

# Kroger Delivers Strong First Quarter Results and Raises Full-Year 2021 Guidance

## First Quarter Highlights

- Identical Sales without fuel decreased 4.1%; two-year stack increased 14.9%
- Digital sales grew 16%; two-year stack grew 108%
- EPS of \$0.18; Adjusted EPS of \$1.19
- Operating Profit of \$805 million; Adjusted FIFO Operating Profit of \$1,375 million
- Record alternative profit business growth fueled by Retail Media and Kroger Personal Finance
- Kroger's Board of Directors approves new \$1 billion share repurchase program



PROVIDED BY

**The Kroger Co.**

Jun 17, 2021, 08:00 ET

CINCINNATI, June 17, 2021 /PRNewswire/ -- The Kroger Co. (NYSE: [KR](#)) today reported its first quarter 2021 results and will update investors on how Leading with Fresh and Accelerating with Digital initiatives are positioning Kroger for long-term sustainable growth.

## Comments from Chairman and CEO Rodney McMullen

"Kroger is even better positioned to connect with our customers than we were prior to the pandemic as a result of our relentless focus on leading with fresh and accelerating with digital. I am incredibly proud of our amazing associates who continue to be there for our customers, communities, and each other when they need us most and who strive to deliver a full, fresh, and friendly experience to every customer, every time.

"Kroger's strong execution delivered identical sales results in the first quarter that exceeded our original expectations. Customers are responding to the investments we have made in digital, as evidenced by our triple-digit growth in digital sales since the beginning of 2019. We were disciplined

in driving costs out of the business and we achieved record growth in Kroger's alternative profit business, demonstrating the power and attractiveness of our long-term model.

"We are raising our guidance based on the strength of our results and we remain confident in our ability to deliver consistently attractive total shareholder return."

## First Quarter Financial Results

	1Q21 (\$ in millions; except EPS)	1Q20 (\$ in millions; except EPS)
ID Sales* (Table 4)	(4.1%)	19.0%
EPS	\$0.18	\$1.52
Adjusted EPS (Table 6)	\$1.19	\$1.22
Operating Profit	\$805	\$1,326
Adjusted FIFO Operating Profit (Table 7)	\$1,375	\$1,453
FIFO Gross Margin Rate*	Decreased 65 basis points	
OG&A Rate*	Decreased 108 basis points	

\*without fuel and adjustment items, if applicable

## First Quarter Results versus Two Years Ago

	1Q21 (\$ in millions; except EPS)
ID Sales Two Year Stacked* (Table 8)	14.9%
EPS Two Year CAGR (Table 8)	(56.5%)
Adjusted EPS Two Year CAGR (Table 8)	28.6%
Operating Profit Two Year CAGR (Table 8)	(5.5%)
Adjusted FIFO Operating Profit Two Year CAGR (Table 8)	19.9%
FIFO Gross Margin Rate Compared to Q1 2019*	Decreased 21 basis points
OG&A Rate Compared to Q1 2019*	Decreased 58 basis points

\*without fuel and adjustment items, if applicable

Total company sales were \$41.3 billion in the first quarter, compared to \$41.5 billion for the same period last year. Excluding fuel, sales decreased 4.0% compared to the same period last year.

Gross margin was 22.6% of sales for the first quarter. The FIFO gross margin rate, excluding fuel, decreased 65 basis points compared to the same period last year. This decrease was primarily related to sales deleverage, higher shrink, continued price investments, and charges related to COVID-19, partially offset by sourcing benefits and growth in Alternative Profits.

The LIFO charge for the quarter was \$37 million, compared to a LIFO charge of \$31 million for the same period last year.

The Operating, General & Administrative rate decreased 108 basis points, excluding fuel and adjustment items, which reflects decreased COVID-19 related costs, lower contributions to multi-employer pension plans, the execution of cost savings initiatives and decreased incentive costs, partially offset by sales deleverage.

Rent and depreciation rate, excluding fuel, increased 18 basis points due to sales deleverage.

## **Capital Allocation Strategy**

Kroger continues to generate strong free cash flow and remains committed to investing in the business to drive long-term sustainable net earnings growth, maintaining its current investment grade debt rating, and returning excess free cash flow to shareholders via share repurchase and a growing dividend over time.

As previously disclosed, Fred Meyer and QFC and four local unions ratified an agreement for the transfer of liabilities from the Sound Retirement Trust to the UFCW Consolidated Pension Plan. Kroger will transfer \$449 million in net accrued pension liabilities and prepaid escrow funds, on a pre-tax basis, to fulfill obligations for past service for associates and retirees. On an after-tax basis, \$344 million will be needed to execute this transaction. The agreement will be satisfied by cash installment payments to the UFCW Consolidated Pension Plan and are expected to be paid evenly over seven years. The impact of this transaction on GAAP net earnings per diluted share was \$0.45 during the quarter and is excluded from adjusted net earnings per diluted share results.

