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McDonald's Corporation (MCD) Q3 2025 Earnings Call Transcript

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Q3: 2025-11-05 Earnings Summary

Insights



EPS of \$3.22 **misses by \$0.11** | Revenue of \$7.08B (2.98% Y/Y) **misses by \$11.48M**

McDonald's Corporation ([MCD](#)) Q3 2025 Earnings Call November 5, 2025 8:30 AM EST

Company Participants

Dexter Congbalay - Vice President of Investor Relations

Christopher Kempczinski - Chairman President, & CEO

Ian Borden - Executive VP & Global CFO

Conference Call Participants

David Palmer - Evercore ISI Institutional Equities, Research Division

David Tarantino - Robert W. Baird & Co. Incorporated, Research Division

Dennis Geiger - UBS Investment Bank, Research Division

Gregory Francfort - Guggenheim Securities, LLC, Research Division

Sara Senatore - BofA Securities, Research Division

John Ivankoe - JPMorgan Chase & Co, Research Division

Brian Bittner - Oppenheimer & Co. Inc., Research Division

Brian Harbour - Morgan Stanley, Research Division

Lauren Silberman - Deutsche Bank AG, Research Division

Jeffrey Bernstein - Barclays Bank PLC, Research Division

Andrew Barish - Jefferies LLC, Research Division

Jon Tower - Citigroup Inc., Research Division

Andrew Charles - TD Cowen, Research Division

Presentation

Operator

Hello, and welcome to McDonald's Third 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 Congbalay

Vice President of Investor Relations

Good morning, everyone, and thank you for joining us. With me 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. Please limit yourself to 1 question and then reenter the queue for any additional questions. Today's conference call is being webcast and is also being recorded for replay via our website.

And now I'll turn it over to Chris.

Christopher Kempczinski*Chairman President, & CEO*

Good morning, everyone, and thank you for joining us. In the third quarter, McDonald's delivered global comparable sales growth of more than 3.5%, with growth across all segments. In addition, for the second quarter in a row, McDonald's delivered global system-wide sales growth of more than 6% in constant currency, reflective of the increasing contribution from new unit openings.

Our performance is anchored in our Accelerating the Arches business strategy and exceptional execution to provide the value our customers want for the food they love. Our combination of great tasting menu innovation, exciting marketing and reliable value and affordability succeeded in a highly challenged consumer environment and drove traffic share gains in a majority of our top markets.

In the U.S., we continue to see a bifurcated consumer base with QSR traffic from lower income consumers declining nearly double digits in the third quarter, a trend that's persisted for nearly 2 years. In contrast, QSR traffic growth among higher income consumers remained strong, increasing nearly double digits in the quarter.

We continue to remain cautious about the health of the consumer in the U.S. and our top international markets and believe the pressures will continue well into 2026. Delivering industry-leading value is part of McDonald's DNA. It's a foundational expectation of our brand to bring consumers through our doors and keep them coming back. And especially in today's difficult macro environment, it's more important than ever.

On our last earnings call, I previewed the close collaboration with our U.S. franchisees to improve consumers' value perceptions of our core menu offerings. We heard our customers loud and clear on the need to deliver everyday value and affordability across their favorite items on our menu board.

In September, we introduced Extra Value Meals or EVMs with a nationally advertised \$5 Sausage McMuffin with Egg meal and an \$8 Big Mac meal. And for the month of November, we're back with a \$5 Sausage Egg and Cheese McGriddles meal and an \$8 10-piece Chicken McNuggets meal.

As we've said before, we will measure success of our EVM program in 2 ways: first, by gaining share of lower income consumer traffic and second, by improving value and affordability experience scores. I'm pleased with how our EVM program is performing since relaunch. We're still in the early stages of the program and expect that the associated comp sales lift and traffic improvements will continue to build as awareness of the program increases over the coming quarters.

Outside the U.S., our performance has remained strong with our large markets continuing to execute disciplined value, menu and marketing programs. The value platforms we've had in place for several quarters in our IOM markets are resonating with our customers and continuing to improve value and affordability scores. While these programs are working, we're remaining agile and will evolve them along with the needs of our customers.

In Australia, for example, we locked in pricing on our McSmart meal and Loose Change Menu value offerings for 12 months beginning in July, giving customers confidence and consistency in a volatile economic environment while helping us maintain relevant, drive traffic and gain share.

Time and again, we've proven that when we execute well, we outperform. And that has also been the case in Japan, where we've had market share gains for 6 quarters amid consistently strong performance. Just a couple of weeks ago, I visited our restaurants in Tokyo and my first-hand experience confirmed the momentum supported by strong local marketing and innovation. This included several exciting Happy Meal campaigns that drove significant traffic and social engagement, highlighting the power of local relevance and the strength of our brand in connecting with consumers.

Along with both value and marketing execution, our new category structure is laying the groundwork to deliver more menu innovation to support long-term growth. We've stood up dedicated teams with deep expertise and focused attention on the high potential growth categories of chicken, beverages and beef. At the outset, we promised increased speed of innovation and scale, and we're already introducing new solutions into the system.

Let's begin with beverages, a global category of more than \$100 billion that's growing much faster than the broader IEO industry. In the U.S., we launched a beverage test in more than 500 restaurants across Colorado and Wisconsin at the beginning of September. The product mix includes cold coffees, fruity refreshers, crafted sodas and energy-based drinks. Initial results are exceeding expectations with strong satisfaction scores across the board and the new beverage offerings are driving incremental occasions across different dayparts as well as higher average check. We're excited to see progress continue with the test as we deepen our understanding, drive innovation and evaluate how these offerings could enhance our long-term beverage strategy in the U.S. and abroad.

Turning to chicken, a global category that is 2x the size of beef and faster growing. We're driving good progress on our chicken offerings and continued to gain share in our top 10 markets in the quarter. In the U.S., we brought back Snack Wraps in early July, much to the delight of our most vocal fans at a nationally advertised price point of \$2.99. The strong customer reception to this highly anticipated launch highlights the importance of pairing the right product with the right value proposition.

In our IOM markets, innovation standouts like the Chicken Big Mac in the U.K. and McWings in Australia exceeded expectations in the quarter and we'll continue to go after the broader chicken opportunity by expanding our portfolio and pulsing in limited time offers to meet evolving consumer tastes. Investing in these high-growth categories to align with consumer trends reinforces our broader strategy to drive guest count-led growth, win in taste and quality and outperform competitors over the long-term.

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

Ian Borden

Executive VP & Global CFO

Thanks, Chris, and good morning, everyone. As Chris mentioned, McDonald's continues to deliver solid results by focusing on what we can control: value, menu innovation and outstanding marketing execution while also driving consistent operational improvements across nearly all of our top markets.

In the third quarter, global comparable sales increased 3.6% despite a challenging consumer environment and a difficult QSR industry backdrop. In the U.S., comp sales increased 2.4% for the quarter and we delivered another quarter of positive comp sales and guest count gaps to our near-end competitors.

We started Q3 with the national launch of Snack Wraps and the initial 4-week window exceeded our expectations. Snack Wraps were the most popular new chicken product launch in the U.S. in recent history, with nearly 1 in 5 McDonald's customers purchasing a Snack Wrap during that period. Although easing somewhat after the exceptional initial launch period, Snack Wraps continued to deliver strong unit performance throughout the quarter, helping us gain share in the U.S. chicken category and drive high levels of customer satisfaction.

We're also continuing to see positive results from the McValue platform as we continue to evolve our value offerings. In mid-July, we introduced the Daily Double, a third meal deal as a companion to the McChicken and the McDougle meal deals. Overall, our McValue platform continues to serve distinct needs with little overlap of customers across the meal deal and Buy One, Add One constructs, both of which continue to drive incrementality to the business in the quarter. And as Chris described, in early September, we brought extra value meals back to the menu to ensure fans can find everyday affordable pricing across our menu boards.

Getting the EVM formula right is important because they account for about 30% of our total transactions in the U.S. And so far, results have been in line with our expectations as we build consumer awareness and drive behavior changes. While not a benefit to our third quarter results, in October, we reintroduced MONOPOLY in the U.S. for the first time in nearly a decade, and we're pleased with the performance.

This year's campaign includes digital engagement through our app, similar to what we've done successfully in international markets. MONOPOLY is one of the biggest digital customer acquisition events we've ever had driving downloads and registrations and reinforcing the role of digital in our broader strategy. With about 45 million 90-day active users in the U.S., we're excited about how MONOPOLY is helping more customers discover our strong value offerings available through our app.

Turning to our internationally operated market segment. Comp sales were up 4.3%, marking consecutive quarters of growth above 4% despite a challenged industry backdrop. Just like last quarter, each IOM market delivered positive comp sales growth, led by strong performances in Germany and Australia.

In Germany, we delivered our strongest comp sales results in 2 years, extending the trend of market share gains to nearly 4 years despite persistent industry traffic declines, McDonald's Germany has consistently outperformed driven by disciplined execution of our value menu and marketing playbook.

A standout in the quarter was the Taste of the World campaign, which showcased the global strength of the McDonald's brand by offering customers a curated selection of international menu favorites at their local German McDonald's restaurant. Taste of the World exceeded expectations and was complemented by an optimized mailer and strong local marketing, demonstrating our ability to deliver value and innovation simultaneously. In addition, it provided a campaign blueprint, which we plan to replicate across more international markets in 2026 and which is currently live in the U.K.

In Australia, we're encouraged by the momentum that the new management team and our franchisees are building across the entire system as we've gained market share for a second straight quarter by executing a full suite of initiatives across value menu and marketing. And as Chris noted, we locked in value prices for 12 months starting in July, providing consumers with predictability and confidence. The launch of the Big Arch burger and breakfast McGriddles added excitement to the menu, while the return of MONOPOLY now fully digital and available exclusively through the MyMacca's app, drove increased app downloads and registrations and contributed to digital sales growth.

In our international developmental license markets, comp sales grew 4.7% led by Japan, which has delivered consistently positive guest count growth for nearly 2 years. In China, while near-term performance continues to reflect macroeconomic pressures, we remain confident in the long-term opportunity. We're investing in the future, including adding 1,000 new restaurants this year. We're also updating our Hamburger University in China, which we believe will support talent development and reinforce our commitment to the market. We have the right partner in place and remain confident in our ability to drive sustainable, profitable growth over time.

Turning to the P&L. Adjusted earnings per share was \$3.22 for the quarter, which includes a \$0.04 benefit from foreign currency translation. Adjusted earnings per share on a constant currency basis declined 1% versus the prior year primarily due to the impact of a higher effective tax rate, more than offsetting an increase in adjusted operating income. Total restaurant margin dollars were over \$4 billion, a 4% increase in constant currency and the first quarter in our history that we've surpassed the \$4 billion mark. This performance is a true reflection of the strength of our business model in a pressured consumer and inflationary environment.

