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McDonald's Corporation (MCD) Q3 2026 Earnings Call Transcript

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Q3: 2026-11-04 Earnings Summary

Insights

EPS of $3.57 beats by $0.19 | Revenue of $7.16B (1.12% Y/Y) misses by $123.44M

McDonald's Corporation (MCD) Q3 2026 Earnings Call November 4, 2026 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

Brian Harbour - Morgan Stanley, Research Division
Dennis Geiger - UBS Investment Bank, Research Division
John Ivankoe - JPMorgan Chase & Co, Research Division
Sara Senatore - BofA Securities, Research Division
Andrew Charles - TD Cowen, Research Division
David Palmer - Evercore ISI Institutional Equities, Research Division
Danilo Gargiulo - Bernstein Institutional Services LLC, Research Division
Peter Saleh - BTIG, LLC, Research Division
Jon Tower - Citigroup Inc., Research Division
Andrew Barish - Jefferies LLC, Research Division
Christopher O'Cull - Robert W. Baird & Co. Incorporated, Research Division
Brian Bittner - Oppenheimer & Co. Inc., Research Division
Gregory Francfort - Guggenheim Securities, LLC, Research Division
Christopher Carril - KeyBanc Capital Markets Inc., Research Division

Presentation

Operator

Hello, and welcome to McDonald's Third Quarter 2026 Investor Conference Call. At the request of McDonald's Corporation, this conference is being recorded. [Operator Instructions] I would now like to turn the conference over to Mr. Dexter Congbalay, Vice President of Investor Relations for McDonald's Corporation. Mr. Congbalay, you may begin.

Dexter Congbalay
Vice President of Investor Relations

Good morning, everyone, and thank you for joining us. With me on the call today are Chairman and Chief Executive Officer, Chris Kempczinski; and Chief Financial Officer, Ian Borden. As a reminder, the forward-looking statements in our earnings release and 8-K filing also apply to our comments on the call today. Both of those documents are available on our website as are reconciliations of any non-GAAP financial measures mentioned on today's call, along with their corresponding GAAP measures.

Following prepared remarks this morning, we will take your questions. 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

Thanks, Dexter, and good morning, everyone. During today's call, I'll start with the next steps we're taking to build momentum in the U.S. Ian will then provide details on our performance in the quarter. I'll then wrap up with an update on how we're advancing McDonald's NEXT across the system. In the third quarter, McDonald's delivered global comparable sales of 1.5% and system sales growth of 4% in constant currency, reflecting the growing contribution from new restaurant openings.

Our international markets delivered another quarter of solid results, supported by the continued strong execution across value, menu and marketing in most of our largest markets, even amidst the continued challenging consumer environment. In the U.S., performance improved as the quarter progressed with comparable sales turning positive in September following a slightly negative result in July and August. That improvement followed a series of interventions we initiated during the quarter, restoring some digital offers to drive frequency with our most engaged customers, shifting marketing support to our proven value platforms and stepping up our focus on restaurant-level execution.

We're encouraged by the initial response to those interventions and the direction of the business. At the same time, we know there's more work to do. Our focus now is to build on that improvement and accelerate baseline performance. Specifically, that includes 3 additional interventions in the months ahead. First and most importantly, nailing the final piece of our value equation, entry-level offerings. Second, engaging our most frequent customers by stepping up compelling digital offers that give them more reasons to visit. And third, reinforcing taste and quality credentials of our biggest equities, including system training on taste, quality and great hospitality.

We know there's particular interest in our U.S. value plan, so allow me to elaborate on the specific steps that we are taking and their expected timing. Just last week, we began an eight-week test of two new everyday affordable price menu constructs across all dayparts in about 1,900 restaurants across a handful of regions. We're testing mix and match bundles that give customers greater choice and provide familiar ordering behaviors for prior buy 1, add 1 offers. We're also testing fixed bundles that give customers a set combination at an attractive price and make ordering straightforward.

At the same time, franchisees representing about an additional 4,000 restaurants have chosen to move forward with similar entry-level bundles in advance of the formal test results. Together, these restaurants and those participating in the formal test represent more than 40% of the U.S. system, reflecting strong alignment around the opportunity. We use the results of this test to determine which structure resonates most with customers, works best operationally and deliver sustainable incremental traffic and sales for franchisees. Our goal is to launch a new program nationally in early 2027.

We've already made significant improvements to address holistic value across our menu, which contributed to improvement in value and experience scores across our top 10 markets. Today, our base menu pricing across the industry's most popular menu items in chicken, beef and beverages is generally below that of our nearing competitors. Our $5 and $6 meal deals remain industry standouts, and our extra value meals on everyday fan favorites have become a proven platform to drive incremental sales. And we provide a compelling broad set of digital offers to more than 45 million loyalty members in the U.S. through the McDonald's app.

Our goal is straightforward. Customers should see a clear and compelling value proposition every time they consider McDonald's, whether they're looking for an affordable individual item, a complete meal or a digital offer in the mobile app. In conclusion, we're exactly where we hope to be when we shared our comments regarding U.S. performance at Investor Day. We're taking the right steps to improve our near-term performance in the U.S., and I'm encouraged by our baseline traffic trends in September and October. At the same time, Beverages continues to perform well and are contributing to incremental check growth. With that, I'll hand it over to Ian to take you through the quarter in more detail.

Ian Borden
Executive VP & Global CFO

Thanks, Chris, and good morning, everyone. In the third quarter, global comparable sales grew 1.5% in a soft consumer environment, particularly in Europe. In spite of the environment, we continue to gain or hold share across the majority of our top markets. Beginning with the U.S., comparable sales declined 0.2% for the quarter and are up 1.4% on a year-to-date basis. As Chris just highlighted, comp sales improved as the quarter progressed, turning positive in September as a result of steps we took during the quarter to begin to stabilize baseline guest counts.

