

# Kroger Q4 2024 Earnings Release

March 6, 2025



# Safe Harbor

This presentation includes certain statements that constitute “forward-looking statements” about Kroger’s financial position and expected performance, including our proposed transaction with Albertsons Companies. These statements are based on management’s assumptions and beliefs in light of currently available information. Such statements are indicated by words or phrases such as “committed,” “could,” “delivering,” “guidance,” “may,” “model,” “opportunities,” “strategy,” “thesis,” “will,” and other similar statements. Various uncertainties and other factors could cause actual results to differ materially from those contained in the forward-looking statements. These include the specific risk factors identified in “Risk Factors” in our annual report on Form 10-K for our last fiscal year and any subsequent filings. Kroger assumes no obligation to update the information contained herein unless required by applicable law. Please refer to Kroger's reports and filings with the Securities and Exchange Commission for a further discussion of these risks and uncertainties. This presentation includes certain non-GAAP financial measures. Please refer to the supplemental information presented in the tables for reconciliations of the non-GAAP financial measures used in this presentation to the most comparable GAAP financial measure and related disclosure. This presentation also includes certain forward-looking non-GAAP financial measures, which management believes to be useful to investors and analysts. Kroger is unable to provide a full reconciliation of the non-GAAP measures used in our guidance, including, but not limited to, adjusted FIFO operating profit to operating profit and adjusted free cash flow, without unreasonable effort because it is not possible to predict with a reasonable degree of certainty the information necessary to calculate such measures on a GAAP basis. It is not possible to estimate with a reasonable degree of certainty certain of our adjustment items because such information is dependent on future events that may be outside of our control. The unavailable information could have a significant impact on our GAAP financial results.



# Q4 2024 Results

**+2.4%**

ID Sales<sup>(1)</sup>

**\$912M**

GAAP Operating Profit

**\$0.90**

GAAP EPS

**+11%**

Digital Sales<sup>(2)</sup>

**\$1,174M**

Adj. FIFO Operating Profit

**\$1.14**

Adj. EPS  
Flat vs. Q4'2023 <sup>(2)</sup>



(1) Without fuel

(2) Excluding 53<sup>rd</sup> week in 2023



# Full-Year 2024 Results

**+1.5%**

ID Sales<sup>(1)</sup>

**\$3.8B**

GAAP Operating Profit

**\$3.67**

GAAP EPS

**+10%**

Digital Sales<sup>(2)</sup>

**\$4.7B**

Adj. FIFO Operating Profit

**\$4.47**

Adj. EPS  
2% decline<sup>(2)</sup>



(1) Without fuel

(2) Excluding 53<sup>rd</sup> week in 2023



# 2024 Highlights



Progress on our go-to-market strategy

## Fresh

Launched a new Fresh brand offering, Field & Vine, offering high quality and regionally grown berries

Achieved produce identical sales which outpaced total company identical sales without fuel



## Personalization

Delivered more personalized value with 10% increase in digital coupon savings for customers

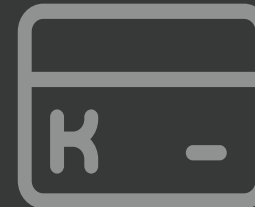
Enhanced the Boost by Kroger Plus Membership by including Disney streaming options with an annual membership



## Our Brands

*Our Brands* sales growth outpaced national brands

Introduced more than 900 new *Our Brands* items, including 370 fresh items, in 2024



## Seamless

Double-digit sales growth contributed to making eCommerce more than a \$13B business annually

Increased delivery sales by 18% over last year, excluding the 53<sup>rd</sup> week in 2023, led by Customer Fulfillment Centers



# Strengthening our Value Creation Model

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



## Supermarket

Strong store execution and value led to growth in total household and enhanced loyalty in 2024

Improved FIFO gross margin through strong *Our Brands* performance and lower shrink



## Health and Wellness

Strong sales growth compared to last year driven by GLP-1s

Grew vaccinations 11% even as fewer total vaccinations were administered in the U.S.