G&A increased versus the prior year quarter, reflecting \$40 million of incremental marketing spend to support the relaunch of Extra Value Meals in the U.S., higher incentive-based compensation expense and the timing of investments in our strategic transformation efforts and growth opportunities. Our year-to-date adjusted operating margin is 47.2%, up meaningfully from the 46.7% in the prior year period, reflecting top line growth and strong execution across our system, including portfolio management. Below the operating line, our effective income tax rate for the quarter was 22.8%, we're projecting our full year effective tax rate to be between 21% and 22%, which is tightening the range from our previous estimate.

We currently estimate that the impact of foreign currency translation on adjusted earnings per share for the fourth quarter will be about a \$0.05 tailwind based on current exchange rates. As always, our estimate is directional guidance only as rates will likely change as the year progresses. We're on track to deliver our financial targets for the year, which include the expected impacts from tariffs currently in place, and remain focused on executing our Accelerating the Arches strategy to create long-term value for our stakeholders.

With respect to capital allocation, our priorities remain unchanged. First, we invest in opportunities to grow the business and drive strong returns. Second, we return remaining free cash flow to shareholders over time through dividends and share repurchases. In line with investing in the business, we believe our development pipeline is healthy, and we're on track to deliver our current year targets and our 50,000 restaurants globally by the end of 2027. Whether through new restaurant openings, digital innovation or menu enhancements, we're continuing to build a business that is positioned to win in any operating environment.

With respect to capital returns, in October, we announced a 5% increase in our dividend, which is our 49th consecutive year of dividend increases. That's a testament to the strength, resilience and long-term value that McDonald's delivers and expects to continue to deliver to our shareholders. Our ability to consistently return capital while investing in the business reflects the durability of our model and the confidence we have in our future.

With that, let me turn it back over to Chris.

Christopher Kempczinski
Chairman President, & CEO

Thanks, Ian. Each fall, McDonald's celebrates our Founder's Day with reflections on the pride and passion that fuel our system. It's a privilege to recognize the everyday actions of our crew members, franchisees and teams around the world. This year is particularly special given it's our 70th anniversary.

The resilience we've built across generations and geographies reminds us that our strength lies not just in our global scale, but in the local actions we take day in and day out to feed and foster communities everywhere McDonald's operates. Founder's Day is also a time to look ahead to the next chapter of innovation, growth and impact. From our digital transformation to our commitment to value and affordability, we are building on our legacy in ways that matter most to today's consumer, and we're doing it together as one McDonald's system.

As we look to close out the year, our focus remains on executing what we can control. We're committed to delivering for our customers, especially in the challenging environment we navigate today. As is often the case, Ray had great advice for the moment we face today when he said, "Adversity can strengthen you if you have the will to grind it out." That's exactly what we're doing.

With that, we'll take your questions.

Question-and-Answer Session

Operator

[Operator Instructions]

Dexter Congbalay

Vice President of Investor Relations

Our first question today is from David Palmer from Evercore.

David Palmer

Evercore ISI Institutional Equities, Research Division

Great. I wanted to ask you about the U.S. business and perhaps the twin goals of improving company restaurant profitability and your system restaurant profitability but also improving the value perception gap versus your competitors in the U.S. How can you achieve both? I see some big AUVs for you guys, bigger than your competitors, over \$4.5 million for your company restaurants and trailing restaurant margin is 11.5%. So I just could imagine higher margins than that and -- or perhaps even more of a value perception gap versus competitors. And I have a feeling you have some ideas about how you're going to grow that value perception gap and probably have your cake and eat it too and improve the restaurant margins over time as well. I'd love to hear about that.

Christopher Kempczinski

Chairman President, & CEO

Sure. Thanks, David. Well, I think the formula for us is pretty well-established over time, which is basically, if you do what you need to do to let your customers and serve them well, you're going to attract more people to the business, and ultimately, that's going to drive unit economics. And so I think for us, the focus is always on getting more people through the door, getting them to be buying larger items and ultimately, that drives AUVs that you were talking about. I don't think that related to that, that it's at all incompatible that improving value scores actually is also part of improving unit economics. And that's very much our focus right now. As we think about the full year, our U.S. franchisees cash flow is going to be solid. The cash flow performance is going to be solid. At the same time that we're making these investments that we talked about on our last call around EVM.

So I think for us, the test of time, just get more people through the door, get them buying more and everything seems to take care of itself.

Ian Borden

Executive VP & Global CFO

David, I just might add a bit to what Chris said. And obviously, what he said, we've talked about pretty consistently that we've got to get after guest count-led growth. And I think nothing certainly from my lens has changed in terms of over time if we keep driving more volume and more customers through our doors, which is obviously what we're always focused on. Nothing fundamentally has changed, I think, in our belief that we can drive margin accretion over time. I mean I think obviously, as you know well, a bit of the dynamic right now is inflation levels are still elevated from, I think, kind of what I would say are the historical norms. The pricing environment is challenging. And so I think in the short term, that continues put pressure on margins.

But again, I think we're focused on what do we need to do to meet the needs of our consumers in the environment, and we certainly believe value and affordability is right. And if we get that right, that will pay off both in the short and long-term, as Chris just talked about.

Dexter Congbalay

Vice President of Investor Relations

Our next question is from David Tarantino from Baird.

David Tarantino

Robert W. Baird & Co. Incorporated, Research Division

My question is on the value strategy in the U.S. And I believe, at least in the near-term, you're offering some support or co-investing in that strategy with your franchisees. And I was wondering, Ian, if you could kind of frame up what the level of that support looks like on an aggregate basis.

And then I guess, Chris, the second part of the question is franchisees at some point, will need to decide whether to continue this or not without your support, presumably. So just wondering what -- how you would frame up the thresholds and how the system is thinking about what success looks like from a financial perspective? Do they need to see the traffic growth covering the de facto price investments? Or are they more focused on the metrics you mentioned, which is the value scores, et cetera. So any thoughts around that would be helpful as well.

Ian Borden

Executive VP & Global CFO

David, it's Ian. Let me kick off, and then I know Chris will jump in and address the second part of your question. I think just from a support standpoint and maybe a bit of the framing, which I touched on in my opening remarks is you've heard Chris and I talk a fair bit about -- we felt really good about the value that we were offering both through the McValue platform and then through, I think, the digital value that is available to members of our loyalty program. And if you put those 2 kind of components or programs together, that addresses about 40% of our total sales in the U.S. business.

I think -- the purpose of the EVMs, as we talked about in September is really that 60% of the menu, which we would call kind of the everyday core part of our menu, the everyday core consumer. We felt we had an opportunity to strengthen value in that part of our mix and EVMs represent about half of that 60% or about 30% of our overall portfolio in the U.S. that was really important to address that, which was what we targeted with our EVM relaunch in September.

I think to kind of support, there's a few elements of support that we're providing. We've talked already about the \$40 million of incremental corporate marketing support we provided to support the relaunch of EVMs in September. As you will have seen already, we've got a rehit of that, that Chris talked about in his opening remarks in November. That's being funded through our normal advertising co-op in the U.S. that the franchisees contribute to. So there's no incremental support behind the November activity, but we are providing a co-investment from the launch in September through the end of 2025 at 50% of the kind of effective menu price reduction.

And I think before we relaunched EVMs, the average discount level across the U.S. business was about 11%. Obviously, what we've targeted now with our kind of 8 core EVM meals is a minimum discount level of 15%, and we're co-investing half of that reduction. That was about \$15 million in September of McDonald's support, and we only had about 3 weeks of activity, and we expect that support in Q4 to be about \$75 million.

The last piece is Q1 2026, where we are continuing to provide a level of support, but it is different support. That support is basically to address, again, I'll call it a co-investment or 50% of the net negative cash flow impact that's associated with kind of the EVM reintroduction. And that is net of any lift in EVM units in individual restaurants. And because the nature of that support is different, we expect that to be significantly less in Q1 than what we're providing in Q4 this year. And then at the end of Q1, all of our corporate support will stop.

And then with that, I'll turn it over to Chris to maybe kind of address part 2.

Christopher Kempczinski*Chairman President, & CEO*

Sure. Thanks, Ian. So on value, as you know, and as Ian just referenced, we put in place McValue now it's well over a year ago, and we feel very good about our McValue platform. But what we also talked about was that consumers' value perception, the #1 driver of consumers' value perception is actually what's going on in the menu board. It's not meal deals or offers, it's what's going on in the menu board. And we, along with our U.S. franchisees, recognize that we had an opportunity there. And that through kind of a number of things that had happened over time, we have gotten out of whack on EVMs, and that was having a drag on our value perception. And so we went to the U.S. franchisees with a path forward on how we're going to fix EVMs. And the good news is the vast, vast majority, and I'm talking like 98%, 99% of our franchisees recognize that we had an issue with EVMs that we needed to address.

And so the support that we came in with was to design to give them a pathway on how we can get this corrected but also protect on what was going to be, we knew in the short-term, a drag. I mean that's a challenge when you do some of the pricing actions that we're doing with EVM is in the short-term, it's going to be a drag until you can get the incrementality and then thereafter, it becomes more sustaining. So that's exactly what we did.

And what we expect is going to happen is that by the end of Q1, our system is going to be in position here where it's actually going to be a better decision to continue with the EVMs than it is to go back to where we were and create the problem all over again. So my expectation is that we're going to see the system continue with this EVM program because we've essentially bridge them through the most difficult part of this and any move backward would actually, I think, be self-defeating.

Ian Borden*Executive VP & Global CFO*

And maybe just a final hook to that, David. I just would say, I mean, again, when we put this in place in September, you heard us say this wasn't a short-term decision. This is going to take at least a couple of quarters, I think, to kind of get the momentum and the lift and the repetitive activity that you need. I would just say we're obviously still early days in, but we're pleased with the progress, and we're on track to what we would have expected at this point a few weeks post launch in September.

Dexter Congbalay*Vice President of Investor Relations*

Our next question is from Dennis Geiger at UBS.

Dennis Geiger*UBS Investment Bank, Research Division*

Great. Kudos on the solid sales momentum in the U.S. in the quarter in a tough backdrop. I was wondering if you could talk a little more about how you're thinking about the U.S. sales trajectory looking out over the coming quarters, given a bunch of the key sales drivers that you identified. And also kind of curious if you think sort of the underlying guest count baseline trends that you've kind of touched on in the past a bit, if you think that that's improving for the business or sort of if those underlying baseline trends are set to improve in '26, if you feel good about the direction of those baseline trends?

Christopher Kempczinski*Chairman President, & CEO*

Well, I'm not going to get into trouble with giving any forecast. So I'm going to let Ian handle that one.

Ian Borden*Executive VP & Global CFO*

Dennis, good question. Thanks. So let me touch on it, I'm sure Chris may want to weigh in here at the end and just build. But I think what we would say is we feel like we've had 2 kind of consistent consecutive quarters now of solid growth. And we certainly feel like we're developing good momentum across each of our 3 business segments. I think as we've talked a fair bit about by obviously focusing on what we feel we can control in a continued challenging external environment. And I think we would say we certainly still feel cautious about the consumer. And I think, I mean, you've heard from many others, obviously, the conditions still remain challenging in the U.S., and we certainly see that as well in many of our top international markets.

