Kroger Q2 2021 Earnings Release

September 10, 2021

FRESH FOR EVERYONE™

Kroger®



Safe Harbor

This presentation includes certain statements that constitute “forward-looking statements” about Kroger’s financial position and expected performance. 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 “continued,” “expect,” “believe,” “on track,” “growth,” “guidance,” 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 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.



Feeding the Human Spirit



Named Winsight Grocery's Business of the Year for the company's sustainability efforts throughout 2020



Achieved $4.1B in diverse supplier spend in 2020, representing an increase of 21% vs. prior year

THE WELLNESS EXPERIENCE BY Kroger

Hosted The Wellness Experience, a virtual wellness platform and multi-day festival experience

Kroger
NAMED
2021 BEST PLACE TO WORK FOR DISABILITY INCLUSION
BY THE
DEI DISABILITY EQUALITY INDEX

Named to the Disability Equality Index's 2020 "Best Places to Work for Disability Inclusion"

2021 100 BEST PLACES TO WORK in IT
INSIDER PRO COMPUTERWORLD

Recognized by *Computerworld* magazine as Top 100 Best Places to Work in IT for 4th consecutive year

WayUp PRESENTS TOP 100 INTERNSHIP PROGRAMS 2021

Selected as one of Way Up's Top 100 Internship Programs for 2021

Q2 2021 Highlights

Leading with Fresh, Accelerating with Digital

Topline Growth

- **Leading with Fresh**
  - **Innovation:** expanded partnerships with ghost kitchens
  - **Innovation**: announced inaugural Go Fresh & Local Supplier Accelerator cohort
  - **Our Brands:** positive identical sales in produce and floral
- **Accelerating with Digital**
  - **Accelerate Sales**: 60% of all items in digital baskets added through personalization sciences
  - **Accelerate Sales**: launched sushi delivery pilot

Margin Expansion

- **Growing Alternative Profit**
  - **Growth Accelerator:** strong growth tracking toward high end of annual expectations
- **Productivity Improvements**
  - **Cost Efficiency:** on track to achieve annual cost savings goal of $1B for fourth consecutive year
  - **Grow Profitability**: record performance in time to pick digital order

Feed the Human Spirit

- **Associate Experience**
  - Launched **Fresh Start** associate training program
  - Increased average hourly associate **wage to in excess of $16**
- **Live Our Purpose**
  - **Published 2021 ESG Report** highlighting Kroger's new long-term strategy and framework to benefit people and the planet
  - Kroger Health has administered more than **6.7 million COVID-19 vaccine doses**

Key Initiatives Drive Strong Results

+14.0%

2-Year Stack Identical Sales Increase*

+114%

2-Year Stack Digital Sales Growth***

-0.6%

Q2 Identical Sales**

Strength in fresh departments

-13%

Q2 Digital Sales

On track to double digital sales by 2023

*Identical sales, without fuel, 2-year basis represents the sum of second quarter 2020 and second quarter 2021 identical sales percentages
**Identical sales without fuel
*** 2-year basis represents the sum of the second quarter 2020 and second quarter 2021 digital sales growth rates

Key Initiatives Drive Strong Results

$839M
Operating Profit

$0.61
EPS

$947M
FIFO Adjusted Operating Profit

$0.80
Adjusted EPS

+23.0%
2-Year CAGR FIFO Adjusted OP*

+34.8%
2-Year CAGR Adjusted EPS*



*The 2-year basis items denoted with CAGR represent the compounded annual growth rate utilizing annual 2019 as the base year.

Topline Growth



Leading with Fresh

Announced
Go Fresh and Local Supplier Accelerator Cohort

142
New *Our Brands* Items Introduced

Ghost Kitchen
Testing On-Demand Meal Pickup and Delivery

Accelerating with Digital

On Track
With CFC Launches in Ohio & Florida

Pilot
Offering Sushi Delivery with DoorDash

>340,000
New Customers to Digital Modalities



Margin Expansion

Alternative Profit

On Track
To Grow Incremental OP by $100M - $150M

Double Digit
Growth in Media and Kroger Personal Finance

>1,600
Brands Engaged with KPM

Increase Profitability

On Track
To Deliver Fourth Consecutive Year of $1B Cost Savings

Record Speed
For Time to Pick an Order in Store

Live Our Purpose

- **COVID Response:** Partnered with Lyft Healthcare, Inc. after concluding #CommunityImmunity Giveaway in collaboration with the Biden Administration to increase vaccinations across the country.
  - To date, Kroger Health has administered more than 6.7 million doses of the COVID-19 vaccine to customers and associates