One step was to partially restore a broader range of regional and national digital offers to drive higher frequency of visits from active loyalty members as well as to generate traffic from new and lapsed loyalty members. Examples of these offers included a $2 breakfast sandwich and free fries with a $1 minimum purchase. The initial responses to the mass digital offers exceeded expectations for both incremental guest counts and sales and helped to reverse the decline in baseline trends we saw in Q2 and early in Q3.

The second step was reallocating marketing support toward rest-of-day entry-level meal deals and extra value meals, proven and compelling components of our value offerings. Since relaunching EVMs more than a year ago, unit sales from our top EVMs are up about 7% versus the prior year, and we've consistently seen incremental traffic with higher average check and margin. This trend continued late in the quarter behind nationally price pointed offerings, including a $5 Sausage McMuffin and Egg meal and an $8 Big Mac meal. As Chris noted, the U.S. is also testing additional entry-level value offerings, which we expect to launch in early 2027 to complement these strong existing value programs.

Turning to menu. Our new specialty beverage platform continued to perform well, delivering clear incrementality in the quarter behind strong take rates and repeat purchases across the assortment. We continue to see checks that included a specialty beverage up about 50% compared to the full day average check with the majority of units sold after lunch. The addition of Red Bull Dragonberry Energizer in August delivered a boost to the platform with minimal cannibalization of refreshers and crafted sodas. During the six-week advertised launch window, it sold the most units within the platform and lifted total specialty beverage category sales.

In short, for the U.S. overall, we're encouraged by the initial response to the interventions we undertook to improve baseline trends and how the U.S. system is acting together to strengthen business momentum as we exit the year. Turning to the international operated markets. Comparable sales increased 1.4%, led by Australia and Germany, and we gained or held share in most of our top markets. IOM comparable sales decelerated slightly as compared to the second quarter. This primarily reflected the continued underperformance versus our expectations in France as well as the impact on restaurant operating hours from the recent escalation of the war in Ukraine.

Excluding these two factors, IOM comparable sales would have exceeded our expectation for the quarter as markets continued to execute our playbook of delivering everyday value, offering relevant menu innovation and driving strong marketing. Beginning with value, Australia expanded its McSmart platform with new pricing tiers for meal bundles that drove incremental sales and guest counts. Germany and the U.K. strengthened their affordability platforms with a particular focus on families, including price pointed Happy Meal offers. Additional value initiatives such as the U.K.'s Chicken McNuggets Extra Value Meal add-on and Savers breakfast offers helped drive guest visits and strengthen value perceptions.

For menu innovation, the launch of specialty beverages in Australia early in July significantly exceeded expectations with strong take rates and contribution to sales. Australia delivered many of the business performance and demographic trends we've shared about this platform in other markets. Specialty Beverages also continued to deliver strong performance in Canada and Germany. Canada's launch of Red Bull Energizers in the quarter exceeded overall unit sales forecast and was incremental to other specialty beverage sales.

In Germany, the platform featured its first specialty beverage LTO, the Italo Spritz and continues to drive incremental guest counts, improve baseline momentum and capture beverage market share in the quarter. The performance across the U.S., Canada, Germany and Australia reinforces our confidence that the specialty beverages can become a sustainable global growth platform under McDonald's NEXT and be a key driver for our goal to capture an additional 1.5 percentage points of beverage market share by 2030. We remain on track to launch specialty beverages across nearly all of our European markets by mid-2027 and across more international developmental license markets throughout 2027.

Beyond beverages, we continue to see solid momentum in another global growth platform under McDonald's NEXT, large beef burgers. In Australia, the Quarter Pounder was again the center of innovation and marketing, featuring the Quarter Pounder Deluxe and Double Quarter Pounder BBQ Bacon with the performance of both exceeding expectations. And Australia's successful quarter pound innovation has confirmed the opportunity that we believe exists with this equity across other markets, which will be a focus area in 2027.

Germany also continued to build on the momentum of the Big Arch platform, featuring the Big Arch with Bacon and Big Tasty Bacon with performance beating expectations and supporting beef market share gains in the quarter. The U.K. and Spain also featured Big Arch during the quarter, extending positive performance in the beef category to these markets. Turning to marketing. As we highlighted at our Investor Day, Menu Heist is an example of how we're leveraging our global scale to offer customers a curated selection of international menu favorites at their local McDonald's restaurant to create customer excitement, drive guest visits and keep the McDonald's brand at the center of the experience.

In both Germany and Canada, the campaign generated strong sales and guest count growth. Germany delivered 1 of its highest sales weeks ever in the market, supported by menu items such as McExtreme Bacon from Spain and McCrispy Chili Honey from Canada. And in the U.K., Menu Heist launched at the end of September with early social media trends showing strong customer excitement. While many of our major IOM markets delivered strong execution during the quarter, France continued to perform below our expectations, which Chris will discuss in a few minutes.

Turning to the international developmental license markets. Comparable sales increased 4.2% with all geographic regions delivering positive comparable sales. Japan led the way, driven by strong execution across value, menu and marketing and has now delivered 44 quarters of consecutive comp sales growth. IDL's comparable sales growth was tempered by results in China as the near-term macro environment and consumer backdrop remain challenging. At the same time, the China team continued to drive operational efficiency, which supported improved bottom line performance versus the prior year quarter.

Turning to the enterprise P&L. Our top line performance drove adjusted earnings per share of $3.57, including a $0.01 headwind from foreign currency translation. On a constant currency basis, adjusted earnings per share increased 11% compared with the prior year quarter. We currently estimate no impact of foreign currency translation on adjusted earnings per share for the fourth quarter versus the prior year based on current exchange rates. As always, this is directional guidance as rates will likely change.

In the third quarter, we generated nearly $4.2 billion in restaurant margins. Our year-to-date adjusted operating margin was 48.3%, reflecting higher other operating income, including the benefit from our refranchising efforts, which led to higher gains on sale of restaurants. We're making steady progress towards our goal of having 98% of our global restaurant portfolio franchised by 2028, having refranchised about 175 restaurants across the U.S. and IOM so far this year. SG&A expenses were 2% of system-wide sales in the quarter, and we continue to expect SG&A as a percentage of system-wide sales for the full year to be approximately 2.2%.

As we discussed at Investor Day, we expect the investments we've made in global systems, shared capabilities and high-quality enterprise data will begin contributing to improved efficiency on SG&A as a percentage of system-wide sales in 2027. Turning to new unit growth. We remain disciplined in our development decisions as we continue to open restaurants only where we expect attractive long-term returns for both McDonald's and franchisees. We now expect 2,500 gross restaurant openings globally this year, slightly below our target of 2,600, but remain on track for approximately 2,100 net restaurant openings.

We now expect 2026 capital expenditures of about $3.7 billion, which is at the low end of our previously guided range of $3.7 billion to $3.9 billion, reflecting opening slightly fewer gross new restaurants in owned markets as well as the impact of foreign currency. In summary, our third quarter results were consistent with the trajectory that we previously outlined for the U.S. business, alongside continued solid performance across most of our international business.

We're encouraged by the improvement in U.S. baseline trends that we saw as the quarter progressed and remain focused on the further work to do to position the business for stronger, more consistent performance in 2027. At the same time, we'll continue investing behind McDonald's NEXT at scale to drive sustainable long-term growth and productivity. And with that, let me turn it back over to Chris.

Christopher Kempczinski
Chairman President, & CEO

Thanks, Ian. I want to offer a quick word on France. A few weeks ago, our franchisees in France voted in support of a well-defined and holistic path forward, including simplifying the market's governance structure to enable greater flexibility and agility for our business moving forward. This was a historic vote, and I want to thank our franchisees for their partnership to get the business back on track. While we continue to face short-term disruptions to our business in France due to the recent protests, we're now better positioned to drive growth behind stronger marketing support and the right combination of innovation, value and improved execution.

Six weeks ago, we hosted an Investor Day here in Chicago to detail McDonald's NEXT, our new long-term growth strategy. At its core, McDonald's NEXT is all about how we improve the customer experience from the food we serve to the hospitality we offer while making our restaurants easier to operate and more efficient. Our ambition is simple: to be the first choice for more customers more often. Across the global system, our franchisees, suppliers and employees are now stepping up, exchanging ideas, sharing solutions and providing feedback. That's how we get better, and it demonstrates the power of our unique 3-legged stool model.

While McDonald's NEXT is a multiyear strategy, we're already putting elements of it into action. Our internal mantra is NEXT is Now. In early October, on our Founder's Day, also known as Ray Kroc's birthday, we launched Make It Golden. Make It Golden is the largest capability building initiative in our history, focusing on elevating the guest experience by delivering great-tasting food and uniquely McDonald's hospitality. We're giving restaurant teams the training and tools to create more of these moments more consistently and at scale.

In the first month, we completed the first round of trainings for our key leaders and experts who are responsible for cascading Make It Golden across more than 18,000 restaurants in the first quarter. We're also making great progress rolling out our new beverage platform. Today, nearly 18,000 restaurants across the U.S., Germany, Canada and Australia are driving incrementality by giving customers new reasons to choose McDonald's. We're on track to expand our specialty beverage platform to more than 7,000 additional restaurants across Europe by mid-2027.

We've already begun setting up operational pilots for hand-breaded chicken in the U.S. and Ireland as we work to elevate taste and quality in our fastest-growing category. In early 2027, we'll launch full advertised sales tests in about 100 restaurants in a couple of U.S. cities and a complete full national rollout across Ireland. We're starting to open remodeled NEXT restaurants across the globe with the first international restaurant opened in Poland a few weeks ago, followed shortly by Spain.

As we shared at Investor Day, we've reimagined the design of our restaurants to deliver a more appealing modern customer experience with new kitchen layouts and equipment to support future menu innovation and gold standard execution alongside our new restaurant operating platform, ArchIQ. We're on track to begin remodeling hundreds of U.S. restaurants in 2027 as we ramp up to a global run rate in excess of 5,000 restaurants per year beginning in 2028.

And finally, we're expanding testing of ArchIQ, our smart ordering system across more drive-throughs in the U.S. and Australia, where it's giving our crew more time to spend with our customers and make sure every order is delicious. We expect ArchIQ to be deployed across the majority of U.S. restaurants by the end of 2027 with further pilots planned internationally through 2027. This is NEXT in action, strengthening how we operate today while building the growth platforms and capabilities that will position McDonald's to lead for the long term.

We'll continue to regularly update you on our progress and associated results behind key elements of NEXT throughout 2027. At McDonald's, nothing is real until it's real in the restaurants. As we close out 2026, we're focused on reestablishing momentum on our U.S. business while expanding share gains across our international business. I'm encouraged by our near-term progress and excited about the upside potential that McDonald's NEXT will unlock for our business in the years ahead. With that, we'll take your questions.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question today is from Brian Harbour of Morgan Stanley.

Brian Harbour
Morgan Stanley, Research Division

I guess the question is just about franchisee conversations since we were last together. First of all, do you feel like there's alignment in the U.S. on value at this point and that being kind of the primary mover as we go into early 2027? And then I guess, second, on the NEXT strategy, do you feel like they've been very receptive to the elements you laid out in September, kind of the investment required and the time line? Or any updates on your thinking there?

