

Kroger Reports Third Quarter 2020 Results and Raises Full-Year 2020 Guidance

Third Quarter Highlights

- Identical Sales without fuel grew 10.9%
- Digital sales grew 108%
- EPS of \$0.80; Adjusted EPS of \$0.71, up 51% compared to prior year
- Operating Profit of \$792 million; Adjusted FIFO Operating Profit of \$871 million, up 33% compared to prior year
- Strong alternative profit business growth fueled by digital media revenue, up triple digits compared to prior year
- Continued investments to support and safeguard associates, customers and communities, nearly \$1.3 billion since March



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The Kroger Co. →

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CINCINNATI, Dec. 3, 2020 /PRNewswire/ -- The Kroger Co. (NYSE: KR) today reported its third quarter 2020 results, provided a *Restock Kroger* progress update on the three-year transformation plan, and an update to its COVID-19 response.

Comments from Chairman and CEO Rodney McMullen

"Our Kroger family of associates have been nothing short of incredible during the pandemic and they continue to inspire me every day. I am proud of our dedicated associates who continued to diligently execute our *Restock Kroger* transformation while serving our customers when they need us most.

We delivered strong results in the third quarter. Customers are at the center of everything we do and sales remain elevated as we continue to enhance our competitive moats – Fresh, *Our Brands*, Data & Personalization and Seamless. We are executing against our strategy even during the pandemic and continue to grow market share.

The strong underlying momentum in our core supermarket business and acceleration in the growth of our alternative profit business demonstrates we are successfully transforming our business model to deliver consistently strong and attractive total shareholder return in 2020 and beyond."

Financial Results

	3Q20 (\$ in millions; except EPS)	3Q19 (\$ in millions; except EPS)
ID Sales* (Table 4)	10.9%	2.5%
EPS	\$0.80	\$0.32
Adjusted EPS (Table 6)	\$0.71	\$0.47
Operating Profit	\$792	\$254
Adjusted FIFO Operating Profit (Table 7)	\$871	\$653
FIFO Gross Margin Rate*	Decreased 2 basis points	
OG&A Rate*	Decreased 30 basis points	

*Without fuel and adjustment items, if applicable

Total company sales were \$29.7 billion in the third quarter, compared to \$28.0 billion for the same period last year. Excluding fuel and dispositions, sales grew 11.3%.

Gross margin was 23.0% of sales for the third quarter. The FIFO gross margin rate, excluding fuel, decreased 2 basis points compared to the same period last year. This decrease was primarily driven by price investments and mix changes, offset by sourcing efficiencies, sales leverage and growth in alternative profit streams.

The LIFO charge was \$23 million for both the third quarters of 2020 and 2019.

The Operating, General & Administrative rate decreased 30 basis points, excluding fuel and adjustment items, due to sales leverage and execution of *Restock Kroger* initiatives, partially offset by continued COVID-19 related investments to protect the health and safety of associates, customers and communities and increased incentive costs.

Rent and depreciation, excluding fuel, decreased 27 basis points due to sales leverage.

Capital Allocation Strategy

Kroger's capital allocation strategy is to use its adjusted free cash flow to invest in the business and drive profitable growth while also maintaining its current investment grade debt rating and returning capital to shareholders. The company actively balances the use of its adjusted free cash flow to achieve these goals.

Kroger's net total debt to adjusted EBITDA ratio is 1.74, compared to 2.50 a year ago (Table 5). The company's net total debt to adjusted EBITDA ratio target range is 2.30 to 2.50. Kroger held temporary cash investments of approximately \$1.8 billion as of the end of the quarter, reflecting improved operating performance and significant improvement in working capital.

During the quarter, Kroger repurchased \$304 million of shares under its \$1 billion board authorization announced on September 11, 2020. Year-to-date, Kroger has repurchased \$989 million of shares.

Earlier this year, Kroger increased the dividend by 13 percent, marking the 14th consecutive year of dividend increases.

Guidance Update

Comments from CFO Gary Millerchip

"As a result of our continued strong performance, market share growth and the expectation of sustained trends in food at home consumption for the remainder of our fiscal year, we are raising our full year 2020 guidance. For the full year 2020, we expect total identical sales without fuel to be around 14% and adjusted EPS growth of 50% to 53%.

Our guidance contemplates continued investments in associates and customers plus ongoing COVID-19 related costs, balanced with continued execution of cost savings initiatives and growth in alternative profit businesses.

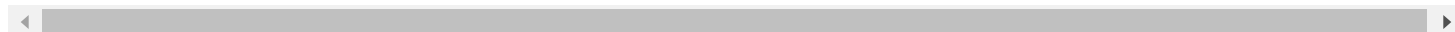
Looking toward 2021, we believe that our performance will be stronger than we would have expected prior to the pandemic when viewed as a two-year stacked result for identical sales without fuel growth and as a compounded growth rate over 2020 and 2021 for adjusted earnings per share growth."

