

# McDonald's Corporation (MCD) Q1 2026 Earnings Call Transcript

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## Q1: 2026-05-07 Earnings Summary

Insights



EPS of \$2.83 **beats by \$0.09** | Revenue of \$6.52B (9.42% Y/Y) **beats by \$51.33M**

McDonald's Corporation ([MCD](#)) Q1 2026 Earnings Call May 7, 2026 8:30 AM EDT

### Company Participants

Dexter Congbalay - Vice President of Investor Relations

Christopher Kempczinski - Chairman President, & CEO

Ian Borden - Executive VP & Global CFO

### Conference Call Participants

Dennis Geiger - UBS Investment Bank, Research Division  
Brian Harbour - Morgan Stanley, Research Division  
John Ivankoe - JPMorgan Chase & Co, Research Division  
David Tarantino - Robert W. Baird & Co. Incorporated, Research Division  
Gregory Francfort - Guggenheim Securities, LLC, Research Division  
Sara Senatore - BofA Securities, Research Division  
Elliott Simon - Evercore ISI Institutional Equities, Research Division  
Jeffrey Bernstein - Barclays Bank PLC, Research Division  
Andrew Barish - Jefferies LLC, Research Division  
Jon Tower - Citigroup Inc., Research Division  
Lauren Silberman - Deutsche Bank AG, Research Division  
Andrew Charles - TD Cowen, Research Division  
Danilo Gargiulo - Bernstein Institutional Services LLC, Research Division  
Christopher Carril - KeyBanc Capital Markets Inc., Research Division

## **Presentation**

### **Operator**

Hello, and welcome to McDonald's First Quarter 2026 Investor Conference Call. At the request of McDonald's Corporation, this conference is being recorded. [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**

*Vice President of Investor Relations*

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. [Operator Instructions] 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.

**Christopher Kempczinski**  
*Chairman President, & CEO*

Good morning, everyone, and thank you for joining us. This past quarter, we once again demonstrated that when we execute our strategy with discipline, we win. In Q1, we grew global system-wide sales 6% in constant currency and global comparable sales grew 3.8% with solid growth across each of our operating segments. Just as importantly, we gained market share in the quarter in nearly all of our top 10 markets. In a challenging environment, our system stayed focused on what we can control, delivering on the things that matter most to our customers, compelling value that brings customers in the door, breakthrough marketing that gives people a reason to choose McDonald's and great tasting menu innovation that keeps us relevant and gives customers more of what they want.

That's what going three-for-three looks like at McDonald's, and we believe that outstanding execution will continue to set us apart in any environment. While each pillar is powerful on its own and even more so together, it all starts with value. At McDonald's, value has always been part of our DNA. As I've said before, and I'll say it again, McDonald's is not going to get beat on value and affordability. We've listened closely to our customers and adjusted along the way with a relentless focus on strengthening our value leadership.

In the U.S., with unanimous alignment through the franchisee field votes, we recently evolved McValue to include an everyday affordable price menu with individual items under \$3, along with a \$4 Breakfast Meal Deal. Those additions build on our meal deal offers throughout the day and give customers clear, consistent options across dayparts. We've been applying that same discipline internationally for quite some time, where the vast majority of our large markets offer both everyday affordable price items and meal bundles, giving customers flexibility and options that work for a range of budgets.

This approach isn't new to us, and we know it works. We've listened closely to our customers and adjusted along the way with a relentless focus on strengthening our value leadership and leaning into our role as a bright spot for customers in what continues to be a challenging environment. That's exactly why the U.S. relaunched Extra Value Meals last September. As we said at the outset, we're measuring success in 2 ways: our ability to grow share with low-income consumers and our ability to improve value and affordability scores.

I am proud to say, as we look back from when we launched the program to the first quarter, that we've delivered on both, reinforcing something we know well at McDonald's. When value is clear, consistent and supported by strong marketing and menu execution, it moves the business. That takes us to marketing. Paired with a strong value foundation, marketing remains a powerful growth lever. We saw that this past quarter as teams around the world created moments of joy for fans and delivered campaigns that resonated with customers across different interests and occasions.

Our Friends campaign connected with long-time fans across several international markets by tapping into nostalgia and collectibles. We partnered with The Super Mario Galaxy Movie on a Happy Meal tied to the film's release creating a big family occasion around the brand. And most recently, we launched the KPop Demon Hunters partnership with Netflix, a campaign built for a more digitally native customer, combining a dual-daypart offerings with digital activation in the McDonald's app.

In the U.S., even in light of comparing against the highly successful Minecraft Movie promotion last year, the KPop Demon Hunters partnership did what we expected. And as with past culturally relevant IP, like last year's Minecraft and Grinch campaigns, we're scaling the event globally. That's one of McDonald's real advantages. We can take insights that resonate locally, turn them into brand moments customers want to be a part of and scale them in a way that we believe very few companies can.

And when we do that well, marketing does more than create buzz. It drives traffic and strengthens the underlying momentum of the business. Lastly, menu innovation. With our category focus, the system is successfully delivering the great-tasting food our customers expect quickly and efficiently. There's no better example than the beverage category. In Q1, Australia successfully executed the beverage test, building on learnings from last year's U.S. pilot. We're continuing to build real momentum in the category with both Germany and Canada launching new beverage platforms a few days ago.

