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# The Kroger Co. (KR)

Q1 2021 Earnings Call

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**W. Rodney McMullen**

*Chairman & Chief Executive Officer, The Kroger Co.*

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*Chief Financial Officer & Senior Vice President, The Kroger Co.*

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**Paul Lejuez**

*Analyst, Citigroup Global Markets, Inc.*

**Chuck Cerankosky**

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning, and welcome to the Kroger Company First Quarter 2021 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference over to Rebekah Manis, Director, Investor Relations. Please go ahead.

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**Rebekah Manis**

*Director-Investor Relations, The Kroger Co.*

Thank you, Gary. Good morning and thank you for joining us for Kroger's first quarter 2021 earnings call. I'm joined today by Kroger's Chairman and Chief Executive Officer, Rodney McMullen, and Chief Financial Officer, Gary Millerchip. Before we begin, I want to remind you that today's discussion will include forward-looking statements. We want to caution you that such statements are predictions, and actual events or results can differ materially. A detailed discussion of the many factors that we believe may have a material effect on our business on an ongoing basis is contained in our SEC filings. The Kroger Company assumes no obligation to update that information.

Our first quarter press release and prepared remarks will be available on our website at [ir.kroger.com](http://ir.kroger.com). Additionally, we have introduced a new presentation summarizing our first quarter results, which is also available on our IR website, and we welcome your feedback once you have a chance to review this new document. After

our prepared remarks, we look forward to taking your questions. In order to cover a broad range of topics from as many of you as we can, we ask that you please limit yourself to one question and one follow-up question if necessary. I will now turn over the call to Rodney.

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## W. Rodney McMullen

*Chairman & Chief Executive Officer, The Kroger Co.*

Thank you, Rebekah. And thank you for joining us today. While the COVID-19 health crisis has not ended, this is the first quarter where we saw significant signs of recovery and the beginning of a return to what we are hopeful will be a new normal. Our quarter results demonstrate that Kroger is even better positioned today to connect with our customers than we were before the pandemic because of our relentless focus on Leading with Fresh and Accelerating with Digital for our customers. I'm incredibly proud of our amazing associates who continue to be there for our customers, communities and each other. Because of our of associates' commitment, Kroger's first quarter identical sales, without fuel, grew ahead of our internal expectations. Digital sales grew triple digits since the beginning of 2019. We saw strong growth in alternative profits and significant progress with our cost savings initiatives. All of this gives us confidence to raise guidance for the year and announce a new \$1 billion share buyback program.

I'd like to spend the next few minutes discussing three key areas. First, how customer behavior is changing in this transition period. Second, how we are Leading with Fresh and Accelerating with Digital. Finally, I will highlight how we continue to live our purpose to Feed the Human Spirit through the associate experience and our work to vaccinate millions of Americans.

Our customers are in a time of transition. During the quarter, we began to see some pre-pandemic habits resume. For example, smaller holiday gatherings are likely to fade as more than half of our shoppers believe holidays will return to normal by the 4th of July. We are also seeing customers shop more frequently as COVID restrictions ease. Importantly, we saw a continuation of several pandemic trends. This includes heightened digital engagement across demographics, expanded consumption in key fresh areas like meat, produce and natural foods, and trading up to more premium products.

New trends are emerging as well, as customers settle into new routines. In our recent survey of our customers, a remarkable 92% of the people say they enjoy cooking the same or more than they did pre-COVID. And as people's busy social lives pick up, more customers are looking for convenience in cooking options. We continue to utilize our data to understand those behaviors that are more permanent in nature. Whether customer habits are returning, hardening or emerging, we will continue to meet the customer where they are and use our data science expertise to be where they are going.

As we discussed during our Investor Day, Fresh is incredibly important to our customers. Our produce Fresh score metrics continue to improve, and we are testing and learning through end-to-end Fresh initiatives to consistently improve the experience and deliver even more value to our customers. We announced our Go Fresh and Local Supplier Accelerator, providing more local and regional suppliers the opportunity to partner with Kroger and providing our buyers with the opportunity to discover new suppliers who share our commitment to advancing freshness, quality and our Fresh for Everyone commitment. In fact, since launching on May 12, we have already received more than 1,000 applications to participate.

We are building on the momentum of 2020 within our seamless ecosystem through expanded capacity, improved customer experience and continuous innovation. During the first quarter, we expanded capacity by 15% to support our continued sales growth. Our teams worked together to improve in-stock fill rates and further reduce

wait time at carside, both enhancing the customer experience. To-date, we have over 2 million time slots available per week to serve our customers the fresh food and essential products they want when they want it.

We continue to expand our seamless ecosystem through our new customer fulfillment centers powered by Ocado. We opened our first facility in Ohio in March and, at the beginning of June, launched Kroger Delivery in Florida. Launching in a new geography is incredibly exciting and a milestone moment in our history. Our Kroger Delivery team is ready to bring fresh, affordable food and a consistent customer experience directly to the doors of our customers.

In addition to the Groveland CFC, a spoke in Tampa and Jacksonville are also now open. The hub and spoke model allows us to extend the range of our CFCs, allowing us to serve more customers incredible products directly to their door. And we are just getting started. We are thrilled to report that NPS scores are among the highest in the digital retail, and we continue to be pleased with our fill rates and our on-time delivery metrics.

Kroger's data and personalization capabilities will contribute to increasingly meaningful ways to grow our e-commerce reach and capabilities, and we continue to elevate our personalized customer experience with our data today. During the quarter, we made more than 258 billion personalized recommendations to our customers through our digital experience.

At Kroger, we have always known that our associates are the heart of our business. We are proud of our opportunity culture, where people can come for a job and stay for a career. More than 70% of our store directors began as part-time clerks. We are building a connected culture that embraces agility and collaboration, and that celebrates and incentivizes lifelong learning and growth. For example, since launching it in 2017, our industry-leading education assistance program has helped more than 6,300 associates take steps to learn and grow as individuals and employees. That is one of many ways we invest in our associates. We continue to invest in wages with our average hourly rate increasing during quarter one as well. We are on track to increase our average hourly rate to over \$16, and with comprehensive benefits, our average hourly rate will be approaching \$21 by the end of the year.