I think we saw that in the U.S. kind of get a little bit worse through Q3 and into the start of Q4. I'm talking about from an external perspective. But we certainly believe we're positioned to deliver another solid quarter of growth in each of our segments if we look forward to Q4. And I think that's anchored in -- and I think Chris talked about this last quarter, in this environment, you really got to be what we call 3 for 3.

You can't be just strong on value individually or you can't just be having a great marketing execution quarter or a great menu news quarter, you've got to get all 3 of those things to come together. And I think we feel we're doing a better job of really strong execution across the business. I think a little specifically maybe to get into the segments. I think in the U.S., we actually expect our comp sales growth will accelerate in Q4 versus the 2.4% that we delivered in Q3. And there's some obvious reasons for that. Obviously, we're lapping the food safety incident in last year's Q4. We've had a decent start to the quarter based on MONOPOLY running in October, as you heard us talk about in our upfront remarks.

And we feel we've got a really good quarter of activity, obviously, MONOPOLY in October. And then as you heard Chris talk about the kind of rehit of our EVM \$5 and \$8 price points in November. We also expect in the U.S. that we'll see a notable step-up in comp sales growth for those reasons in Q4 and expect -- I think our comp sales growth on a 2-year stack base will accelerate modestly from the 2.7% that we saw in Q3 on a 2-year basis.

On the international segments, I would say, I think we expect operating conditions across our top markets in Q4 will be pretty similar to what we've seen in the last couple of quarters. I think we believe that our Q4 comp sales in each of our international segments may decelerate sequentially, but that's largely a reflection of the lapping of more difficult prior year comparisons. And so on a 2-year stack basis, we expect Q4 comp sales growth for both segments will accelerate meaningfully and sequentially.

So that would be a bit of a texture, I think, on the looking forward. I mean I think the external conditions remain challenging, but I think what we've really done, and you've heard us talk pretty relentlessly about this, just on value and affordability and then getting the power of great marketing and great menu news to come together is what's driving results. And I think to your point, what is giving us a positive baseline momentum in a difficult external environment. And I think that's highlighted by some of the markets that we called out like Germany and Australia, where the external conditions remain challenging, but I think our performance has been really, really strong.

Christopher Kempczinski*Chairman President, & CEO*

All I would add to that is it's still a difficult environment and inflation is proving to be sticky. I mean we're expecting to see there's going to be above average inflation next year. You've heard about others referencing what's going on with beef prices. Certainly, we're seeing very, very high inflation around beef prices versus what we're used to historically. And so I think all of that just keeps putting pressure on the industry. And I referenced it in my opening remarks, but it's very much kind of how we're feeling, which is this is an environment where you've just got to grind it out.

I mean that was an expression that Ray Kroc always love to talk about. And it kind of feels like that's sort of how we're having to operate, which is just grinding out and getting growth. And fortunately, our system is executing well. We've got good alignment with our franchisees. So I think we're going to continue to do well, but I don't want to minimize some of the pressures as well that exist in the industry today and that we're expecting to continue into next year.

Dexter Congbalay*Vice President of Investor Relations*

Our next question is from Greg Francfort over at Guggenheim.

Gregory Francfort*Guggenheim Securities, LLC, Research Division*

I'm wondering if you can maybe just give some more detail on the beverage tests that you've been running. I think you're running 2 kind of very different tests in terms of breadth of product and including the energy drink and not including the energy drink and just what that sales mix looks like? And if there's any just consumer behaviors that you can call out.

Christopher Kempczinski*Chairman President, & CEO*

I'll let Ian start and then I can add. But as we referenced, we're pleased with it. We're not trying to make too much of an inference around what it's going to do from a comp standpoint. It's more about the operations and I think getting a sense of the mix, but I'll let Ian talk about that and then close out anything else.

Ian Borden*Executive VP & Global CFO*

Yes. Thanks, Greg. Well, look, I mean we're running that test in a couple of regions in our U.S. business. It's about 500 restaurants. I think there is a very purposeful construct to the different lineup. I mean there's some overlap between what the product portfolio in both regions, but there's also some differences. I mean I think as you've heard us talk about before, the beverage test is really -- has come out of the learnings we had from the CosMc's stand-alone restaurants that we stood up last year. That test told us that we could get after the majority of the opportunity without creating an unmanageable level of complexity that would impact our ability to execute in the restaurant.

So I think there are a couple of purposes of the test. One is just to gauge the consumer demand, the consumer reaction, the consumer kind of feedback on the portfolio. One is obviously to test at a little bit greater scale. Our assumptions on kind of the complexity that those lineups are adding to our business manageable. I mean, I think we've seen, from a complexity standpoint, what we expected, which is we're able to kind of manage that in the restaurants.

Obviously, the purpose of any test is you're learning and adapting I think we've seen a really positive consumer reaction, both in the portfolio and kind of is it meeting the needs and kind of the on-trend expectations for what consumers are looking for from a beverage standpoint. And so again, early days. And as Chris said, we've got more work to do, but I think we're certainly encouraged by the reaction that we've had to date.

Christopher Kempczinski*Chairman President, & CEO*

The only thing I would add is on this test, one of the things that we're also looking at is we're being very thoughtful and purposeful about where we price these products. And we have a variety of different items, but we think the opportunity for us is to be actually able to bring value into this segment as well. And so with our franchisees, we've been very thoughtful about where these products are priced relative to the competitors that would have similar offerings.

And I think what we're seeing here is, for us, should we roll this out nationally, being very disciplined on pricing and making sure that we're delivering value on these beverages versus the competitive set is going to be the way that we're successful in this segment.