And yesterday, all U.S. restaurants nationwide began offering 3 different refreshers and 3 crafted sodas as part of our new U.S. beverage platform under the McCafe brand. The soft launch results over the last week are encouraging, and we're looking forward to introducing different flavors and Red Bull-infused energy drinks throughout the year. As I said earlier, the strategic combination of a strong value foundation with culturally relevant marketing and focused menu innovation delivers outsized impact. Across key markets, we're seeing consistent three-for-three execution translate into sustained performance. Australia is a clear example of this playbook in action.

Value offerings such as McSmart Meal and a Loose Change Menu provided compelling flexibility and choice and drove traffic into our restaurants. This quarter's Friends activation created excitement for our fans. Beef and chicken full-margin LTOs drove comp sales performance in the quarter, and the recent beverage test was met with great customer reception. By going three-for-three, Australia delivered mid- to high single-digit comp growth and extended a third consecutive quarter of market share gains. Before I conclude, I want to provide an update on the impact of the war in the Middle East.

While the direct impact on our operations in that region did not have a material impact on our total company results in the first quarter, the operating environment remains volatile. Our teams are focused on supporting our franchisees, mitigating costs within our control and protecting the long-term health of the business in the region. We're extremely proud of the way our system continues to consistently show up for customers in every corner of the world, supporting both the communities in which we do business in and our teams, highlighting time and time again the strength of the McDonald's brand when our system comes together. With that, I'll turn it over to Ian.

**Ian Borden***Executive VP & Global CFO*

Thanks, Chris, and good morning, everyone. As Chris just mentioned, overall, we delivered another solid quarter with global comparable sales growth of 3.8%. Our results reflect consistent execution across our system even as we continue to navigate a challenging environment. Starting with the U.S., comparable sales grew 3.9% for the quarter. And importantly, we delivered positive comparable sales and guest count gaps to our near-in competitors and maintained market share. As we discussed on our last earnings call, we exited 2025 with good momentum, and the U.S. system continued to build on that momentum in the first quarter.

Value continued to contribute meaningfully to our growth throughout the quarter, including our Extra Value Meals, which have performed well since the relaunch last September. Financial support to franchisees under the EVM relaunch program is expected to be below our initial estimate of approximately \$35 million, as the program continued to see positive momentum. Together with the broader McValue platform and full margin promotions, EVMs continue to help drive incrementality. While the EVM financial support concluded at the end of March, EVMs remain a core part of our menu offering and continue to provide customers with a compelling and consistent discount versus a la carte pricing on their core McDonald's favorites.

On the menu front, the U.S. executed limited time offers across both chicken and beef, which helped maintain share in the highly competitive chicken category and drive market share gains in beef for the quarter. Campaigns like Hot Honey helped build further credibility with consumers and excitement within our chicken portfolio through the introduction of a new sauce, while the full margin Big Arch promotion introduced in March generated strong interest and performed in line with our expectations.

As Chris noted, we've worked collaboratively with franchisees to ensure we continue to provide customers with the most compelling value, as we adapt our offerings to meet consumers where they are. With unanimous approval through the franchisee field votes, we launched the revamped McValue platform in mid-April. The new under \$3 menu features well-known a la carte items available throughout the day. Similar to how we relaunched Extra Value Meals, we kickstarted the new program by spotlighting 2 items available in the under \$3 menu with a nationally advertised \$2.50 McDouble and a \$1.50 Sausage McMuffin.

Likewise, the new \$4 Breakfast Meal Deal now complements the \$5 McChicken and \$6 McDouble rest-of-day meal deals that remain on the McValue platform. Together, the under \$3 EDAP menu and the meal deals provide clear compelling price points across all dayparts, similar to what we've been offering successfully in nearly all major international markets. As with any new program, we know it may take time to build awareness, but early indicators on McValue's performance since the changes were introduced a couple of weeks ago are in line with our expectations.

Turning to the international operated markets. Comparable sales grew 3.9% in the first quarter. In many of our top international markets, QSR industry traffic contracted, yet we gained share in nearly all of them. Our results were driven primarily by strong performance in the U.K., Germany and Australia. These 3 markets continue to demonstrate disciplined execution across value, menu and marketing with each market gaining share again this quarter and delivering comparable sales growth in the mid- to high single-digit percent range.

Our value offerings are resonating as we continue to evolve them to meet local consumer needs. In the U.K., for example, the team strengthened its meal deal strategy with the introduction of Meal Deal Plus in January, which provides customers more flexibility to choose from a range of core and side items for only GBP 5.59. U.K. customers responded positively and the revised offer drove higher incrementality than the previous GBP 5 meal deal.

And in Germany, the McSmart platform continues to perform well, while a marketing campaign strengthened our brand's value perceptions by embedding affordability into familiar real-life moments, speaking to the importance of both experience and price to overall value. With respect to menu innovation, several large burger campaigns across the U.K., Germany and Australia delivered strong results in beef. In Chicken, the Chicken Big Mac in Germany generated incremental demand.

And in beverages, Australia's test of our new range of offerings performed very well, and we're excited about Germany's recent beverage platform launch. From a marketing perspective, the Friends TV show theme promotion, which ran in both the U.K. and Australia added to each market's solid results and serves as another example where we're sharing ideas and scaling campaigns across markets. We also featured this campaign in Italy in the first quarter. Speaking of Italy, the market celebrated its 40th McDonald's anniversary in the first quarter.