Kroger's net total debt to adjusted EBITDA ratio is 1.79, compared to 1.81 a year ago (Table 5). The company's net total debt to adjusted EBITDA ratio target range is 2.30 to 2.50.

Kroger also announced today that the company's Board of Directors has approved a \$1 billion share repurchase program; the previous authorization expired last week.

## **2021 Guidance**

### **Comments from CFO Gary Millerchip**

"Based on the momentum within our business, we are raising our full year guidance. We now expect our two-year identical sales stack to be in the range of 10.1% to 11.6%. We expect our adjusted net earnings per diluted share to be in the range of \$2.95 to \$3.10.

"Our new, \$1 billion share buyback program reinforces our Board of Directors and management's confidence in our ability to generate strong free cash flow and is consistent with our commitment to deliver strong and sustainable total shareholder returns of 8-11%."

## Full Year 2021 Guidance

	IDs (%)	EPS (\$)	Operating Profit (\$B)	Tax Rate**	Cap Ex (\$B)	Free Cash Flow (\$B)****
<b>Adjusted*</b>	(4.0%) - (2.5%)	\$2.95 - \$3.10	\$3.5 - \$3.7	23%	\$3.4 - \$3.6	\$1.8 - \$2.0
<b>2-Year Basis***</b>	10.1% - 11.6% (Stack)	16% - 19% (CAGR)	8.5% - 10.8% (CAGR)			\$3.0 - \$3.1 (Average)

\* 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 2021 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 2021 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 or changes in tax laws, which cannot be predicted.

\*\*\* Identical sales, without fuel, guidance for 2-year basis represents the sum of actual 2020 identical sales percentage and 2021 identical sales rate guidance. The 2-year basis guidance items denoted with CAGR represent the compounded annual growth rate utilizing 2019 as the base year. Average free cash flow is the average of actual 2020 free cash flow and 2021 guidance.

\*\*\*\* 2021 free cash flow guidance includes a \$300M payment of deferred payroll taxes. This excludes planned payments related to the restructuring of multi-employer pension plans.

## First Quarter 2021 Highlights

### Leading with Fresh

- *Our Brands* launched 253 new items during the quarter, including seasonal fresh produce and products to elevate summer cooking
- Announced expansion of partnership with [80 Acres Farms](#) to 316 stores reaching more shoppers in the Midwest – both in store and online
- Announced *Go Fresh & Local* [Supplier Accelerator](#), providing Kroger with the opportunity to discover more local and regional suppliers to partner with to advance freshness, quality, and *Fresh for Everyone* commitment
- Launched a [digital farmers market](#) pilot, creating an e-commerce marketplace that connect local farmers and businesses to customers seeking fresh and delicious products

## Accelerating with Digital

- Opened first two Kroger Delivery facilities powered by Ocado in Monroe, Ohio and Groveland, Florida, a new geography
- Expanded to 2,233 Pickup locations and 2,488 Delivery locations, covering 98% of Kroger households
- Increased capacity for Pickup by 15% with focus on adding high-demand time slots
- Named "Retail Innovator of the Year" during the Path to Purchase Institute's first Industry Innovator Awards
- Announced [Kroger Drone Delivery](#) pilot with partner Drone Express, reinforcing the importance of flexibility and immediacy to customers

## Associate Experience

- On track to increase Kroger Family of Companies' average hourly wage to \$16 an hour and with comprehensive benefits, will be approaching \$21 by the end of 2021
- Reached agreement with four local unions to restructure the Sound Retirement Trust and [improve security and stability of future pension benefits](#) for more than 10,600 Kroger Family of Companies associates
- Continued to encourage associates to get the COVID-19 vaccine, offering a one-time \$100 incentive
- On June 10, held first nationwide hybrid hiring event, featuring virtual and in-store interviews, driving a 37% applicant flow increase
- Since inception, 6,314 associates have taken advantage of Kroger's best-in-class education assistance program, 84% of whom are hourly
- Observed Mental Health Awareness Month by elevating the mental health discussion internally through a variety of communications, resources, and live webinars
- Published [LGBTQ+ and Asian American Pacific Islander allyship guides](#) as part of *Framework for Action: Diversity, Equity & Inclusion* plan and to uplift customers and associates across the Kroger Family of Companies
- 47 female associates were chosen from across the Kroger enterprise by Progressive Grocer to represent the Top Women in Grocery across three categories including, Senior-level Executives, Rising Stars and Store Leaders
- Announced a donation of \$1 million to seed the Roundy's Oconomowoc Distribution Center Victims and Survivor's Fund and a donation of \$1 million to the Colorado Healing Fund to support the needs of victims, families, survivors and the community affected by the recent Boulder, CO supermarket tragedy, from The Kroger Co. Foundation