As we have done throughout the pandemic, Kroger remains committed to health and safety. To support the Biden administration's goal to have at least 70% of US adults receive their first COVID-19 vaccine dose by July 4, we launched an aggressive customer and associate marketing campaign and #CommunityImmunity Giveaway. Next week, we will announce the first \$1 million winner and 10 free groceries-for-a-year winners. Since announcing the giveaway, we are running 29% ahead of forecasted vaccinations. To date, Kroger Health has administered over 5 million vaccines in our pharmacies and clinic locations and at community sites across the country.

Now, I would like to turn it over to Gary to take you through our first quarter results. Gary?

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## Gary Millerchip

*Chief Financial Officer & Senior Vice President, The Kroger Co.*

Thanks, Rodney, and good morning, everyone. Kroger delivered strong results in the first quarter, providing a further proof point of momentum we have created in our business model. We continue to execute our priorities of Leading with Fresh and Accelerating with Digital, which led to top line sales results ahead of our internal expectations. We were disciplined in balancing investments in our associates and customers with strong cost management and achieved record growth in alternative profit streams. While year-over-year comparisons are impacted by the dramatic change in customer behavior we saw in quarter one last year due to COVID-19, looking over a two-year time horizon, our adjusted EPS of \$1.19 represents a compounded annual growth rate of 28.6% versus 2019.

I'll now provide additional color on our first quarter results. Identical sales, without fuel, declined 4.1%, which translates to a two-year stacked growth of 14.9%. Digital sales grew 16% on top of the 92% growth during quarter one of 2020, and we continue to make progress in improving the sustainability of our digital business. As previously shared, two key drivers of long-term digital profitability are the cost to fill a digital order and the Retail Media revenue generated from a digital transaction. In the first quarter, we reduced the amount of time taken to pick a digital order by 5% and increased media revenue per digital basket by 33%.

Gross margin was 22.6% of sales for the quarter. The FIFO gross margin rate, excluding fuel, decreased 65 basis points compared to the same period last year. This decrease was wholly attributable to sales deleverage, higher shrink and the COVID-19 related inventory write-down for PPE to be donated to community partners. Pricing investments during the quarter and the impact of mix changes as a result of cycling COVID-19 trends last year were fully offset by sourcing benefits and alternative profit growth. On a two-year basis, our FIFO gross margin rate, excluding fuel, decreased 21 basis points compared to 2019.

The operating, general and administrative rate decreased 108 basis points, excluding fuel and adjustment items, reflecting our continued discipline in cost management. This improvement was driven by decreased COVID-19 related costs, lower contributions to multi-employer pension plans, execution of cost saving initiatives and decreased incentive costs, partially offset by sales deleverage. On a two-year basis, our OG&A rate decreased by 58 basis points compared to 2019, and we remain on track to deliver \$1 billion in cost savings for the fourth consecutive year.

Alternative profit achieved record profit growth during the quarter, led by exceptional growth in Retail Media. Kroger Personal Finance also delivered double-digit profit growth, with strong performance across several key product areas. Based on our performance in the first quarter, we now expect alternative profit growth to be towards the top end of our goal of \$100 million to \$150 million in incremental profit in 2021.

Fuel remains an important part of our overall value proposition. Gallons grew in the first quarter by 13%, as we started to cycle the impact of COVID-19 last year. The average retail price of fuel was \$2.79 this quarter versus \$2.13 in the same quarter last year. Our cents per gallon fuel margin was \$0.35 compared to \$0.48 in the same quarter last year. While fuel was a headwind to operating profit of approximately \$130 million versus 2020, we were encouraged by our trends, which were better than expected. 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 to shareholders via share repurchase and the growing dividend over time.

Last month, we announced the restructuring of the Sound Pension (sic) [Retirement] Trust. Similar to previous multi-employer pension restructurings, this transaction will improve security and stability of future pension benefits for those associates, while also minimizing our future exposure to market risk, and produces a return on investment above our internal hurdle rate by mitigating future pension contribution costs. On an after-tax basis, \$344 million will be needed to execute the transaction, and we expect this to be funded evenly over seven years.

Kroger's net total debt to adjusted EBITDA ratio is 1.79 compared to 1.81 a year ago. The company's net total debt to adjusted EBITDA ratio target range is 2.3 to 2.5. Net total debt increased during the quarter, primarily due to the company entering into a transaction to purchase and then immediately sell a portfolio of 28 of our existing stores. This transaction allowed us to secure long-term access to these locations at very favorable lease rates. The unusual structure used to complete this transaction requires Kroger's liability for the long-term commitment to these stores to be shown as debt, similar to a capital or finance lease, as opposed to being recognized as a

typical operating lease. Our new \$1 billion share buyback program announced today reinforces the board's and management's confidence in our cash flow generation and is consistent with our commitment to deliver sustainable and attractive total shareholder returns of 8% to 11%.

Our associates have been incredible throughout the pandemic. We continue to invest in our associates and strive to make our overall benefits package relevant in today's employment market. During the first quarter, we ratified a new labor agreement with the UFCW covering associates in the Cincinnati division. Looking ahead, we have several major negotiations later in the year, including contracts with the UFCW for store associates in Atlanta, Houston, Little Rock, Michigan, Memphis, Mid-Atlantic and Portland. Our financial results continue to be pressured by healthcare and pension costs, which most of our competitors do not face. We continue to communicate with our local unions and the international unions, which represent many of our associates, about the importance of growing our business in a profitable way, which will help us create more jobs and career opportunities and enhance job security for our associates.

Looking forward to the rest of 2021, while there remain uncertainties regarding what will emerge as the new normal in food-at-home trends, based on our strong results to-date and confidence in our ability to execute our strategy, we are increasing our full year 2021 guidance. We now expect identical sales for the year to be between negative 4% and negative 2.5%, which represents a two-year stack of 10.1% to 11.6%. We also expect full year adjusted net earnings per diluted share to be in the range of \$2.95 to \$3.10, representing a two-year compounded annual growth rate of 16% to 19%. Looking at the cadence for identical sales for the remainder of the year, we would expect our identical sales in quarter two to be within our new target range of negative 4% to negative 2.5%, and we would expect quarter three and quarter four to be at the top end or slightly better than the range.

Turning to EPS, our increased guidance implies adjusted EPS will be between 10.5% and 15% lower than 2020. We expect second quarter adjusted EPS will be around the top end of this range, as we continue to cycle higher COVID-related costs from quarter two last year. And we expect quarter three and quarter four will be slightly below the range.