To mark the occasion, Italy brought back several iconic menu items, including the 1955 Burger, the Chicken Bacon Onion sandwich and the Royal Deluxe burger, all which have deep roots in our brand's history and continue to see strong customer demand. These full margin LTOs helped Italy extend its streak of consistent market share gains to more than 2 years. While the IOM segment continued to deliver solid growth in aggregate, an example where performance is not meeting our expectations would be France.

France's performance highlights the importance of consistent discipline in our execution of value. As a first step, the system aligned on a new value platform that just launched last week, reflecting a shared commitment to improving performance even amid a contracting industry environment. Turning to our international developmental licensed markets. Comparable sales grew 3.4%, led by continued strength in Japan, reflecting great local execution and brand relevance. In China, we maintained share in the quarter. And while we expect the macroeconomic pressures to persist, we continue to execute against our strategy to capture the long-term growth potential of the market. We remain on track to open approximately 1,000 new restaurants in China this year.

Turning to the P&L. Our solid top line performance drove adjusted earnings per share of \$2.83, which included a \$0.13 benefit from foreign currency translation. On a constant currency basis, this represents a 1% increase versus the prior year. We generated more than \$3.6 billion in restaurant margins during the quarter, and our adjusted operating margin was 46%, highlighting the resiliency of our business model. However, our U.S. company-operated margins in the quarter were not acceptable. We're actively addressing opportunities to improve performance and revisiting the optimal franchisee versus company ownership balance to maximize system value.

Based on current exchange rates, we expect foreign currency to be a full year tailwind to 2026 EPS, totaling in the range of \$0.20 to \$0.30. As always, this is directional guidance only, as rates will likely continue to change as we move throughout the remainder of the year. In regards to the remainder of the year, we are reaffirming our full year 2026 financial targets as we outlined in February. With respect to food and paper inflation, our supply chain teams, along with our world-class supplier partnerships and hedging strategies position us well to navigate near-term cost pressures and increased volatility resulting from the war in the Middle East.

Longer term, we believe there is an increased risk of higher cost inflation due to ongoing global supply chain disruptions. While we expect the external environment to remain challenging, we're focusing on what we can control, executing consistently across value, menu and marketing and leveraging the financial strength and scale of our global system. And with that, let me turn it back over to Chris.

### **Christopher Kempczinski**

*Chairman President, & CEO*

Thanks, Ian. This quarter reinforces something important. In a challenging environment, we believe McDonald's can still do what very few brands can. We can lead on value, we can show up in culture in ways that matter, and we can keep bringing customers menu news that gives them more reasons to choose us. That's what this system delivered in the first quarter, and it's why I feel very good about where McDonald's is headed. Our history has been defined by our ability to remain green and growing. And what gives me confidence is not just the momentum we've built, it's the strength of this system and our ability to keep evolving with the customer without losing what makes McDonald's distinctly McDonald's.

We'll share more with the McDonald's system on what's next when we come together in June for worldwide convention. And later this year, we look forward to sharing more with all of you at our Investor Day on September 23 in Chicago. With that, we'll take questions.

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

### **Operator**

[Operator Instructions]

### **Dexter Congbalay**

*Vice President of Investor Relations*

Our first question today is from Dennis Geiger of UBS.

### **Dennis Geiger**

*UBS Investment Bank, Research Division*

Following another solid U.S. sales performance in the quarter, can you talk a bit more about how you're thinking about the U.S. sales trajectory over the balance of '26, given some of those key sales drivers that you identified across value and marketing and menu innovation, but also against the currently challenging macro backdrop in the U.S.?

### **Christopher Kempczinski**

*Chairman President, & CEO*

Yes. Thanks for the question, Dennis. As I look at the marketing calendar that they've got for the U.S. for the balance of the year, I feel very good about the plan that they have in place. I think clearly, we're going to expect to continue to benefit from the McValue program. That's locked in through the balance of the year. And then we have, I think, a great lineup of menu innovation as well as marketing news. Certainly, beverages is something that we're expecting is going to be a tailwind for us for the business for the balance of the year and hopefully longer than that.

What's obviously going on is the macro environment and consumer sentiment. That's not new news. But I think probably it's fair to say that it's getting -- it's certainly not improving, and it may be getting a little bit worse. How that plays out in all of this, I think, is an open question. But as Ian said in his comments, our focus is on what we can control. And on that score, I feel very good about the balance of the year.

**Ian Borden***Executive VP & Global CFO*

Dennis, I might just tag on to Chris and just knowing, I'm sure, it will be a focus for lots of the Q&A today, just talk a little bit about kind of Q2 and beyond. I think as you heard us say upfront, I mean, we've had a solid start to the year. And I think what we're most pleased with is just the consistency of our performance across all of the 3 operating segments. The fact that we took share in the majority of our largest markets in the quarter, I think, is proof that we've positioned the business well to do well in any kind of environment even if the environment becomes a little more challenging than it has been.

I think just speaking a little bit to kind of Q2 and beyond, I mean, I think we expected April to be a difficult comp month, driven by the really successful global Minecraft program that you've all heard us talk a lot about. And as we had planned, sales in both -- comp sales in both the IOM and the U.S. segment were slightly negative in April. So I think as a result of that and as we had planned for in both the U.S. and IOM segments, we expect in Q2 that we're going to see a meaningful deceleration from the 3.9% that we put up in both segments in Q1 from a comp perspective, which reflects the soft performance in April, but we also expect for each segment comp sales to accelerate on a 2-year stack basis.