Dexter Congbalay*Vice President of Investor Relations*

Next question is from Sara Senatore from Bank of America.

Sara Senatore*BofA Securities, Research Division*

Great. Just maybe 2 clarifications. The first is just on the high-income traffic being up double digits, is that an acceleration from what you've seen, I guess, trying to figure out if there's kind of evidence of trade down happening now?

And then on IDL, I know you mentioned strength across all regions, but that China was still seeing some pressure. Does that mean China -- the market was perhaps not positive? I feel like we've seen some signs of improvement being reported from other consumer companies. So I just wanted to understand if China perhaps is an exception in that region.

Ian Borden*Executive VP & Global CFO*

Sara, it's Ian. So let me try and touch on those 2 things. I think high-income consumer, it's certainly not a change in trend. I mean we've talked pretty consistently for quite a while now about the bifurcated consumer environment in the U.S. And I would just say that the Q3 data only continued to emphasize and maybe even showed that bifurcation, I would call it extending because as we said, low income consumer was down in terms of visits to QSR, high single digit and high income consumer was up high single digits.

So that just, I think, is kind of extenuating that bifurcation. Obviously, the whole point of what we're trying to do with value and affordability is make sure we're meeting the needs of all of our consumers and continuing, obviously, to be well-positioned on that.

I think on IDL, I mean, again, I think on China, nothing new, I think, from what we've been talking about for several quarters. I mean, I think the macroeconomic environment continues to remain challenging in the short-term. We haven't changed our view on the mid, long-term opportunity and our confidence level. And I think as we said in the note, all of the geographic regions in IDL and I would include China in that were positive, at least from a comp sales standpoint.

Christopher Kempczinski*Chairman President, & CEO*

Yes. The only thing I would add on China, we're pleased with how the China business is performing. We're still gaining share there. There's just -- there's overcapacity in China and what you're seeing is you're seeing a delivery war that's going on there, which is putting pressure on pricing. Pricing is down in that market because of what's happening between kind of the 3 different delivery guys all duking it out there. And so I think that's -- it's great for consumers. It's putting a pressure on the business. But net-net, as Ian said, we're growing comp sales. We're still on track with where we need to be on new units. It's just -- it's a more deflationary environment in China than I think we would want to see normally.

Dexter Congbalay

Vice President of Investor Relations

Our next question is from John Ivankoe at JPMorgan.

John Ivankoe

JPMorgan Chase & Co, Research Division

I like the way that you framed Australia value is having -- giving consumers in that market, predictability and confidence. And I did want to put that in the context of the U.S., broadening the typical EVM discount from 11% to 15%, does that give consumers price certainty across that EVM platform? Obviously, it's 30% of your sales, it's very important, whether it's local, regional or national, where consumers can come in and know that they, for example, can get a Big Mac combo meal at a certain price.

Do you think having specific price certainty in the U.S. over time to achieve that predictability and confidence is something that perhaps we can migrate the brand to, obviously, with some exceptions, but moved the brand more to kind of a sustainable national pricing type model on the EVM side?

Christopher Kempczinski

Chairman President, & CEO

I think you're exactly right. Part of why we wanted to address the discount on the EVMs is because through a lot of our work over history, I think we've certainly conditioned the consumer to expect that there's going to be a certain amount of value that you get when you go and you buy an EVM item. And as we've talked about before, we had drifted a little bit away from that. And so the move that we did is very much meant to reestablish.

And then to the earlier question around whether we expect it to continue, we would expect it does need to continue because it's what the consumer expects. And I think once we've kind of gotten through sort of the medicine that you have to take for a couple of quarters to get the incrementality, once you've got that back in place, you don't want to lose it. So I think this was very much meant as an idea to give us that predictable value. And then you're going to have the McValue platform that will pulse in and out with various deals and offers, and that's going to just sort of be something that goes and it evolves over time. But the EVM is that foundation, along with being disciplined, not just your regular menu boards.

Dexter Congbalay

Vice President of Investor Relations

Our next question is from Brian Bittner of Oppenheimer.

Brian Bittner

Oppenheimer & Co. Inc., Research Division

Chris, you said in your prepared remarks that while you're taking share in the U.S., the low-end consumer cohort does continue to be down double digits. It's a theme that's been in place for almost 2 years now. And you said you expect this dynamic to linger into 2026. And the question is, at this point, what do you think it's going to take to turn this lowering consumer from a headwind to a tailwind? It seems like that's the main unlock for comps to really inflect. You've thrown a lot of industry-leading value at this low-end consumer, yet they remain pressured, so just additional thoughts on what you think it's going to take into 2026.

Christopher Kempczinski

Chairman President, & CEO

Sure. I think if you think about the low income consumer and you think about the pressures that they face, I mean, right now, you're seeing across the country, rents are at pretty high levels. You're seeing food prices, whether it's in restaurants or grocery, you're seeing food prices are high, you're seeing child care is high.

There's just a lot of things that when you think about nondiscretionary spend, there's some significant inflation there that the low-income consumer is having to absorb. And I think that's affecting their outlook and their sentiment and their spending behavior, not just in QSR, but across a number of other product categories as well. If you're not in that segment and your higher income, you maybe not -- you don't feel it as acutely, but lower income for sure, you're feeling it acutely. And I think some of what's going on most recently with SNAP and other things might be additional pressure on that.

So what's going to change, I think, is that consumers will need to feel some relief around cost of living and need to feel like real incomes are growing. And how that changes, I think that's more of a macroeconomic question. There's probably a variety of things that need to happen there. But I think so long as that consumer cohort is feeling like real incomes are under pressure, I wouldn't expect to see significant change there.

