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# The Kroger Co. (KR)

Q4 2025 Earnings Call

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### Ronald L. Sargent

*Chairman, The Kroger Co.*

### David Kennerley

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

### Greg Foran

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

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning and welcome to The Kroger Co. Fourth Quarter Earnings Conference Call. My name is Alex. I'll be coordinating today's call. [Operator Instructions] Please note this event is being recorded.

I'd now like to turn the conference over to Rob Quast, Vice President, Investor Relations. Please go ahead.

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### Rob Quast

*Vice President-Investor Relations, The Kroger Co.*

Good morning. Thank you for joining us for Kroger's fourth quarter and full year 2025 earnings call. I am joined today by: Kroger's newly appointed Chief Executive Officer, Greg Foran; Chairman, Ron Sargent; and Chief Financial Officer, David Kennerley.

Before we begin, I want to remind you that today's discussions 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.

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 the call over to Ron.

## Ronald L. Sargent

*Chairman, The Kroger Co.*

Well, thank you, Rob, and good morning, everyone. Thank you for joining our call today. Before we start, I'd like to just take a moment to welcome Greg Foran as Kroger's Chief Executive Officer. Greg's a strong leader with a proven track record of driving growth in large and complex businesses. He has spent most of his career in food retail. And he understands what it takes to run great stores and build a strong eCommerce business. His priorities align closely with the work we've been doing over the past 12 months, putting the customers at the center, moving with urgency, strengthening our eCommerce business, accelerating media and improving productivity to invest in lower prices.

Many of you will know his background. He started as a store associate at Woolworths in New Zealand and eventually led Walmart US, where he was responsible for thousands of stores as well as over 1 million associates. During his tenure, the business delivered consistent sales growth, while improving store operations and building eCommerce capabilities.

Most recently, Greg led Air New Zealand during the pandemic, one of the most challenging periods in the history of the airline industry, helping position the company for a solid recovery and leading their digital transformation. Greg is the right person to lead Kroger. And we're excited to have him. He will close our prepared remarks today with his early impressions and focus areas as he steps into the new role.

Now, turning to the fourth quarter, we're pleased to report another quarter of strong results, capping off a strong year for Kroger. Importantly, in the final period of the year, we achieved positive market share growth for the first time this year. For the full year, we nearly doubled our identical sales without fuel from 1.5% to 2.9% and grew earnings per share by 9%, which was at the high end of our earnings expectations.

This performance speaks for itself. We're executing on our priorities and delivering results. This year, we've been intentional about focusing on what matters most to our customers. And this work has laid the foundation for long-term growth.

Today, I'll talk about the things we got done and the proof points of our progress. In the fourth quarter, we continued to make meaningful progress on our core priorities, improving the customer experience, simplifying our business, and ensuring we have the right talent in place to move with speed. These actions are strengthening our competitive position today and are building a more efficient, customer focused company for the future.

Serving our customers better starts with delivering value and making the customer experience easier. This quarter, we again made price investments to lower everyday prices and to offer more promotions. And this improved our value perception with our customers.

We also added store hours during the holidays, particularly in high traffic departments, so more associates were available when customers needed them most. These changes improved checkout times and contributed to positive trends in customer satisfaction.

As part of simplifying the business, we announced the sale of Vitacost and plan to close nearly 50 underperforming Little Clinic locations. We also continue to review all non-core assets to determine their ongoing contribution and role within the company. These decisions reflect our commitment to running a more efficient company and focusing on priorities that add the most value.

A strong leadership team is also essential to moving faster and executing our strategy. This quarter, we promoted Victor Smith to Senior Vice President of Retail Divisions, along with new division presidents in Atlanta, Fry's and Ralphs, each with deep operational experience and a track record of running great stores. These leaders were developed within our organization, which speaks to the depth of talent we have across the company.

This week, we also elevated Milen Mahadevan for a newly created role to lead artificial intelligence work across the company, reinforcing the priority that we're placing on AI. Milen most recently served as President of 84.51°.

We see AI as a meaningful opportunity to both improve the customer experience and drive productivity across our business. We're already seeing results from more competitive pricing, improved shrink, to faster fulfillment and tools that help our associates work more efficiently.