For IDL, comp sales growth in Q2, we expect to decelerate from the 3.4% in Q1, primarily reflecting a little bit what Chris was talking about earlier, just the volatility, obviously, of conditions in the Middle East and some markets in Asia, but also to accelerate slightly on a 2-year basis. I think just to be, I think, clear, I mean, obviously, with the April -- the difficult April comp now behind us, we're confident in our underlying momentum driven by what Chris was just talking about, the strength of value and affordability, which we think we've really got right.

You've heard recently about some of the adjustments we put in place in April as part of McValue 2.0 and then the lineup of activities through the rest of Q2 and into the rest of the year, like the recent beverage launches that we've talked about in Germany, Canada and the U.S. and then, of course, our FIFA partnership in June. So we certainly feel like we've got the business set up well irregardless of the conditions. And as Chris said, we're really focused just on making sure we continue to strongly execute.

**Dexter Congbalay***Vice President of Investor Relations*

Our next question is from Brian Harbour of Morgan Stanley.

**Brian Harbour***Morgan Stanley, Research Division*

I guess just on the value point, it seems like you're kind of continuing to revisit it here. I guess, could you just elaborate on sort of the need for another iteration? How often do you think you will change that? And then outside the U.S., right, I think you alluded to France, for example, where you also need to revisit that. What has made certain markets more or less successful on value given that many of them have had things in place recently?

**Christopher Kempczinski***Chairman President, & CEO*

Sure. Well, let's start with where we're at with McValue and the components. There's really 2 core elements that we look at. One is the meal deal program that we have, and that's been in place for over a year. And then we also have -- just recently, we launched this, what we call everyday affordable price point or EDAP menu, which is the 10 items for under \$3. And what our experience has shown us in markets around the world as well as a fair bit of work that we've done is you've got to have both of those components in place.

You need to have a meal deal offering there to be able to drive interest and excitement around some of our core menu items. But you also need entry-level price points for those folks, who are maybe a little bit more stressed around affordability and are looking for what can I get for \$3 or less. And so hats off to the U.S., they've got that in place. In rest of world, most of our IOM markets, we had the same construct. And in fact, that informed what we've done in the U.S. France was the one exception. We did not have as strong a program as we needed to in France on both dimensions of that.

And so what I am referenced is getting that put in place. If I look at sort of our overall value and affordability scores, we've made a ton of progress. We were -- if you went back 18 months or so ago, there were places where we were seeing -- that we were starting to have declines in terms of perception there. Now we were still better than competition, but our leadership gap was narrowing. And if you look at what's happened more recently over the last 6 months or so, we've seen a significant improvement in all of our value and affordability scores to the point where I think we're in great shape on value and affordability.

Now because of the operating environment that we're in, thank God, we've got that in place because I think you need in this environment, value and affordability to be a strength. And I'm happy on behalf of our system to say that we've got value and affordability now where I think it's a real strength of our system.

**Ian Borden**

*Executive VP & Global CFO*

I'm just going to hook on that one, Brian, just to add to what or emphasize maybe a couple of things that Chris talked to. I mean I think in this environment, agility is going to be -- continue to be key. And I think that's what our business is demonstrating. I think as you've heard Chris and I both talk about repeatedly, we're not going to get beat on value. And I just would echo Chris' comment on credit to the U.S. business that they have listened to consumers and really leaned into the areas of opportunity. And I think that's -- one of our key advantages is our strength and scale and our ability to kind of lean in proactively to what consumers are expecting and needing from us.

And I think we're really confident in the setup in the U.S. now because, as Chris talked about, we've had that model in place in most of our international markets for some time, and we know it works. And France is an example where if you don't stay disciplined, and keep being sharp on value and be -- have a winning formula, that can get away from you and then you've got to come back and get after it again. So we feel really confident, as I talked about earlier, that we're positioned well no matter how the environment around us continues to evolve.

**Dexter Congbalay**

*Vice President of Investor Relations*

Our next question is from John Ivankoe from JPMorgan.

**John Ivankoe**

*JPMorgan Chase & Co, Research Division*

The question really is around system optimization. And you did mention that in the context of U.S. company store margins, but I'll even pivot that even forward and look at company store margins for the IOM business as well. So it seems like both of those markets might have opportunity to rebrand. I mean the stores would actually potentially create more from a P&L perspective as a franchisee than a company store. So just kind of comment on that, how big of an opportunity we may have to rebrand company-operated stores.

And in that context, especially if refranchising does occur, should we be rethinking previously set development targets in the U.S. and IOM, as margins have been under relative pressure in both of those segments since the initial guidance was given, I think, in late 2023.

**Ian Borden**

*Executive VP & Global CFO*

John, thanks for the question. I think as I kind of said in the upfront remarks, I mean, our U.S. McOpCo performance is not acceptable. I think we were very clear on that. I think we have opportunities. Although I would highlight just because you referenced it, we saw McOpCo margin growth in our IOM segment in the quarter. And I would say that's in a set of conditions where the IOM markets are generally facing more inflation. So I think it goes back to what we've talked about pretty consistently when we are able to generate solid top line growth, we feel confident about our ability to grow margins over time.

I think at the end of the day, it's pretty straightforward, and you've alluded to this. I mean, we have a choice. We make a decision, obviously, when we own and operate a restaurant directly, and that decision is based on generating a strong return and generating a strong system outcome. And if we can't deliver that, I know we've got a lot of great owner-operators in the U.S. or around the world that can run those restaurants well and generate strong outcomes for either themselves or for the overall business.

