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McDonald's Corporation (MCD) Q2 2025 Earnings Call Transcript

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Insights



EPS of \$3.19 **beats by \$0.04** | Revenue of \$6.84B (5.44% Y/Y) **beats by \$144.09M**

McDonald's Corporation ([MCD](#)) Q2 2025 Earnings Conference Call August 6, 2025 8:30 AM ET

Company Participants

Christopher J. Kempczinski - Chairman President, & CEO

Dexter P. Congbalay - Vice President of Investor Relations

Ian Frederick Borden - Executive VP & Global CFO

Conference Call Participants

Andrew Michael Charles - TD Cowen, Research Division
Brian James Harbour - Morgan Stanley, Research Division
Danilo Gargiulo - Sanford C. Bernstein & Co., LLC., Research Division
David E. Tarantino - Robert W. Baird & Co. Incorporated, Research Division
David Sterling Palmer - Evercore ISI Institutional Equities, Research Division
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Operator

Hello, and welcome to McDonald's Second Quarter 2025 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 P. Congbalay

Good morning, everyone, and thank you for joining us. With me today on the call 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 J. Kempczinski

Thanks, Dexter, and good morning, everyone. In the second quarter, McDonald's delivered global system-wide sales growth of over 6% in constant currency and global comparable sales growth of nearly 4%. This includes driving positive comparable guest counts globally despite a challenging backdrop for the industry. In this landscape, the power of McDonald's value and affordability platforms, exciting marketing and menu offerings and world-class execution are working together to drive comparable sales results and guest count growth as we also accelerate new restaurant development.

Our Internationally Operated Market segment, comp sales increased by 4%, with all markets driving positive comp sales growth. Our International Developmental Licensed Markets delivered comp sales growth of more than 5.5%, led by Japan and with positive comps across all geographies. The results speak for themselves. When we get our value proposition right and execute with excellence, good performance follows.

As we shared last quarter, all of our big 5 IOM markets now have both meal bundles and everyday affordable price or EDAP menus in place. Our EDAP menus feature a variety of sandwiches, snacks and beverages, typically priced below \$4, pounds or euros. Value and affordability scores improved across the majority of our major IOM markets as these offerings as well as offers available through the McDonald's app, continue to gain traction and awareness with consumers. Despite continued high inflation across most of Europe, our IOM markets are being prudent about pricing actions, knowing the continued challenging environment for many of our consumers.

I recently visited Germany and saw firsthand how the market is executing our playbook and outperforming the competition. McDonald's Germany is defining good value in the market with a clear EDAP menu, McSmart Snacks that just launched a few months ago. They've paired this EDAP menu with compelling meal bundles, giving them a strong 1-2 value punch. At the same time, Germany launched exciting marketing and full margin menu innovations such as the Chicken Big Mac, which hit record high sales in the market during its first full week of launch. As a result, this quarter in Germany, we drove positive sales and guest count gaps versus nearing competitors and gained market share despite what continues to be a challenging industry environment.

Turning to the U.S. business. Comp sales were up 2.5% in the quarter. We outperformed near competitors on both comp sales and comp guest counts. Certainly, overall QSR traffic in the U.S. remained challenging as visits across the industry by low-income consumers once again declined by double digits versus the prior year period. Reengaging the low-income consumer is critical as they typically visit our restaurants more frequently than middle- and high-income consumers.

This bifurcated consumer base is why we remain cautious about the overall near-term health of the U.S. consumer. In this environment, we will continue to remain agile with respect to our value offerings to ensure the U.S. strengthens its leadership in value and affordability. Overall, we've made good progress with our value offerings.

The \$5 Meal Deal continues to resonate with consumers as we recently celebrated the 1-year anniversary of the program. We've also continued to see incrementality from our McValue platform which also includes our Buy One, Add One for \$1 deal, which launched at the beginning of this year. And of course, we're excited to welcome Snack Wraps back onto the menu after a 9-year hiatus. We launched Snack Wraps with an attractive \$2.99 nationally advertised price point and early results are encouraging.

Our franchisees also recognize the importance of the \$2.99 price point, and we're excited to announce that they recently voted to extend this advertising through the end of the year. But we recognize that consumers' value perceptions are most influenced by our core menu pricing. We're working closely and collaboratively with our U.S. franchisees on this opportunity, and we're developing ideas for how we might address this as an entire system.

In combination with strong value, we're also unlocking growth across our most important menu categories of beef, chicken and beverages. Ian will discuss beef and chicken shortly, but I'd like to touch on beverages. The work of our beverage category team is rapidly moving forward. As we recently announced exciting things are brewing with an upcoming test in about 500 restaurants in the U.S. with a beverage lineup that includes a variety of options from cold coffee and fruity refreshers to crafted soda and energy. We've been able to quickly embed CosMc's key learnings into our McDonald's core business, demonstrating the speed, scale, system prowess and efficiency of our cross-functional category teams. We're finding new ways to tap into what customers want and believe no one is better positioned than McDonald's to deliver more of these moments to our fans.

Finally, central to our Accelerating the Arches strategy is aligning our greatest assets, our iconic brand and unmatched size and scale with the power of data and technology. It's happening in 3 distinct ways. We're reimagining how we improve the restaurant experience, transforming how we engage our most loyal brand fans and modernizing the employee experience. Our progress to digitize the Arches is unleashing the full potential of our size and scale, all while strengthening our foundation, such as increasing the reliability of our systems.