- **Environmental, Social and Governance:** Published 2021 ESG report highlighting Kroger's new long-term ESG strategy and framework to benefit people and the planet, and to help create a more resilient, equitable food system for tomorrow

- **Continued Investment in Associates:** Increased Kroger Family of Companies' average hourly wage to in excess of $16 and with comprehensive benefits, will be approaching $21 by the end of 2021

- **Ratification of Union Agreements:** Reached agreements with Kroger's Atlanta division and members of the UFCW Local 1966 in Atlanta and Savannah; Kroger's Central division and members of the UFCW Local 536; and the Mid-Atlantic Division and members of the UFCW Local 400



2021 Updated Guidance

Adjusted Metric*	FY21 Guidance as of June 17, 2021		New FY21 Guidance	New FY21 Guidance 2-Year Basis***
IDs (%)	(4.0%) - (2.5%)	↑	(1.5%) - (1.0%)	12.6% - 13.1% (Stack)
EPS ($)	$2.95 - $3.10	↑	$3.25 - $3.35	22% - 24% (CAGR)
Operating Profit ($B)	$3.5 - $3.7	↑	$3.9 - $4.0	14.1% - 15.6% (CAGR)
Cap Ex ($B)	$3.4 - $3.6	—	$3.4 - $3.6	
Free Cash Flow ($B)**	$1.8 - $2.0	↑	$1.9 - $2.1	$3.1 - $3.2 (Average)
Tax Rate ****	23%		22.1% - 22.7%	

*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.

** 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.

*** 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.

**** 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.

Investment Thesis

Leading Market Position with Exciting Growth Opportunities

- No 1 or No 2 Market Share in Majority of Markets
- Unmatched Data on 60 Million Households
- Industry Leading *Our Brands* Business
- Fast Growing Digital Business

Proven Value Creation Model

- Net Earnings Growth, 3-5%
  - ID Sales Growth (ex. Fuel), 2-4%
  - Margin Expansion (net of investments), 1-2%
  - Cost Savings, $1B Annually Since 2018
  - High Growth, Margin Accretive Alternative Profits
- Disciplined Capital Investments
- Cash Payout 5-6% (Dividends & Share Repurchases)

Strong Balance Sheet & Resilient Free Cash Flow

- Strong Free Cash Flow Yield
- Investment Grade Debt Rating



Appendix



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

	SECOND QUARTER				YEAR-TO-DATE			
	2021		2020		2021		2020	
SALES	$ 31,682	100.0%	$ 30,489	100.0%	$ 72,980	100.0%	$ 72,038	100.0%
OPERATING EXPENSES								
MERCHANDISE COSTS, INCLUDING ADVERTISING, WAREHOUSING AND TRANSPORTATION (a), AND LIFO CHARGE (b)	24,914	78.6	23,551	77.2	56,861	77.9	55,005	76.4
OPERATING, GENERAL AND ADMINISTRATIVE (a)	5,091	16.1	5,297	17.4	12,515	17.2	12,968	18.0
RENT	191	0.6	204	0.7	452	0.6	477	0.7
DEPRECIATION AND AMORTIZATION	647	2.0	617	2.0	1,508	2.1	1,442	2.0
OPERATING PROFIT	839	2.7	820	2.7	1,644	2.3	2,146	3.0
OTHER INCOME (EXPENSE)								
INTEREST EXPENSE	(137)	(0.4)	(135)	(0.4)	(302)	(0.4)	(309)	(0.4)
NON-SERVICE COMPONENT OF COMPANY-SPONSORED PENSION PLAN COSTS	15	-	8	-	33	-	19	-
(LOSS) GAIN ON INVESTMENTS	(122)	(0.4)	368	1.2	(601)	(0.8)	790	1.1
NET EARNINGS BEFORE INCOME TAX EXPENSE	595	1.9	1,061	3.5	774	1.1	2,646	3.7
INCOME TAX EXPENSE	126	0.4	241	0.8	162	0.2	614	0.9
NET EARNINGS INCLUDING NONCONTROLLING INTERESTS	469	1.5	820	2.7	612	0.8	2,032	2.8
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	2	-	1	-	5	-	1	-
NET EARNINGS ATTRIBUTABLE TO THE KROGER CO.	$ 467	1.5%	$ 819	2.7%	$ 607	0.8%	$ 2,031	2.8%
NET EARNINGS ATTRIBUTABLE TO THE KROGER CO. PER BASIC COMMON SHARE	$ 0.62		$ 1.04		$ 0.80		$ 2.58	
AVERAGE NUMBER OF COMMON SHARES USED IN BASIC CALCULATION	746		777		750		779	
NET EARNINGS ATTRIBUTABLE TO THE KROGER CO. PER DILUTED COMMON SHARE	$ 0.61		$ 1.03		$ 0.79		$ 2.55	
AVERAGE NUMBER OF COMMON SHARES USED IN DILUTED CALCULATION	755		786		758		787	
DIVIDENDS DECLARED PER COMMON SHARE	$ 0.21		$ 0.18		$ 0.39		$ 0.34	