So I think we are going to be very clear and disciplined in how we make those decisions, looking at what's best for the overall system. I think in regards to new restaurants, what I would say is we still have a lot of confidence in our ability to grow. But again, it's -- as we've emphasized for the last couple of years, our primary decision matrix is based on delivering a strong return for McDonald's and a strong return for the owner-operator that's going to own and operate that individual restaurant.

And if we can't deliver a strong return and certainly, we're seeing more inflationary pressure, I think, with what's going on in the war in the Middle East and kind of the ancillary impacts on that, if that means that an individual restaurant no longer meets the right return threshold, then we're going to make those decisions accordingly. I think overall, we still feel confident in our ability to kind of get to about 50,000 restaurants by the end of 2027.

**Christopher Kempczinski**

*Chairman President, & CEO*

Yes. And I would just maybe underline a couple of points that Ian made. One is on McOpCo, frankly, it's any restaurant in our system. We're always looking to put the restaurants in the hands of the best operator. And so I think certainly, the performance in the U.S. right now relative to franchisees would indicate it's not being run as well as it could be. And so it's either on us to fix that or we're going to find franchisees who can run the restaurant better.

And if you look at the margins that our franchisees, the restaurant level margins, that they're earning on their own restaurants, clearly, there's a lot of upside versus what the McOpCo performance was in the quarter. And you think about development, I would just say to build on Ian's point, we are relooking at the pipeline in light of what we think are going to be now the new construction costs, as a result of some of the supply chain challenges. And if that means that some of those restaurant locations that are in our pipeline no longer make sense, they'll drop out, and we will adjust accordingly.

But as Ian said, everything that we're doing around development is about getting good returns. And if we don't feel like we can get good returns, we're going to drop those out. We're not chasing an absolute growth number, but we do see significant opportunity for us on development still.

**Dexter Congbalay**

*Vice President of Investor Relations*

Next question is from David Tarantino from Baird.

**David Tarantino**

*Robert W. Baird & Co. Incorporated, Research Division*

My question is about franchisee profitability. And I was hoping you could give us an update on what those trends look like in the U.S. in light of the McOpCo margin performance. It sounds like maybe there's a unique issue there that's not affecting the franchisees. But just wanted to confirm sort of what the profitability there looks like. And then secondly, I was hoping you could comment specifically on IOM franchisee profitability in light of the spike in energy prices. I think maybe back in 2022, you had to provide some support there. So just wondering what the outlook for that dynamic is.

**Christopher Kempczinski**

*Chairman President, & CEO*

Sure. Well, no surprise with the inflation that we're seeing in the market. There's certainly a lot of pressure that we're trying to navigate with franchisees around their own profitability. U.S. cash flow last year, we've talked about that previously, but it was stable. But as we head into this year, there's certainly concern around franchisee profitability, not just in the U.S., but in IOM as well. And what we've talked about with franchisees, our system -- everybody needs to be successful in our system. And so we're keenly focused along with our franchisees on how do we make sure that we can navigate some of these cost pressures and the other investments in the business and also make sure that we're able to grow franchisee cash flow.

But beef inflation is just one example, particularly pronounced in Europe, but also a factor in the U.S. For a portfolio like ours, that absolutely puts pressure on this. And so I think if you were to talk to our U.S. franchisees right now, they're feeling under pressure from a cash flow standpoint. I think you'd find the same thing if you talk to our IOM franchisees. And we're working as we always do with our franchisees to make sure that all 3 legs of the stool are successful.

**Ian Borden**

*Executive VP & Global CFO*

Yes, David, just maybe let me add a bit to what Chris has said. And just a couple of things. I think on commodity costs, just to be clear, because we've reiterated our guidance and part of the assumptions that went into the guidance that we issued at the beginning of the year was obviously commodity inflation from a food and paper perspective, which in the U.S., we expect to be in the low to mid-single-digit range and in IOM mid-single digits.

So I think we feel pretty confident in our ability to navigate inflation through '26, partly because, obviously, we've got a fair bit of hedging in place, both on food and paper and on energy. So that gives us confidence kind of in our ability to navigate what we're seeing right now. And obviously, we've got the strength of our supply chain system, our world-class suppliers who really help us to kind of navigate even some of these pressures like Chris alluded to on beef, for example.

I think -- obviously, based on what we know today, I think we certainly think there's more potentially inflation on the way as we get to the end of '26 and into beginning of '27. And obviously, what we're continuing to focus on is driving that strong top line growth. That's obviously what allows us and our franchisees to navigate kind of the external conditions as best we can and, of course, continue to manage the cost impact on the business as we do that.

**Dexter Congbalay**

*Vice President of Investor Relations*

Next question is from Greg Francfort over at Guggenheim.

**Gregory Francfort**

*Guggenheim Securities, LLC, Research Division*

I just wanted to ask maybe what you guys were seeing in performance of higher income and lower income customers. I think we're getting maybe mixed reads from companies in other sectors. And I just -- you were one of the first ones to call out maybe some pressure in 2024. I want to see how that might be evolving.

**Christopher Kempczinski**

*Chairman President, & CEO*

I mean I think at a macro level, it's largely unchanged and that the higher income continues to have very resilient spending, and that is true for our business as well, where we're seeing solid growth, good growth with higher income and also gaining share with higher income for us. On that lower income, while the declines are not as pronounced as they were maybe 6 or 12 months ago when we were talking about high single digit, the low income is absolutely still declining. I think some of that is probably due to lapping.