In closing, we believe our year-to-date performance provides a further proof point of the strength and momentum we are seeing in our business model and builds on the progress achieved in 2019 and 2020. We remain confident in our ability to deliver strong and sustainable total shareholder returns by leveraging our leading market position and executing on the exciting growth opportunities shared at our Investor Day.

And now, I'll turn it back to Rodney.

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## W. Rodney McMullen

*Chairman & Chief Executive Officer, The Kroger Co.*

Thanks, Gary. I want to again thank our amazing associates for their tireless work to serve our customers. As Gary and I noted, our customers have changed because of COVID. Our job is to be there for them. This quarter's results are evidence that we are deepening our connection with our customers by focusing on and Leading with Fresh and Accelerating with Digital. And we remain a purpose-driven company that honors and appreciates our associates and lifts up our communities. As we look forward, we are incredibly confident that we will deliver for our shareholders and all stakeholders. Now, we look forward to your questions.

## QUESTION AND ANSWER SECTION

**Operator:** We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Edward Kelly with Wells Fargo. Please go ahead.

**Edward J. Kelly**

*Analyst, Wells Fargo Securities LLC*

Hi, guys. Good morning.

Q

**W. Rodney McMullen**

*Chairman & Chief Executive Officer, The Kroger Co.*

Good morning.

A

**Gary Millerchip**

*Chief Financial Officer & Senior Vice President, The Kroger Co.*

Good morning.

A

**Edward J. Kelly**

*Analyst, Wells Fargo Securities LLC*

First question for you is just on the IDs. I was wondering if you could help us at all with the cadence during the quarter. Do you think, or to what extent do you think vaccines and possibly even weather helped what we're seeing so far in Q2? And then as we think about the guidance, there is a decent slowdown, I guess, throughout the rest of the year. But is that just sort of reopen? So, thoughts there. Thank you.

Q

**W. Rodney McMullen**

*Chairman & Chief Executive Officer, The Kroger Co.*

Yeah. I'll start out, and then let Gary fill in the pieces. If you look at quarter two so far, we're tracking a little bit better than where we were in quarter one. And we would be slightly better than the guidance that Gary talked about for the quarter. If you look at during the first quarter, early in the quarter, we were still cycling non-COVID and sales early in the quarter were especially strong. If you look at really starting in the second period and the third and fourth periods, we were cycling COVID. And if you look at the two-year stack for those periods, it was pretty consistent on a two-year stack basis, but when you look at year-on-year, obviously, it wasn't. If you look at the comment I made during the second quarter, quarter to date, obviously, the trends have improved slightly on a year-on-year basis, but would be very similar on a two-year stack basis. Gary, anything you would want to add?

A

**Gary Millerchip**

*Chief Financial Officer & Senior Vice President, The Kroger Co.*

I think you said it well about the current trends in the business, Rodney, is that we look at trying to make sure we're understanding our customer behavior is changing, we are focusing on that sales trend versus 2019, as Rodney mentioned, because the cycling of the behavior last year and some of the customer activity we saw has created some noise on that stack basis.

A

But when we look at the trend in sales volume versus what we were seeing in 2019 and the growth versus 2019, it's really been remarkably consistent when you look at after that March initial time period, where there was

obviously some stockpiling and panic buying by consumers last year. When you look at the 2021 versus 2019 over April, May and June, generally, the trend's been very consistent even with some of the reopening that's been happening in the economy, which we think is some of the comments that Rodney made around families getting back together in larger groups, continuing to want to eat healthier. And so, seeing some of those sort of trends that we think maybe more structural and lasting because of the way consumers are looking to change the way they balance their eating habits.

I think the question around guidance, the only other comment I would maybe make, essentially, as you know, we're only a couple of months on from when we gave and reconfirmed the original guidance. So, it is really, as you were suggesting, we still believe within our overall plan that we're going to continue to execute at a high level and continue to grow our share of the food-at-home business over time. What we do think will happen is there will be some softening in food-at-home trends as we go through the year as the market continues to reopen. And of course, I think everybody is seeing some benefit right now of government stimulus dollars in the market and it's hard to predict how that will change over time as well.

So, I would say for the rest of the year, with only two more months of data points, while we've been very pleased with our progress and are executing at a high level and, as Rodney mentioned, we've seen sales above where we would have expected to be so far this year, in terms of the macro, what do we think will happen as the year plays out, I wouldn't say we've fundamentally changed our view.

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**Edward J. Kelly**

*Analyst, Wells Fargo Securities LLC*

Q

Okay. And [ph] next just (00:25:32) want to ask a follow-up on the gross margin. So, down 21 basis points versus 2019 is good actually relative to history for you guys. Pre-pandemic, though, your two-year stack was down more than that. So, my question is, how normal is the Q1 gross margin, and I'm sure promotions and promotional levels [ph] are going to now (00:25:53) play a role in that, and how do we think about that two-year rate as the year progresses?

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**Gary Millerchip**

*Chief Financial Officer & Senior Vice President, The Kroger Co.*

A

Yeah. Thanks, Ed. I think, as we talked about in some of the prepared comments, we very much are focused on how do we manage the overall business model to make sure that we're being there for the customer. And I think what we're most excited about, if you look at 2019, 2020 and the first quarter in 2021, is how we're managing and balancing the business across the investments that we need to make in the customer, taking cost out of the business where it makes sense and, obviously, continuing to grow alternative profit streams.

From a gross margin perspective, I think what was encouraging for us during the first quarter, whether you look at it year-over-year or the two-year comparison, to your point, is that outside of the sales deleverage and the one-time donation that we are making on PPE equipment, really, the improvements that we saw in sourcing and the acceleration in our profit funded the gross margin investments that we're making. So, I'm not then trying to suggest that that's something we should assume happens every quarter as we'll continue to manage dynamically and sometimes we'll fund the investments through continued cost savings initiatives, but overall, we feel very good about the balance in the business and our ability to manage those levers to both deliver for our customers, but also deliver sustainable growth in the future in earnings.

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**W. Rodney McMullen**

*Chairman & Chief Executive Officer, The Kroger Co.*

A

The only thing I would add – I agree with Gary's points, we talked about it in our prepared remarks, but we are seeing a continuation of people buying more premium products and especially like on Private Selection and Simple Truth. Those types of purchases normally have a higher margin. We're also seeing tailwinds from mix changes as people continue to be more aggressive on buying fresh, all of those things. And the point that Gary made that I think is incredibly important and, as you know on Investor Day we talked about it, that we would expect continued operating margin improvements once you get through with cycling through COVID. We would continue to expect that because of the points that we made and Gary's point on alternative profits as well.