Christopher Kempczinski
Chairman President, & CEO

Brian, so first on value, I think there's very strong alignment around focusing on this entry-level value as being the last piece of the value equation for us that we need to figure out. And as I mentioned in my prepared remarks, I think that's why we already see that we've got about 40% of the U.S. system is doing some version of an entry-level value program. Part of that's in testing. Part of that is franchisees not wanting to wait for the test and actually get out and put entry-level value in place already. So I do think there's really good alignment around getting after the entry-level value in the U.S. As I've talked about before, I think we're in good shape on the other elements of value.

And then as you -- regarding McDonald's NEXT, we're having a lot of different conversations with franchisees -- but broadly, our franchisees aligned around improving the customer experience, taste, quality, hospitality 100%. Are they aligned around going after making the restaurants easier to operate, more efficient 100%. In our system, as you know, the conversations are always around the how. And so 1 of the things that I think is so good about our system is now we're digging in and we've got teams, particularly in the U.S., working through each of these elements.

If you think about remodels, there's franchisees now who have a team who are going through line by line, item by item on the remodel. And I'm sure they're going to find opportunities. They always do. There's always a good conversation on that. And so I would expect that as we get further into those conversations, we're going to get to a remodel program that we all feel really good about. And then on the other piece of this, which I know there's been conversation around hand-breaded chicken is why we have the tests out there.

We've got two ASDs or advertised sales tests in a couple of our cities in early 2027. I just happened to spend the last week, I was in Ireland for a couple of days with franchisees. They're going and visiting the restaurants as they prepare for hand-breading. So this is like -- this is where McDonald's folks just get super excited because now they're getting into the operational details. How do we make this work? What are the challenges? How do we make it better? And so I do feel overall good about where franchisees are on NEXT. I think they're appropriately digging into the how on those things, and we'll share with you progress as we go through 2027.

Dexter Congbalay
Vice President of Investor Relations

Our next question is from Dennis Geiger at UBS.

Dennis Geiger
UBS Investment Bank, Research Division

Following the encouraging improvement in the U.S. trends through the quarter post the interventions that you noted, can you touch a little bit more on how you're thinking about that U.S. sales trajectory over the balance of this year? And any high-level thoughts to share on the path into '27 as you think about the benefits from the interventions and the benefits from NEXT?

Ian Borden
Executive VP & Global CFO

Dennis, it's Ian. Let me maybe start, and then I'll let Chris chime in maybe at the end. But I'd go back to kind of what we said on the Q2 earnings call because I think everything that we're doing and the results that we've seen in Q3 are all kind of confirmatory to what we outlined there, which was that our focus was about how we got the U.S. business in a stronger position as we exit 2026. I think certainly, we feel really good about the work and the decisions that Sky and the U.S. system collectively are putting into place.

I think we're -- as you heard us say in our upfront remarks, we're encouraged by the baseline traffic trends that we've seen through September and now through October. And I think we remain really confident that the U.S. is on the right path to exit '26 in a stronger position. I might just also touch on IOM because -- I'm sure that's a question that's coming. But I just would say with I think as we outlined in our opening remarks, see in almost the majority of our large international markets, we're holding or gaining share.

It's a soft consumer environment, but we're doing well. And I think our international markets are very consistently executing that playbook of menu marketing and value. And I think as we look forward to Q4, I think the kind of conditions that we saw in Q3, we expect to be largely consistent through the rest of the year.

Operator

Our next question is from John Ivankoe of JPMorgan.

John Ivankoe
JPMorgan Chase & Co, Research Division

So I have had an opportunity to visit a fully operational NEXT store with hand-breaded chicken. And I will tell you, I'm very impressed to kind of see that operating in person. The point of the question is, when I look at the hand-breaded chicken platform, does it make more sense to maybe just pursue significant upgrades of the sandwich of the strip, for example, as part of hand breading and maybe pursue those type of product categories versus going into what I think might just be a higher-risk category with bone-in wings. And I do ask the bone-in wing question in the context of the Mighty Wings kind of experience of 10 years ago, if there's something significant maybe that we could have learned from that in terms of the ease of execution of that product.

Christopher Kempczinski
Chairman President, & CEO

John, I think these are all things that right now, those are the details that we dig into with franchisees to figure out how we deliver this, what's the best way to go about improving the taste and quality of our chicken offerings. I was in Ireland, as I mentioned last week, -- and 1 of the things that we're doing in there, and we've got in, I'd say, right now about 10 restaurants is looking at two items, the strips and the sandwich versus three items, strips, sandwich and wings and getting good experience and feedback on that.

I think 1 of the things, again, it's 10 restaurants, but we're seeing that wings provides really strong incrementality. Again, it's in those 10 restaurants, it's really early. But that's an interesting learning. So I think we're in kind of the now how do we actually go about and execute this? What are the challenges? What are the issues? And I think through that, we're going to learn whether there's the operational complexity of wings or three items outweighs the benefits that you get with incrementality.

Ian Borden
Executive VP & Global CFO

Maybe the only hook, John, just -- I mean, I think we've done a lot of work to understand kind of, we call it menu architecture, but just looking at the kind of composition of the market. And I mean, obviously, we're going to ultimately be led by what our customers looking for. And I think as Chris said, that may -- there may be some nuances market to market in that, but we certainly have had success with wings in a number of markets globally. And so we certainly know it's an opportunity area.