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 $47 and $23 were recorded in the second quarters of 2021 and 2020, respectively. For the year to date period, LIFO charges of $84 and $54 were recorded for 2021 and 2020, respectively.

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

	August 14, 2021	August 15, 2020
ASSETS		
Current Assets		
Cash	$ 339	$ 372
Temporary cash investments	1,886	2,448
Store deposits in-transit	1,055	1,058
Receivables	1,961	1,526
Inventories	6,541	6,344
Prepaid and other current assets	550	538
Total current assets	12,332	12,286
Property, plant and equipment, net	22,986	21,881
Operating lease assets	6,704	6,822
Intangibles, net	966	1,029
Goodwill	3,076	3,076
Other assets	2,397	2,449
Total Assets	$ 48,461	$ 47,543
LIABILITIES AND SHAREOWNERS' EQUITY		
Current Liabilities		
Current portion of long-term debt including obligations under finance leases	$ 1,547	$ 1,096
Current portion of operating lease liabilities	644	666
Trade accounts payable	6,772	6,871
Accrued salaries and wages	1,274	1,267
Other current liabilities	5,366	4,678
Total current liabilities	15,603	14,578
Long-term debt including obligations under finance leases	12,608	12,386
Noncurrent operating lease liabilities	6,408	6,478
Deferred income taxes	1,522	1,634
Pension and postretirement benefit obligations	494	578
Other long-term liabilities	2,568	2,096
Total Liabilities	39,203	37,750
Shareowners' equity	9,258	9,793
Total Liabilities and Shareowners' Equity	$ 48,461	$ 47,543
Total common shares outstanding at end of period	744	775
Total diluted shares year-to-date	758	787

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

	YEAR-TO-DATE	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings including noncontrolling interests	$ 612	$ 2,032
Adjustments to reconcile net earnings including noncontrolling interests to net cash provided by operating activities:		
Depreciation and amortization	1,508	1,442
Operating lease asset amortization	332	336
LIFO charge	84	54
Stock-based employee compensation	108	107
Company-sponsored pension plans	(24)	(9)
Deferred income taxes	(24)	176
Gain on the sale of assets	(28)	(7)
Loss (gain) on investments	601	(790)
Other	122	121
Changes in operating assets and liabilities, net of effects from mergers and disposals of businesses:		
Store deposits in-transit	41	121
Receivables	(57)	117
Inventories	377	685
Prepaid and other current assets	356	(16)
Trade accounts payable	101	522
Accrued expenses	(400)	335
Income taxes receivable and payable	(125)	195
Operating lease liabilities	(374)	(302)
Other	(87)	286
Net cash provided by operating activities	3,123	5,405
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for property and equipment, including payments for lease buyouts	(1,319)	(1,343)
Proceeds from sale of assets	107	40
Other	(72)	(45)
Net cash used by investing activities	(1,284)	(1,348)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	1	504
Payments on long-term debt including obligations under finance leases	(369)	(28)
Net payments on commercial paper	-	(1,150)
Dividends paid	(274)	(254)
Proceeds from issuance of capital stock	85	87
Treasury stock purchases	(751)	(669)
Proceeds from financing arrangement	166	-
Other	(159)	(126)
Net cash used by financing activities	(1,301)	(1,636)
NET INCREASE IN CASH AND TEMPORARY CASH INVESTMENTS	538	2,421
CASH AND TEMPORARY CASH INVESTMENTS:		
BEGINNING OF YEAR	1,687	399
END OF PERIOD	$ 2,225	$ 2,820
Reconciliation of capital investments:		
Payments for property and equipment, including payments for lease buyouts	$ (1,319)	$ (1,343)
Payments for lease buyouts	-	15
Changes in construction-in-progress payables	89	(110)
Total capital investments, excluding lease buyouts	$ (1,230)	$ (1,438)
Disclosure of cash flow information:		
Cash paid during the year for interest	$ 365	$ 373
Cash paid during the year for income taxes	$ 301	$ 229

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)

	SECOND QUARTER		YEAR-TO-DATE	
	2021	2020	2021	2020
EXCLUDING FUEL	$ 27,606	$ 27,759	$ 64,214	$ 65,945
EXCLUDING FUEL	(0.6)%	14.6%	(2.6)%	17.1%

(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.

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.

	August 14, 2021	August 15, 2020	Change
Current portion of long-term debt including obligations under finance leases	$ 1,547	$ 1,096	$ 451
Long-term debt including obligations under finance leases	12,608	12,386	222
Total debt	14,155	13,482	673
Less: Temporary cash investments	1,886	2,448	(562)
Net total debt	$ 12,269	$ 11,034	$ 1,235

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 basis.

	Rolling Four Quarters Ended	
	August 14, 2021	August 15, 2020
Net earnings attributable to The Kroger Co.	$ 1,161	$ 2,621
LIFO charge	23	113
Depreciation and amortization	2,813	2,721
Interest expense	537	585
Income tax expense	329	764
Adjustment for pension plan withdrawal liabilities	1,437	49
Adjustment for loss (gain) on investments	286	(886)
Adjustment for Home Chef contingent consideration	156	37
Adjustment for severance charge and related benefits	-	80
Adjustment for deconsolidation and impairment of Lucky's Market attributable to The Kroger Co. [(a)]	-	305
Adjustment for transformation costs [(b)]	145	119
Other	(6)	(16)
Adjusted EBITDA	$ 6,881	$ 6,492
Net total debt to adjusted EBITDA ratio	1.78	1.70

(a) The adjustment for impairment of Lucky's Market attributable to The Kroger Co. excludes a $107 net loss attributable to the minority interest of Lucky's Market.

(b) Transformation costs primarily include costs related to store and business closure costs and third party professional consulting fees associated with business transformation and cost saving initiatives.

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.

	SECOND QUARTER		YEAR-TO-DATE	
	2021	2020	2021	2020
Net earnings attributable to The Kroger Co.	$ 467	$ 819	$ 607	$ 2,031
Adjustment for pension plan withdrawal liabilities (a)(b)	-	-	344	-
Adjustment for loss (gain) on investments (a)(c)	93	(278)	460	(590)
Adjustment for Home Chef contingent consideration (a)(d)	7	19	40	63
Adjustment for transformation costs (a)(e)	43	21	77	49
2021 and 2020 Adjustment Items	143	(238)	921	(478)
Net earnings attributable to The Kroger Co. excluding the adjustment items above	$ 610	$ 581	$ 1,528	$ 1,553
Net earnings attributable to The Kroger Co. per diluted common share	$ 0.61	$ 1.03	$ 0.79	$ 2.55
Adjustment for pension plan withdrawal liabilities (f)	-	-	0.45	-
Adjustment for loss (gain) on investments (f)	0.12	(0.35)	0.60	(0.75)
Adjustment for Home Chef contingent consideration (f)	0.01	0.02	0.05	0.08
Adjustment for transformation costs (f)	0.06	0.03	0.10	0.07
2021 and 2020 Adjustment Items	0.19	(0.30)	1.20	(0.60)
Net earnings attributable to The Kroger Co. per diluted common share excluding the adjustment items above	$ 0.80	$ 0.73	$ 1.99	$ 1.95
Average number of common shares used in diluted calculation	755	786	758	787

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 year-to-date pre-tax adjustment to OG&A expenses for pension plan withdrawal liabilities was $449 for 2021.

(c) The pre-tax adjustments for loss (gain) on investments were $122 and ($368) in the second quarters of 2021 and 2020, respectively. The year-to-date pre-tax adjustments for loss (gain) on investments were $601 and ($790) in the first two quarters of 2021 and 2020, respectively.

(d) The pre-tax adjustments to OG&A expenses for Home Chef contingent consideration were $9 and $25 in the second quarters of 2021 and 2020, respectively. The year-to-date pre-tax adjustments to OG&A expenses for Home Chef contingent consideration were $52 and $85 in the first two quarters of 2021 and 2020, respectively.

(e) The pre-tax adjustment to OG&A expenses for transformation costs were $57 and $29 in the second quarters of 2021 and 2020, respectively. The year-to-date pre-tax adjustment to OG&A expenses for transformation costs were $101 and $67 in the first two quarters of 2021 and 2020, respectively. Transformation costs primarily include costs related to store and business closure costs and third party professional consulting fees associated with business transformation and cost saving initiatives.

(f) The amounts presented represent the net earnings (loss) per diluted common share effect of each adjustment.

Note: 2021 Second Quarter Adjustment Items include adjustments for the loss on investments, Home Chef contingent consideration adjustment and strategic transformation costs.

2021 Adjustment Items include the Second Quarter Adjustment Items plus the adjustments that occurred in the first quarter of 2021 for pension plan withdrawal liabilities, loss on investments, Home Chef contingent consideration adjustment and strategic transformation costs.

2020 Second Quarter Adjustment Items include adjustments for the gain on investments, Home Chef contingent consideration adjustment and strategic transformation costs.

2020 Adjustment Items include the Second Quarter Adjustment Items plus the adjustments that occurred in the first quarter of 2020 for the gain on investments, Home Chef contingent consideration adjustment and strategic transformation costs.

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.

	SECOND QUARTER		YEAR-TO-DATE	
	2021	2020	2021	2020
Operating profit	$ 839	$ 820	$ 1,644	$ 2,146
LIFO charge	47	23	84	54
FIFO Operating profit	886	843	1,728	2,200
Adjustment for pension plan withdrawal liabilities	-	-	449	-
Adjustment for Home Chef contingent consideration	9	25	52	85
Adjustment for transformation costs [(a)]	57	29	101	67
Other	(5)	(3)	(8)	(5)
2021 and 2020 Adjustment items	61	51	594	147
Adjusted FIFO operating profit excluding the adjustment items above	$ 947	$ 894	$ 2,322	$ 2,347

(a) Transformation costs primarily include costs related to store and business closure costs and third party professional consulting fees associated with business transformation and cost saving initiatives.

Table 8. Two-Year Financial Results
(in millions, except per share amounts)
(unaudited)

The purpose of this table is to better illustrate comparable two-year growth from our ongoing business for the current year for identical sales without fuel, adjusted operating profit and adjusted net earnings per diluted share, due to the significant fluctuations that occurred during 2020 as a result of the COVID-19 pandemic. Two-year financial results for identical sales without fuel, adjusted operating profit and adjusted net earnings per diluted share are useful metrics to investors and analysts because it presents more accurate comparisons of results and trends over a longer period of time to demonstrate the effect of COVID-19 on our results. Items identified in these tables should not be considered alternatives to 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.

IDENTICAL SALES TWO-YEAR STACKED

	2021 SECOND QUARTER		2020 SECOND QUARTER		2021 YEAR-TO-DATE		2020 YEAR-TO-DATE	
	2021	2020	2020	2019	2021	2020	2020	2019
Excluding Fuel	$ 27,606	$ 27,759	$ 27,761	$ 24,226	$ 64,214	$ 65,945	$ 65,898	$ 56,272
Excluding Fuel	(0.6)%		14.6%		(2.6)%		17.1%	
Two-year identical sales stacked	14.0%				14.5%			

OPERATING PROFIT EXCLUDING THE ADJUSTMENT ITEMS TWO-YEAR CAGR*

	SECOND QUARTER		YEAR-TO-DATE	
	2021	2019	2021	2019
Operating profit	$ 839	$ 559	$ 1,644	$ 1,460
LIFO charge	47	30	84	46
FIFO Operating profit	886	589	1,728	1,506
Adjustment for pension plan withdrawal liabilities	-	27	449	86
Adjustment for Home Chef contingent consideration	9	2	52	(21)
Adjustment for transformation costs [(a)]	57	-	101	-
Other	(5)	8	(8)	12
2021 and 2019 Adjustment items	61	37	594	77
Adjusted FIFO operating profit excluding the adjustment items above	$ 947	$ 626	$ 2,322	$ 1,583
Two-year operating profit CAGR*	22.5%		6.1%	
Two-year adjusted FIFO operating profit excluding the adjustment items above CAGR*	23.0%		21.1%	

(a) Transformation costs primarily include costs related to store and business closure costs and third party professional consulting fees associated with business transformation and cost saving initiatives.

* CAGR represents the compounded annual growth rate.