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**Edward J. Kelly**

*Analyst, Wells Fargo Securities LLC*

Great. Thank you.

Q

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**W. Rodney McMullen**

*Chairman & Chief Executive Officer, The Kroger Co.*

Thanks, Ed.

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**Operator:** The next question is from Paul Lejeuz from Citi. Please go ahead.

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**Paul Lejeuz**

*Analyst, Citigroup Global Markets, Inc.*

Hey, thanks, guys. Can you maybe just give us an update on what you're seeing on the inflation front, and maybe more importantly, just how you feel about your ability to pass through higher prices relative to historical periods? Thanks.

Q

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**W. Rodney McMullen**

*Chairman & Chief Executive Officer, The Kroger Co.*

Yeah. Thanks, Paul, for the question. As you know, if you look at over the years, Kroger has been able to successfully operate in high inflationary environments and low inflationary environments. If you look at the details of inflation during the quarter, if you look in the fresh departments, inflation has continued to increase during the quarter. Part of that is driven because of, if you look at, a lot of supply disruptions a year ago because of COVID. So, it's going to be hard to tell. We would expect overall to be able to successfully operate in whatever the environment is and we would expect to be able to pass those costs to customers as you look at things that are permanent in nature.

A

The other thing I think that's always important to remind each of us, including our internal team, is if you look – typically, our business operates the best when inflation is about 3% to 4%. And we have a meaningful amount of fixed costs, and when inflation's at 3% to 4%, that gives you leverage on those costs, and the inflation of 3% to 4%, customers don't overly react to that inflationary environment either. So, we view a little bit of inflation is always good in our business and we would expect to be able to pass that through as well on things that are permanent in nature.

And the last comment I would make is it is – the important part of having such a strong Our Brands program at our own manufacturing plants, if we have inflation that is not driven by true cost changes, what always happens is Our Brands gain significant share at the expense of some of those national brand players as well.

**Paul Lejuez**

*Analyst, Citigroup Global Markets, Inc.*

Got it. And are you saying you're in that 3% to 4% range currently? Is that right?

Q

**W. Rodney McMullen**

*Chairman & Chief Executive Officer, The Kroger Co.*

Yeah. Gary, you want to...

A

**Gary Millerchip**

*Chief Financial Officer & Senior Vice President, The Kroger Co.*

Sure. Yeah. I'd maybe just add a little bit more color. I'd say for the first quarter, as you know, we guided to the initial business plan of 1% to 2%. I would say we were – actually, in the first quarter, we'd be towards the bottom end of that range. So, we didn't really see it in our first quarter trends at all. We are seeing, as I think would be consistent across the industry, some increasing cost flows starting to flow through in grocery in particular, as Rodney mentioned, produce and meat can tend to have more short-term volatility in those results, and we certainly saw some of that in Q1. So, I'd say we believe we're starting to see some of that inflation rate flow through, but I wouldn't say we're seeing it at that level yet in terms of – in our current model.

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**Paul Lejuez**

*Analyst, Citigroup Global Markets, Inc.*

Got it. Thank you, guys. Good luck.

Q

**W. Rodney McMullen**

*Chairman & Chief Executive Officer, The Kroger Co.*

Thanks, Paul.

A

**Gary Millerchip**

*Chief Financial Officer & Senior Vice President, The Kroger Co.*

Thank you.

A

**Operator:** The next question is from Chuck Cerankosky with Northcoast Research. Please go ahead.

**Chuck Cerankosky**

*Analyst, Northcoast Research Partners LLC*

Good morning, everyone. Nice quarter. I'd like to ask about your prior guidance on the start-up costs at the Ocado sheds. I think it was about \$100 million this year. How's that looking at this point, given the little bit of time you've had with these things open?

Q

**W. Rodney McMullen**

*Chairman & Chief Executive Officer, The Kroger Co.*

Yeah. I'll start out and let Gary talk about the financials. Chuck, thanks for the question. And as I mentioned in the prepared comments, initially, the customer feedback has been very good, and our focus on the initial ramp-up of Groveland and Monroe is to make sure that we give the customer a great experience, great in-stock positions, great fresh experience and on-time deliveries. And all those things are tracking along, and our volume ramp is

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tracking consistent with expectations as well. But I do think it's important to remind all of us that we're very, very early in the process, but so far, so good. Gary, I'll let you talk about some of the cost pieces.

**Gary Millerchip**

*Chief Financial Officer & Senior Vice President, The Kroger Co.*

A

Sure. Thanks, Rodney. Thanks for the question, Chuck. Yeah, I would say essentially, consistent with Rodney's comments, things are playing out at this point for the year where we would have expected them to be, Chuck. The good news is, building on Rodney's comments about the early indicators on the customer-facing part of Ocado, everything we're seeing within the technology and supply chain teams would say that the way that we envisaged the technology and the efficiency of the model would work as we're kind of finding so far with the operation up and running that everything would be consistent with that expectation in the model. So, nothing new or different to report there. As you know, most of the costs in the first year are going to be those that have largely fixed costs, and really, as we shared at the Investor Day, the focus for us will be is, as we start to ramp up the volume, our ability to speed up that ramp over time is really what will be critical to us delivering on the overall financial returns that we're expecting from Ocado and also our opportunity to potentially beat those returns.

So, as you'll recall, to recap, we would expect in year one for there to be a fairly meaningful investment of that fixed overhead is put in place for an Ocado facility and then as the volume ramps up, we – by year two, we're getting to that breakeven point and then by year three, we're starting to improve the profitability with the goal of getting to at least parity still. So, a long way to go on that journey, but I would say we're not seeing anything right now that would be different or inconsistent with what we were expecting to see, but as Rodney said, very early days, a lot of work to do.

**W. Rodney McMullen**

*Chairman & Chief Executive Officer, The Kroger Co.*

A

And the feedback from Ocado is the ramp is pretty consistent with what they would expect. If you look at the Ocado retail success in the UK, it continues to be extremely strong as well.

**Chuck Cerankosky**

*Analyst, Northcoast Research Partners LLC*

Q

After the experience you've had thus far in Florida and the two spokes added, you're thinking about any other markets where Kroger doesn't have stores where you would put in an Ocado facility at this time?

**W. Rodney McMullen**

*Chairman & Chief Executive Officer, The Kroger Co.*

A

Yeah. We're not at a position of announcing any incremental sheds at this point, but if you look at some of the ones that we've announced, those sheds will give us the ability to go into new markets as well. If you look at the one in D.C., part of that will cover existing areas, geographies. Some of that will cover geographies that are new to us as well.

**Chuck Cerankosky**

*Analyst, Northcoast Research Partners LLC*

Q

Thanks very much. Best of luck for the rest of this year.

**W. Rodney McMullen**

*Chairman & Chief Executive Officer, The Kroger Co.*

A

Thanks, Chuck.

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**Gary Millerchip**

*Chief Financial Officer & Senior Vice President, The Kroger Co.*

A

Thanks, Chuck.

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**Operator:** The next question is from Karen Short with Barclays. Please go ahead.

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**Karen Short**

*Analyst, Barclays Capital, Inc.*

Q

Hi. Thanks very much. A couple questions I have on – so back to the comp cadence generally, so on the two-year stack, obviously, we know what it was in 1Q and we know what you've guided to for the rest of the year. I guess, I'm asking for a little more color on why there would be such a slowdown in the two-year stack to the tune of 600 basis points for the rest of the year. And then I had another question on cost inflation versus retail inflation as it related to gross margin.

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**Gary Millerchip**

*Chief Financial Officer & Senior Vice President, The Kroger Co.*

A

Thanks for the question, Karen. Yeah, so I think just maybe a recap on how the year played out last year and then, to your point, how we kind of see the guidance for this year. As you may recall, so last year we started the year in Q1 with 19% IDs and then I think it was 14.6% in Q2. Q3 and Q4 ranged anywhere between 10.5% and just south of 11%. So, we did see a 9% deceleration in sales last year. So, we're cycling obviously that into this year. So, even with improvement in our ID sales growth expectations as we go through the year, as I mentioned in my prepared comments, we are expecting to go from the 4.1% in Q1. In Q2, we sort of think we'll be in the range of a new guidance of negative 2.5% to 4% and then in Q3 and Q4, sort of the top end of that range or maybe slightly better than that range, based on what we're seeing today.

So, I think a lot of our expectations are really based on our original guidance for the year that while we are really pleased with the execution that we've had across the business, that we've continued to see if you look at our results today versus where they were in 2019, we're still – we still have more share than we did two years ago. So, our expectation of ourselves is to continue that. But we do ultimately expect there to be some deceleration in that two-year stack as customers start to return to what we think will be the new normal. I would say that even with those numbers, of course, you're still getting to, when you think about the end of the year, if you're in that, just take the example of the bottom end of our range, you are still going to be in that sort of 9% two-year growth in terms of trends across 2019 and 2021. So, significantly ahead of what our long-term model would typically have been and certainly would put us well ahead of where we would have expected to be pre-COVID when we talked about our TSR expectations.

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**Karen Short**

*Analyst, Barclays Capital, Inc.*

Q

Great. I mean, obviously, the run rate on a two-year stack basis is significantly higher than it was pre-pandemic. But okay. That's helpful. And then on inflation, I'm wondering if you could give a little color on actual cost inflation versus retail inflation. And then within that, obviously, we saw what you called out in terms of the components of the gross margin in this quarter, but I'm wondering if you could actually give a little color on what gross margins are on a – like a core basis, so four-wall gross margins, so excluding the alternative revenue streams, because obviously we don't really have enough information to really back into what the contribution was from alternative revenue as it relates to core gross margins.

**W. Rodney McMullen**

*Chairman & Chief Executive Officer, The Kroger Co.*

A

Yeah. Thanks for the question. If you look at cost inflation and retail inflation, on the Fresh departments, cost inflation would have been slightly higher than retail inflation. In the Center Store categories, it would be the other way around in terms of historical basis. In terms of looking at gross margin, we think it's incredibly important to look at the total business, and when you look at the overall retail model that we've developed, it – alternative profit is driven by the traffic that we have both online and physical in stores. So, we think it's an important part of the overall business model, and it's really hard to separate what one piece of margin is being driven by something else.

And as you know, Retail Media is the fastest growing media channel, and the margins on that are significantly better than traditional supermarkets and we continue to grow in that space because of the great work that our Kroger Precision Marketing has done over the last three years and the team that we've built. So, for us, it is – Retail Media is a core part of the business. If you look at the overall margins, it's a core part of the business and we really – the way we manage our business is looking at operating margins in total and how are those trending and how are we balancing cost reductions and margin improvements.

**Karen Short**

*Analyst, Barclays Capital, Inc.*

Q

Okay. Great. Thank you.

**W. Rodney McMullen**

*Chairman & Chief Executive Officer, The Kroger Co.*

A

Thanks, Karen.

**Gary Millerchip**

*Chief Financial Officer & Senior Vice President, The Kroger Co.*

A

Thanks, Karen.

**Operator:** The next question is from Rupesh Parikh with Oppenheimer. Please go ahead.

**Erica Eiler**

*Analyst, Oppenheimer & Co., Inc.*

Q

Good morning. This is actually Erica Eiler on for Rupesh. Thanks for taking our questions.

**W. Rodney McMullen**

*Chairman & Chief Executive Officer, The Kroger Co.*

A

Good morning.

**Erica Eiler**

*Analyst, Oppenheimer & Co., Inc.*

Q

So, I wanted to touch on SG&A here. Per our math and versus 2019, expenses were up about 10%. So, I was just curious if there was anything you can share directionally for the balance of the year on the expense front, or maybe if you could just walk us through some of the puts and takes as you currently see them on the SG&A side.

**Gary Millerchip**

*Chief Financial Officer & Senior Vice President, The Kroger Co.*

A

Sure. Yes, thanks for the question. Really, there's a – as you can imagine, there's a lot of moving parts in OG&A just because of what we're cycling from 2020 and as all that unravels, it's actually one of the reasons why we felt it was important to share a comparison versus 2019, because I think in some ways that gives you a sense of the momentum that we're creating overall in our ability to manage costs and continue to improve our efficiency in the model. If I kind of maybe talk you through some of the major sort of puts and takes, if you like, in the model, we do overall expect OG&A to be a tailwind for the year, and that's consistent with the original guidance that we shared. The main drivers that will kind of support that tailwind would be as we start to cycle the COVID cost as we did in Q1, we obviously continue to be very disciplined in making sure we're creating a safe environment for our associates and our customers, but we have ensured that we continued more efficient in identifying how we can improve our processes and our cost model to minimize those costs without compromising on safety and ensuring that we're creating the right environment in the store and online. So, there will be some benefit that continues to flow through.

