

Kroger Q1 2024 Earnings Release

June 20, 2024



Safe Harbor

This presentation includes certain statements that constitute “forward-looking statements” about Kroger’s financial position and expected performance, including our proposed transaction with Albertsons Companies. These statements are based on management’s assumptions and beliefs in light of currently available information. Such statements are indicated by words or phrases such as “delivering,” “guidance,” “model,” “strategy,” “target,” “thesis,” “will,” and other similar statements. 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. 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. This presentation includes certain non-GAAP financial measures. Please refer to the supplemental information presented in the tables for reconciliations of the non-GAAP financial measures used in this presentation to the most comparable GAAP financial measure and related disclosure. This presentation also includes certain forward-looking non-GAAP financial measures, which management believes to be useful to investors and analysts. Kroger is unable to provide a full reconciliation of the non-GAAP measures used in our guidance, including, but not limited to, adjusted FIFO operating profit to operating profit and adjusted free cash flow, without unreasonable effort because it is not possible to predict with a reasonable degree of certainty the information necessary to calculate such measures on a GAAP basis. It is not possible to estimate with a reasonable degree of certainty certain of our adjustment items because such information is dependent on future events that may be outside of our control. The unavailable information could have a significant impact on our GAAP financial results.



Q1 2024 Results

+0.5%

ID Sales⁽¹⁾

\$1,294M

GAAP Operating Profit

\$1.29

GAAP EPS

+8%

Digital Sales
Delivery and Pickup combined
for double-digit growth

\$1,499M

Adj. FIFO Operating Profit

\$1.43

Adj. EPS
5% decline



(1) Without fuel

2024 Full-Year Guidance* - Reaffirmed

Adjusted Metric	FY24 Guidance
Identical Sales without fuel (%)*	0.25% – 1.75%
Operating Profit (\$B)*	\$4.6 – \$4.8
EPS (\$)*	\$4.30 – \$4.50
Free Cash Flow (\$B)**	\$2.5 – 2.7
Cap Ex (\$B)	\$3.4 – \$3.6
Tax Rate***	23%



* Without adjusted items, if applicable. Kroger is unable to provide a full reconciliation of the GAAP and non-GAAP measures used in 2024 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 2024 GAAP financial results.

** Adjusted free cash flow excludes planned payments related to the restructuring of multi-employer pension plans, payments related to opioid settlements and merger-related expenses.

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

Q1 2024 Highlights

Leading with Fresh,
Accelerating with Digital



Progress on our go-to-market strategy

Fresh

Launched a new brand, Field & Vine, which offers high quality and regionally grown berries

Achieved a new record for quarterly floral sales in Kroger history led by strong Valentine's Day and Mother's Day sales



Our Brands

Introduced 346 new *Our Brands* items

Completed brand redesigns in Abound and Pet Pride, and rolled out new Simple Truth packaging



Personalization

Grew digitally engaged households by 9%, increasing customer loyalty and promoting growth in alternative profit businesses like Kroger Precision Marketing

Delivered more personalized value to customers with an 18% increase in digital coupon downloads



Seamless

Increased delivery sales by 17% over last year led by Customer Fulfillment Centers

Strong execution in Pickup led to new record pickup fill rate, as well as improvement in wait times



Strengthening our Value Creation Model

*Delivering Sustainable Total Shareholder Return of 8 – 11%**

Grocery

Strong store execution and exceptional value led to growth in total households, loyal households, and customer visits

Fuel

Customers redeemed 8% more fuel rewards compared to the same quarter last year, driving more customer loyalty

Cents per gallon fuel margin declined low-single digits compared to last year

Health & Wellness

Solid sales growth and improved share of vaccinations

+ Alternative Profits

Strong operating profit performance with growth led by KPM

Expanded new Kroger Precision Marketing capabilities to advertisers on Meta's platforms



Strong Grocery, Fuel and Health & Wellness Business

Revenue + Traffic



Fast Growing Alternative Profit Businesses

Data + Traffic



*Total shareholder return assumes no change in Kroger's PE Ratio.