Dexter Congbalay

Vice President of Investor Relations

Our next question is from Brian Harbour at Morgan Stanley.

Brian Harbour

Morgan Stanley, Research Division

I guess to that point, though, are you seeing yourselves take share across different income cohorts? I mean, do you think that the value push has sort of worked? And then I guess more at the higher end, do you think some of the digital initiatives, some of the other product stuff that you've done, have you seen that be effective across different income cohorts?

Christopher Kempczinski

Chairman President, & CEO

Sure. Well, we're gaining share with upper income, and as we referenced, upper income industry traffic is up almost double digits there. And even in that environment, we're gaining share with upper income. And I think there's a variety of things that go into that digital, our marketing programs, the strength of the brand, all of those things are attractive to that consumer. So I think that that's very much continuing. And then how we think about that over time, value certainly has a play.

I think sometimes there's this idea that value only matters to low income. But value matters to everybody, whether you're upper income, middle income, lower income. Feeling like you're getting good value for your dollar is important. And so I think for us, continuing to do what we're doing with EVMs, continuing to make sure that our McValue platform is competitive. Those are things that benefit not just the low-income consumer, but they also continue to attract that upper income consumer who is still looking for good value, they just maybe have more discretionary dollars in their pocket that they can go spend.

Dexter Congbalay

Vice President of Investor Relations

Our next question is from Lauren Silberman at Deutsche Bank.

Lauren Silberman

Deutsche Bank AG, Research Division

I have a quick follow-up and then a question. On the high income side, fast casual has been a weaker segment this year, tends to lean a bit more higher income. Is there any evidence of share shift from fast casual into QSR from that higher income consumer? And then if you could just talk about what you're seeing across dayparts. I know you guys have talked about breakfast being weaker. Have you seen any pickup with the everyday value meals?

Ian Borden

Executive VP & Global CFO

Lauren, it's Ian. Let me maybe just start with the higher income consumer, and I can let Chris do the second part there. But look, I think, as I said earlier, we've been talking about the bifurcated consumer in the U.S. for quite a while, and we've been talking, I think, about the strength of the higher income consumer.

So I don't think we've seen any fundamental change in trend with that consumer. As you said, I know a number of others have talked about seeing some weakness there. Certainly, as Chris said, we continue to gain share with that consumer. And so I think -- as we've talked about a fair bit today, our goal is to make sure we're positioned strongly on value and affordability for all 3 consumer groups.

I think we did a really good job on that from the McValue platform standpoint and the loyalty and kind of digital offer component. But as you've heard us talk about, we felt we were missing the strength of value that we needed on that core menu, the 60%, EVM being half of that. So that's what we're now trying to address. And as we've talked about before, I think our unique positioning is that we've got the financial strength to make these types of investments when maybe others are going to have to be a bit more defensive. So I think we're doing the right things for the consumer.

And as you've heard both Chris and I say, I don't think we see any near-term kind of change in the environment. And so we just want to make sure we're well-positioned to do as well as we can in a kind of a continued external challenging landscape.

Christopher Kempczinski

Chairman President, & CEO

And then on your breakfast question, we have talked about in the past how breakfast tends to be one of the more -- well, it tends to be the most economically sensitive daypart. It's an easy daypart to either skip the meal or to eat the meal at home. Breakfast continues to be under pressure as a daypart industry-wide. We're holding share in breakfast. So we're doing okay in that segment, but we are still seeing that daypart is under pressure for the reasons that we've already talked about. And when that changes, I think that goes with the broader macroeconomic things that we've talked about.

Dexter Congbalay

Vice President of Investor Relations

Our next question is from Jeff Bernstein over at Barclays.

Jeffrey Bernstein

Barclays Bank PLC, Research Division

Great. Just thinking about that value push maybe from a 30,000-foot view, I know 12 months ago with signs of a U.S. economic slowdown, we assumed fast food broadly and McDonald's specifically would benefit on both ends of the consumer spectrum, retaining the low income with value and perhaps seeing trade down from middle and upper income.

Obviously, that didn't transpire from much of this year. But it seems like it's set up well as we look to '26. Wondering if you believe it's reasonable to assume that we could see this play out, especially as you now have a more compelling value offer to bring back the lower income, and you're lapping that weakness now.

And on the other end, again, signs of middle and upper income perhaps being a little bit more vulnerable and trading down. So perhaps on a 1-year lag, but do you see that scenario playing out where you could actually benefit from both ends kind of converging back on the quick service segment?

Christopher Kempczinski

Chairman President, & CEO

I'd love that scenario to play out. I'm not going to predict whether it does play out that way. I think what we've said, and I would reiterate on this call is McDonald's, its -- value is in our DNA. And we absolutely are going to make sure that we are protecting our leadership position in value.

And you've seen us take the actions where we felt like we had some opportunities there. We're not going to lose -- as a brand, we're not going to lose on value. And so what you outlined is maybe one scenario. Again, that would be great if it played out that way. But if there's any opportunities for us, it's not going to be because we were offside on value. I think we learned our lesson on that, and we're going to make sure that we're set up well for 2026 on that.

Dexter Congbalay

Vice President of Investor Relations

Our next question is from Andy Barish over at Jefferies.

Andrew Barish

Jefferies LLC, Research Division

Yes. I actually wanted to kind of dovetail on that question. And I was intrigued by your comments, Chris, on the inflationary environment, which may continue to bring about difficulties in margins. How do you see that kind of playing through to the industry promotional environment in '26, which has kind of been relentless for the last 18 months or so?

