know because we don't know the answer yet, but we're going to continue to test and learn.

And what I do know is that we're committed to going after beverages. It's part of why we set up beverages as one of our key three category structures just because of the opportunity that we see there.

### **Dexter Congbalay**

Our next question is from John Ivankoe from J.P. Morgan.

### **John Ivankoe**

Hi. Thank you. A two-parter, if I may. Firstly, it's fairly apparent looking around the country, the amount of core menu pricing difference that you have. And, obviously, I understand all the different economic and competitive reasons for that. But the reality is that there's not a lot of price certainty specifically around the core menu. So, do you think that, that is an opportunity? Is it a risk? I mean, if you were to pull menus in certain places down. So, just do talk about core menu price certainty and whether that makes sense to drive that.

And secondly, the boneless chicken market has changed actually quite significantly from the last time you had Chicken Selects. So, if you can kind of comment on your -- the rate of success that you're expecting from this version of McCrispy maybe versus what you had before when the competitive market was in fact different? Thank you.

**Chris Kempczinski**

Sure. Well, at the end of the day, pricing is an inherently local decision, and it's informed by the trading area that exists around each of our individual restaurants. And our commitment and the focus is, we need to make sure that relative to the trading area that we're competing in that we're offering strong value, and that's what shows up on both the menu board and that also shows up with the promotions and digital offers that we're running.

So, I think about it less as around having predictability across the country around a common menu, and it's more about we need to be competitive within the trading areas that we're competing. I think if you look at what's been going on with menu prices right now, because the inflation has come down and we're not nearly seeing as inflationary environment as we saw certainly last year and into -- in 2023, they're not seeing the big moves on core menu that you saw previously.

And I would expect that that's going to continue. As I mentioned, F&P inflation is low-single digits. So, there's not a lot of pressure on that. And I think our franchisees also recognize how important it is for us to stay disciplined on this, and we look at pass through rates, as I described earlier, to make sure that we understand the consumers' willingness to accept any pricing. So, that would be my comment on that.

As to the -- how the markets changed, certainly, there's been a ton of growth in that space. And it's an area that we're hearing from our customers that they're looking for us to have a great offering there and they're thinking about other ways that we can participate in that market. And so, we've talked about chicken strips is going to be our first sort of reentry in that. We feel excited about doing it under the McCrispy platform. We think we can get a halo benefit that's associated with that.

And then, we've also set-up that, once you have the strips in, strips is going to allow for us to reintroduce snack wraps, which is going to be coming later in the year as well. So, I think, for us, it's just the market continues to show the consumer is interested in this product. We want to make sure that we're meeting our customers' needs on that. And I think what we've got with both strips and then later with snack wraps is going to be a great addition to the menu.

**Dexter Congbalay**

Our next question is from Lauren Silberman from Deutsche Bank.

**Lauren Silberman**

Thank you very much. I wanted to unpack U.S. comps a bit more. Can you talk about what you're seeing across the low, middle and high income consumer? I know you mentioned industry traffic, but trying to get a better sense of what's going on with market share across cohorts. Are you seeing any increase in value mix as a result of McValue? And then, any color on what you're seeing across regions and dayparts would be helpful. Thank you.

**Ian Borden**

Hey. Good morning, Lauren. It's Ian. Well, look, I think, I'll kind of just reiterate what we've talked about a fair bit. I mean, I think there's pressure on both low and middle income consumers in the U.S. I think as you heard Chris say, low income consumer was down close to double-digit; middle income consumer in the quarter from an industry perspective was down close to that. The high income consumer is still spending pretty consistently and pretty robustly.

And as you've heard us talk about before, I mean, we over index to low consumers in terms of our mix versus industry mix. And I think, to a lower extent, but also over index to middle income consumers. And so, obviously, as those consumers are softer, that's already going to put pressure for us, which is where having the strong value and affordability that we've talked about come into play is really important so that we're winning.

And I think I would just emphasize that in Q1, if you look at our comp guest count gap versus the majority of our near end competitors that was positive through Q1. So, that obviously tells us that we're winning on a traffic -- on a comparable traffic basis versus the broader industry. So, again, our work is to continue to make sure we've got the proposition despite I think what's happening with consumers to be winning in the context.



As I said, I think we have got a strong value and affordability lineup and we're starting to see an even better momentum as we get into things like Minecraft, and we feel really confident, as Chris was talking about with the strips launch that's going to happen over the next few days, and as we get that combination to come together. We feel pretty good about being able to win against all those consumer groups as we work through the rest of the year.

### **Dexter Congbalay**

Our next question is from Greg Francfort from Guggenheim.