Associate Experience

- **Supporting Associates:** Awarded the 2024 Platinum Bell Seal for Workplace Mental Health by Mental Health America
- **Leadership Recognition:** Recognized as one of the All-Time Top Corporations for Women Business Enterprises by the WBENC
- **Diverse and Inclusive Workplace:** Named as a Best Workplace for Diverse Professionals by Mogul



Live Our Purpose



Featured on the 2024 Axios Harris Poll 100, an annual ranking of the most visible and trusted companies in America



**NATIONAL
STEM
CHALLENGE**

Sponsored the 2024 National STEM Festival through Kroger's Zero Hunger | Zero Waste Foundation



Celebrated Earth Month with a contribution to the World Wildlife Fund and introduction of a new reusable bag campaign



Recognized by Newsweek as one of "America's Greatest Workplaces for Diversity" for 2024

Handshake Early Talent Awards 2024

**Early talent
gets hired here**

Received a 2024 Early Talent Award from Handshake for our commitment to creating meaningful and engaging work experiences for early talent and Gen Z



Launched new senior-focused primary care in eight clinics in Atlanta

Investment Thesis

	Strong Business with Exciting Growth Opportunities	Proven Value Creation Model	Strong Balance Sheet & Resilient Free Cash Flow
	<ul style="list-style-type: none"> • Conveniently located +2,700 stores • First Party Data on 62M Households • ~\$30B <i>Our Brands</i> Business • Significant Digital Business, \$12B 	<ul style="list-style-type: none"> • Net Earnings Growth, 3-5% <ul style="list-style-type: none"> • ID Sales Growth (ex. Fuel), 2-4% • Margin Improvements (net of investments), 1-2% • Cost Savings, \$1B Annually • High Growth, Margin Accretive Alternative Profits • Disciplined Capital Investments • Cash Payout 5-6% (Dividends & Share Repurchases⁽¹⁾) 	<ul style="list-style-type: none"> • Strong Free Cash Flow Yield • Investment Grade Debt Rating • Current Net Debt to Adjusted EBITDA 1.25x
	<p>Accelerated Go-To-Market Strategy</p> <ul style="list-style-type: none"> • Fresher products, faster • Best-in-class personalized experience • Broader selection of <i>Our Brands</i> products • Enhanced Seamless experience 	<ul style="list-style-type: none"> • Combined TSR above Kroger's standalone TSR Model of 8 – 11% in first four years post-close <ul style="list-style-type: none"> • High Growth, Margin Accretive Alternative Profits 	<ul style="list-style-type: none"> • Accelerated Free Cash Flow Yield • Investment Grade Debt Rating • Strong Balance Sheet Positioned for Future Growth
<p><i>Combined company financial expectations to be updated upon closing</i></p>			



1. Kroger has paused its share repurchase program to prioritize de-leveraging following the proposed merger with Albertsons. During this period, value will be created for shareholders through dividends and the effect of reduced net debt.

Appendix



Table 1.
THE KROGER CO.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per share amounts)
(unaudited)

	FIRST QUARTER			
	2024		2023	
SALES	\$ 45,269	100.0%	\$ 45,165	100.0%
OPERATING EXPENSES				
MERCHANDISE COSTS, INCLUDING ADVERTISING, WAREHOUSING AND TRANSPORTATION (a), AND LIFO CHARGE (b)	35,124	77.6	35,080	77.7
OPERATING, GENERAL AND ADMINISTRATIVE (a)	7,604	16.8	7,393	16.4
RENT	269	0.6	265	0.6
DEPRECIATION AND AMORTIZATION	978	2.1	957	2.1
OPERATING PROFIT	1,294	2.9	1,470	3.3
OTHER INCOME (EXPENSE)				
INTEREST EXPENSE	(123)	(0.3)	(153)	(0.3)
NON-SERVICE COMPONENT OF COMPANY-SPONSORED PENSION PLAN BENEFITS	4	-	9	-
GAIN (LOSS) ON INVESTMENTS	16	-	(78)	(0.2)
NET EARNINGS BEFORE INCOME TAX EXPENSE	1,191	2.6	1,248	2.8
INCOME TAX EXPENSE	235	0.5	286	0.6
NET EARNINGS INCLUDING NONCONTROLLING INTERESTS	956	2.1	962	2.1
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	9	-	-	-
NET EARNINGS ATTRIBUTABLE TO THE KROGER CO.	<u>\$ 947</u>	2.1%	<u>\$ 962</u>	2.1%
NET EARNINGS ATTRIBUTABLE TO THE KROGER CO. PER BASIC COMMON SHARE	<u>\$ 1.30</u>		<u>\$ 1.33</u>	
AVERAGE NUMBER OF COMMON SHARES USED IN BASIC CALCULATION	721		717	
NET EARNINGS ATTRIBUTABLE TO THE KROGER CO. PER DILUTED COMMON SHARE	<u>\$ 1.29</u>		<u>\$ 1.32</u>	
AVERAGE NUMBER OF COMMON SHARES USED IN DILUTED CALCULATION	727		724	
DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.29		\$ 0.26	

Note: Certain percentages may not sum due to rounding.

Note: The Company defines First-In First-Out (FIFO) gross profit as sales minus merchandise costs, including advertising, warehousing and transportation, but excluding the Last-In First-Out (LIFO) charge.

The Company defines FIFO gross margin as FIFO gross profit divided by sales.

The Company defines FIFO operating profit as operating profit excluding the LIFO charge.

The Company defines FIFO operating margin as FIFO operating profit divided by sales.

The above FIFO financial metrics are important measures used by management to evaluate operational effectiveness. Management believes these FIFO financial metrics are useful to investors and analysts because they measure our day-to-day operational effectiveness.

- (a) Merchandise costs ("COGS") and operating, general and administrative expenses ("OG&A") exclude depreciation and amortization expense and rent expense which are included in separate expense lines.
- (b) LIFO charges of \$41 and \$99 were recorded in the first quarters of 2024 and 2023, respectively.

Table 2.
THE KROGER CO.
CONSOLIDATED BALANCE SHEETS
(in millions)
(unaudited)

	May 25, 2024	May 20, 2023
ASSETS		
Current Assets		
Cash	\$ 345	\$ 241
Temporary cash investments	2,501	2,391
Store deposits in-transit	1,226	1,143
Receivables	1,968	1,766
Inventories	6,694	7,030
Assets held for sale	607	-
Prepaid and other current assets	684	633
Total current assets	14,025	13,204
Property, plant and equipment, net	25,537	24,935
Operating lease assets	6,695	6,659
Intangibles, net	864	893
Goodwill	2,673	2,916
Other assets	1,647	1,586
Total Assets	\$ 51,441	\$ 50,193
LIABILITIES AND SHAREOWNERS' EQUITY		
Current Liabilities		
Current portion of long-term debt including obligations under finance leases	\$ 198	\$ 1,319
Current portion of operating lease liabilities	665	664
Accounts payable	10,777	10,450
Accrued salaries and wages	1,208	1,130
Liabilities held for sale	242	-
Other current liabilities	3,150	3,567
Total current liabilities	16,240	17,130
Long-term debt including obligations under finance leases	12,021	12,114
Noncurrent operating lease liabilities	6,412	6,353
Deferred income taxes	1,535	1,694
Pension and postretirement benefit obligations	386	427
Other long-term liabilities	2,434	1,595
Total Liabilities	39,028	39,313
Shareowners' equity	12,413	10,880
Total Liabilities and Shareowners' Equity	\$ 51,441	\$ 50,193
Total common shares outstanding at end of period	722	718
Total diluted shares year-to-date	727	724

Note: The Company reclassified \$3.1 billion of liabilities from other current liabilities to accounts payable on the Consolidated Balance Sheet for the quarter ended May 20, 2023 to conform to the current year presentation. This reclassification was made to the Consolidated Balance Sheet to more accurately present these current liabilities. A similar reclassification was made to the Consolidated Statement of Cash Flows resulting in a change to accounts payable and accrued expenses within net cash provided by operating activities for the quarter ended May 20, 2023.

Table 3.
THE KROGER CO.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)
(unaudited)

	YEAR-TO-DATE	
	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings including noncontrolling interests	\$ 956	\$ 962
Adjustments to reconcile net earnings including noncontrolling interests to net cash provided by operating activities:		
Depreciation and amortization	978	957
Operating lease asset amortization	187	188
LIFO charge	41	99
Stock-based employee compensation	57	49
Deferred income taxes	(64)	(5)
Gain on the sale of assets	(9)	(41)
(Gain) loss on investments	(16)	78
Other	19	73
Changes in operating assets and liabilities:		
Store deposits in-transit	(11)	(16)
Receivables	(102)	274
Inventories	225	419
Prepaid and other current assets	(70)	82
Accounts payable	622	200
Accrued expenses	(465)	(416)
Income taxes receivable and payable	180	198
Operating lease liabilities	(137)	(215)
Other	(66)	(26)
Net cash provided by operating activities	<u>2,325</u>	<u>2,860</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for property and equipment, including payments for lease buyouts	(1,304)	(1,028)
Proceeds from sale of assets	304	86
Other	(14)	(5)
Net cash used by investing activities	<u>(1,014)</u>	<u>(947)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt including obligations under finance leases	(54)	(62)
Dividends paid	(210)	(188)
Proceeds from issuance of capital stock	85	23
Treasury stock purchases	(103)	(29)
Other	(66)	(40)
Net cash used by financing activities	<u>(348)</u>	<u>(296)</u>
NET INCREASE IN CASH AND TEMPORARY CASH INVESTMENTS	963	1,617
CASH AND TEMPORARY CASH INVESTMENTS:		
BEGINNING OF YEAR	1,883	1,015
END OF PERIOD	<u>\$ 2,846</u>	<u>\$ 2,632</u>
Reconciliation of capital investments:		
Payments for property and equipment, including payments for lease buyouts	\$ (1,304)	\$ (1,028)
Payments for lease buyouts	37	-
Changes in construction-in-progress payables	37	(71)
Total capital investments, excluding lease buyouts	<u>\$ (1,230)</u>	<u>\$ (1,099)</u>
Disclosure of cash flow information:		
Cash paid during the year for interest	\$ 70	\$ 164
Cash paid during the year for income taxes	\$ 119	\$ 92

Table 4. Supplemental Sales Information

(in millions, except percentages)

(unaudited)

Items identified below should not be considered as alternatives to sales or any other GAAP measure of performance. Identical sales is an industry-specific measure, and it is important to review it in conjunction with Kroger's financial results reported in accordance with GAAP. Other companies in our industry may calculate identical sales differently than Kroger does, limiting the comparability of the measure.

IDENTICAL SALES (a)

	FIRST QUARTER	
	2024	2023
EXCLUDING FUEL	\$ 38,900	\$ 38,704
EXCLUDING FUEL	0.5%	3.5%

- (a) Kroger defines identical sales, excluding fuel, as sales to retail customers, including sales from all departments at identical supermarket locations, Kroger Specialty Pharmacy businesses, jewelry and ship-to-home solutions. Kroger defines a supermarket as identical when it has been in operation without expansion or relocation for five full quarters. Kroger defines Kroger Specialty Pharmacy businesses as identical when physical locations have been in operation continuously for five full quarters and discontinued patient therapies are excluded from the identical sales calculation starting in the quarter of transfer or termination. We define Kroger Delivery identical sales powered by Ocado based on geography. We include Kroger Delivery sales powered by Ocado as identical if the delivery occurs in an existing Kroger Supermarket geography. If the Kroger Delivery sales powered by Ocado occur in a new geography, these sales are included as identical when deliveries have occurred to the new geography for five full quarters. For the first quarter of 2024, Kroger Specialty Pharmacy businesses were not included in identical sales due to being classified as held for sale.

**Table 5. Reconciliation of Net Total Debt and
Net Earnings Attributable to The Kroger Co. to Adjusted EBITDA**
(in millions, except for ratio)
(unaudited)

The items identified below should not be considered an alternative to any GAAP measure of performance or access to liquidity. Net total debt to adjusted EBITDA is an important measure used by management to evaluate the Company's access to liquidity. The items below should be reviewed in conjunction with Kroger's financial results reported in accordance with GAAP.

The following table provides a reconciliation of net total debt.

	May 25, 2024	May 20, 2023	Change
Current portion of long-term debt including obligations under finance leases	\$ 198	\$ 1,319	\$ (1,121)
Long-term debt including obligations under finance leases	12,021	12,114	(93)
Total debt	12,219	13,433	(1,214)
Less: Temporary cash investments	2,501	2,391	110
Net total debt	<u>\$ 9,718</u>	<u>\$ 11,042</u>	<u>\$ (1,324)</u>

The following table provides a reconciliation from net earnings attributable to The Kroger Co. to adjusted EBITDA, as defined in the Company's credit agreement, on a rolling four quarter 52-week basis.

	ROLLING FOUR QUARTERS ENDED	
	May 25, 2024	May 20, 2023
Net earnings attributable to The Kroger Co.	\$ 2,149	\$ 2,542
LIFO charge	55	632
Depreciation and amortization	3,146	3,032
Interest expense	411	511
Income tax expense	616	793
Adjustment for pension plan withdrawal liabilities	-	25
Adjustment for (gain) loss on investments	(245)	274
Adjustment for Home Chef contingent consideration	-	13
Adjustment for merger related costs (a)	450	85
Adjustment for opioid settlement charges (b)	1,413	147
Adjustment for goodwill and fixed asset impairment charges related to Vitacost.com	-	164
53rd week EBITDA adjustment	(187)	-
Other	(14)	(7)
Adjusted EBITDA	<u>\$ 7,794</u>	<u>\$ 8,211</u>
Net total debt to adjusted EBITDA ratio on a 52-week basis	<u>1.25</u>	<u>1.34</u>

(a) Merger related costs primarily include third party professional fees and credit facility fees associated with the proposed merger with Albertsons Companies, Inc.

(b) Opioid settlement charges include settlements with the nationwide opioid settlement framework and the States of West Virginia and New Mexico.

Table 6. Net Earnings Per Diluted Share Excluding the Adjustment Items(in millions, except per share amounts)
(unaudited)

The purpose of this table is to better illustrate comparable operating results from our ongoing business, after removing the effects on net earnings per diluted common share for certain items described below. Adjusted net earnings and adjusted net earnings per diluted share are useful metrics to investors and analysts because they present more accurately year-over-year comparisons for net earnings and net earnings per diluted share because adjusted items are not the result of normal operations. Items identified in this table should not be considered alternatives to net earnings attributable to The Kroger Co. or any other GAAP measure of performance. These items should not be reviewed in isolation or considered substitutes for the Company's financial results as reported in accordance with GAAP. Due to the nature of these items, as further described below, it is important to identify these items and to review them in conjunction with the Company's financial results reported in accordance with GAAP.

The following table summarizes items that affected the Company's financial results during the periods presented.

	FIRST QUARTER	
	2024	2023
Net earnings attributable to The Kroger Co.	\$ 947	\$ 962
Adjustment for (gain) loss on investments (a)(b)	(12)	59
Adjustment for merger related costs (a)(c)	143	34
Adjustment for opioid settlement charges (a)(d)	-	49
Held for sale income tax adjustment	(31)	-
2024 and 2023 Adjustment Items	100	142
Net earnings attributable to The Kroger Co. excluding the adjustment items above	<u>\$ 1,047</u>	<u>\$ 1,104</u>
Net earnings attributable to The Kroger Co. per diluted common share	\$ 1.29	\$ 1.32
Adjustment for (gain) loss on investments (e)	(0.02)	0.08
Adjustment for merger related costs (e)	0.20	0.05
Adjustment for opioid settlement charges (e)	-	0.06
Held for sale income tax adjustment (e)	(0.04)	-
2024 and 2023 Adjustment Items	0.14	0.19
Net earnings attributable to The Kroger Co. per diluted common share excluding the adjustment items above	<u>\$ 1.43</u>	<u>\$ 1.51</u>
Average number of common shares used in diluted calculation	727	724

Table 6. Net Earnings Per Diluted Share Excluding the Adjustment Items (continued)
(in millions, except per share amounts)
(unaudited)

- (a) The amounts presented represent the after-tax effect of each adjustment.
 - (b) The pre-tax adjustments for (gain) loss on investments were \$(16) and \$78 in the first quarters of 2024 and 2023, respectively.
 - (c) The pre-tax adjustments to OG&A expenses for merger-related costs were \$175 and \$40 in the first quarters of 2024 and 2023, respectively.
 - (d) The pre-tax adjustment to OG&A expenses for opioid settlement charges was \$62.
 - (e) The amounts presented represent the net earnings (loss) per diluted common share effect of each adjustment.
- Note: 2024 First Quarter Adjustment Items include adjustments for the gain on investments, merger related costs and held for sale income tax .
2023 First Quarter Adjustment Items include adjustments for the loss on investments, merger related costs and opioid settlement charges.

Table 7. Operating Profit Excluding the Adjustment Items

(in millions)
(unaudited)

The purpose of this table is to better illustrate comparable operating results from our ongoing business, after removing the effects on operating profit for certain items described below. Adjusted FIFO operating profit is a useful metric to investors and analysts because it presents more accurately year-over-year comparisons for operating profit because adjusted items are not the result of normal operations. Items identified in this table should not be considered alternatives to operating profit or any other GAAP measure of performance. These items should not be reviewed in isolation or considered substitutes for the Company's financial results as reported in accordance with GAAP. Due to the nature of these items, as further described below, it is important to identify these items and to review them in conjunction with the Company's financial results reported in accordance with GAAP.

The following table summarizes items that affected the Company's financial results during the periods presented.

	FIRST QUARTER	
	2024	2023
Operating profit	\$ 1,294	\$ 1,470
LIFO charge	41	99
FIFO Operating profit	1,335	1,569
Adjustment for merger related costs (a)	175	40
Adjustment for opioid settlement charges (b)	-	62
Other	(11)	(2)
2024 and 2023 Adjustment items	164	100
Adjusted FIFO operating profit excluding the adjustment items above	<u>\$ 1,499</u>	<u>\$ 1,669</u>

(a) Merger related costs primarily include third party professional fees and credit facility fees associated with the proposed merger with Albertsons Companies, Inc.

(b) Opioid settlement charges include the settlement with the State of West Virginia.