We would estimate that COVID costs were probably just shy of \$150 million in this quarter, and in future quarters, they'll probably be less than \$100 million a quarter as we look forward and gradually declining over time. In addition to those COVID costs that we're cycling, we do expect, as you know, digital profitability to continue to improve, and a lot of that improvement is in the cost to serve and cost to fill an order. And so that is something that we continue to focus on that will help our overall OG&A model as we get more efficient in digital. There's sort of a practical cost saving too when you think about last year was a very strong year for the business across our key incentive metrics around operating profit growth and sales growth. This year, we would expect incentive cost to be more normalized, so look more like a normal year, which creates a tailwind in our cost structure as well.

And then I think on the headwind side, the things that would offset those savings would be our continued investments in the average hourly rates for our associates. As Rodney mentioned in the prepared remarks, we are committed to continuing to invest in our associates to make sure that we continue to be competitive, but also recognize the value our associates play a critical role in obviously delivering for our customers. And then, secondly, of course, the sales deleverage will have a negative impact on cost as well. So, net-net, we still expect OG&A to be a tailwind as we head through the year, but there will be a lot of puts and takes in the model.

**W. Rodney McMullen**

*Chairman & Chief Executive Officer, The Kroger Co.*

A

Yeah. And we mentioned it earlier, but we would expect operating margins to be higher in 2021 than what they were in 2019 when you look at everything put together as well. And Gary mentioned it, but we expect this will be the fourth consecutive year where we've taken over \$1 billion of costs out of operating the business. Some of that shows up in gross, some of that shows up in operating costs.

**Erica Eiler**

*Analyst, Oppenheimer & Co., Inc.*

Q

Okay. That's really helpful color. And then my follow-up is just, as the US has continued to reopen here in the recent months, I mean, has anything surprised you thus far in terms of what you're seeing from category, channel, geographic consumer behavior perspective? I know you said you're continuing to see nice trade-up to premium, premium items. And then just from a traffic basket perspective, has anything changed as things continue to reopen here? And are you expecting to fully recover traffic later this year?

**W. Rodney McMullen**

*Chairman & Chief Executive Officer, The Kroger Co.*

Yeah. To me, it's a great question, and I wouldn't necessarily say that it was surprising, but it's good to see and it's some of the factors you just mentioned, but people still continue to eat at home more than pre-COVID. They still continue to cook more than pre-COVID, and they're buying more premium products than pre-COVID. Those things were things that I wouldn't say were surprises, but it's good to see versus our research, our customers telling us they plan to. So, it's actually happening as what customers told us they would do versus being a surprise versus what we expected.

In terms of traffic and changes there, very consistent. I would say the biggest surprise so far has been continuing to find associates to hire. And last week, we did a hybrid hiring event, and we were very pleased with the number of people we were able to hire from that hybrid hiring event. But we continue to have job openings pretty much across all areas of the company, and that's an area that I would say the number of openings we have is more than what we would have expected.

**Erica Eiler**

*Analyst, Oppenheimer & Co., Inc.*

Okay. Great. Thank you so much.

**W. Rodney McMullen**

*Chairman & Chief Executive Officer, The Kroger Co.*

Thank you.

**Operator:** The next question is from Simeon Gutman with Morgan Stanley. Please go ahead.

**Michael Kessler**

*Analyst, Morgan Stanley & Co. LLC*

Hi, guys, this is actually Michael Kessler on for Simeon. Thanks for taking our questions.

**W. Rodney McMullen**

*Chairman & Chief Executive Officer, The Kroger Co.*

Good morning.

**Michael Kessler**

*Analyst, Morgan Stanley & Co. LLC*

First, I wanted to ask about market share, what you guys are seeing, what you saw through the quarter. You took a lot of share last year. So, just kind of curious how that evolved through Q1 as you started lapping those share gains. And I guess are they [ph] sticking, or giving (00:46:23) a little back, but still trending well above pre-COVID? Any thoughts on kind of how you're seeing in your markets.

**W. Rodney McMullen**

*Chairman & Chief Executive Officer, The Kroger Co.*

Yeah. If you look at on a two-year basis, it's been very consistent on how the market share gains have stayed. If you look at the Fresh departments, market share even year-on-year has stayed even stronger than we were hoping, but it's obviously great to see. But everything that we're looking at, we really are focusing on the two-year

stack and what kind of progress we're making there. And that is great to see on the market share that we've been able to keep, and it's been pretty consistent. I don't know, Gary, any additional color you'd want to add.

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**Gary Millerchip**

*Chief Financial Officer & Senior Vice President, The Kroger Co.*

A

Well, I think you said it well, Rodney. Part of the challenge is in Q1 and, particularly in the quarter, is just that volatility in what was happening almost week by week if you remember back to how customers were shopping and some of the supply chain issues. So, I think, to Rodney's point, our focus – and one of the reasons I should probably say is we deliberately sort of waited till later in the year to talk about market share last year was we felt like it was hard to read during that time. And so, as Rodney said, the focus really is on how do we make sure, as we committed we would, come out stronger through COVID overall and looking over that two-year time period. And I think what we're seeing so far, we feel good about the momentum and why we've also increased the guidance for the rest of the year.

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**Michael Kessler**

*Analyst, Morgan Stanley & Co. LLC*

Q

Great. And my follow-up on digital sales, the two-year stack was still very strong. It did decelerate a little bit versus Q4. And so, I guess, your expectation for the rest of the year, is this the kind of level on a two-year stack basis that you're expecting for the kind of the rest of the year? And also, as it relates to your bigger picture view of digital sales doubling over the next several years, is that still intact? Has anything changed as far as your outlook, given what you saw in Q1?

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**W. Rodney McMullen**

*Chairman & Chief Executive Officer, The Kroger Co.*

A

Yeah. I'll start out with the broader question and then let Gary fill in on some of the specifics. But if you look at the commitment on the doubling the business digitally and the continued improvement in profitability, we continue to expect those broader trends to hold in place. Everything that we can see, the customers continue to like to shop online.

The thing that I think is very important is that very few of our customers actually only shop online. And most shoppers shop online and in our stores. And when they shop both, our retention rate is incredibly high and our ability to gain share within that household is very high as well. And those are the major trends that we would expect to continue. And those are the trends that we believe that will drive our ability to double our online business, along with expanding with the sheds and other pieces. In terms of if you look at within the year, Gary, I'll let you talk through that.