As I said during our investor update in late 2023, when we first introduced the restaurant, consumer and company platforms, we believe they can create a step change in our sales and margin trajectory over time. Slowly at first, with increasing speed and impact as we scale like no other brand can. We're excited to see this start coming to life. In our restaurant platform in partnership with Google, we're developing edge computing, which extends the cloud to our restaurants.

Edge is the digital foundation for the next generation of restaurant innovation that powers AI and Internet of Things enabled restaurants. The expected benefits are many. Increased restaurant uptime and enhanced customer and crew experience, improved food quality and cost savings opportunities. We're currently live with edge in hundreds of U.S. restaurants and are beginning to deploy it internationally.

Running great restaurants is just one component of serving up great customer experience. Our fans want greater personalization, convenience and value. And bringing millions more consumers into the McDonald's digital universe is how we're ensuring customers feel seen and satisfied with each and every visit. In 2023, we set a goal to reach 250 million 90-day active loyalty users by the end of 2027. As of this quarter, we've reached more than 185 million 90-day active users across 60 loyalty markets. In the U.S. alone, on average, the same customer visits 10.5 times in the year before joining the loyalty program and then 26 times in the year after joining. They are earning points in the app and using them to unlock exclusive deals. And thanks to our recent partnership in the U.S., customers were able to extend rewards to new experiences like the Snapchat+ subscription with premium features.

Fans ordering on the app are already saving time with ready on arrival. Our geofencing technology can let our restaurants know when to start your order. In the U.S., restaurants with ready on arrival can reduce wait times for food pickup by more than 50%, and in many cases, eliminate them all together. Ready on arrival is deploying in restaurants across 5 of the top 6 markets and we're on track to launch in the last of the top 6 later this year.

Finally, we're applying new technology across the company that will change our ways of working. We're moving from hundreds of legacy systems to standardized modern global platforms to help our employees be more efficient and make data-driven decisions while increasing the speed of innovation. We took a couple of big steps towards improving processes by going live with a new finance system in the first wave of markets just a few weeks ago. And rolling out a new HR or human capital management system in the second wave of markets this past quarter. We're modernizing McDonald's at a pace which will enhance not just the customer experience, but provide new capabilities for our system.

With that, I'll turn it over to Ian.

Ian Frederick Borden

Thanks, Chris, and good morning, everyone. Our performance in the second quarter shows that customers continue to choose McDonald's as a trusted destination for the food they love, that's delivered with the quality, convenience and value they expect. Our financial results in the quarter were largely in line with our expectations. Global comparable sales increased 3.8% with comp sales growth up sequentially from the first quarter's low point. Importantly, the sequential improvement was broad-based with comp sales and guest count performance accelerating in each segment.

Our ability to adapt within a challenging environment remains a core strength. Execution of our Accelerating the Arches strategy and our agility to implement and scale necessary adjustments drove positive results in the quarter, including market share gains across a majority of our larger international markets. For example, in France, we've continued to widen our positive comp guest count gap to nearing competitors. This was supported by the successful launch at the end of March of a new EDAP platform, which we paired with compelling meal bundles that are resonating with value-conscious consumers.

The EDAP platform includes several à la carte offerings, each under EUR 3. We've seen an increase in take rates for all items and continued increases in customer value and affordability perceptions and overall customer satisfaction scores. In addition, in early April, we introduced the Big Arch. It was our top-selling large burger in France following its launch, and that trend continued after the media campaign ended. We followed the Big Arch's rollout in France by launching it in the U.K. in mid-June. Early results are meeting our expectations, fueled by positive response to the marketing campaign and social media bus and we're looking to build on Big Arch's success as we continue efforts to improve the U.K.'s overall performance.

While we recognize that restoring sustained positive performance in the U.K. will take time. As we've demonstrated most recently in France and Australia, we have a solid track record of identifying areas of improvement and executing turnaround plans that deliver results. In addition to launching Big Arch in France and the U.K., we're working to unlock growth in beef by continuing to implement Best Burger across the globe. Today, it's currently in more than 80 markets, and we expect it will be in nearly all markets by the end of 2026.

Chicken also remains a significant opportunity. It's a larger global category than beef and continues to grow at a faster rate. In the second quarter, we increased chicken market share across our top 10 markets. And we remain on track to grow our global chicken share by 100 basis points by the end of 2026, in line with the target we shared at our investor update in late 2023. Chicken was key to driving sales growth and overall market share gains in Australia in the quarter. The market saw its first share gains in a couple of years thanks in part to the Hot Honey Chicken campaign featuring both McCrispy and McSpicy options that worked in conjunction with the strong foundation of value and affordability that has now been put in place.

Australia also introduced McWings in early June as a permanent menu item with performance to date exceeding our expectations, further strengthening our chicken portfolio. Chicken also helped to drive our performance in China in the second quarter, where we gained market share, not only in the category, but in overall QSR as well. While we're pleased with our relative performance in China, the near-term macroeconomic environment remains challenging. Despite these headwinds, we remain confident in the long-term potential of the China market and remain on track to deliver on our new restaurant opening target there this year.

In addition to our commitment to the core menu and exciting innovations, we leveraged the One McDonald's Way approach to creative excellence this quarter. This drove positive comp guest count gaps to near-end competitors in the U.S. and across the majority of our major international markets. The centerpiece of this One McDonald's Way approach was the marketing campaign in partnership with A Minecraft Movie, our largest global campaign ever with participation by more than 100 markets. The consumer response to this campaign was incredibly strong. It boosted guest counts in each of our major markets. Most of which sold out of the Minecraft collectibles ahead of the intended promotion window.