Operator

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

Sara Senatore
BofA Securities, Research Division

Just maybe a quick clarification on the model and a question on the Make It Golden. So you mentioned it's a large capability building initiative on hospitality. I guess how are you -- or are you changing how you measure franchisees? I know you have, I think, the PACE metrics out there. But I'm wondering if as you pivot kind of as you focus on perhaps different metrics, if that's changed what you're asking franchisees to be measured on or how often? And then just quickly on the model, it looks like pretty healthy gains on the sale of or the refranchising of IOM units. Any comments on how we should think about that going forward or what the implications for the rent and royalty might be?

Christopher Kempczinski
Chairman President, & CEO

Sara, thanks for the question. I'll take the taste quality kind of the PACE question, and then I'll let Ian cover the second one. So yes, as you noted, we're focused on how do we go about assessing taste and quality is a big part of what we're trying to upgrade the system on through the training that we've got here with Make It Golden. And I think probably the most notable change that we're making here is really enhancing the customer feedback portion of this.

So the core elements of how we assess restaurants from a food safety standpoint, what we're doing around making sure that we're doing the right things for our crew. All of those stay the same, but we have changed how we're going to be assessing customer satisfaction. We're rolling out in Q4, a new approach there across the U.S. It's on the way to going global. And then we're also at the end of Q4, going to be introducing into the app where the customer is now going to be able to give us a review within the app on their experience.

So all of that is going to go to giving us much better insight into how the customer is actually perceiving the experience that they're getting in the restaurants. And when it comes to taste and quality, what ultimately matters is how the customer perceives it. So for us, to be able to move the needle on taste and quality, it's beauty is in the eye of the beholder, which is going to be the customer, and we're making significant enhancements there to improve our visibility and the accuracy of the feedback that we're getting.

Ian Borden
Executive VP & Global CFO

Sara, it's Ian. So let me maybe just touch on your question on gains. I mean, I think as we talked about kind of in the opening comments, I mean, gains are obviously up this year. That's, as you know, part of kind of the NEXT strategy of getting us by end of '28 to 98% franchised globally. We -- I think it's been about 175 restaurants so far in '26 through U.S. and IOM segments that have been refranchised.

And I would expect that kind of level of activity to kind of carry forward through the next couple of years. Obviously, as you know, in the model, that has an impact on revenue, which is 1 of the reasons why our revenue was a bit down in Q3 because we moved that 100% revenue to obviously a franchise contribution of revenue. So I think looking forward, we feel really confident about the path to kind of get us to the objective of 98% by end of '28.

Operator

Our next question is from Andrew Charles at TD Cowen.

Andrew Charles
TD Cowen, Research Division

Ian, just a quick clarification that you called out 4Q U.S. comps are positioned to see improvement through year-end. Just to make sure that we got the right message that you expect 4Q U.S. comps to improve from 3Q's level. And then, Chris, my question was that as a follow-up to an earlier question that in the past, you guys have quantified U.S. owner-operator support for different initiatives like the EVM revamp last September. I'm curious where does that support level sit for the NEXT investments?

Christopher Kempczinski
Chairman President, & CEO

Let me clarify, Andrew, because I did not say that fourth quarter U.S. comps would be better. What I said and what we said in the opening remarks was I think we're encouraged by the improvement in baseline trends that we saw through September and into October. And I said we're on path to what we've said consistently, which is that we want the U.S. business to be in a stronger position as it exits 2026.

And then on the second topic in terms of the actual support that we're providing through NEXT, that varies country by country. It's 1 of the things that Sky is getting into right now with U.S. owner operators is the exact complexion of that, how that breaks out between capital versus rent. So all of that is work in progress right now. We don't have a final partnering program landed. But certainly, we shared at Investor Day the broad parameter of what our investment would look like, and there's no change to that.

Operator

Our next question is from Dave Palmer with Evercore.

David Palmer
Evercore ISI Institutional Equities, Research Division

Question on the U.S. same-store sales outlook and in particular, sort of the changes you're making in how you go to market with ideas. It sounds like you're making some tweaks there when you talk about Make It Golden, you're testing value right now. I know there's a lot of investor concern about the curation of ideas and what that means for franchisee alignment, especially after the 2025 chicken introductions and value changes this year and the sort of the redos of those. So any changes you're making in how you go to market and why you think the hit rate will be getting better going forward would be super helpful.

Christopher Kempczinski
Chairman President, & CEO

Sure. Well, this is a topic you and I have spoken about before, David. And so I'll probably give you something similar there, which is, certainly, we have testing as part of our go-to-market approach. And there's always a balance between where do we need to be fast and where do we need to be right. And that's where we think about sort of 1-way doors and 2-way doors. And the things that are really 1-way doors that are important for us because it's tough to go backward, -- those we've got to get super right.

And so we're very diligent about what we're testing there, the length of time that we're testing, the number of restaurants, et cetera. And you see with several elements of NEXT where we're taking that approach, and we'll share with you the results and our progress as we move through 2027 on all of that. And then there's also areas where sometimes we just have different ideas. And I think right now, what you're seeing in the U.S. is there's different ways for us to go after entry-level value. And so we're testing kind of a variety of different approaches there to inform and get us sort of the best way forward on that.

But certainly, there's a focus and alignment around we need to get entry-level value right. It's the final piece missing. And then there will be areas where we have a lot of knowledge and information based on our experience around the world where we're ready and we just go. And that's what we did with EVMs, as you'll remember, about a year ago, where we knew where we needed to be on EVMs based on what we saw around the world. And so we didn't test EVMs. We just went ahead and did it, and I think that proved to be the right decision. So this is something we're always in conversations on with our franchisees. There's not sort of a 1-size-fits-all approach on this, but it's really about the size of the decision, the permanence of the decision and making sure that we get it right.