I think also in our business, we would look and say, we think we've recaptured some of those low-income consumers because of our value program. But clearly, when you have elevated gas prices, which is the core issue that I think we're all seeing about it in the press right now, gas prices, inflation on that, that is going to disproportionately impact low-income consumers. And so we expect the pressures there are going to continue.

**Dexter Congbalay**

*Vice President of Investor Relations*

Next question is from Sara Senatore over at Bank of America.

**Sara Senatore***BofA Securities, Research Division*

I wanted to go back to FIFA, the World Cup. I think you sponsored it before, obviously, so you have a good read on what it does. I think in my recollection, it was an important driver of digital adoption, but maybe not in aggregate as much a demand accelerant. So I guess 2 parts. One is, is that the right recollection? And two, given that you have loyalty now, is this an opportunity to still see the kinds of increased frequency that you have previously? I think, you've talked about kind of doubling frequency when people join loyalty. So just kind of your historical experience with FIFA and kind of what you're expecting going forward.

**Christopher Kempczinski***Chairman President, & CEO*

Sure. Well, we're very proud of our 30-year-plus association and sponsorship of the World Cup, and that will continue this year. In terms of performance, it really depends on country by country. I think your question, Sara, is probably focused on the U.S. And the big benefit that we have this year, of course, is that the World Cup is in North America. And it's also going to be something that happens in stadiums across not just the U.S., but Canada and Mexico as well. And so I think that's something that for us, we see as a real benefit.

And the U.S. team as well as our Canadian team and Arcos Dorados have an exciting marketing calendar that's lined up that we think is going to have the potential to really drive performance in the restaurant. So I think because of the fact that this year, we're in North America, it's a little bit difficult to extrapolate from other years where it wasn't in kind of our big U.S. market, but we're optimistic about what we think it's going to do this summer.

**Dexter Congbalay***Vice President of Investor Relations*

Next question is from Dave Palmer over at Evercore.

**Elliott Simon***Evercore ISI Institutional Equities, Research Division*

This is Elliott on for Dave. This is the second quarter in a row where you've called out U.K. business strength. The turnaround has been remarkable, both in the speed that it has been achieved and the fact it was done in what seems to be a very challenging backdrop in the region. Are there any lessons you can take from the wins you have been able to generate in the U.K. and apply those to the U.S. and France?

**Christopher Kempczinski**

*Chairman President, & CEO*

I'll let Ian start and then if there's anything else to add, I'll jump in.

**Ian Borden**

*Executive VP & Global CFO*

Elliott, look, I think it's a few things. I don't think it's necessarily anything new, but it's just a reminder of, I guess, discipline and focus. Obviously, it starts with having the right leadership in the market. We've made a fair bit of change there, and we feel really confident that we have strong leadership in the market now, which I think has been instrumental to building confidence both internally with our franchisees and externally with consumers. I think the U.K. has really done a nice job of adopting that formula of having a really strong value and affordability foundation, evolving that to meet the needs of consumers in the market, as the context has kind of continued to shift and then doing a great job of kind of brand activation combined with exciting menu news.

The U.K. has done a number of campaigns, whether that's kind of what we call our menu heist campaigns or kind of favorites around the -- from around the world to other exciting activations, and they've done that in a way, I would say, consistently to kind of get that holistic formula to come together very, very well, and they're taking share, which is the ultimate proof point of how the actions are kind of resonating with the consumer. And I think it's just -- it's obviously strong leadership and then it's consistency of execution. And I think us having impatience to make sure that if that's not the case, we act quickly to get it in place.

**Christopher Kempczinski**

*Chairman President, & CEO*

The only other thing that I would add, the U.K., as I think about the IOM markets was probably -- a franchisee profitability there was probably under the most pressure of any of our large markets. And if we look back, I think probably it's fair to say that the team was overemphasizing traffic at the expense of franchisee profitability in some cases. And we've got a much better balance now. Franchisees have a clearer line of sight to how we're also going to be growing franchisee profitability. And that just drives much tighter system alignment, which then allows us to do all the things that Ian was talking about. So that would be my only other add.

**Dexter Congbalay**

*Vice President of Investor Relations*

Next question is from Jeff Bernstein of Barclays.

**Jeffrey Bernstein**

*Barclays Bank PLC, Research Division*

I just wanted to follow up on that U.S. ownership structure conversation. I know you mentioned not being happy with the company-operated margin. Seemingly, that's despite the solid top line that you delivered in the quarter, for example, which I think was what you noted was kind of needed to drive that margin. So I'm wondering if you can offer some color on the primary issue in terms of not being well run enough or perhaps the value menu is not profitable enough. Anything you can share in terms of the pricing you're taking? Otherwise, it does seem to imply...

**Christopher Kempczinski**

*Chairman President, & CEO*

I mean there's a lot of different things. I think if I were to simplify U.S. McOpCo performance, it was investing in labor -- additional labor at the same time that they were probably being even more restrained around pricing. And so when you are adding labor to the restaurants and you're also not passing through some of the costs because you're sort of being overly conservative around pricing, you end up having the performance that we've talked about here.

Now those are fixable, but I think the broader question for us that Ian was discussing is having confidence that we can be running -- that we are the best operators of those restaurants. And we're working closely with the U.S. team, as we are in every other market. We'll continue to kind of evaluate that. And I would say if we're going to make any changes on that, that would be a topic we would talk about at Investor Day.