## Fuel

Full-year fuel profitability decreased as a result of fewer gallons sold

## + Alternative Profits

Delivered solid results, generating \$1.35 billion in operating profit led by 17% increase in Media, excluding the 53<sup>rd</sup> week in 2023



**Strong Supermarket, Fuel and Health & Wellness Business**

Revenue  
+  
Traffic

Data  
+  
Traffic



**Fast Growing Alternative Profit Businesses**



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

# Associate Experience

- **Investing in our Associates:** Increased associate wages resulting in an average hourly wage of more than \$19 and rate of more than \$25 with comprehensive benefits factored in, which is a 38% increase in rate in the last seven years
- **Record Retention:** Achieved record retention rate for store and enterprise associates this year which led to improved productivity and more consistent customer experience
- **Continuing Education:** Supported continuing education with almost 5,500 associates, 89% of whom are hourly, taking advantage of Kroger's education assistance program in 2024



# 2025 Full-Year Guidance\*

Adjusted Metric	FY25 Guidance
IDs (%)*	2.0% – 3.0%
EPS (\$)*	\$4.60 – \$4.80
Operating Profit (\$B)*	\$4.7 – \$4.9
Free Cash Flow (\$B)**	\$2.8 – \$3.0
Cap Ex (\$B)	\$3.6 – \$3.8
Tax Rate***	23%



\* Without adjusted items, if applicable. Kroger is unable to provide a full reconciliation of the GAAP and non-GAAP measures used in 2025 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 2025 GAAP financial results.

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

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



# Live Our Purpose



Responded to the Los Angeles wildfires with supplies and monetary donations to support those affected



Raised more than \$3M through our Holiday Hunger campaign to support local hunger relief organizations



Expanded prescription drug safety program to more than 470 U.S. schools



Recognized as one of Newsweek's "Most Responsible Companies" for 2025



Recognized 20 Kroger associates with the Zero Hero Community Service Award, celebrating those who demonstrate exceptional volunteer service in support of Zero Hunger | Zero Waste

# Investment Thesis

## Strong Business with Exciting Growth Opportunities

- Conveniently located +2,700 stores
- First Party Data on 62M Households
- ~\$30B *Our Brands* Business
- Significant Digital Business, >\$13B
- Robust New Store Growth

## Proven Value Creation Model

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

## Strong Balance Sheet & Resilient Free Cash Flow

- Strong Free Cash Flow Yield
- Investment Grade Debt Rating
- Growing Dividend Subject to Board Approval
- Committed to Repurchasing Shares with Excess Cash
- Current Net Debt to Adjusted EBITDA 1.79x



# Appendix

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

	FOURTH QUARTER				YEAR-TO-DATE			
	2024		2023		2024		2023	
SALES	\$ 34,308	100.0%	\$ 37,064	100.0%	\$ 147,123	100.0%	\$ 150,039	100.0%
OPERATING EXPENSES								
MERCHANDISE COSTS, INCLUDING ADVERTISING, WAREHOUSING AND TRANSPORTATION (a), AND LIFO CHARGE (b)	26,387	76.9	28,643	77.3	113,720	77.3	116,675	77.8
OPERATING, GENERAL AND ADMINISTRATIVE (a)	6,043	17.6	6,278	16.9	25,431	17.3	26,252	17.5
RENT	206	0.6	220	0.6	877	0.6	891	0.6
DEPRECIATION AND AMORTIZATION	760	2.2	729	1.9	3,246	2.2	3,125	2.0
OPERATING PROFIT	912	2.7	1,194	3.2	3,849	2.6	3,096	2.1
OTHER INCOME (EXPENSE)								
NET INTEREST EXPENSE	(157)	(0.5)	(100)	(0.3)	(450)	(0.3)	(441)	(0.3)
NON-SERVICE COMPONENT OF COMPANY-SPONSORED PENSION PLAN BENEFITS	3	-	6	-	12	-	30	-
(LOSS) GAIN ON INVESTMENTS	(22)	(0.1)	(166)	(0.4)	(148)	(0.1)	151	0.1
GAIN ON SALE OF BUSINESS	-	-	-	-	79	0.1	-	-
NET EARNINGS BEFORE INCOME TAX EXPENSE	736	2.1	934	2.5	3,342	2.3	2,836	1.9
INCOME TAX EXPENSE	102	0.3	195	0.5	670	0.5	667	0.3
NET EARNINGS INCLUDING NONCONTROLLING INTERESTS	634	1.9	739	2.0	2,672	1.8	2,169	1.5
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	-	-	3	-	7	-	5	-
NET EARNINGS ATTRIBUTABLE TO THE KROGER CO.	\$ 634	1.9%	\$ 736	2.0%	\$ 2,665	1.8%	\$ 2,164	1.4%
NET EARNINGS ATTRIBUTABLE TO THE KROGER CO. PER BASIC COMMON SHARE	\$ 0.91		\$ 1.01		\$ 3.70		\$ 2.99	
AVERAGE NUMBER OF COMMON SHARES USED IN BASIC CALCULATION	691		719		715		718	
NET EARNINGS ATTRIBUTABLE TO THE KROGER CO. PER DILUTED COMMON SHARE	\$ 0.90		\$ 1.01		\$ 3.67		\$ 2.96	
AVERAGE NUMBER OF COMMON SHARES USED IN DILUTED CALCULATION	696		725		720		725	
DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.32		\$ 0.29		\$ 1.25		\$ 1.13	