Christopher Kempczinski

Chairman President, & CEO

I think it's going to continue to be a kind of -- you're trying to thread a needle here because you're trying to be able to push through some pricing to offset the inflationary pressures that are going to continue. At the same time, you've got a consumer, particularly a low-income consumer, who's really resistant to any additional pricing. And so then you've got to try to figure out what is that sort of right combination there where you're able to get some pricing to offset that inflation at the same time that you're delivering a great value message.

And there's no easy answer to it. I think everybody in the industry is trying to figure that out. But the worst answer would be to be losing traffic because you're just not getting people through the door. That's not going to be a winning formula. So I think different people will approach it different ways. You've certainly seen an uptick in a lot of digital offers as well.

The challenge with that, of course, is that you don't have the majority of your customers on the digital app. And so that can only go so far. So I think different players are going to have different approaches. We've obviously got our plan on how we plan on approaching it, but I do expect you're going to continue to see people are going to need to be having compelling value offers because they're also going to be trying to figure out ways to be capturing some of the pricing due to the inflation.

Ian Borden

Executive VP & Global CFO

And the only thing, Andy, maybe I would just add to what Chris said, and we touched on it on an earlier question is I do think consumers are looking for a little bit of predictability. And so I think there will be the tactical price wars or digital offers or kind of short-term efforts by people to kind of win in a difficult environment. If you believe the environment is going to continue to remain challenging for a while, which I think certainly as good as our crystal ball is, we would say that certainly seems to be what's on -- up over the next at least several quarters.

I think the predictability is really important, which gets back to certainly, our view, which is why platforms like McValue and having predictable components to that, the EVM which is, again, a more predictable outcome for consumers is really important because I think the certainty and the predictability, I think nothing frustrates consumers more right now when they come in and they don't get what they expect.

So as Chris said, we're going to make sure we're positioned to win across all the spectrums of value and try and make sure we do that in a way that has a level of consistency and predictability for our consumers.

Dexter Congbalay

Vice President of Investor Relations

Our next question is from Jon Tower at Citi.

Jon Tower

Citigroup Inc., Research Division

Great. Chris, you had mentioned in the prepared remarks, the idea that you're thinking about expanding the beverage platform, the CosMc's stuff globally or beyond the U.S. And I know in the U.S. you had also commented on the idea of keeping that kind of value-centric price point here in the states. So how are you thinking about expanding it globally? Obviously, still in test now, but I think outside the U.S., the platform is positioned differently to consumers across different markets. Are you continuing to think about that in the same manner if you were to roll CosMc's globally, or do you think you'll kind of use it as a value platform across the globe?

Christopher Kempczinski

Chairman President, & CEO

So we will be testing what we've got in the U.S. You're going to see that in some international markets where it will get tested. It may look a little bit different from what we're doing in the U.S., but we'll test that and see how that resonates in a few other markets. And let me just be clear, beverage is an exciting incremental opportunity for us that we like because of its ability to drive incremental traffic. It's check add-on. It's got a lot of benefits. And to do that, it needs to be also, I think, priced at a competitive value for us to win.

We're not seeing it though as a value platform per se. And so when we talk about what it's going to be in the U.S., it's very much designed to drive margin. It's very much designed to drive check. But how we do that is also being mindful about where it's priced vis-a-vis the competitive set. We'll, I think, take that same approach as we test it in some of the international markets and whether that rolls out beyond the U.S. or not will obviously be dependent on how it performs in some of those other markets.

Dexter Congbalay*Vice President of Investor Relations*

Our last question today is from Andrew Charles from TD Cowen.

Andrew Charles*TD Cowen, Research Division*

Ian, can you talk more about the U.S. McOpCo margin contraction in 3Q? And help unpack as a bigger headwind this quarter was general inflation or customers seeking lower margin value. And also, if you can just touch on your outlook for beef within that response as well.

Ian Borden*Executive VP & Global CFO*

Sure. Andrew. Well, look, I think as you've certainly heard from me say pretty consistently. I mean, obviously, the kind of fundamental driver of margin growth is strong top line growth. And we see -- we need a certain let's call it, minimum level of top line growth to drive margin accretion. And while we had a good quarter in the U.S. at 2.4%, I would just say it wasn't enough top line growth in the quarter to offset some of the inflationary pressure we saw in areas like wages and food and paper costs.

So I think as you've heard, both Chris and I talk about, I mean we have no change in our view that we're going to be able to drive margin accretion and margin growth over time as we drive that top line growth. But obviously, we continue to operate in an environment where sales have been a little bit more subdued, and inflation has been a little higher than what I'll call kind of the historic norm.

I think on food and paper in the U.S. We've said this year, we expect kind of our basket of food and paper inflation to be in the low to mid-single-digit range for the year. Obviously, beef inflation is up a fair bit. I think the strength of our supply chain means our beef costs are, I think, certainly up less than most. They're still elevated, but I think our basket of goods means we still have confidence in that kind of low to mid-single-digit range.

I mean, obviously, what we're trying to focus on, as we've talked a fair bit about today is how do we make sure we've got that baseline momentum, obviously, value and affordability across all parts of the menu is a really important component of that. And so that's -- I think what we're focused on is kind of getting that stronger top line and growth in place as we look forward. And as we said earlier, certainly, we've had a decent start to Q4, and I think we're getting through things like our EVM relaunch, some of those may be missing components back firmly in place.

Dexter Congbalay*Vice President of Investor Relations*

That concludes the call today. Thanks for joining us. If you have any follow-up questions or would like to set up a meeting, please send me an email, and we'll do so. Thanks again, 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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