**Dexter Congbalay***Vice President of Investor Relations*

Next question is from Andy Barish over at Jefferies.

**Andrew Barish***Jefferies LLC, Research Division*

I wonder if you could talk a little bit more to the beverage launch and maybe what caused you not to use kind of Red Bull and energy as part of the initial launch right now?

**Christopher Kempczinski***Chairman President, & CEO*

Sure. Well, we're really excited about what we're seeing so far. Yes, it's early days, but you get a sense sometimes of these things even in early days of the buzz and not just in the U.S., but we're also simultaneously right now launching in Germany and seeing great kind of consumer reception on that. I think as it relates to what are all the various products that we launch with, there's really 2 things. One is just operationally being ready in terms of launching the beverages, and there were some things that we needed to do in partnership with Red Bull to be able to meet the demand that didn't line up perfectly with this May launch, but it also gives us an opportunity to rehit the platform, which we'll do sometime later this year. So it's a combination of operational readiness and also our desire to continue to have new news to drive customers into this beverage platform.

**Dexter Congbalay***Vice President of Investor Relations*

Next question is from Jon Tower at Citi.

**Jon Tower***Citigroup Inc., Research Division*

I want to go back to the comments regarding development and the idea of examining the cost to build, given the supply chain challenges. And obviously, it sounds like on the horizon, there's a new potential remodel cycle coming for the U.S. business. So I'm just curious how we should think about that dynamic playing into a potential remodel cycle. Are you looking at things a little bit differently given the cost? Would you have to maybe commit more capital on the company side for franchisees to buy into some larger remodels that might be coming?

**Christopher Kempczinski***Chairman President, & CEO*

Sure. Well, I'll start at a high level and then Ian can cover anything I missed. But you're right that we're in the midst of entering into a remodel cycle. And it's not just in the U.S. I'd say the same thing applies to IOM as well, which is we're now about a decade post really making EOTF, or Experience of the Future, a big remodel program that we first started in IOM and then we brought to the U.S. So in our business, every 10 years, the expectation is that our franchisees will remodel their restaurants as part of just continuing to make sure that they look great and offer the customers the experience that they do.

So we're naturally heading into right now that remodel cycle. And we're taking the opportunity as we approach that to also think about, are there any other things that we need to go do around this business to make it set up for the future. Certainly, one of the things that we've seen over the last several years is just the growth of digital, the growth of delivery. That means that the kind of customer flows or customer journey in our restaurant looks a little bit different, how might we adjust that, et cetera. So we are certainly working with franchisees to think about what does that restaurant in the future need to look like.

There may be partnering on aspects of that, but typically, we don't partner on remodels as part of just the regular updating of the business. But if there are specific sales driving things on top of that, that makes sense for us to partner on, we would take a look at that. And I would imagine if we had more to share on that, that would be another topic we could cover with you all in September.

**Ian Borden***Executive VP & Global CFO*

Yes. I think Chris has covered all the bases. I mean I think -- I think the key is any time we get into kind of these more significant reinvestment cycles, we're very, very thoughtful to look holistically at how we can kind of get the most out of the investment. And that obviously, a bit to your point, Jon, in this case, is just making sure in this environment, we're really confident that there are enough and the right levers to drive growth so that everybody, the franchisee, obviously, firstly, gets a strong return on their investment.

And if we are going to support elements of that investment, as Chris alluded to, sales driving elements that we're also getting a strong return on any support that we may put behind that. So I think that's pretty normal course, but it's certainly a good time for us to be looking at that, particularly in the U.S. where we've got a big investment cycle ahead.

**Dexter Congbalay**

*Vice President of Investor Relations*

Next question is from Lauren Silberman at Deutsche Bank.

**Lauren Silberman**

*Deutsche Bank AG, Research Division*

I wanted to just follow up on the comp expectation for 2Q. I understand the April lap, but I guess, do you expect the balance of the quarter to rebound back to where you were running? And then just more broadly, do you think you're seeing any discernible impact from the rising gas prices on the underlying business? I know you mentioned low income will remain pressured, but have you seen a step down, I guess, since gas prices have accelerated globally?

**Ian Borden**

*Executive VP & Global CFO*

Lauren, let me start, and I'm sure Chris may want to weigh in here. I think as I said earlier, April is isolated and discrete because of the lapping of Minecraft. We just wanted to be very clear to kind of call that out because it is quite a unique month. And as I said earlier, I think, we feel very confident about the lineup of activity and the underlying momentum of the business with all of the things we're doing, including obviously, the moves we've made on value and affordability.

I mean, I think the environment around us, as Chris talked about earlier, I think, continues to be challenging. But as also he said, it's not new. And obviously, our focus is on what we can control. And as I said earlier, we think we've positioned the business well and well to win irregardless of the environment. Obviously, higher gas prices, as you talked about earlier, are not going to be helpful, particularly for lower income consumers who are already, I think, under pressure. But we think we're offering the right choice and affordability on the menu that's going to appeal to consumers, whether across all income cohorts. And obviously, that's always our goal.

**Christopher Kempczinski***Chairman President, & CEO*

The only other thing I would add, I guess, to this point about do we expect the momentum to continue as we get past April. Certainly, our expectation is, as we've been doing, that we're going to continue to gain share. And so if you look at May and June, our expectation is that we should in our major markets be gaining share. Now that share growth against what is the industry growth, I think that's an open question. Whether there's been slowing or not, I don't know if there's enough data at this point to really give you a definitive answer on that.