Operator

Our next question is from Danilo Gargiulo at Bernstein.

Danilo Gargiulo
Bernstein Institutional Services LLC, Research Division

A quick clarification and the real question, specifically on IOM. So the clarification is, to what extent are the protests weighing on your results right now? Anything to call out in the IOM market because we've seen some rising protests in the major markets. So if there's anything that you're willing to share regarding the impact on McDonald's so we can normalize for next year. And then the real question is, it's really encouraging to see that you're maintaining or actually gaining market share in some of your IOM markets. At the same time, we are seeing some macroeconomic pressures that are mounting. We've seen some print from CPI in some countries that is actually very elevated. So to what extent do you expect IOM to be positive comps into next year? What do you have under control versus how much macro could be weighing on your results next year?

Christopher Kempczinski
Chairman President, & CEO

Danilo, thanks for the question. Certainly, there's a lot going on in Europe. And part of what we called out in our comments is particularly France and Ukraine are 2 markets that are weighing on the performance there. And as you know, in both of those countries, there's significant external issues that are going on. So I do think that there is an impact, and we're expecting that impact to continue, I think, for -- certainly into Q4. But hopefully, we get to a better place on both of those as we move into 2027.

In terms of the -- your read on the macroeconomic situation, certainly, it's muted in Europe. And I think you know all the reasons why our focus is always about gaining share. And I think what we're encouraged is that we're maintaining or gaining share in the majority of our markets, both in Europe as well as more broadly in international. So kind of control what you can control and the macro is going to be the macro. But so long as we are gaining share in the majority of markets, that really is what we're setting ourselves up to be able to do in 2027.

Ian Borden
Executive VP & Global CFO

And maybe the only hook, Danilo, just from me would be just to kind of emphasize, I think what Chris has talked about. I mean I think we're seeing consistency of results across most of our top IOM markets, and that always gives you confidence, as we said in our opening remarks, that they're implementing the playbook. The playbook is working, and I think they're leaning into the opportunities they've got despite the kind of macro around them.

I mean the opportunity we've got to address is France. And as Chris talked about in his upfront remarks, we think we've made a really significant step forward with our system, our franchisees in France to get some of our kind of internal structural barriers addressed and allow us to be able to operate a lot more efficiently and a lot more -- with a lot more agility to kind of get the right plans going in France as we kind of work through 2027.

Operator

Next question is from Peter Saleh at BTIG.

Peter Saleh
BTIG, LLC, Research Division

I was hoping you guys could elaborate a little bit more on the eight-week value test that you mentioned. And maybe just what you're seeing, how you're measuring the success of that platform? And why is the EVM discounts just not enough? Why do you need to go further? Just a little bit more detail on that would be helpful.

Christopher Kempczinski
Chairman President, & CEO

Sure. Well, regarding the value test, they started last week. So I think it'd be premature to share any results after one week. But we'll measure those tests the same way we measure most of our value tests, which is around incrementality and do they drive that incremental sales, which ultimately then drives franchisee economics. So it's going to be looking at the incrementality of those, the take rates on those and feeling good about what we're seeing there.

And then on EVMs and why it's not sort of enough in and of itself, it goes back to sort of how we think about value, and there's three elements -- there's a variety of elements, I should say, that you need to get right. You need to get right your menu prices, so on the menu board, and we're in a good place there on menu board prices. You need to get your meal bundles right. And I think we're in a good place there because of where we are with EVMs, but also remember, we've got that $5 and $6 meal.

And then you need to have good entry-level value. And particularly for that low-income consumer, they're looking for great entry-level value, and we have not had that in place to the level that we are satisfied with. We talked quite extensively about how Q2 we didn't land that like we needed to. And so that's what we're in the midst of getting resolved right now and through testing. And we expect in early 2027 that we'll have the answer from that test and then be able to have entry-level value. So at that point, I think we'll feel really good that we've got kind of the full suite of value offerings that we need and can drive the business in '27.

Ian Borden
Executive VP & Global CFO

And maybe just a small build, just -- I mean, I think it goes back to what we've talked a fair bit about before. We've got such good experience in our international markets where we've got all of those components in place. And I think we certainly believe that's been 1 of the fundamental baseline drivers of the consistency of our results there as we've had those options in place. They've largely been in place for a longer period of time, and they're clearly working because we're winning share in kind of those challenging marketplaces. And I think value has been a core component of that.

Operator

Our next question is from Jon Tower of Citi.

Jon Tower
Citigroup Inc., Research Division

I was hoping we could dig into the beverage platform in the U.S. specifically. So far, obviously, it sounds like it's been a nice platform for you. I'm curious if you could speak to what customers you're drawing in, where they're coming from? It sounds like it's hitting in the afternoon well for you and not cannibalizing the existing specialty platform, but perhaps the other beverages that you have in the menu are not getting picked up as much. And curious about your experience so far with that consumer. Are they seeking a greater velocity of new news than the existing base? And therefore, going forward, are you going to have to kind of keep that wheel moving at a faster turn than perhaps the base menu?

Ian Borden
Executive VP & Global CFO

Jon, let me start, and I'm sure Chris may want to weigh in. I mean I think the -- what we've talked about with beverages, I know you're asking about the U.S., but I think we are seeing very, very consistent results in every market so far that we've deployed beverages, which I think is why we're so I think, confident in the opportunity that this is going to be a multiyear growth platform for us and ultimately kind of get us to that 1.5% market share goal gain that we outlined at our Investor Day.