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, rent and depreciation and amortization.

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) A LIFO charge of \$30 and a LIFO credit of \$18 were recorded in the fourth quarters of 2024 and 2023, respectively. For the year-to-date period, LIFO charges of \$95 and \$113 were recorded for 2024 and 2023, respectively.

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

	February 1, 2025	February 3, 2024
<b>ASSETS</b>		
Current Assets		
Cash	\$ 216	\$ 235
Temporary cash investments	3,743	1,648
Store deposits in-transit	1,312	1,215
Receivables	2,195	2,136
Inventories	7,038	7,105
Prepaid and other current assets	769	609
Total current assets	15,273	12,948
Property, plant and equipment, net	25,703	25,230
Operating lease assets	6,839	6,692
Intangibles, net	834	899
Goodwill	2,674	2,916
Other assets	1,293	1,820
Total Assets	\$ 52,616	\$ 50,505
<b>LIABILITIES AND SHAREOWNERS' EQUITY</b>		
Current Liabilities		
Current portion of long-term debt including obligations under finance leases	\$ 191	\$ 198
Current portion of operating lease liabilities	599	670
Accounts payable	10,124	10,381
Accrued salaries and wages	1,330	1,323
Other current liabilities	3,615	3,486
Total current liabilities	15,859	16,058
Long-term debt including obligations under finance leases	17,714	12,028
Noncurrent operating lease liabilities	6,578	6,351
Deferred income taxes	1,417	1,579
Pension and postretirement benefit obligations	387	385
Other long-term liabilities	2,380	2,503
Total Liabilities	44,335	38,904
Shareowners' equity	8,281	11,601
Total Liabilities and Shareowners' Equity	\$ 52,616	\$ 50,505
Total common shares outstanding at end of period	658	720
Total diluted shares year-to-date	720	725

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

	YEAR-TO-DATE	
	2024	2023
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net earnings including noncontrolling interests	\$ 2,672	\$ 2,169
Adjustments to reconcile net earnings including noncontrolling interests to net cash provided by operating activities:		
Depreciation and amortization	3,246	3,125
Asset impairment charges	98	69
Operating lease asset amortization	603	625
LIFO charge	95	113
Share-based employee compensation	175	172
Company-sponsored pension plan benefits	(2)	(9)
Deferred income taxes	(102)	(155)
Gain on the sale of assets	(70)	(56)
Gain on sale of business	(79)	-
Loss (gain) on investments	148	(151)
Other	22	78
Changes in operating assets and liabilities:		
Store deposits in-transit	(97)	(88)
Receivables	(288)	14
Inventories	(144)	342
Prepaid and other current assets	(166)	72
Accounts payable	253	545
Accrued expenses	107	(222)
Income taxes receivable and payable	76	68
Operating lease liabilities	(609)	(695)
Other	(144)	772
Net cash provided by operating activities	<u>5,794</u>	<u>6,788</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Payments for property and equipment, including payments for lease buyouts	(4,017)	(3,904)
Proceeds from sale of assets	377	101
Net proceeds from sale of business	464	-
Other	(52)	53
Net cash used by investing activities	<u>(3,228)</u>	<u>(3,750)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of long-term debt	10,502	15
Payments on long-term debt including obligations under finance leases	(4,883)	(1,301)
Dividends paid	(883)	(796)
Financing fees paid	(116)	-
Proceeds from issuance of capital stock	127	50
Treasury stock purchases	(4,156)	(62)
Unsettled accelerated share repurchases	(1,000)	-
Other	(81)	(76)
Net cash used by financing activities	<u>(490)</u>	<u>(2,170)</u>
<b>NET INCREASE IN CASH AND TEMPORARY CASH INVESTMENTS</b>	<b>2,076</b>	<b>868</b>
<b>CASH AND TEMPORARY CASH INVESTMENTS:</b>		
BEGINNING OF YEAR	1,883	1,015
END OF YEAR	<u>\$ 3,959</u>	<u>\$ 1,883</u>
<b>Reconciliation of capital investments:</b>		
Payments for property and equipment, including payments for lease buyouts	\$ (4,017)	\$ (3,904)
Payments for lease buyouts	51	-
Changes in construction-in-progress payables	343	344
Total capital investments, excluding lease buyouts	<u>\$ (3,623)</u>	<u>\$ (3,560)</u>
<b>Disclosure of cash flow information:</b>		
Cash paid during the year for net interest	\$ 304	\$ 488
Cash paid during the year for income taxes	\$ 681	\$ 751

**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)**

	FOURTH QUARTER		YEAR-TO-DATE	
	2024	2023	2024	2023
EXCLUDING FUEL	\$ 30,702	\$ 29,981	\$ 128,297	\$ 126,378
EXCLUDING FUEL	2.4%	(0.8)%	1.5%	0.9%

- (a) Kroger defines identical sales, excluding fuel, as sales to retail customers, including sales from all departments at identical supermarket locations, Kroger Specialty Pharmacy businesses, jewelry and ship-to-home solutions. Kroger defines a supermarket as identical when it has been in operation without expansion or relocation for five full quarters. Kroger defines Kroger Specialty Pharmacy businesses as identical when physical locations have been in operation continuously for five full quarters and discontinued patient therapies are excluded from the identical sales calculation starting in the quarter of transfer or termination. We include Kroger Delivery sales powered by Ocado as identical if the delivery occurs in an existing Kroger Supermarket geography or when the location has been in operation for five full quarters. Starting in the first quarter of 2024, Kroger Specialty Pharmacy businesses were not included in identical sales due to being classified as held for sale, while they were included in identical sales in the fourth quarter and year-to-date periods of 2023.

**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.

	February 1, 2025	February 3, 2024	Change
Current portion of long-term debt including obligations under finance leases	\$ 191	\$ 198	\$ (7)
Long-term debt including obligations under finance leases	17,714	12,028	5,686
Total debt	17,905	12,226	5,679
Less: Temporary cash investments	3,743	1,648	2,095
Net total debt	<u>\$ 14,162</u>	<u>\$ 10,578</u>	<u>\$ 3,584</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, for 2024 and 2023 on a 52-week basis.

	YEAR-TO-DATE	
	February 1, 2025	February 3, 2024
Net earnings attributable to The Kroger Co. on a 53-week basis in fiscal year 2023	\$ 2,665	\$ 2,164
LIFO charge	95	113
Depreciation and amortization	3,246	3,125
Net interest expense	450	441
Income tax expense	670	667
Adjustment for loss (gain) on investments	148	(151)
Adjustment for severance charge and related benefits	32	-
Adjustment for impairment of intangible assets	30	-
Adjustment for property losses	25	-
Adjustment for merger-related costs (a)	684	316
Adjustment for opioid settlement charges	(27)	1,475
Adjustment for gain on sale of Kroger Specialty Pharmacy	(79)	-
53rd week EBITDA adjustment	-	(187)
Other	(12)	(15)
Adjusted EBITDA	<u>\$ 7,927</u>	<u>\$ 7,948</u>
Net total debt to adjusted EBITDA ratio on a 52-week basis	<u>1.79</u>	<u>1.33</u>