But certainly, consumer sentiment is heightened anxiety, let's just say, and it may have an impact. But our focus, again, is on controlling what we can control and our expectation for continuing momentum around share growth, we're expecting that to continue.

**Dexter Congbalay***Vice President of Investor Relations*

Next question is from Andrew Charles over at TD Cowen.

**Andrew Charles***TD Cowen, Research Division*

Ian, you talked about the commitment to get to 50,000 restaurants by 2027. But I'm curious, given the state of cash flows in the U.S. and IOM that you've talked about, is it right to think that ILM (sic) [ IDL ] is going to really be driving a lot more and pulling a lot more of its weight than you originally expected at the Investor Day a few years ago?

**Ian Borden***Executive VP & Global CFO*

Andrew, well, I don't think we're expecting a kind of a shift in the mix. I mean, as you know, IDL already makes up the majority of our openings just because of the size of the opportunity in a lot of those developing markets like China or elements of Asia and Latin America, et cetera. And I think our partners continue to be optimistic about the opportunity for growth. And in those markets, a lot of them, you already have conditions where you've got to be very, very sharp to get good returns. So I don't think there'll be a significant shift.

I think for all of us, though, a bit to what Chris and I talked to earlier, it's just -- we just have to stay sharp on making sure we feel confident in our ability to deliver returns. And that's, I think, ultimately what will be any shorter-term adjustment. I think the long-term opportunities in all of our markets, we still remain very optimistic about, and we're going to stay focused on that.

**Christopher Kempczinski**

*Chairman President, & CEO*

Yes. The only thing I would add, I think sort of implied in your question was that cash flow pressures somehow affect our system's ability to invest on new restaurants. And I would just say we have a tremendous amount of financial firepower in our system, despite some of the pressures that exist in some markets with franchisees on cash flow because of inflation. Their overall financial situation when you look at debt levels and everything else, we're in a really good spot there.

And so I have no concerns about our ability when it makes sense, when we can get good returns to continue opening restaurants at a strong pace. That's going to be ultimately what drives these decisions because we've got plenty of capital to spend if we need it and we see good opportunities.

**Dexter Congbalay**

*Vice President of Investor Relations*

Our next question is from Danilo Gargiulo at Bernstein.

**Danilo Gargiulo**

*Bernstein Institutional Services LLC, Research Division*

I was wondering if you can share your thoughts on what you're seeing on the chicken category, both nationally and internationally. And perhaps what has been the evolution of your market share and the competitiveness of the category? And more specifically, whether the beef prices being more elevated is driving consumers to be eating more chicken [ mix ] for you and in general, for the rest of the industry? And any thoughts that you have on the evolution of beef costs would be great.

**Christopher Kempczinski**

*Chairman President, & CEO*

Sure. Well, as we've talked about -- and I know you are well aware, Danilo, the chicken category is bigger than beef globally, and it's growing 2x faster. So it's something that there's a ton of opportunity. If you think about beef where we have, call it, a mid-40% share, our share in chicken is, call it, high teens. So the opportunity, the headroom for us in chicken is really quite significant. And I'm pleased with how our system has performed over the last couple of years, the last several years around chicken.

We've gained significant share. I don't have the number in front of me, but it's probably close to 2 points of share that we've gained in chicken over the last few years because of all the work that our system has been able to do on that. So we're very excited and bullish on that. Because of the underlying growth, you're seeing everybody else is also excited about it. And so there's certainly a lot of activity happening in chicken across the industry. For us, it's going to continue to be a point of focus and a point of priority.

And I do think it's a fair thing to point out that when beef prices are as elevated as they are, chicken becomes a much more attractive value opportunity relative to beef. And I do think that that's something that's playing in right now. And so how that continues or plays out in terms of its growth, it depends largely on how long these beef prices are at these sort of historic highs. But certainly, right now, in the environment that we're in, I think chicken is benefiting relatively to its better cost position relative to beef.

**Dexter Congbalay**

*Vice President of Investor Relations*

Our next question is from Chris Carril over at KeyBanc.

**Christopher Carril**

*KeyBanc Capital Markets Inc., Research Division*

So I wanted to ask about your advertising focus and marketing message for the balance of the year, maybe with a specific focus on the U.S. Can you expand a bit more on how you're thinking about balancing the messaging around McValue in light of the current backdrop alongside messaging on new and perhaps more premium menu innovations such as beverages?

**Christopher Kempczinski**

*Chairman President, & CEO*

Yes. I think your question is kind of hinting at the fact that it needs to be a balance. And we can't be overtorquing on value at the expense of margin-driving initiatives. At the same time, you need to have a strong value program in place to be able to generate the traffic and offer those opportunities for trade-up and everything else. And so -- as I look at the U.S. calendar, obviously, I'm not going to share the details of that for competitive reasons for the balance of the year. But I think the U.S. team working closely with our franchisees has a good balance on their marketing calendar.

**Dexter Congbalay***Vice President of Investor Relations*

That's it for today, folks. If you need any follow-ups, please send me an e-mail or send it to the McDonald's IR inbox, and we'll talk to you later. Thank you.

**Operator**

This concludes McDonald's Corporation Investor Call. You may now disconnect, and have a great day.

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