I mean I think U.S. specifically, what we're seeing, which is why we're very enthusiastic about the opportunity is that more than half of the occasions are coming after lunch. So they're coming at periods of the day where the restaurants are generally less busy. We've got capacity. I think that's a strong confirmation that there's kind of a good incrementality to those visits. We're seeing strong check in transactions that include a beverage in general, about 50% higher than the overall average day check. So we're seeing strong food attachment. And the customer base skews younger. So we know it's resonating with the kind of key consumers that are in the category in the general marketplace.

For sure, like I think any part of the menu, consumers want some of that kind of new news. I mean you got to start with the fundamental that the goal is to deliver great tasting, high-quality everyday choice that appeals to consumers and delivering that, which I think is what our unique proposition is, is great value for money relative to what's available in other parts of the market. And I think our foundational layer is doing that really well.

As I talked about in kind of my opening remarks, we are starting to rotate some new news. Germany did that in the quarter with what they call their Italo Spritz, which was their best-performing beverage in the portfolio in the quarter. So we know new news is going to be important. Obviously, we just want to make sure we're doing that at the right pace while continuing to kind of invest in the underlying platform.

As far as cannibalization, I mean, of course, there's going to be some element of cannibalization like any time you're kind of adding incremental options to the menu. But I think what we're trying to really emphasize is there is clear incrementality. We know beverages are driving incremental visits and incremental sales for restaurants. And ultimately, that means, of course, incremental profitability for the franchisees and for the restaurants. So it's all of those things together that are getting us more -- even more convicted about the opportunity and the fact that we're seeing that consistently in each market that's bringing the opportunity to life.

Christopher Kempczinski
Chairman President, & CEO

The only thing I would add, I think Ian covered that really well. But as you think about long term, we do think that there is an opportunity and a need for us to offer an even broader assortment of beverages. And part of what is inherent in the NEXT remodels is we just need to increase space for beverages. We don't have adequate space in back of house to be able to offer kind of our full ambition of what we want to do in beverages. And so part of that, actually 1 of the most significant investments associated with the NEXT remodel is actually increasing what we call the beverage cell to give ourselves the platform to offer that broader variety of beverages going forward.

Operator

Our next question is from Andy Barish at Jefferies.

Andrew Barish
Jefferies LLC, Research Division

I'm wondering if you could address kind of the marketing advantage dollar-wise you guys have is obviously significant, but the messaging just doesn't seem to have kind of cut through, if you will. Are there any changes you can highlight at this point just in terms of maybe where that message is being delivered and how some of the marketing spend is shifting between channels perhaps?

Christopher Kempczinski
Chairman President, & CEO

Yes. Sure, Andy. Well, we would agree. The marketing has not been where we would set the standard at for McDonald's. And so that's certainly something that Sky and the team are getting after, and I feel good about some of the initial thinking that I've seen there and more to come on that. We talked a lot about it at Investor Day, as you know, Consumer NEXT and how we're thinking about changing our go-to-market approach, changing our demand generation approach and really emphasizing and leveraging the fact that McDonald's is 1 of the world's biggest global brands, and we can generate talk value that few other brands do.

And we haven't, in my estimation, and I know Morgan would share this as well, we haven't done as much as we could to harness that and really channel it into driving brand love for us. And so that is going to be something that you're going to see us doing increasingly over the next several years.

Dexter Congbalay
Vice President of Investor Relations

Our next question is from Chris O'Cull at Baird.

Christopher O'Cull
Robert W. Baird & Co. Incorporated, Research Division

Where do the discussions with franchisees stand on getting better alignment around pricing across the full menu heading into next year, not just the advertised value offers? And I'm just curious what needs to change to make the execution more consistent from restaurant to restaurant. And then maybe lastly, I think you guys had mentioned in the past that you expected system pricing to be in the mid-single-digit range at some point in the fourth quarter. I was just curious if that was still the plan.

Christopher Kempczinski
Chairman President, & CEO

Sure. Well, we're always in conversations with franchisees around pricing, and I think largely focused on the U.S. right now. But largely, we're in a good spot with the exception of this entry-level value. So our base menu pricing as we compare and benchmark versus our competitors within the trading area, we are at a discount in the vast majority of our restaurants in the U.S. on base menu pricing. So we feel good about that. As I mentioned, we feel really good about where we are with our meal bundles and other elements.

So I don't think we have a problem in the U.S. Now you always have to stay vigilant on it, and it's a dynamic environment. So we're going to constantly keep looking at it. But we're starting from a good position on that. As you think about 2027, certainly, we're still expecting to see mid-single-digit food and paper inflation. And that is higher than, as you know, our long-term historical trends there. And so it is going to continue to be sort of a needle that we're going to have to thread of how do we make sure that we're getting pricing through to account for the inflation that we're seeing, but also make sure that we continue to lead with customers who are offering great value and affordability.

Operator

Next question is from Brian Bittner at Oppenheimer.

Brian Bittner
Oppenheimer & Co. Inc., Research Division

You guys talked about several action plans you took to improve baseline sales during the quarter and into 4Q. And 1 of those was the restoration of national digital offers. Can you maybe help us understand how big of a business this is for you? Or maybe you can explain how impactful it is when you do get it right? And just in the same vein, can you also update us on what you're seeing with that low-end consumer? Some of your peers that have reported earnings already are talking about some improvements in this important cohort for the first time all year. And just curious maybe what your updated thoughts on the low end is.

Ian Borden
Executive VP & Global CFO

Yes. Brian, it's Ian. Let me start, and then I'm sure Chris may want to weigh in. I mean I think you're right. We talked about a number of areas of intervention through Q3. And 1 of those was to partially restore national digital offers, which are really, really important for our high-frequent users, our loyalty members. I think -- so I think that was certainly 1 of the things that contributed to the improvement in our baseline traffic momentum that we talked about. But we also said we've got more work to do, and that's certainly what Sky and the U.S. system are focused on through the rest of the year.

I mean our loyalty membership in the U.S. is almost 30% of our customer base. So it's a really important part. It's a part of our customer base that we interact with on a very regular basis. And as we've talked about before, the frequency of that loyalty base is much higher as members get into loyalty. In fact, it goes up about 2.5x in the 12 months post joining the loyalty program. So connecting with those customers and getting offers in place that resonate with them and are clear and compelling is really important. And as I said, we've made progress, but we've got more work to do on that front that the U.S. system is working through.

Christopher Kempczinski
Chairman President, & CEO

Yes. I would just add, I think digital offers is important, particularly because digital offers goes after our most frequent customers. And if you think about our business, we've got about 1/3 of our sales are digital sales. A significant portion of those are app-based, which are our loyalty members. And those frequent customers represent the majority of our sales.

The occasional customer, while important, the occasional customer is not as meaningful from a sales contribution as that frequent customer. That frequent customer is super sensitive to digital offers. And I think what we learned there is we've got to make that right. And when you perhaps change key elements of the digital offer program that were really valued by the frequent customer, the impact on that can be pretty significant.

And so what Sky and the team have been able to do is go back and really address some of the biggest areas that needed to be put back in place. And then we're also continuing with franchisees to talk about other areas within digital that we make sure that we're rewarding those frequent customers and keeping them coming back to McDonald's.

Operator

Our next question is from Greg Francfort at Guggenheim.

Gregory Francfort
Guggenheim Securities, LLC, Research Division

I wanted to just ask maybe briefly about delivery. I think China, part of the reason maybe it was soft this quarter is some of the aggregators have pulled back from the market. And I guess I'm wondering what your experience is like right now in either the U.S. and maybe some of the key IOM markets. Are you still seeing that grow? And kind of any other thoughts on the strategy?

Christopher Kempczinski
Chairman President, & CEO

Sure. Well, within China, definitely, there's been a pullback by the third-party delivery providers. And we had an odd situation in China where it was actually cheaper for a period of time to order delivery than it was by going to the restaurant, which is -- requires a significant amount of subsidization that was going in by the third-party delivery providers. That has reversed out. They've pulled back on a lot of those offers. And so that has negatively impacted traffic in broader market in China and certainly, it has impacted us.

Delivery globally, though, is still growing. It's still growing kind of, call it, mid- to high single digits. And we're seeing, I think, strong performance for ourselves in delivery. Because of our size, because of the proximity of our restaurants to customers, we are a preferred venue for those 3PO providers. And so we're still feeling good about our delivery business. We feel good about the share gains that we're seeing in delivery. But I think as cost of living pressures continue to be a source of concern, it's also incumbent upon us as well as the delivery providers to make sure that we're being thoughtful about the surcharge or the incremental price that gets offered there. So there's a lot of conversations on that, but delivery is still broadly growing.

Operator

Our next question is from Chris Carril at KeyBanc.

Christopher Carril
KeyBanc Capital Markets Inc., Research Division

Can you comment on how per store operating cash flows are now shaping up for the year, just maybe relative to the $500,000 level you referenced at Investor Day. And then on the cost outlook, I believe you just mentioned you expect the cost outlook in '27 to include mid-single-digit food and paper inflation, if I heard that correctly. So how is that factoring into your latest conversations with franchisees on the value initiatives for next year?

Christopher Kempczinski
Chairman President, & CEO

Yes. Thanks, Chris. So on the first question, which is around I'll actually hit the second question, which is around conversation with franchisees on pricing. We've actually had leadership franchisees at headquarters this week talking about that exact thing. And I think there's broad alignment around it's important for us in this environment to continue to make sure that we've got the right value program in place. And so that's why we've got the entry-level value testing. I don't see there's any wavering in terms of the commitment for us to get that right. And it's now just going through the how of that we go do that.

And then in terms of how that plays out in 2027 when you've got the mid-single-digit food and paper inflation, which is what we are seeing. It's just going to require us to continue to be nimble there. And I think there are -- we've got through our RGM team, I think, much better insight and clarity around those key value items, the ones that we've got to get right from pricing and those areas where perhaps we have opportunities to be able to push through a little bit of pricing. So it varies restaurant to restaurant, operator by operator.

We are going to find ways to go try to push that through. But I think we've just got to be really careful. And I think we've learned the lesson over the last 18 months that you need to proceed very cautiously with that. And I think we're aligned with franchisees on that. Your question around cash flows and where that stands, I don't have the latest number, but I think we're broadly in line with where we talked about. Certainly, part of that is going to be where we land in Q4 that's going to influence the final year number. But I think we're right around that $500,000 and whether we're slightly above or below that, I think we still got a quarter to go.

Ian Borden
Executive VP & Global CFO

The only maybe thing I'd add, Chris, to Chris' comments is, I mean, at the end of the day, the most important thing for us to do to drive bottom line results, both for our franchisees and for us is get the momentum of the business back where we want it to be. And I would just say, I think that's what our U.S. system is focused on for the rest of this year, as we've talked about. And I know they're deep in kind of working through their '27 plan and the focus is how do we get the strongest possible top line growth in the environment that we're operating in.

Obviously, that doesn't mean, of course, we don't take pricing or franchisees don't make decisions to take pricing. But the best thing for us to do is get the baseline of our business back into the spot where we want it to be, and that then helps us look after the rest.

Dexter Congbalay
Vice President of Investor Relations

Thank you, everyone, for joining us today. That concludes our Q&A session. Any follow-up questions, please e-mail either at McDonald's IR inbox or myself, and we could set up a time for further discussion. Again, thank you, everybody, for joining, and we will talk to you later.

Operator

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

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