## Live Our Purpose

- Providing the chance to win one of five \$1 million checks or one of 50 groceries-for-a-year prizes through the [Community Immunity Giveaway](#) to help support the Biden Administration's goal to have 70% of U.S. adults vaccinated by July 4
- Kroger Health administered more than 5 million COVID-19 vaccines to date, including customers and associates
- 2020 Zero Hunger | Zero Waste directed \$213 million of \$301 million in total charitable giving to help end hunger in communities, and a record one-year total of 640 million meals to people across the country while achieving 81% waste diversion from landfills company-wide
- Zero Hunger | Zero Waste Foundation announced the [second cohort of its Innovation Fund](#), selecting 10 startups to receive a combined \$2.5M in funding to launch innovative new consumer products made with surplus food or food byproducts and technologies to advance the upcycled food industry
- [Purchased](#) \$4.1 billion [from diverse suppliers](#) during 2020, an increase of 21% versus a year ago and advancement of commitment to reach \$10 billion in diverse supplier spend by 2030
- Supported disaster response to uplift communities affected by the Texas winter storm by providing aid, including issuing \$270,000 in Helping Hands Fund emergency grants to more than 500 associates, partnering with the City of Dallas and City of Houston, and supplying drinkable water to local communities and not-for-profit organizations
- Launched free and downloadable [Small Business Resource Guide](#) to encourage supplier diversity as part of *Framework for Action: Diversity, Equity & Inclusion* plan

## About Kroger

At The [Kroger](#) Co. (NYSE: [KR](#)), we are dedicated to our Purpose: to Feed the Human Spirit™. We are, across our family of companies nearly half a million associates who serve over nine million customers daily through a seamless digital shopping experience and 2,800 retail food stores under a variety of [banner names](#), serving America through food inspiration and uplift, and creating #ZeroHungerZeroWaste communities by 2025. To learn more about us, visit our [newsroom](#) and [investor relations](#) site.

Kroger's first quarter 2021 ended on **May 22, 2021**.

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:

Kroger's ability to achieve sales, earnings, incremental FIFO operating profit, and adjusted free cash flow goals may be affected by: COVID-19 pandemic related factors, risks and challenges, including among others, the length of time that the pandemic continues, new variants of the virus, the effect of the easing of restrictions, lack of access to vaccines for certain populations and the extent of vaccine aversion, the potential for future spikes in infection and illness rates and the corresponding potential for disruptions in workforce availability and customer shopping patterns, re-imposed restrictions in the event of resurgence, and interruptions in the global supply chain or capacity constraints; the pace of recovery when the pandemic subsides; labor negotiations or disputes; changes in the unemployment rate; pressures in the labor market; changes in government-funded benefit programs and the extent and effectiveness of any COVID-19 stimulus packages; changes in the types and numbers of businesses that compete with Kroger; pricing and promotional activities of existing and new competitors, including non-traditional competitors, and the aggressiveness of that competition; Kroger's response to these actions; the state of the economy, including interest rates, the inflationary and deflationary trends in certain commodities; changes in tariffs; the effect that fuel costs have on consumer spending; volatility of fuel margins; manufacturing commodity costs; diesel fuel costs related to Kroger's logistics operations; trends in consumer spending; the extent to which Kroger's customers exercise caution in their purchasing in response to economic conditions; the uncertainty of economic growth or recession; changes in inflation or deflation in product and operating costs; stock repurchases; Kroger's ability to retain pharmacy sales from third party payors; consolidation in the healthcare industry, including pharmacy benefit managers; Kroger's ability to negotiate modifications to multi-employer pension plans; natural disasters or adverse weather conditions; the effect of public health crises or other significant catastrophic events, including the coronavirus; the potential costs and risks associated with potential cyber-attacks or data security breaches; the success of Kroger's future growth plans; the ability to execute our growth strategy and value creation model, including continued cost savings, growth of our alternative profit businesses

and widening and deepening our strategic moats of fresh, our brands, personalization, and seamless; and the successful integration of merged companies and new partnerships. Our ability to achieve these goals may also be affected by our ability to manage the factors identified above. Our ability to execute our financial strategy may be affected by our ability to generate cash flow.

Kroger's effective tax rate may differ from the expected rate due to changes in tax laws, the status of pending items with various taxing authorities, and the deductibility of certain expenses.

Kroger assumes no obligation to update the information contained herein unless required by applicable law. Please refer to Kroger's reports and filings with the Securities and Exchange Commission for a further discussion of these risks and uncertainties.