In the U.S., in addition to leveraging One McDonald's Way to marketing, we're staying agile and we'll continue to focus on strong execution to drive market share growth. We launched McCrispy Strips in May and saw an initial groundswell of excitement and high levels of customer satisfaction. We followed it with the highly anticipated Snack Wraps in mid-July at a \$2.99 nationally advertised price point. And we've been encouraged by the positive consumer response so far, which we believe comes from pairing the right product with the right value proposition. We have also recently updated our McValue meal offerings by introducing the Daily Double, a new burger meal that provides customers with more entry-level meal options. McValue now has 3 meal deal offerings, and customers can continue to find a \$5 meal at their local restaurant.

U.S. leadership team and our U.S. franchisees are confident about the calendar for the remainder of the year, which includes exciting news across all levers of our plan: value, menu and marketing. However, as Chris noted, U.S. restaurant traffic, especially for the QSR industry remains challenging. Accordingly, we will leave no stone unturned when exploring ways to drive guest count-led growth and strengthening our value leadership. As Chris mentioned, we're working closely and collaboratively with our U.S. franchisees to

evaluate the opportunity to improve upon our core menu offerings. We know what it takes to win. And as a market leader, we plan to leverage our size, scale and financial strength to deliver for our customers.

Turning to the P&L. Adjusted earnings per share were \$3.19 for the quarter, an increase of about 5% versus the prior year quarter in constant currencies. Adjusted operating margin was nearly 47% for the first half of the year, highlighting the durability of our business model. Despite continued pressure on consumer spending, top line results generated nearly \$4 billion of restaurant margin for the quarter. That's an increase of about 5% in constant currency, driven primarily by franchise margin performance.

With respect to the remainder of the year, the headwinds facing our business and consumers in the U.S. and our top international markets remain largely the same, while cost pressures in some markets, most notably in Europe, have become more challenging. Nonetheless, we continue to target a full year adjusted operating margin in the mid- to high 40% range and above the 46.3% adjusted operating margin in 2024. This includes the expected impact from tariffs that are currently in place. However, we're adjusting our full year margin target for company-operated restaurants to be around the 14.8% that we delivered in 2024, which we had previously targeted to increase slightly.

We're still targeting G&A as a percentage of system-wide sales to be about 2.2% for the full year. We continue to remain disciplined with investments in our strategic growth priorities, including digital, technology and our transformation efforts led by our global business services organization. Below the operating line, we're projecting our full year interest expense to increase by about 4% compared to 2024. That's at the low end of our previous estimate of 4% to 6%, largely due to lower-than-expected increases in average interest rates. We continue to target a full year effective tax rate of 20% to 22% with some quarterly volatility.

We currently estimate the tailwind from the impact of foreign currency translation on adjusted earnings per share to be about \$0.15 based on current exchange rates. That's up from our previous estimate of about a \$0.05 tailwind. As always, our updated estimate is directional guidance only as rates will likely change as the year progresses.

Finally, we remain on pace to open approximately 2,200 restaurants globally this year and continue to target about 1/4 of these openings to be in our U.S. and IOM segments. We expect to open more than 1,600 restaurants in our IDL markets, including about 1,000 in China. In total, we continue to expect slightly over 4% unit growth from the nearly 1,800 net restaurant additions in 2025. Overall, despite the ongoing industry headwinds, McDonald's is well positioned due to the resiliency of our business and our overall financial strength.

We're on track to deliver our financial targets for the year. And remain confident in our ability to drive long-term profitable growth for the system and to create value for our shareholders. We remain confident in our Accelerating the Arches strategy and believe with strong execution, it will continue to deliver. As shown in the majority of our IOM and IDL markets in the second quarter, having a solid foundation of value and affordability is critical. And when we get value menu and marketing to work together, consumers increasingly choose McDonald's.

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

Christopher J. Kempczinski

Thanks, Ian. I want to take a moment to reflect on what continues to set McDonald's apart. 7 years in, we remain one of the most culturally relevant brands in the world. Our recent global Minecraft Movie campaign is just the latest example of the strength of our brand and a reminder that McDonald's isn't just a restaurant, we are a part of people's lives, their routines and their favorite moments.

McDonald's was once again named as the Most Valuable Global Restaurant Brand by Kantar. It's a testament to the trust that we've built with customers and the consistency of our brand experience around the world. That legacy is intentional. We recently brought together our top leaders from around the world as part of our routine planning process to shape our plans for 2026 and beyond.

One thing was clear throughout our time together. When we make a commitment to value and affordability and couple that with world-class marketing and menu innovation, we can drive strong results. Our continued opportunity lies in the ability to execute with discipline at a scale that only McDonald's can deliver. We know that when we focus on what we can control and execute, we win. We're seeing that internationally, and I'm confident that we're taking the right steps to get value and affordability right in the U.S.

Time and again, McDonald's has demonstrated its ability to remain agile to meet the moment by focusing on what we do best, delivering great food, exceptional value and memorable experiences. With the dedication of our franchisees, the passion of our crew and the power of our global scale, McDonald's is uniquely positioned to lead the industry we help define today and into the future. With that, we'll take your questions.

Question-and-Answer Session

Operator

[Operator Instructions]

Dexter P. Congbalay

Our first question today is from David Palmer from Evercore.

David Sterling Palmer

It sounds like you're still exploring ways to bolster value perception in the U.S. ahead of anything there. Could you just speak to where you think McDonald's value and affordability scores are today in the U.S., perhaps before and after Snack Wrap in your recent McValue menu changes, where is the consumer perception today versus McDonald's in the past and versus nearing competitors and maybe even fast casual competitors. And if there's a difference between the U.S. perception in terms of value versus other key IOM markets, would love to hear about that as well.

Christopher J. Kempczinski

David, it's Chris. Thanks for the question. I think when we talk about value, it's important that we really break it down and get very specific about the different consumer segments. And I'll start with our most loyal consumers. And these are the ones who are on our loyalty program.

Roughly 1/4 of our business in the U.S. is on our loyalty program. And what we see is, if you are a loyalty member at McDonald's, we have exceptional value and affordability scores amongst those consumers. And probably that's most evidenced by what I shared in the prepared remarks, which is the uptick that you see in terms of frequency when we have a loyal consumer in our loyalty program going from roughly 10 visits to 26 visits. So I think with our loyalty members, our most ardent McDonald's customers, we're in a really good position as it relates to value and affordability perception.

If you move then to the McValue program, McValue is working. And if you think about what we have with McValue, we have the \$5 Meal Deal, which is the anchor for that. That continues to perform very well for us. And then we also have the Buy One, Add One for \$1 program. What's interesting is those 2 programs are very complementary. If you look at consumers who are using both, it's only about 8% or so. We're actually using both. So they're going after 2 very different occasions, 2 very different users, but compelling to both.

So I feel good about the loyalty program. I feel good about where we are with McValue, but the issue where the opportunity is if you add those 2 up, that's, call it, roughly 50% of the business. And we know there is the other 50% that today isn't coming into a restaurant isn't using McValue, isn't using the loyalty program, and that's where we have the opportunity, which is around core menu pricing that we talked about in our prepared remarks.

Today, too often, if you're that consumer, you're driving up to the restaurant and you're seeing combo meals could be priced over \$10, and that absolutely is shaping value perceptions and is shaping value perceptions in a negative way. So we've got to get that fixed. As I mentioned in my remarks, we're having, I think, very active and productive conversations with the franchisees. But the single biggest driver of what shapes a consumer's overall perception of McDonald's value is the menu board. And it's when they drive up to the restaurant and they see the menu board that's what's shaping -- that's the #1 driver. So we've got more work to do on that in the U.S.

I'd say on the IOM side of the business, we're in a better position on that. Part of it is, as I mentioned in the remarks as well, we have a really strong EDAP program in all of our markets. So these are essentially \$1, \$2, \$3, \$4, euro, pound, whatever the currency is. But that is proving to be a very strong addition to the value programs in the IOM market. And then also, as I mentioned, our operators there have been very prudent and I think are doing the right things to make sure that our core menu pricing continues to be at leadership levels in the market.

I would just note also on our international side, it's not as competitive a market as it is in the U.S. There's a lot of different players in the U.S. We don't face the same breadth of those players or competitors in our international markets. And so I think it's a little bit easier for us to stand out and represent good value in international.

So Ian, I don't know if you have anything to add. He's shaking his head, no. So we'll go to the next question.

Dexter P. Congbalay

Our next question is from Dennis Geiger.

Dennis Geiger

I wanted to ask a little bit more about the U.S. and what sounds like encouraging momentum into the third quarter given the positive response to Snack Wraps. Can you talk a little more about how you think about the U.S. sales trajectory and underlying momentum over the coming quarters given the exciting value menu and marketing news that you mentioned on the way, but also relative to the challenged industry traffic trends that you noted?

Ian Frederick Borden

Dennis, it's Ian. Yes, let me start that, and Chris will certainly weigh in and add some texture at the end. Look, I think as you said, the industry environment certainly remains challenging. I think we saw overall QSR traffic in Q2 negative, which is consistent with what we saw in Q1. I think Chris certainly touched on a little bit the consumer. But if you think just about the consumer environment, I mean, we've got lower income consumers that remain under pressure, their visits to QSR were down double-digit again in Q2.

I think the middle-income consumer was marginally positive in visits in Q2, so a little bit better than Q1 and then we've got the kind of higher income consumer who continues to kind of grow visits, I think, positively and consistently. So I think that is what we touched on upfront. You've got a bit of this kind of bifurcated consumer environment. And I think we expect those kind of dynamics and headwinds to kind of continue through the rest of the year. I think what we do feel good about is just kind of what is within our control. And I think as we talked about upfront, we feel very confident about the lineup of kind of marketing and menu activities that we've got planned in the U.S. business for the rest of the year.

I think if you start a little bit with kind of Q2 and just the dynamics of what took place, as you'll remember, we had a really strong activation to start Q2, which was the global Minecraft activation. We ran out early but generated some really strong momentum. But I would say we saw sales moderate through Q2 as I think those headwinds kind of persisted. And I think if you think of what we talked about at the beginning of the year, we said upfront at the beginning of the year that we thought the back half of the year would be stronger than the front half of the year. I think that remains our belief.

And then I think if you look at a little bit more texture, we certainly believe Q4 will be stronger in the U.S. business than Q3 simply because we've got that lapping of the food safety event that we worked through in Q4 last year. And I think if the dynamic maybe just to have as context in Q3 is we'll be lapping the start of the \$5 Meal, which as Chris touched on earlier, was a really strong and probably kind of our first significant incremental effort on value and affordability in the U.S. business that worked really well. So those are a bit of dynamics.

I think the headline would be we certainly feel confident about what's in our control. We've got some opportunity, as Chris touched on, that we're working towards to kind of address that value, broader value and affordability. But I think the kind of the consumer headwinds are -- we certainly expect to persist through the remainder of the year.

Dexter P. Congbalay

Our next question is from David Tarantino.

David E. Tarantino

I was hoping you could unpack the key drivers for the IOM segment this past quarter. And in particular, I guess, what drove the strength? And do you think that this is more structural in nature and something that can be sustained as you look forward? Or were

there some maybe just successes on the promotion side that might have helped the most recent quarter? Anything you can offer there would be helpful.

Ian Frederick Borden

David, let me start, and then I'm sure Chris will weigh in here. Look, I mean, I think -- we've talked, as you know, very consistently about this. I think we've done a lot of work over the last 12 to 18 months in IOM to really get what I'll call the solid foundational elements of value and affordability in place, which is that EDAP or everyday affordable price kind of platform with those choices of entry-level items in place. We've got that now in place in every one of our large international markets plus the entry-level value meals.

So it's that foundation on value and affordability. And I would say we've seen meaningful improvements in our value and affordability scores across all of those key large IOM markets. So we know that what we've done on value and affordability is resonating in this kind of challenging environment in most of those markets. And then it's -- when we kind of get that foundation in place and which is helping us, I think, to drive some stronger fundamental momentum and pair that with the great menu in marketing execution. And I think we saw in Q2 some really strong execution on menu and marketing across our key IOM markets, obviously, the quarter started, as we've talked about already with that Minecraft activation, which was successful in all of our key markets.

And then we had some really strong other activities, the Chicken Big Mac in Germany, which kind of set records from a promotional standpoint in the German marketplace. We had the launch of Big Arch in both France and the U.K. in the quarter. And then in Australia, as an example, we had this Hot Honey Chicken activation as well as the introduction of McWings, which is exceeding our expectations.

So to me, it's those 3 fundamental pillars of our Accelerating the Arches strategy that have come together supported by getting that foundation strongly in place on value and affordability, which is really meeting consumers where they are and I think a continued challenging external environment.

Christopher J. Kempczinski

Yes, I would just add a couple of things. I think Ian touched on this, but we talked about value, menu innovation and marketing. And in this environment, you got to go 3 for 3. If you go 1 for 3, if you go 2 for 3, you're not going to be putting up the kind of performance that I think we would all aspire to in terms of being able to really have outsized share gains. And so credit to our international teams that they're going 3 for 3 right now. And of course, it's on us to continue to execute and make sure that we're doing it.

The other thing I would just note is we've had significant inflation in our international markets, particularly in Europe. Beef prices, you've probably seen some of the headlines here, but beef prices are up by 20% in Europe, for a number of different reasons, but primarily it's a supply issue. And in the face of what in most markets is high single-digit inflation, our franchisees are being disciplined on pricing. The pricing taken is low single digits. So I think our franchisees recognize that even in the face of continuing high inflation on inputs, continuing inflation around labor, being disciplined and making sure that we're leading on value and affordability is the foundation for what we're seeing in our international business.

Ian Frederick Borden

And maybe just one final look, David, I just -- because I think it's always so important because it's the essence of what we do. I mean our operational execution metrics continue to improve. And I think the result from that and from the work we've done on value and affordability is that our overall customer satisfaction scores continue to improve across all of those key markets as well. So I think we're doing all these things, and we're delivering a better execution for the customer, which is obviously really important when customers, I think, are being more discerning about their choices.

Dexter P. Congbalay

Our next question is with Brian Harbour.

Brian James Harbour

I guess just, Chris, you talked a lot about some of the technology initiatives and stuff like that. And I know it's early days on some of those, but how should we sort of gauge the success of those? I mean are you already seeing some cost benefits, for example, on the corporate side? Do you think that those are driving sales in some markets? Or do you think that, that will be the case as you deploy them? How should we think about the success of those?

Christopher J. Kempczinski

Sure. Well, thanks for the question. I'll kind of address each of the 3 platforms that we've talked about from a tech standpoint and talk about the benefits that we are seeing and then the benefits that we anticipate seeing. On the consumer platform, we've talked about our goal, our aspiration is to get to that 250 million 90-day active loyalty members. I think we're making really good progress on that. As I've noted a couple of times now, we're seeing that, that loyalty program drives significant increases in frequency, which at the end of the day, when 80% to 90% of the population comes to McDonald's, our opportunity is always around frequency. And so getting more and more consumers to be in our loyalty program, that's how we're going to drive this business because it's going to be frequency- led growth. So I feel good about that, and we've got a whole pipeline of enhancements that we're going to continue to make on the consumer side in the years ahead that I think are only going to deepen consumers' experience and relationship with McDonald's.

On the restaurant side, I'd say we're still early days on this. And we talked about having ready on arrival. We're seeing significant speed of service improvements. We're seeing that increased customer satisfaction. We're seeing that, that makes the job easier for crew. So we're starting to see benefits attached to that. But some of the other bigger ideas that we're working on, things like automated order taking, things like having Internet of Things so that our shift managers actually know when equipment is in need of service before it actually goes down, things like what we're calling Boost, which is essentially this shift manager AI-enabled capability.

All those things are still very early days for us. Those are going to roll out over the next couple of years. And as that happens, I think you're going to see kind of this 1 plus 1 equals 3 benefit, which is it's going to improve the restaurant experience for the customer. It's going to improve the restaurant experience for the crew person, and it needs to be able to deliver cost savings, productivity to the franchisee to ultimately enable the investment that goes behind these things.