Full Year 2020 Guidance

	IDS (%)	EPS (\$)	Operating Profit (\$B)	Tax Rate**	Cap Ex (\$B)	Adjusted FCF (\$B)	Share Repurchases (\$B)
Adjusted*	~14.0%	\$3.30 - \$3.35	\$4.0 - \$4.1	23%	\$2.8 - \$3.2	\$2.8 - \$3.1	\$1.1 - \$1.3

* Without adjusted items, if applicable; Identical sales is without fuel; Operating profit represents FIFO Operating Profit. Kroger is unable to provide a full reconciliation of the GAAP and non-GAAP measures used in 2020 guidance without unreasonable effort because it is not possible to predict certain of our adjustment items with a reasonable degree of certainty. This information is dependent upon future events and may be outside of our control and its unavailability could have a significant impact on 2020 GAAP financial results.

** This rate reflects typical tax adjustments and does not reflect changes to the rate from the completion of income tax audit examinations, which cannot be predicted.



Third Quarter 2020 Highlights

Associate Experience

- Invested nearly \$1.3 billion to reward associates and to protect them and customers through dozens of safety measures since March
- Reached agreement with 20 local UFCW unions to invest \$1 billion to improve security of future retirement benefits for 33,000 associates. Agreement ratified in the 4th quarter and will incur a charge to net earnings of approximately \$0.98 per diluted share on a GAAP basis in Q4
- Continued investment in Kroger associates with average hourly rate now over \$20 with comprehensive benefits factored in
- Recognized as a 2020 Champion of Disability Inclusion by the State of Ohio

Customer Obsession

- Proactively secured an additional 5,000 truckloads of inventory and increased distribution capacity reserves by 20% within supply chain to minimize potential supply disruptions
- *Our Brands* launched largest number of new items ever, including 50 new Simple Truth Plant Based collection items
- Expanded to 2,213 Pickup locations and 2,468 Delivery locations, covering over 98% of Kroger households
- Announced additional Kroger-Ocado customer fulfillment center in Romulus, Michigan
- Announced expansion of global money transfer services with Western Union and Ria Money Transfer
- Launched Chefbot, a first-of-its-kind artificial intelligence tool, on Twitter that delivers personalized recipe recommendations based on ingredients already in a customer's kitchen

Live Our Purpose

- Partnered with federal government and dozens of state health departments in preparation of distribution of COVID-19 vaccine
- Launched FDA-authorized rapid antibody tests across family of pharmacies and The Little Clinic locations
- Conducted more than 250,000 COVID-19 tests since April through Kroger Health
- Announced new *Framework for Action: Diversity, Equity & Inclusion* plan, featuring 10 significant steps to advance diversity, equity and inclusion in the workplace and communities
- Named to the Dow Jones Sustainability Index for eighth consecutive year, driven by the company's progress toward its Zero Hunger | Zero Waste and sustainability goals
- Year-to-date, The Kroger Co. Foundation and The Kroger Co. Zero Hunger | Zero Waste Foundation have directed nearly \$21 million in total grants to nonprofit organizations and programs addressing COVID-19 and Zero Hunger | Zero Waste

About Kroger

At The Kroger Co. (NYSE: KR), we are Fresh for Everyone™ and dedicated to our Purpose: To Feed the Human Spirit®. We are, across our family of companies, nearly half a million associates who serve over 11 million customers daily through a seamless shopping

experience under a variety of banner names. We are committed to creating #ZeroHungerZeroWaste communities by 2025. To learn more about us, visit our newsroom and investor relations site.

Kroger's third quarter 2020 ended on **November 7, 2020**.

Note: Fuel sales have historically had a low gross margin rate and operating expense rate as compared to corresponding rates on non-fuel sales. As a result, Kroger discusses the changes in these rates excluding the effect of fuel.

Please refer to the supplemental information presented in the tables for reconciliations of the non-GAAP financial measures used in this press release to the most comparable GAAP financial measure and related disclosure.

This press release contains certain statements that constitute "forward-looking statements" about the future performance of the company. These statements are based on management's assumptions and beliefs in light of the information currently available to it. Such statements are indicated by words or phrases such as "achieve," "believe," "contemplates," "continue," "deliver," "expect," "future," "guidance," "strategy," "target," "trends," and "will." Various uncertainties and other factors could cause actual results to differ materially from those contained in the forward-looking statements. These include the specific risk factors identified in "Risk Factors" in our annual report on Form 10-K for our last fiscal year and any subsequent filings, as well as the following: