



Kroger Q3 2021 Earnings Release

December 2, 2021



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 “tracking,” “expect,” “expectations,” “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



Released our 2021 Environmental, Social and Governance (ESG) report, outlining our achievements over the last year and our updated ESG strategy: Thriving Together



Hosted nationwide holiday hiring event with more than 20,000 opportunities across the business



Received two Brandon Hall Group - Excellence in Human Capital Management Awards for Leading through a Crisis and for A Fresh Welcome, our innovative onboarding program.



Reported progress one year after launching our Framework for Action: Diversity, Equity & Inclusion plan



20 associates were named 2021 GenNext award winners by Progressive Grocer



Awarded over \$5M to vaccinated customers and associates via #CommunityImmunity Giveaway

Q3 2021 Highlights

Leading with Fresh, Accelerating with Digital

Topline Growth

Leading with Fresh

- **Accelerate Sales:** Home Chef surpassed \$1B in annual sales 

- **Accelerate Sales:** all fresh departments outperform total company 

- **Our Brands:** double-digit growth in Private Selection and Simple Truth over 2019 

Accelerating with Digital

- **Accelerate Sales:** Kroger Delivery Now winning more trips with current customers & engaging new customers 

- **Accelerate Sales:** Boost by Kroger Plus engagement ahead of internal expectations 

Margin Expansion

Growing Alternative Profit

- **Growth Accelerator:** strong growth tracking toward high end of internal annual expectations 

Productivity Improvements

- **Cost Efficiency:** on track to achieve annual cost savings goal of \$1B for fourth consecutive year 

- **Grow Digital Profitability:** achieved lowest cost to serve ever for Pickup orders 

Feed the Human Spirit

Associate Experience

- **Received two Brandon Hall Group Awards - Excellence in Human Capital Management** 

Live Our Purpose

- **Framework for Action:** marked one-year anniversary and reported significant progress 

- Partnered with Biden Administration to **offer at-home rapid COVID-19 tests at cost** 

- Kroger Health has administered more than **8.5 million COVID-19 vaccine doses** 

Key Initiatives Drive Strong Results

+14.0%

2-Year Stack Identical
Sales Increase*

+3.1%

Q3 Identical Sales**
Strength in fresh, deli/bakery,
produce and floral and HBC

+103%

2-Year Stack Digital
Sales Growth***

-4.7%

Q3 Digital Sales
On track to double digital
sales by 2023



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

**Identical sales without fuel

*** 2-year basis represents the sum of the third quarter 2020 and third quarter 2021 digital sales growth rates

Key Initiatives Drive Strong Results

\$868M
Operating Profit

\$0.64
EPS

\$974M
FIFO Adjusted Operating Profit

\$0.78
Adjusted EPS



+22.1%
2-Year CAGR FIFO Adjusted OP*

+28.8%
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

\$1B

Annualized
Sales for Home
Chef Brand

216

New *Our
Brands* Items
Introduced

**Fresh
Departments**
Grew Faster Than
Total Company
Identical Sales
Without Fuel

Accelerating with Digital

Announced

Five New
Customer
Fulfillment
Centers

Launched

Boost by
Kroger Plus &
Kroger Delivery
Now

Announced

Collaboration
with Bed Bath
& Beyond Inc.

Margin Expansion

Alternative Profit

On Track

To Grow
Incremental OP
by \$100M -
\$150M

Strong

Growth in Kroger
Personal Finance

Introduced

Programmatic
Advertising
Marketplace
within KPM

Increase Profitability

On Track

To Deliver Fourth
Consecutive Year
of \$1B Cost
Savings

Achieved

Lowest Cost to Serve
Ever for Pickup
Orders



Live Our Purpose

- **Kroger Health:**
 - Partnered with Anthem Blue Cross and Blue Shield to offer new Medicare Advantage plans that include allowance to help customers purchase groceries and health items
 - Administered more than 8.5 million doses of the COVID-19 vaccine to customers and associates to date
- **Framework for Action: Diversity, Equity and Inclusion progress update:**
 - 405,000 associates completed diversity and inclusion training
 - Increased our partnerships with Historically Black Colleges and Universities and Hispanic-Serving Institutions from six to seventeen
 - Achieved \$4.1 billion in diverse supplier spend in 2020, a 21% increase versus prior year
 - The Kroger Co. Foundation collectively invested \$3.1 million to advance racial equity through partnerships with Black Girl Ventures, Everytable, LISC and Thurgood Marshall College Fund
 - Scored 100 on the Disability Equality Index and the Corporate Equality Index



2021 Updated Guidance

Adjusted Metric*	FY21 Guidance as of September 10, 2021		New FY21 Guidance	New FY21 Guidance 2-Year Basis***
IDs (%)	(1.5%) - (1.0%)	↑	(0.4%) - (0.2%)	13.7% - 13.9% (Stack)
EPS (\$)	\$3.25 - \$3.35	↑	\$3.40 - \$3.50	25% - 26% (CAGR)
Operating Profit (\$B)	\$3.9 - \$4.0	↑	\$4.1 - \$4.2	17.0% - 18.4% (CAGR)
Cap Ex (\$B)	\$3.4 - \$3.6		\$3.1 - \$3.3	
Free Cash Flow (\$B)**	\$1.9 - \$2.1	↑	\$2.4 - \$2.6	\$3.3 - \$3.4 (Average)
Tax Rate ****	22.1% - 22.7%		22.1% - 22.5%	

*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. Accordingly, this does not reflect the effect of the \$47 million benefit recognized in the third quarter of 2021.



Investment Thesis

Total Shareholder Returns of 8-11%

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)

	THIRD QUARTER				YEAR-TO-DATE			
	2021		2020		2021		2020	
SALES	\$ 31,860	100.0%	\$ 29,723	100.0%	\$ 104,840	100.0%	\$ 101,761	100.0%
OPERATING EXPENSES								
MERCHANDISE COSTS, INCLUDING ADVERTISING, WAREHOUSING AND TRANSPORTATION (a), AND LIFO CHARGE (b)	24,959	78.3	22,901	77.1	81,820	78.0	77,906	76.6
OPERATING, GENERAL AND ADMINISTRATIVE (a)	5,177	16.2	5,194	17.5	17,692	16.9	18,162	17.9
RENT	197	0.6	205	0.7	648	0.6	682	0.7
DEPRECIATION AND AMORTIZATION	659	2.1	631	2.1	2,168	2.1	2,073	2.0
OPERATING PROFIT	868	2.7	792	2.7	2,512	2.4	2,938	2.9
OTHER INCOME (EXPENSE)								
INTEREST EXPENSE	(135)	(0.4)	(129)	(0.4)	(438)	(0.4)	(438)	(0.4)
NON-SERVICE COMPONENT OF COMPANY-SPONSORED PENSION PLAN COSTS	(77)	(0.2)	9	-	(44)	-	28	-
(LOSS) GAIN ON INVESTMENTS	(94)	(0.3)	162	0.6	(694)	(0.7)	952	0.9
NET EARNINGS BEFORE INCOME TAX EXPENSE	562	1.8	834	2.8	1,336	1.3	3,480	3.4
INCOME TAX EXPENSE	77	0.2	202	0.7	239	0.2	816	0.8
NET EARNINGS INCLUDING NONCONTROLLING INTERESTS	485	1.5	632	2.1	1,097	1.1	2,664	2.6
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	2	-	1	-	7	-	2	-
NET EARNINGS ATTRIBUTABLE TO THE KROGER CO.	\$ 483	1.5%	\$ 631	2.1%	\$ 1,090	1.0%	\$ 2,662	2.6%
NET EARNINGS ATTRIBUTABLE TO THE KROGER CO. PER BASIC COMMON SHARE	\$ 0.64		\$ 0.81		\$ 1.44		\$ 3.39	
AVERAGE NUMBER OF COMMON SHARES USED IN BASIC CALCULATION	742		772		747		777	
NET EARNINGS ATTRIBUTABLE TO THE KROGER CO. PER DILUTED COMMON SHARE	\$ 0.64		\$ 0.80		\$ 1.43		\$ 3.35	
AVERAGE NUMBER OF COMMON SHARES USED IN DILUTED CALCULATION	752		780		757		785	
DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.21		\$ 0.18		\$ 0.60		\$ 0.52	

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 \$93 and \$23 were recorded in the third quarters of 2021 and 2020, respectively. For the year to date period, LIFO charges of \$177 and \$77 were recorded for 2021 and 2020, respectively.

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

	November 6, 2021	November 7, 2020
ASSETS		
Current Assets		
Cash	\$ 324	\$ 367
Temporary cash investments	1,964	1,813
Store deposits in-transit	1,140	1,102
Receivables	1,914	1,610
Inventories	7,520	7,478
Prepaid and other current assets	518	576
	<hr/>	<hr/>
Total current assets	13,380	12,946
Property, plant and equipment, net	23,316	21,902
Operating lease assets	6,655	6,843
Intangibles, net	954	1,012
Goodwill	3,076	3,076
Other assets	2,448	2,686
	<hr/>	<hr/>
Total Assets	<u>\$ 49,829</u>	<u>\$ 48,465</u>
LIABILITIES AND SHAREOWNERS' EQUITY		
Current Liabilities		
Current portion of long-term debt including obligations under finance leases	\$ 1,048	\$ 1,595
Current portion of operating lease liabilities	642	669
Trade accounts payable	7,879	7,355
Accrued salaries and wages	1,458	1,236
Other current liabilities	5,771	4,662
	<hr/>	<hr/>
Total current liabilities	16,798	15,517
Long-term debt including obligations under finance leases	12,673	11,925
Noncurrent operating lease liabilities	6,343	6,482
Deferred income taxes	1,619	1,682
Pension and postretirement benefit obligations	490	543
Other long-term liabilities	2,415	2,272
	<hr/>	<hr/>
Total Liabilities	40,338	38,421
Shareowners' equity	<hr/> 9,491	<hr/> 10,044
	<hr/>	<hr/>
Total Liabilities and Shareowners' Equity	<u>\$ 49,829</u>	<u>\$ 48,465</u>
Total common shares outstanding at end of period	738	766
Total diluted shares year-to-date	757	785

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	\$ 1,097	\$ 2,664
Adjustments to reconcile net earnings including noncontrolling interests to net cash provided by operating activities:		
Depreciation and amortization	2,168	2,073
Operating lease asset amortization	468	481
LIFO charge	177	77
Stock-based employee compensation	159	147
Company-sponsored pension plans	56	(12)
Deferred income taxes	34	219
Gain on the sale of assets	(34)	(24)
Loss (gain) on investments	694	(952)
Other	106	119
Changes in operating assets and liabilities, net of effects from mergers and disposals of businesses:		
Store deposits in-transit	(44)	77
Receivables	(80)	42
Inventories	(673)	(471)
Prepaid and other current assets	371	(56)
Trade accounts payable	1,200	1,006
Accrued expenses	(40)	469
Income taxes receivable and payable	(54)	89
Operating lease liabilities	(532)	(464)
Other	(282)	413
Net cash provided by operating activities	<u>4,791</u>	<u>5,897</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for property and equipment, including payments for lease buyouts	(2,008)	(2,062)
Proceeds from sale of assets	139	99
Other	(90)	(85)
Net cash used by investing activities	<u>(1,959)</u>	<u>(2,048)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	43	537
Payments on long-term debt including obligations under finance leases	(915)	(41)
Net payments on commercial paper	-	(1,150)
Dividends paid	(433)	(395)
Proceeds from issuance of capital stock	118	98
Treasury stock purchases	(1,049)	(989)
Proceeds from financing arrangement	166	-
Other	(161)	(128)
Net cash used by financing activities	<u>(2,231)</u>	<u>(2,068)</u>
NET INCREASE IN CASH AND TEMPORARY CASH INVESTMENTS	601	1,781
CASH AND TEMPORARY CASH INVESTMENTS:		
BEGINNING OF YEAR	1,687	399
END OF PERIOD	<u>\$ 2,288</u>	<u>\$ 2,180</u>
Reconciliation of capital investments:		
Payments for property and equipment, including payments for lease buyouts	\$ (2,008)	\$ (2,062)
Payments for lease buyouts	-	42
Changes in construction-in-progress payables	(144)	(44)
Total capital investments, excluding lease buyouts	<u>\$ (2,152)</u>	<u>\$ (2,064)</u>
Disclosure of cash flow information:		
Cash paid during the year for interest	\$ 493	\$ 474
Cash paid during the year for income taxes	\$ 364	\$ 495

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)			
	THIRD QUARTER		YEAR-TO-DATE	
	2021	2020	2021	2020
EXCLUDING FUEL	\$ 27,685	\$ 26,850	\$ 91,899	\$ 92,795
EXCLUDING FUEL	3.1%	10.9%	(1.0)%	15.3%

(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.

	November 6, 2021	November 7, 2020	Change
Current portion of long-term debt including obligations under finance leases	\$ 1,048	\$ 1,595	\$ (547)
Long-term debt including obligations under finance leases	12,673	11,925	748
Total debt	13,721	13,520	201
Less: Temporary cash investments	1,964	1,813	151
Net total debt	<u>\$ 11,757</u>	<u>\$ 11,707</u>	<u>\$ 50</u>

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

	Rolling Four Quarters Ended	
	November 6, 2021	November 7, 2020
Net earnings attributable to The Kroger Co.	\$ 1,013	\$ 2,989
LIFO charge	93	113
Depreciation and amortization	2,842	2,728
Interest expense	543	578
Income tax expense	205	887
Adjustment for pension plan withdrawal liabilities	1,437	4
Adjustment for company-sponsored pension plan settlement charges	87	-
Adjustment for loss (gain) on investments	541	(943)
Adjustment for Home Chef contingent consideration	142	58
Adjustment for deconsolidation and impairment of Lucky's Market attributable to The Kroger Co. ^(a)	-	174
Adjustment for transformation costs ^(b)	118	152
Other	(7)	(10)
Adjusted EBITDA	<u>\$ 7,014</u>	<u>\$ 6,730</u>
Net total debt to adjusted EBITDA ratio	<u>1.68</u>	<u>1.74</u>

(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.

	THIRD QUARTER		YEAR-TO-DATE	
	2021	2020	2021	2020
Net earnings attributable to The Kroger Co.	\$ 483	\$ 631	\$ 1,090	\$ 2,662
Adjustment for pension plan withdrawal liabilities (a)(b)	-	-	344	-
Adjustment for company-sponsored pension plan settlement charges (a)(c)	68	-	68	-
Adjustment for loss (gain) on investments (a)(d)	73	(115)	533	(705)
Adjustment for Home Chef contingent consideration (a)(e)	7	17	47	80
Adjustment for transformation costs (a)(f)	5	24	82	73
Adjustment for income tax audit examinations (a)	(47)	-	(47)	-
2021 and 2020 Adjustment Items	106	(74)	1,027	(552)
Net earnings attributable to The Kroger Co. excluding the adjustment items above	<u>\$ 589</u>	<u>\$ 557</u>	<u>\$ 2,117</u>	<u>\$ 2,110</u>
Net earnings attributable to The Kroger Co. per diluted common share	\$ 0.64	\$ 0.80	\$ 1.43	\$ 3.35
Adjustment for pension plan withdrawal liabilities (g)	-	-	0.45	-
Adjustment for company-sponsored pension plan settlement charges (g)	0.09	-	0.09	-
Adjustment for loss (gain) on investments (g)	0.10	(0.15)	0.70	(0.90)
Adjustment for Home Chef contingent consideration (g)	0.01	0.02	0.06	0.10
Adjustment for transformation costs (g)	0.01	0.04	0.11	0.11
Adjustment for income tax audit examinations (g)	(0.07)	-	(0.07)	-
2021 and 2020 Adjustment Items	0.14	(0.09)	1.34	(0.69)
Net earnings attributable to The Kroger Co. per diluted common share excluding the adjustment items above	<u>\$ 0.78</u>	<u>\$ 0.71</u>	<u>\$ 2.77</u>	<u>\$ 2.66</u>
Average number of common shares used in diluted calculation	752	780	757	785

Table 6. Net Earnings Per Diluted Share Excluding the Adjustment Items (continued)

(in millions, except per share amounts)
(unaudited)

- (a) The amounts presented represent the after-tax effect of each adjustment.
- (b) The pre-tax adjustment to OG&A expenses for pension plan withdrawal liabilities was \$449.
- (c) The pre-tax adjustment to other income (expense) for company-sponsored pension plan settlement charges was \$87.
- (d) The pre-tax adjustments for loss (gain) on investments were \$94 and (\$162) in the third quarters of 2021 and 2020, respectively. The year-to-date pre-tax adjustments for loss (gain) on investments were \$694 and (\$952) in the first three quarters of 2021 and 2020, respectively.
- (e) The pre-tax adjustments to OG&A expenses for Home Chef contingent consideration were \$10 and \$24 in the third quarters of 2021 and 2020, respectively. The year-to-date pre-tax adjustments to OG&A expenses for Home Chef contingent consideration were \$61 and \$109 in the first three quarters of 2021 and 2020, respectively.
- (f) The pre-tax adjustments to OG&A expenses for transformation costs were \$6 and \$33 in the third quarters of 2021 and 2020, respectively. The year-to-date pre-tax adjustment to OG&A expenses for transformation costs were \$107 and \$100 in the first three 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.
- (g) The amounts presented represent the net earnings (loss) per diluted common share effect of each adjustment.

Note: 2021 Third Quarter Adjustment Items include adjustments for the loss on investments, Home Chef contingent consideration adjustment, company-sponsored pension plan settlement charges, strategic transformation costs, and the income tax audit examinations adjustment.

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

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

2020 Adjustment Items include the Third Quarter Adjustment Items plus the adjustments that occurred in the first two quarters 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.

	THIRD QUARTER		YEAR-TO-DATE	
	2021	2020	2021	2020
Operating profit	\$ 868	\$ 792	\$ 2,512	\$ 2,938
LIFO charge	93	23	177	77
FIFO Operating profit	961	815	2,689	3,015
Adjustment for pension plan withdrawal liabilities	-	-	449	-
Adjustment for Home Chef contingent consideration	10	24	61	109
Adjustment for transformation costs ^(a)	6	33	107	100
Other	(3)	(1)	(9)	(6)
2021 and 2020 Adjustment items	13	56	608	203
Adjusted FIFO operating profit excluding the adjustment items above	<u>\$ 974</u>	<u>\$ 871</u>	<u>\$ 3,297</u>	<u>\$ 3,218</u>

(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		2020		2021		2020	
	THIRD QUARTER		THIRD QUARTER		YEAR-TO-DATE		YEAR-TO-DATE	
	2021	2020	2020	2019	2021	2020	2020	2019
Excluding Fuel	\$ 27,685	\$ 26,850	\$ 26,860	\$ 24,212	\$ 91,899	\$ 92,795	\$ 92,759	\$ 80,485
Excluding Fuel	3.1%		10.9%		(1.0)%		15.3%	
Two-year identical sales stacked	14.0%				14.3%			

OPERATING PROFIT EXCLUDING THE ADJUSTMENT ITEMS TWO-YEAR CAGR*

	THIRD QUARTER		YEAR-TO-DATE	
	2021	2019	2021	2019
Operating profit	\$ 868	\$ 254	\$ 2,512	\$ 1,714
LIFO charge	93	23	177	69
FIFO Operating profit	961	277	2,689	1,783
Adjustment for pension plan withdrawal liabilities	-	45	449	131
Adjustment for Home Chef contingent consideration	10	4	61	(18)
Adjustment for severance charge and related benefits	-	80	-	80
Adjustment for transformation costs ^(a)	6	-	107	-
Adjustment for impairment of Lucky's Market ^(b)	-	238	-	238
Other	(3)	9	(9)	23
2021 and 2019 Adjustment items	13	376	608	454
Adjusted FIFO operating profit excluding the adjustment items above	\$ 974	\$ 653	\$ 3,297	\$ 2,237
Two-year operating profit CAGR*	84.9%		21.1%	
Two-year adjusted FIFO operating profit excluding the adjustment items above CAGR*	22.1%		21.4%	

(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.

(b) The adjustment for impairment of Lucky's Market includes a \$107 net loss attributable to the minority interest of Lucky's Market.