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**Gary Millerchip**

*Chief Financial Officer & Senior Vice President, The Kroger Co.*

A

Sure. Thanks, Rodney. Yeah. The way we think about it is very much that we believe that COVID has been a reset, if you like, for digital. So, we probably pulled forward demand by anywhere between three and four years based on the way that customers really engaged in digital over the last 12 months. So, I think the way you described it is how we certainly think about it, is looking at that two-year view across 2020 and 2021 is the right way to think about it, because after such growth, I think there is going to be something of a, if you like, a normalization year this year and then from there, of course, we're building to the commitment of doubling the business over the next few years.

So, we mentioned, I think, at Investor Day, we didn't really necessarily think that it was a linear journey, if you think about 2021, 2022 and 2023. So, we do expect and still are very focused on that plan that we shared at our Investor Day a few months ago, and we still believe that's the journey that we're on and what we're committing to achieving over the next few years. But I do think this year and last year will be more of a two-year view in the similar way we've looked at overall ID sales as this kind of a normalization this year following that [ph] drive of (00:50:47) growth in 2020. And we'll continue to build from there as we head towards that doubling the business by 2023.

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**Michael Kessler**

*Analyst, Morgan Stanley & Co. LLC*

Okay. Thank you very much.

Q

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**Gary Millerchip**

*Chief Financial Officer & Senior Vice President, The Kroger Co.*

Thanks.

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**Operator:** The next question is from Michael Lasser with UBS. Please go ahead.

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**Michael Lasser**

*Analyst, UBS Securities LLC*

Good morning. Thanks a lot for taking my questions. Rodney, you mentioned that you had previously anticipated 1% to 2% inflation. The business operates [ph] at when (00:51:14) you have 3% to 4% inflation, is that what you're now expecting for the year, or can you clarify what you are now embedding into your guidance for the year with respect to inflation?

Q

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**W. Rodney McMullen**

*Chairman & Chief Executive Officer, The Kroger Co.*

Yeah. I don't think – and if you look at overall, we're really not changing our inflation expectations for the year, and we're still managing the business with a 1% to 2% overall. There's still so many moving parts that for us to fundamentally change our estimates, we don't see anything that's hugely different than what we were expecting earlier in the year. Now, if inflation ends up tracking into that 3% to 4% range, we won't complain.

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**Michael Lasser**

*Analyst, UBS Securities LLC*

Got it. My second question is on two pieces that you had mentioned previously. You mentioned that you're getting a sourcing benefit which helped the gross margin and a 33% increase in digital advertising or advertising revenue per digital transaction, suggesting that you're able to harvest more spending per each one of your vendors. So, are you getting any pushback from the vendor community as you look to gain more support? How are you able to do this? And do you think that this is a trajectory that is sustainable from here?

Q

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**W. Rodney McMullen**

*Chairman & Chief Executive Officer, The Kroger Co.*

Yeah. I'll talk broader about the Retail Media and then let Gary talk about the sourcing benefits and sourcing reports through Gary's organization. If you look at Retail Media, and I mentioned it briefly a few minutes ago, it is the fastest growing media channel. And we do not force our CPGs to advertise with us versus somewhere else. And we want to be held accountable for delivering results the same way anyone else would be. And we shared it

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at our Investor Day, but independently, CPGs and others rate our Retail Media incredibly strong and better than pretty much anybody in the market in terms of the ability to target customers, to getting ROI on that retail spend and being able to adjust and eliminate wasted money, because we're totally transparent with our CPG partners in terms of how they invest their media money. And for us, we think that's incredibly important because we want to make sure we earn the right and earn the right in terms of gaining share when you look at the amount of money that's spent in digital is well north of \$100 billion, and getting our fair share of that is important and it's important for the business model as well. On sourcing benefit, Gary, I'll let you go into the detail there.

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**Gary Millerchip**

*Chief Financial Officer & Senior Vice President, The Kroger Co.*

A

Yeah. Thanks for the question, Michael. I think part of the answer would be is bridging back to our track record as well over the last few years, we've seen significant savings from sourcing over 2019, 2020 and, of course, 2021 as part of the \$1 billion of savings. And at the same time, as Rodney mentioned, we've been growing alternative profits with media being the fastest growing part of that, significantly as well, incrementally over \$100 million again over 2019, 2020 and 2021, one compounding on top of the other. So, we feel very good about our ability to drive both parts of that model, and I think our track record would show that we've been able to maintain that momentum.

I think we do think of them as very different pools of money as well though, as Rodney mentioned. So, on sourcing, it's not just about squeezing an extra penny out by negotiating, it's about being creative about sourcing. It's about our own brand products as well and using those and thinking about design of the product and looking at how we manage future cost inflation and hedging of – or getting ahead of sort of changes in cost structure. So, we think about sourcing in a very strategic level and look at it across many different levers to make sure that we're continuing to get better at how we operate most efficiently and we would still see significant runway to keep getting better on those fronts and being able to support our model overall by improved sourcing benefits.

And at the same time, as Rodney mentioned, on the media side of the business, really all that revenue is coming from different pools of opportunity, where many of our CPG partners are spending with media companies to be able to drive their overall sales growth through media marketing and digital channels that are available and e-commerce platforms. And we believe that the Kroger ecosystem offers some significant advantages and can be redeploying some of those dollars for a CPG partner to help them get either a higher return on what they're spending or spend less dollars to get the same return, because we can offer a more efficient model for them.

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**Michael Lasser**

*Analyst, UBS Securities LLC*

Q

Thank you very much.

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**W. Rodney McMullen**

*Chairman & Chief Executive Officer, The Kroger Co.*

A

Thanks, Michael.

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**Operator:** The next question is from Ken Goldman with JPMorgan. Please go ahead.

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**Ken Goldman**

*Analyst, JPMorgan Securities LLC*

Q

Hey, thank you. First question, you talked about being able to pass along inflation as it increases. Is there any reason to think that this will mostly – will it be any different in terms of how you think about that, meaning list

prices versus reduced promotions versus any other sort of factors? Just trying to get a sense of, because we're in a sort of a still a COVID world, whether your pricing strategies would be similar to what you might do in a normal environment or dissimilar?