Lastly, on the company side, we've talked about -- we've rolled out our finance system. We've rolled out our HR system. We've set up a global business center in India. We have one that's also up and running in Mexico. That's going to give us better capabilities. It's going to mean that we can move faster. And yes, ultimately, it's going to deliver cost savings that's going to ultimately show up in our G&A line as a percent of system-wide sales.

So all of those things are coming to fore. I'd say we're probably most advanced on the consumer side. I think you're going to see the restaurant and company platform benefits emerge over the next couple of years.

Ian Frederick Borden

Maybe just a couple of builds to what Chris said, just maybe as reminders because I think as we laid these out, if you remember in the investor event at the end of '23, what we talked about is these would be tech-enabled platforms, as Chris has touched on, which means getting -- moving away because we've been a very decentralized business as we've grown over history. And so we've become very disaggregated. It's about how do we move from common platforms, standard infrastructure that allows us to scale innovation at speed, get the benefits of our size and scale, as I've talked about previously, starting to come to their full advantage because we can start leveraging scale to drive efficiency.

And I think just a reminder on, I think as we've talked about before, '25 and '26 and frankly, into the beginning of '27, I'll call the investment years or significant investment years to kind of build the platforms, to build the capability. I think it's really as we get beyond that investment period, we'll start to see more of the kind of efficiency benefits. And certainly, we can talk more at that point about how those are going to come to life.

Dexter P. Congbalay

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

Sara Harkavy Senatore

Actually, 2 quick clarifying questions. The first is, I think last quarter, you had said that the middle-income consumer was seeing declines similar to the low income. Does that persist? I'm just trying to understand if you're still seeing maybe a broader weakness.

And then on the loyalty, maybe you can help reconcile the sort of going from 10.5x to 26x is more than doubling transactions. And yet, I suspect it looks like your transactions in the U.S. were down kind of low single digits. Maybe it's just the loyalty membership. Is it big enough yet? I know you combined it with \$5 Meals and said that was 50% or maybe it's just the over-indexing to other lower income consumers is offsetting that. But I wanted to sort of think about how loyalty because it's such a huge lift could drive going forward if you expand that loyalty program. So 2 questions there.

Christopher J. Kempczinski

Sara, it's Chris. Very quickly, the middle income has improved in Q2 versus Q1. So we're seeing that, that's gone to slightly positive in Q2. And then on your question around loyalty, the short answer is it's just not big enough. It's not at the size yet. And at the same time, we're seeing -- like Ian mentioned, we're seeing high -- we're seeing double-digit declines with that low-income consumer, and we and the industry over-index to that low-income consumer. So I think for us, that's why we're so focused on driving our 90-day actives and increasing that number because as you get more and more consumers into that, you're going to see the frequency benefits.

And today, as I mentioned in the U.S., it's roughly around 1/4 of our consumers are in the loyalty program. But when we look to markets like China, when you can get the number to 90% or something along those lines, that's when you would see some really significant benefits attached to that. So that's the aspiration, but I think it's right now, it's just a little bit early to be able to see the benefits, the full benefits that you're asking about.

Dexter P. Congbalay

Our next question is from John Ivankoe from JPMorgan.

John William Ivankoe

The industry has been talking about weakness in the consumer base and lower income consumer base really since at least the second half of 2023. So it's been quite some time. So I'm really hoping for some diagnostics, I guess, at this point in terms of why that's happening. If I were to take a step back and look at your compression of pricing versus grocery, year-on-year total employment, gas prices, some of the normal pressures that would be affecting quick service traffic, quite frankly, don't exist, I mean, at least from a macro perspective. So can you explain, I guess, what's happening in the U.S.? And is U.S. potentially a leading indicator for other major markets? Or might other major markets in some ways be a leading indicator for the U.S?

Christopher J. Kempczinski

Well, I think if I had an easy quick answer to that, I'd probably be working in the government because I think that is a big question for all of us to try to unpack. But I would just note a few things. With the low-income consumer, despite improvements in wage gains, real incomes are down. So real incomes are down with the low-income consumer, that absolutely is going to put pressure on visits into the QSR industry. Second thing is there is a lot of anxiety and unease with that low-income consumer. I think we could all speculate the reasons for that, probably tariffs and the impact that, that might have, questions around employment situation. But it's clear from the data that there's also beside real incomes being down, that sentiment is being is down.

And the result of that is you're seeing people either skip occasions, so they're skipping a daypart like breakfast or they're trading down either within our menu or they're trading down to eating at home. So those would be sort of my simple kind of read on what's going on. But I'd say that's as much conjecture as it is being able to point to specific things. It's a big question for the industry.

Ian Frederick Borden

And I think the only hook to Chris' comments, John, would just be -- I mean, internationally, I think we're seeing pretty similar dynamics. I think maybe the additional point that we've talked about previously in international is we see families under pressure, families just because they have obviously a larger kind of population within their family to kind of serve. I think they're also very value conscious and I think under pressure for similar reasons to what Chris articulated.

I think the only difference internationally, as Chris talked about a little bit earlier, is probably we have less competitive pressure. So we are the clear choice and I think are still winning because of what we've done with value and affordability. But as we've talked about a lot, we've got to work even harder to make sure we're attractive for all consumers, including the lower income consumer.

Dexter P. Congbalay

Our next question is with Jon Tower from Citi.

Jon Michael Tower

Great. Maybe a clarification and then a question. First, on the G&A spend for the balance of the year, I think based on where it's trending year-to-date, it implies effectively a nice uptick in spend in the back half relative to system sales. So maybe you can clarify what's going on there. And then secondly, just curious, Chris, you hit on the idea that beverage is a fairly large opportunity. You're investing a lot of time and energy and testing it right now.