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



**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.

	FOURTH QUARTER		YEAR-TO-DATE	
	2024	2023	2024	2023
Net earnings attributable to The Kroger Co.	\$ 634	\$ 736	\$ 2,665	\$ 2,164
Adjustment for loss (gain) on investments (a)(b)	17	128	112	(116)
Adjustment for severance charge and related benefits (a)(c)	24	-	24	-
Adjustment for impairment of intangible assets (a)(d)	23	-	23	-
Adjustment for property losses (a)(e)	19	-	19	-
Adjustment for merger-related costs (a)(f)	78	115	489	268
Adjustment for merger-related net interest expense (a)(g)	26	-	26	-
Adjustment for opioid settlement charges (a)(h)	(21)	-	(21)	1,163
Adjustment for gain on sale of Kroger Specialty Pharmacy (a)(i)	-	-	(60)	-
Held for sale income tax adjustment	-	-	(31)	-
2024 and 2023 Adjustment Items	166	243	581	1,315
Net earnings attributable to The Kroger Co. excluding the adjustment items above	\$ 800	\$ 979	\$ 3,246	\$ 3,479
53rd week adjustment (a)(j)	-	(144)	-	(144)
Net earnings attributable to The Kroger Co. excluding the adjustment items above and the 53rd week	\$ 800	\$ 835	\$ 3,246	\$ 3,335
Net earnings attributable to The Kroger Co. per diluted common share	\$ 0.90	\$ 1.01	\$ 3.67	\$ 2.96
Adjustment for loss (gain) on investments (k)	0.02	0.17	0.15	(0.17)
Adjustment for severance charge and related benefits (k)	0.03	-	0.03	-
Adjustment for impairment of intangible assets (k)	0.03	-	0.03	-
Adjustment for property losses (k)	0.03	-	0.03	-
Adjustment for merger-related costs (k)	0.12	0.16	0.67	0.37
Adjustment for merger-related net interest expense (k)	0.04	-	0.04	-
Adjustment for opioid settlement charges (k)	(0.03)	-	(0.03)	1.60
Adjustment for gain on sale of Kroger Specialty Pharmacy (k)	-	-	(0.08)	-
Held for sale income tax adjustment (k)	-	-	(0.04)	-
2024 and 2023 Adjustment Items	0.24	0.33	0.80	1.80
Net earnings attributable to The Kroger Co. per diluted common share excluding the adjustment items above	\$ 1.14	\$ 1.34	\$ 4.47	\$ 4.76
53rd week adjustment (k)	-	(0.20)	-	(0.20)
Net earnings attributable to The Kroger Co. per diluted common share excluding the adjustment items above and the 53rd week	\$ 1.14	\$ 1.14	\$ 4.47	\$ 4.56
Average number of common shares used in diluted calculation	696	725	720	725

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

(in millions, except per share amounts)

(unaudited)

- (a) The amounts presented represent the after-tax effect of each adjustment.
- (b) The pre-tax adjustments for loss (gain) on investments were \$22 and \$166 in the fourth quarters of 2024 and 2023, respectively. The year-to-date pre-tax adjustments for loss (gain) on investments were \$148 and (\$151) in 2024 and 2023, respectively.
- (c) The pre-tax adjustment to OG&A expenses for severance charge and related benefits was \$32.
- (d) The pre-tax adjustment to OG&A expenses for impairment of intangible assets was \$30.
- (e) The pre-tax adjustment to OG&A expenses for property losses was \$25.
- (f) The pre-tax adjustments to OG&A expenses for merger-related costs were \$175 and \$138 in the fourth quarters of 2024 and 2023, respectively. The year-to-date pre-tax adjustments to OG&A expenses for merger-related costs were \$684 and \$316 in 2024 and 2023, respectively.
- (g) The pre-tax adjustment to net interest expense for merger-related net interest expense was \$34.
- (h) The pre-tax adjustment to OG&A expenses for opioid settlement charges was \$(27) in the fourth quarter of 2024. The year-to-date pre-tax adjustments to OG&A expenses for opioid settlement charges were \$(27) and \$1,475 in 2024 and 2023, respectively.
- (i) The year-to-date pre-tax adjustment for gain on sale of Kroger Specialty Pharmacy was (\$79).
- (j) The pre-tax adjustment for the 53rd week was (\$179).
- (k) The amounts presented represent the net earnings (loss) per diluted common share effect of each adjustment.

Note: 2024 Fourth Quarter Adjustment Items include adjustments for the loss on investments, severance charge and related benefits, impairment of intangible assets, property losses, merger-related costs, merger-related net interest expense and opioid settlement charges.

2024 Adjustment Items include the Fourth Quarter Adjustment Items plus the adjustments that occurred in the first three quarters of 2024 for loss on investments, merger-related costs, the gain on sale of Kroger Specialty Pharmacy and held for sale income tax.

2023 Fourth Quarter Adjustment Items include adjustments for the loss on investments and merger related costs.

2023 Adjustment Items include the Fourth Quarter Adjustment Items plus the adjustments that occurred in the first three quarters of 2023 for gain on investments, merger-related costs and opioid settlement charges.