**W. Rodney McMullen**

*Chairman & Chief Executive Officer, The Kroger Co.*

A

Yeah, Ken, your question's a good one. So far, we don't see anything different. We do see bigger pack sizes. So the customer's able to offset some of the inflation by buying a more – a bigger pack, which is more efficient on a per unit usage. But nothing that we would say so far, anything that we've seen that would be significantly different than what we've seen before.

**Ken Goldman**

*Analyst, JPMorgan Securities LLC*

Q

Okay. Thank you for that. And then we're still seeing store brands, at least what we're seeing in Nielsen data, lose quite a bit of share in the food at the supermarket channel. With the understanding, obviously, it remains a critical part of your strategy, I'm just curious, are your own brands performing as you would have expected year-to-date and do you expect that to start getting better as stimulus benefits maybe diminish a little bit?

**W. Rodney McMullen**

*Chairman & Chief Executive Officer, The Kroger Co.*

A

Yeah. If you look at Our Brands – and I always look at it over a five or 10 or 20-year period, Our Brands have always gained share. You may have one or two years within that 20-year period where that hasn't been the case, but overall, Our Brands continues to gain share. Last year, because we had had our own manufacturing plants and we were able to ramp up production and it was dedicated to us, we were able to significantly gain share last year just because we had product and many of our CPG partners did not. The other thing that the Private – I mentioned a minute ago but, our Private Selection product and our Simple Truth brands continue to really have strong, strong quarters year-on-year and actually had, for the most part, positive sales growth even cycling last year. And we think it really is part of that premiumization of product, and our team does a great job of identifying new opportunities to make something fun.

**Ken Goldman**

*Analyst, JPMorgan Securities LLC*

Q

Great. Thanks so much.

**Gary Millerchip**

*Chief Financial Officer & Senior Vice President, The Kroger Co.*

A

Ken, [ph] I think it's kind of a (00:59:27) tale of two stories on Our Brands, as Rodney mentioned, because Simple Truth and Private Selection continue to outperform our overall sales growth. And to your point, I think the Kroger brand offers a great opportunity as a great value for the customer as things potentially or stimulus funding starts to become a little bit less significant in the future. So, we think that sets us above for the future as well.

**W. Rodney McMullen**

*Chairman & Chief Executive Officer, The Kroger Co.*

A

Thanks, Ken.

**Ken Goldman**

*Analyst, JPMorgan Securities LLC*

Thanks so much.

Q

**Operator:** Our last question comes from John Heinbockel with Guggenheim Partners. Please go ahead.

**John Heinbockel**

*Analyst, Guggenheim Securities LLC*

So, two things. Rodney, starting with forward buying, right, which we haven't talked about in maybe a decade, what's the opportunity there? And is that just naturally going to be limited by vendor availability of product?

Q

**W. Rodney McMullen**

*Chairman & Chief Executive Officer, The Kroger Co.*

Yeah. You're right, it's been a long time since we've talked about forward buy. We would – if you look at some areas on pharmaceuticals and things, you continue to forward buy. It's something that's been done throughout. It's just not as big as other things. If you end up in an environment where there was heavier inflation, you would expect to be doing more forward buying. But if inflation is more normal, we would not. The other thing that drove a lot of forward buy in the past is the CPGs had excess capacity and they were trying to fill up the production of that excess capacity. And as of right now, we don't see that. But it's a great question and it's something we'll continue to look for the opportunities. We did do a lot of forward buy last year during COVID, but it wasn't forward buy, which is when you could find the product. We leased about 20 extra warehouses to have – to get product to have to be able to serve customers.

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**John Heinbockel**

*Analyst, Guggenheim Securities LLC*

And then, secondly, how many more years do you think the \$1 billion of cost saves, is that still a long runway? I assume you think your comp will be higher post-COVID, right, than it was pre than the – [ph] pre-algo (01:01:39), right? And does that mean that the model, right, going forward is significant expense leverage, gross being down even with alternative profit and that's what drives the EBIT margin improvement?

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**W. Rodney McMullen**

*Chairman & Chief Executive Officer, The Kroger Co.*

Yeah. Your last part of the question, alternative profit would be a key part of driving margin. I can tell you on the cost saves, we've been able to find more cost saves than I would have ever guessed when we started the journey. We're just now starting to work on things for 2022 on cost saves. Some of the things that are being put in place that are cost savings for the balance of 2021 will flow through to next year. I don't know the degree of what kind of cost saves we'll have, but I would certainly expect that we'll find meaningful cost saves through process changes, and work changes, and things like that.

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**Gary Millerchip**

*Chief Financial Officer & Senior Vice President, The Kroger Co.*

Yeah, John, I think it's certainly become a core competence, to Rodney's point, I think when we started the journey a few years ago, I'm not sure we would have had a sense of what the opportunity was to continue to find ways to be more efficient and take cost and innovate in this space. And we still look at it, as Rodney mentioned, whether it's continuing to look at how we can use technology, I still think there are a number of areas in our business where we have the opportunity to leverage more technology even as you think about learnings from the

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last 12 months of COVID and where are there ways to operate our administrative costs more efficiently. I think we continue to identify new opportunities and we still believe that as we've -as it's become a core competence in the company to finding those areas to improve efficiency, we'd expect that to offer opportunity into the future, for sure.

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**John Heinbockel**

*Analyst, Guggenheim Securities LLC*



Thank you.

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**W. Rodney McMullen**

*Chairman & Chief Executive Officer, The Kroger Co.*

Thanks, John, for the question. Before we – I finish today, I'd like to share a few final comments directed to our associates who are listening in. Opportunity, collaboration and innovation are the core of who we are. The opportunity to be your authentic self, and be celebrated for it. To dream big, innovate and drive change. To demonstrate care, empathy and compassion for the people around you and the world in which we live. The opportunity to be part of something special and work side by side with other people who are united by our purpose. I would also like to encourage all of our associates to get COVID-19 vaccination. You have the opportunity to enter our Community Immunity Giveaway in addition to the \$100 incentive that you will receive when you complete the recommended doses of the vaccines.

From our first hybrid hiring event that I mentioned earlier to drone grocery delivery, expanding Kroger Delivery, accelerating partnerships with fresh suppliers and supporting small businesses, striving for community immunity and welcoming innovators to join us in our fight to end hunger, these are just a few of the many examples of how our teams collaborate to develop new and innovative ways to grow our business, help our customers, help our communities and create job opportunities. Thank you for all you do each day to be there for our customers, communities and each other, and that concludes today's call.

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**Operator:** The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.

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