Curious how you see that hitting on the menu going forward, assuming much of it runs through the test well. Is this something that's going to be core to that value platform, specifically that everyday either McValue platform or Meal Deal platform? Or do you see it kind of playing well across the premium and the everyday value platforms in the U.S?

Ian Frederick Borden

Jon, let me just get the G&A clarification out of the way, and then I'll let Chris touch on your question around beverages. I mean I think the kind of natural cycle of G&A spend is back-half weighted and frankly, generally fourth quarter weighted. I think it's just the reality of a lot of the projects kind of take time to get up to full speed. And I think as you've heard us talk a lot about -- we've got a lot of activity in regards to areas like transformation and some of the work we're driving in tech and digital. And just that, I think, is kind of the spending pattern that we anticipate this year, which is pretty typical, but probably a little bit more kind of back half weighted this year than maybe what we've seen in prior years.

Christopher J. Kempczinski

On beverages, I would just say, obviously, what we've talked about in the past is just the big opportunity that we see in beverages. It's a really large market opportunity. It's growing and it's more profitable than food. So there's a lot of things to like, which is why us as well as, I think, a few of our competitors are also excited about this. What we learned through the CosMc's test that we've talked about previously is it's not nearly as complicated as we thought. Because what we discovered is actually the consumer isn't looking to design the beverage from sort of a blank slate, they actually want to be given a recipe and then they just want to make adjustments around the edges on that. And so what we've got with our beverage test that we're doing now is we're bringing a much more expanded lineup of beverage offerings into the market to see what resonates with customers.

I think on your question on value, certainly, there's always going to be parts of the beverage opportunity where we'll have on the value menu. As you've known from the past, coffee has been a great way for us to drive traffic. They've done \$1 coffee in Canada for a long period of time. I imagine you're going to continue to see that there will be some beverages that continue to live on the value menu. But I think the bigger opportunity for us is you can actually get a lot of full margin products from these beverage offerings.

And so that's what we're getting after. I think that's why we're excited in the franchisees because you're not going to have to discount all of these. Now there's actually, for us, a benefit because a lot of these are priced with some of our competitors gives us an area to come underneath that. But relative to what we do from a value menu standpoint, we're not going to have to go all the way to putting everything on the value menu.

Dexter P. Congbalay

Our next question is from Lauren Silberman of Deutsche Bank.

Lauren Danielle Silberman

I wanted to follow up on the menu architecture. It seems like it's been a bit more difficult perhaps in recent years to get franchisees to coalesce around national price points given some of the differences in costs across markets and reading into some of your commentary regarding your current efforts on the core menu. I guess what can actually be done to solve some of those challenges? Is it more about adding items with entry-level price points like Snack Wraps, more national price points? Anything more you can share there would be helpful.

Christopher J. Kempczinski

Sure. Well, there's been pricing -- there's been inflation pressure in the U.S. There's been inflation pressure, as I've mentioned, in IOM. That certainly has added pressure on the franchisee P&L to be able to take pricing to offset that. And then that also then disrupts the value programs that were in place, which has led to all the effort that we've done over the last 18 months to get that fixed. I think there still is absolutely a need and a benefit for having nationally advertised price points.

And we know that when you have a nationally advertised price point, it drives significantly more incrementality than if everybody is off sort of doing their own pricing, which is why something like what we're doing with the Snack Wrap, the \$2.99, the fact that the franchisees have endorsed that for the balance of the year to stay at that price point. I think we have good alignment with the franchisees on the need and the power of doing nationally advertised price points.

At the same time, the wage rates that exist across the U.S. are quite varied. And so we need to respect that and work with the franchisees on how do we solve for that in a way that works for everybody's P&L. It's not easy, but I think we've shown the ability with whether it's the \$5 Meal Deal, the \$2.99 that we can come together and do it. But all of these things take a lot of conversations and collaboration with the franchisees.

Dexter P. Congbalay

Our next question is with Christine Cho from Goldman Sachs.

Hyun Jin Cho

You've reiterated your plans to open 2,200 stores this year on track to growing stores around 4%. But are there any factors that you're closely watching that could impact the development pipeline for 2026 and beyond? Any shift in margin dynamics or store economics your franchisees are seeing that could change the demand for opening new stores?

Ian Frederick Borden

Christine, let me take that. Well, look, I think we're -- as we talked about in our upfront remarks, we're really confident about delivering the 2,200 gross openings for this year. And I think we've got a really strong and robust pipeline. As you know, we are in the process of kind of accelerating our pace of development. We'll get to basically about 1,000 gross openings a year in our owned markets by 2027, that commitment that we made at the end of '23 to get to 50,000 restaurants. I mean at the end of the day, we make our decision based on the returns that we generate.

Obviously, we want to make sure we have a really strong starting point. So we closely watch kind of the first year performance. But ultimately, what we're also looking for is what do we expect the longer-term return to be for those locations. I think as I've touched on previously, we continue to see solid starting points for new restaurants. We continue to see returns that are kind of in line with our expectations. I think, obviously, any time you accelerate, there's always the potential risk that you can have some slippage in the quality. So we're monitoring that very, very closely.

And it goes back, I think as we've talked about before to, I think the volume and the solidity of the work that we did leading up to kind of making that commitment at our Investor Day in 2023 and really getting granular on the opportunity and really precise on where those kind of open trading areas were, which is what our pipeline is addressing. So of course, we're going to continue to monitor that. Of course, we're going to continue to make sure the quality is delivering. But again, I think we feel really confident about where we are and on pace to kind of deliver to what we've kind of laid out.