**Table 7. Operating Profit Excluding the Adjustment Items**  
(in millions)  
(unaudited)

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

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

	FOURTH QUARTER		YEAR-TO-DATE	
	2024	2023	2024	2023
Operating profit	\$ 912	\$ 1,194	\$ 3,849	\$ 3,096
LIFO charge (credit)	30	(18)	95	113
FIFO operating profit	942	1,176	3,944	3,209
Adjustment for merger-related costs (a)	175	138	684	316
Adjustment for opioid settlement charges	(27)	-	(27)	1,475
Adjustment for severance charge and related benefits	32	-	32	-
Adjustment for impairment of intangible assets	30	-	30	-
Adjustment for property losses	25	-	25	-
Other	(3)	(7)	(14)	(14)
2024 and 2023 Adjustment items	232	131	730	1,777
Adjusted FIFO operating profit excluding the adjustment items above	<u>\$ 1,174</u>	<u>\$ 1,307</u>	<u>\$ 4,674</u>	<u>\$ 4,986</u>
53rd week adjustment	-	(187)	-	(187)
Adjusted FIFO operating profit excluding the adjustment items above and the 53rd week	<u>\$ 1,174</u>	<u>\$ 1,120</u>	<u>\$ 4,674</u>	<u>\$ 4,799</u>

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

**Table 8. Adjusted Free Cash Flow**

(in millions)

(unaudited)

Adjusted free cash flow is an important performance measure used by management, and management believes it is also a useful metric for investors and analysts to evaluate the Company's ability to generate additional funding from business operations available for dividends, managing debt levels, share repurchases and other strategic investments. Adjusted free cash flow is one of the key financial indicators of the Company's business performance and the Company also uses adjusted free cash flow to evaluate the Company's senior management. However, adjusted free cash flow is not a measure of financial performance or liquidity under GAAP and, therefore, should not be considered an alternative to net earnings or net cash provided by operating activities as an indicator of the Company's performance or liquidity. Although free cash flow is a relatively standard term, numerous methods exist for calculating free cash flow. As a result, the method used by the Company's management to calculate adjusted free cash flow may differ from methods other companies use to calculate free cash flow.

The following table sets forth a reconciliation of net cash provided by operating activities to adjusted free cash flow.

	YEAR-TO-DATE		
	February 1, 2025	February 3, 2024	January 28, 2023
Net cash provided by operating activities	\$ 5,794	\$ 6,788	\$ 4,498
Payments for property and equipment, including payments for lease buyouts	<u>(4,017)</u>	<u>(3,904)</u>	<u>(3,078)</u>
Free Cash Flow	1,777	2,884	1,420
Adjustment for merger-related costs	489	-	-
Adjustment for merger-related net interest expense	26	-	-
Adjustment for company pension plans and payments related to the restructuring of multi-employer pension plans	57	298	283
Adjustment for payments related to opioid settlements	<u>150</u>	<u>33</u>	<u>-</u>
Adjusted Free Cash Flow	<u>\$ 2,499</u>	<u>\$ 3,215</u>	<u>\$ 1,703</u>

**Table 9. Gross Margin**  
(in millions, except percentages)  
(unaudited)

In the Consolidated Statements of Operations within Table 1, the Company separately presents rent and depreciation and amortization to evaluate operational effectiveness. The table below calculates gross margin in accordance with Generally Accepted Accounting Principles ("GAAP") by including a portion of rent and depreciation and amortization related to the Company's manufacturing and warehousing and transportation activities.

The following table provides the calculation of gross profit and gross margin in accordance with GAAP.

	FOURTH QUARTER		YEAR-TO-DATE	
	2024	2023	2024	2023
Sales	\$ 34,308	\$ 37,064	\$ 147,123	\$ 150,039
Merchandise costs, including advertising, warehousing and transportation and LIFO charge, excluding rent and depreciation and amortization	26,387	28,643	113,720	116,675
Rent	14	17	66	68
Depreciation and amortization	134	125	589	541
Gross profit	<u>\$ 7,773</u>	<u>\$ 8,279</u>	<u>\$ 32,748</u>	<u>\$ 32,755</u>
Gross margin	<u>22.7%</u>	<u>22.3%</u>	<u>22.3%</u>	<u>21.8%</u>