* 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*

	THIRD QUARTER		YEAR-TO-DATE	
	2021	2019	2021	2019
Net earnings attributable to the Kroger Co.	\$ 483	\$ 263	\$ 1,090	\$ 1,332
Adjustment for pension plan withdrawal liabilities (a)(b)	-	35	344	101
Adjustment for company-sponsored pension plan settlement charges (a)(c)	68	-	68	-
Adjustment for gain on sale of Turkey Hill Dairy (a)(d)	-	-	-	(80)
Adjustment for gain on sale of You Technology (a)(e)	-	-	-	(52)
Adjustment for loss (gain) on investments (a)(f)	73	(81)	533	(125)
Adjustment for impairment of Lucky's Market attributable to the Kroger Co. (a)(g)	-	100	-	100
Adjustment for Home Chef contingent consideration (a)(h)	7	3	47	(13)
Adjustment for transformation costs (a)(i)	5	-	82	-
Adjustment for severance charge and related benefits (a)(j)	-	61	-	61
Adjustment for income tax audit examinations (a)	(47)	-	(47)	-
2021 and 2019 adjustment items	106	118	1,027	(8)
Net earnings attributable to the Kroger Co. Excluding the adjustment items above	\$ 589	\$ 381	\$ 2,117	\$ 1,324
Net earnings attributable to the Kroger Co. Per diluted common share	\$ 0.64	\$ 0.32	\$ 1.43	\$ 1.64
Adjustment for pension plan withdrawal liabilities (k)	-	0.04	0.45	0.12
Adjustment for company-sponsored pension plan settlement charges (k)	0.09	-	0.09	-
Adjustment for gain on sale of Turkey Hill Dairy (k)	-	-	-	(0.10)
Adjustment for gain on sale of You Technology (k)	-	-	-	(0.06)
Adjustment for loss (gain) on investments (k)	0.10	(0.10)	0.70	(0.16)
Adjustment for impairment of Lucky's Market attributable to The Kroger Co. (k)	-	0.12	-	0.12
Adjustment for Home Chef contingent consideration (k)	0.01	0.01	0.06	(0.02)
Adjustment for transformation costs (k)	0.01	-	0.11	-
Adjustment for severance charge and related benefits (k)	-	0.08	-	0.08
Adjustment for income tax audit examinations (k)	(0.07)	-	(0.07)	-
2021 and 2019 adjustment items	0.14	0.15	1.34	(0.02)
Net earnings attributable to the Kroger Co. per Diluted common share excluding the adjustment items above	\$ 0.78	\$ 0.47	\$ 2.77	\$ 1.62
Average number of common shares used in Diluted calculation	752	807	757	805
Two-year net earnings attributable to the Kroger Co. per Diluted common share CAGR*	41.4%		(6.6)%	
Two-year net earnings attributable to the Kroger Co. per Diluted common share excluding the adjustment items above CAGR*	28.8%		30.8%	

* 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 \$45 in the third quarter of 2019. The year-to-date pre-tax adjustments for pension plan withdrawal liabilities were \$449 and \$131 in the first three quarters of 2021 and 2019, respectively.

(c) The pre-tax adjustment to other income (expense) for company-sponsored pension plan settlement charges was \$87.

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

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

(f) The pre-tax adjustments for loss (gain) on investments were \$94 and (\$106) in the third quarters of 2021 and 2019, respectively. The year-to-date pre-tax adjustments for loss (gain) on investments were \$694 and (\$166) in the first three quarters of 2021 and 2019, respectively.

(g) The pre-tax adjustment for impairment of Lucky's Market was \$238 including a \$107 net loss attributable to the minority interest of Lucky's Market.

(h) The pre-tax adjustments to OG&A expenses for Home Chef contingent consideration were \$10 and \$4 in the third quarters of 2021 and 2019, respectively. The year-to-date pre-tax adjustments to OG&A expenses for Home Chef contingent consideration were \$61 and (\$18) in the first three quarters of 2021 and 2019, respectively.

(i) The pre-tax adjustments to OG&A expenses for transformation costs were \$6 in the third quarter of 2021. The year-to-date pre-tax adjustments to OG&A expenses for transformation costs were \$107 in the first three quarters of 2021. 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.

(j) The pre-tax adjustment for severance charge and related benefits was \$80.

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

Note: 2021 Third Quarter Adjustment Items include adjustments for the loss on investments, Home Chef contingent consideration adjustment, company-sponsored pension plan settlement charges, strategic transformation costs, and the income tax audit examination adjustment.

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

2019 Third Quarter Adjustment Items include adjustments for pension plan withdrawal liabilities, gain on investments, severance charges, impairment of Lucky's Market, and Home Chef contingent consideration adjustment.

2019 Adjustment Items include the Third Quarter Adjustment Items plus the adjustments that occurred in the first two quarters 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

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