### **Gregory Francfort**

Hey, thanks for the question. My question is maybe before this value launch, my understanding was a lot of the value that the customer is using was going through the mobile app and that part of the value launch was maybe to diversify that message a little bit. I'm curious how that's evolved since the value launch, and if the mix of value that's going through the mobile platform is where you want it to be, above, below? Any thoughts on that?

### **Chris Kempczinski**

Yeah. It's tough to generalize on that because there's -- within the app, there's local value that's being offered. And so, it's -- there's national value and then there's local value that goes in combination with that. I do think what we've talked about in previous calls is that until you get to a point where the usage of the app is the majority of your traffic, relying on that as the primary source of value, it just doesn't work because you're not reaching the majority of your consumers.

And so, for that reason, having a broad platform like, we have McValue that's available to everybody, I think is important. It's an imperative that you have that, which is why we've spent the time and energy getting that launched properly. The digital offers are going to continue. They've probably come down a tick on that. It's tough to know how much of that was related to pulling back on digital offers versus just having a stronger McValue proposition out there that maybe is now driving someone to choose McValue as opposed to the digital offer.

So, I don't think there's anything thing specific that you should infer from any mix change that we're doing. There's not a purposeful pullback in digital offers to do more on McValue, but I think you're certainly seeing the consumer change as our offers change.

### **Dexter Congbalay**

Our next call is from Danilo Gargiulo from Bernstein.

### **Danilo Gargiulo**

Great. Thank you. There are some rising concerns on international boycotts, generally speaking, as U.S. brands. So, I'm wondering, if you have seen any signs of weakness attributable to that and how you're expecting that to be evolving? And to the extent that you did, which markets are you seeing under most pressure and what proactive measures are you contemplating to continue to protect the brand as you have so far? Thank you.

### **Chris Kempczinski**

Sure. Well, we've actually spent some time researching this, and we've done three different surveys, global surveys in all of our top markets to just assess the consumer's perspective. And we acted in the context of three things. How does the consumer feel about America, the country? How does the consumer feel about American brands? And then, specifically, how does the consumer feel about McDonald's?

And the good news from our perspective is that there has been no change in how the consumer globally feels about the McDonald's brand. So, we're not seeing any American sentiment have any impact on our business. What we have seen in our survey work is that there has been an increase in people in various markets saying that they are not going to be or they're going to be cutting back their purchase of American brands.

And we've seen an uptick in anti-American sentiment, call it, 8 points to 10 points increase in anti-American sentiment, most pronounced in Northern Europe and Canada, not a big deal in Latin America, not a big change -- or nothing that we're seeing in Asia. But again, the key point here is, while there has been, I think, an uptick in general in anti-American sentiment, that's had no impact on our business, and consumer sentiment toward the McDonald's brands remained strong.

### **Ian Borden**

And maybe just the piece I'd add on the end, Danilo, is just -- I mean, I think one of the strengths, as you know, of our business model is that the vast majority of our restaurants are operated by franchisees that kind of live and work and support the communities they do business in. And obviously, we operate in over 100 countries.

We're very successful in all those countries that we operate. I think that's because our business and our brand has been able to adapt appropriately to the kind of cultures and communities that we do business in. And I think certainly most of our -- the vast majority of consumers understand and appreciate that.

### **Dexter Congbalay**

Our next question is from Eric Gonzalez from KeyBanc.

### **Eric Gonzalez**

Thanks. It's clear that McDonald's is at its best when it offers compelling value to drawing guests and has something differentiated or credible for the customer to trade into. We saw this prior to the public health incident with the Collector's cups and the Chicken Big Mac. Is it fair to say, it's the first quarter lack to the second half of that equation?

And as we moved into the second quarter, you had a winner with the Minecraft Meal, but that sort of boost isn't something that's going to last more than a few weeks. So, I'm just wondering, do you have enough in the marketing and innovation pipeline on the premium side that's going to drive a more sustainable lift in sales?

**Chris Kempczinski**

Well, I think as I touched on, we're excited about in the U.S. and in our other markets, the balance of your plans that we have and it's not just relying on one thing. I think as we look at our marketing plans, there's a steady flow of menu innovation that goes from now through the end of the year in a number of our markets. And then, there's also marketing programs that we have on top of this.

And I think part of when you get strong menu news paired with strong marketing, beyond just the benefit that you get in the window, you start to see improvement in baseline. And so, that would be our expectation is, as we continue to have more menu innovation, as we continue to have strong marketing programs, it has a positive impact on baseline, which is sort of the gift that keeps on giving.

**Ian Borden**

And Eric, maybe just to build, I mean, I think you touched on it. But as you remember, we had really strong momentum in our U.S. business pre kind of the food safety incident. Obviously, that was a disruption. As we said in our last call, expected in Q1 this year that the impacts of the food safety incident would be fully behind us. They are; we fully recovered.