Table 8. Two-Year Financial Results (continued)
(in millions, except per share amounts)
(unaudited)

NET EARNINGS PER DILUTED SHARE EXCLUDING THE ADJUSTMENT ITEMS TWO-YEAR CAGR[*]

	SECOND QUARTER		YEAR-TO-DATE	
	2021	2019	2021	2019
Net earnings attributable to the Kroger Co.	$ 467	$ 297	$ 607	$ 1,069
Adjustment for pension plan withdrawal liabilities (a)(b)	-	22	344	66
Adjustment for gain on sale of Turkey Hill Dairy (a)(c)	-	-	-	(80)
Adjustment for gain on sale of You Technology (a)(d)	-	-	-	(52)
Adjustment for loss (gain) on investments (a)(e)	93	36	460	(44)
Adjustment for Home Chef contingent consideration (a)(f)	7	2	40	(16)
Adjustment for transformation costs (a)(g)	43	-	77	-
2021 and 2019 adjustment items	143	60	921	(126)
Net earnings attributable to the Kroger Co. Excluding the adjustment items above	$ 610	$ 357	$ 1,528	$ 943
Net earnings attributable to the Kroger Co. Per diluted common share	$ 0.61	$ 0.37	$ 0.79	$ 1.31
Adjustment for pension plan withdrawal liabilities (h)	-	0.03	0.45	0.08
Adjustment for gain on sale of Turkey Hill Dairy (h)	-	-	-	(0.10)
Adjustment for gain on sale of You Technology (h)	-	-	-	(0.06)
Adjustment for loss (gain) on investments (h)	0.12	0.04	0.60	(0.05)
Adjustment for Home Chef contingent consideration (h)	0.01	-	0.05	(0.02)
Adjustment for transformation costs (h)	0.06	-	0.10	-
2021 and 2019 adjustment items	0.19	0.07	1.20	(0.15)
Net earnings attributable to the Kroger Co. per Diluted common share excluding the adjustment items above	$ 0.80	$ 0.44	$ 1.99	$ 1.16
Average number of common shares used in Diluted calculation	755	805	758	805
Two-year net earnings attributable to the Kroger Co. per Diluted common share CAGR*	28.4%		(22.3)%	
Two-year net earnings attributable to the Kroger Co. per Diluted common share excluding the adjustment items above CAGR*	34.8%		31.0%	

* CAGR represents the compounded annual growth rate.

(a) The amounts presented represent the after-tax effect of each adjustment.

(b) The pre-tax adjustment to OG&A expenses for pension plan withdrawal liabilities was $27 in the second quarter of 2019. The year-to-date pre-tax adjustments for pension plan withdrawal liabilities were $449 and $86 in the first two quarters of 2021 and 2019, respectively.

(c) The pre-tax adjustment for gain on sale of Turkey Hill Dairy was ($106).

(d) The pre-tax adjustment for gain on sale of You Technology was ($70).

(e) The pre-tax adjustments for loss (gain) on investments were $122 and $45 in the second quarters of 2021 and 2019, respectively. The year-to-date pre-tax adjustments for loss (gain) on investments were $601 and ($61) in the first two quarters of 2021 and 2019, respectively.

(f) The pre-tax adjustments to OG&A expenses for Home Chef contingent consideration were $9 and $2 in the second quarters of 2021 and 2019, respectively. The year-to-date pre-tax adjustments to OG&A expenses for Home Chef contingent consideration were $52 and ($21) in the first two quarters of 2021 and 2019, respectively.

(g) The pre-tax adjustment to OG&A expenses for transformation costs was $57 in the second quarter of 2021. The year-to-date pre-tax adjustments to OG&A expenses for transformation costs was $101. Transformation costs primarily include costs related to store and business closure costs and third party professional consulting fees associated with business transformation and cost saving initiatives.

(h) The amounts presented represent the net earnings (loss) per diluted common share effect of each adjustment.

Note: 2021 Second Quarter Adjustment Items include adjustments for the loss on investments, Home Chef contingent consideration adjustment and strategic transformation costs.

2021 Adjustment Items include the Second Quarter Adjustment Items plus the adjustments that occurred in the first quarter of 2021 for pension plan withdrawal liabilities, loss on investments, Home Chef contingent consideration adjustment and strategic transformation costs.

2019 Second Quarter Adjustment Items include adjustments for pension plan withdrawal liabilities, loss on investments and Home Chef contingent consideration adjustment.

2019 Adjustment Items include the Second Quarter Adjustment Items plus the adjustments that occurred in the first quarter of 2019 for pension plan withdrawal liabilities, the gain on sale of Turkey Hill Dairy, gain on sale of You Technology, the gain on investments and Home Chef contingent consideration adjustment.

Thank you

For additional information, please visit ir.kroger.com