Christopher J. Kempczinski

And the only thing I would add on that, when we were all together with our leadership, our market leadership in late June, we looked at pipelines for the next few years, and our pipelines are in really good shape. I feel very good about that. And I'd say when you're doing development, the first year or 2 is maybe a little bit more challenged because it takes a while to get the pipeline filled. But as we look now to the out years, we're in great shape on our pipeline.

Dexter P. Congbalay

Our next question is from Andrew Charles at TD Cowen.

Andrew Michael Charles

Chris, with the upcoming specialty beverage test in the U.S., what are you monitoring for to decide if this is something you're looking to expand further? And if you could also just touch on the time line, if this is something that is that you're finding to be successful, could you see the pilot expand into more stores beyond the initial 500 later in 2025?

Christopher J. Kempczinski

Sure. Thanks for the question. Well, I'd say with any test, we're looking for the consumer reaction, and we're looking for the uptake on buying these products and then also understanding how that works with the rest of the menu. Is it an add-on, sort of to get a full read on this. I think as we've talked about, we feel good about the operational elements of this and the test that we have in place, we think operationally is going to be sound. But ultimately, it's going to be able to then give us the confidence about the scale of the opportunity and how aggressively and how quickly we go after it. So in my mind, I don't see us going from 500 restaurants to 1,000 to -- I mean, this is 500 restaurants to then when are we going full market potential.

Dexter P. Congbalay

Our next question is from Danilo Gargiulo from Bernstein.

Danilo Gargiulo

I wanted to double-click on the comment that you were making earlier, Chris, on consumers being more discerning with their dollars also in the breakfast daypart, perhaps consuming coffee at home a little bit more. So I'm wondering if you can share what is the breakfast mix today? And how does it compare versus the pre-COVID? And then the real question is, how are you strengthening your foundations in the daypart? And how much does that depend on your kind of results on the new beverage lineup versus strengthening the value for consumers?

Christopher J. Kempczinski

Yes. Thanks for the question. Well, as you note, and I would agree the breakfast daypart is the most economically sensitive daypart because it's the easiest daypart for a stressed consumer to either skip breakfast or choose to eat breakfast at home. And we as well as the rest of the industry are seeing that the breakfast daypart is absolutely the weakest daypart in the day. So I think that's confirmation of the economic stress that we've talked about, the weakness overall in the industry in the breakfast daypart.

That said, I think this is still an area for us where if you've got the right value programs in place, you can drive and get that consumer to come into your restaurant. And so the U.S. earlier in the year, as you know, started going back and advertising breakfast nationally, which is something that we haven't done for a period of time. There's also conversations around what more we might be able to do with breakfast value. So for us, breakfast is still a big part of the business. It's one that we think we have a right to win in, but it's one that right now is under pressure because of the economic issues that I've cited, and there's work underway to figure out what else we need to do to restimulate growth there.

Dexter P. Congbalay

Next question is from Jeff Bernstein over at Barclays.

Jeffrey Andrew Bernstein

Great. Chris, franchise sentiment seems like it's critical as they're key to so many of these initiatives. No doubt, I assume their health and volumes and profits are still industry-leading, but perhaps down year-over-year. So I'm just wondering, as you mentioned, you're working closely with them to improve the menu offering, the value of the core. How would you describe those discussions with franchisees especially around value in the U.S. and unit growth outside of the U.S.? It does seem like you're focused on accelerating those growth components and the partnership with franchisees is critical. So I'm just wondering how those relationships are going relative to past quarters or years?

Christopher J. Kempczinski

Sure. Well, as you know, I mean, the relationship and our partnership with our franchisee partners is everything because ultimately, what gets executed in the restaurant is what's going to drive the business. It's tough to always generalize with the franchisees. We have 5,000 franchisees around the world. It's almost a country-by-country conversation.

But I'd say broadly, with our franchisees, the same unease that we've talked about with the consumer exists with the franchisees. And there's sort of 2 sides of the same coin. The more the consumer is concerned, the more our franchisees are concerned. At the same time, our franchisees are seeing this cost inflation most pronounced in Europe, but there's continuing costs and particularly labor inflation in the U.S. So all of that, I'd say, creates unease, let's just say, with franchisees on these things.

You asked about development. I think that's another -- it depends on the market really. But I think in some places where the consumer is perhaps decreasing visits to the industry, it does raise a question around what is the appropriate development pace in that market if traffic is declining. What we talk about in all of this is that McDonald's success has been winning on value and affordability. And that if we're winning on value and affordability with our brand, with our menu innovation, we're absolutely going to be able to take share. And in taking share, you're going to be able to grow cash flow. And so I think that's the conversation we're having with franchisees right now, which is cash flow growth is within our control if we execute the playbook.

On the unit development side, a lot of where we're doing unit development is where we don't have penetration. So the impacts are maybe not as significant as sometimes our franchisees are concerned or worried about. And at this point, we're not having any difficulty finding franchisees, and I'm talking globally, we're not having difficulty finding franchisees who are willing to take on these restaurants. So to me, that ultimately is showing their underlying confidence in our unit development plans.

Dexter P. Congbalay

Thanks, everyone, for joining us today. If you have any follow-up questions, please shoot me an e-mail, and then we can schedule a call for some time today or in the coming days. Again, thank you, and have a good day.

Operator

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

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