But if you just think of the sequence of activities that we've had in the U.S. business, obviously, the disruption of the food safety incident, full focus on an effort on recovery, then we've spent Q1 really getting the McValue brand, equity and platform embedded and emphasize. So, we really haven't until Minecraft in April had a big kind of consumer resonating menu or marketing focused activity.

And I think you're right, those things are obviously moments in time. But as you do those and as you do those consecutively, you kind of continue to add to the momentum that you're building in the business. So, you start that momentum, obviously, with the strong value and affordability and then you build on that with each of these activities. And as we talked about earlier, we certainly feel really confident about the lineup of activities that our U.S. business has, starting with Minecraft and over the remaining course of the year.

**Dexter Congbalay**

Our next question is from Jeffrey Bernstein from Barclays.

**Jeffrey Bernstein**

Great. Thank you very much. Actually, perfect follow-up to my question. I feel like you do have a lot of new news coming. Again, you mentioned Minecraft in April, Crispy Chicken in May, Snack Wrap to follow. I know in the past there was maybe some caution on too much new news at McDonald's in terms of the impact on speed of service and operations at the restaurant level. So, just wondering how you feel the teams are able to handle that when obviously speed is so important?

And it kind of ties into, I think you mentioned that you're competing so much more against specialists now, which I assume are peers focused on one specific line of product. I'm just wondering, how your new team can be more effective and better competing against some of those players? Any early learnings you have or expectations you have in terms of being able to better compete against those single line competitors? Thank you.

**Chris Kempczinski**

Yeah. Sure. I'll address the specialist question, then I'll let Ian pick up the first part of your question. But one of the things that I think is -- we're seeing is, as I mentioned, that there are more people that are going after specific product verticals, whether that's chicken, whether that's beverages, you're seeing that in salads and some other places.

And our menu and part of what I think is the appeal of McDonald's is that we have a broad menu, and it's a menu that can attract the whole family because there's something for everybody on our menu. The challenge with that if you're a managing director running a country is at the end of the day, you're just focused on, in total, hitting your comp sales target, hitting your profit target, etc.

And while you pay attention or you're looking at your share within those individual verticals, you're not waking up every single day thinking about am I gaining share in chicken? Am I gaining share in beef? Am I gaining share in beverage? You're thinking about, am I gaining market share in total? And so, the opportunity for us is to have teams that have that degree of focus, who are waking up every single day, looking at our performance across the globe and making sure that we absolutely are winning in chicken, that we're winning in beverages, that we're winning in beef or continue to win in beef.

And I think part of what we wanted to do with that as well is to win in these categories, it's not just coming up with a marketing idea or coming up with a brand name. It goes to supply chain and sourcing. So, what's the type of product that we're sourcing? It goes to the equipment that we're using. It goes to the processes that we're doing in the restaurant. It goes to certainly the menu offering and the menu innovation that goes along with that, and then how we activate that with consumers.

Now, with these category teams, we have all of those groups working in combination underneath a category leader who again is charged with waking up every single day and focused on winning in their specific verticals. So, that I think is going to be the power for us. Ultimately, how it gets executed is going to be at the country level. But I think we have sort of a good one, two punch between a focus at the country level, but also keeping an eye towards making sure that we're winning globally in these important categories.

### **Ian Borden**

Good morning, Jeffrey. Maybe just let me touch on the other part of your question. And I think the U.S. is the perfect example to kind of lean into what you've been asking. But if you think of what our U.S. business did, it was obviously through the learnings we had in COVID and just the need during that period to get much clearer and simpler in the menu. And the U.S. has done, I think, a phenomenal job as a system on getting really focused on a strong core menu and then building on that core menu over the last several years. So, they greatly reduced the complexity from an execution.

And I think the evidence of that is, as we talked about, we hit an all-time high from a customer satisfaction metric result in Q1 this year, which I think speaks to how the U.S. has continued to improve execution and how customers have kind of responded to that. I think if you think about what we're doing with strips and then later in the year with wraps building on that, it goes back to what Chris has talked about a lot previously, which is we're focused on platforms, right?

McCrispy is a platform. So, the McCrispy Sandwich was the first element of that. We're now building on that with strips and then later in the year with wraps, which means we keep investing to build and strengthen the equity behind the product and then we're just addressing the needs from consumers that when we do things like menu architecture research, we can really see what are the opportunity areas in chicken and how do we address those behind the equity that we're putting in place and continue to build on that.

So, we feel really good about where we are, the capacity we have to kind of add the items that are in our plan and not have that have an impact on execution, which as you know, is always critically important.

### **Dexter Congbalay**

Thanks, everyone, for joining the call today. If you have any follow-up questions or would like a call, please contact us and we could set something up. Again, have a good day. Thank you.

### **Operator**

This concludes McDonald's Corporation investor call. You may now disconnect and have a great day.

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