As we move forward, we plan to expand these capabilities, including agentic shopping on our digital properties. Milen's appointment ensures we have dedicated leadership to accelerate this work.

As we look back over the full year, we took several important steps to position Kroger for future growth. We lowered prices on thousands of products, making it easier for customers to see the value we offer.

Customer price perception improved across the company. And we maintained our competitive positioning against our major competitors. We created a dedicated eCommerce team and completed a comprehensive strategic review of our eCommerce operations. That led to an updated hybrid fulfillment model, which will better meet customer expectations. These changes will make our eCommerce business profitable in 2026.

We delivered substantial cost savings across the organization through operational efficiencies and modernizing how we work. We then reinvested those savings directly into lower prices and improved customer service.

We made difficult, but necessary, decisions to close underperforming stores and reduce corporate head count to create a more agile and focused organization. We accelerated our new store investments in 2025, completing 29 major projects. And in 2026, we expect to increase new store openings by 30%, with plans to expand into two new regions, including Jacksonville and Kansas City, two high potential markets that will support our long-term growth.

Collectively, these actions simplify how we operate and sharpen our focus on the core business. They also position us to reinvest in the areas that matter most to our customers, more value and better service. We've made strong progress. And there's more to do, which Greg will touch on later. This is how we're building a stronger foundation for sustainable growth in the years ahead.

Before walking through the quarter, I want to briefly comment on the customer environment. Customers remain focused on value in the fourth quarter, which was consistent with the trends that we've seen throughout the year. And we are continuing to invest in price to make sure we're delivering the value customers expect.

Now, turning to our results, identical sales without fuel grew 2.4% this quarter, which includes nearly a 40 basis point headwind from the Inflation Reduction Act. Weather had a neutral impact on our year-over-year basis. For the full year, identical sales without fuel grew 2.9%, in line with our full year guidance. We saw continued strength in eCommerce and Pharmacy, along with solid performance in key areas of the store like Fresh. Importantly, food volumes improved and grocery sales were a larger portion of our sales mix, which is a positive sign going forward.

Our market share trends improved in the fourth quarter and for the full year. And I'm pleased to report that in our final period, we delivered positive share gains, our strongest share performance since 2021. We believe the price investments we've made throughout the year are resonating with customers and are contributing to these results. And we made these investments while still improving our full year gross margin rate, excluding fuel and adjustment items, by improving shrink and productivity.

We're committed to this balance, investing in lower prices while being disciplined in our margin management. And the work we're doing to find efficiencies across our business allows us to do both. David will speak to these factors in more detail.

Our Brands had a solid quarter. Excluding the impact of egg deflation, sales continued to outpace national brands. Simple Truth and Private Selection again led our growth, with customers continuing to choose these products because they deliver high quality at an affordable price.

Innovation continues to be a priority. This year, we introduced more than 1,100 new Our Brands products, up from more than 900 last year. A growing number of these products are focused on health, an area where customer demand is growing. And Our Brands portfolio is well positioned to lead.

Our eCommerce business continued to be an important growth driver and one of the key ways we attract new households. Adjusted eCommerce sales grew 20% this quarter. And we've now built this into a \$16 billion business. We also continue to make meaningful improvements in eComm profitability. As this business grows, the profitability improvements we're seeing become increasingly significant to our P&L.

eCommerce growth also fuels our media business. More customers shopping online means more impressions, more data and more value for our advertising brands. That connection between eCommerce and media is key to how we accelerate profitability. And we see significant runway ahead.

The early results from our new relationships with DoorDash and Uber Eats have exceeded what we originally planned. They've extended our reach to customers and shopping occasions we wouldn't otherwise capture. They are incremental. And they are profitable. Together with Instacart, we expect our convenience offerings to deliver over \$1.5 billion in sales in 2026, which will help us accelerate our eCommerce growth.

Before I turn it over to David, I'd like to take a moment to reflect on the progress we made this year. We took important steps to strengthen Kroger for the long-term: lowering prices and improving store execution, to better serve our customers; enhancing our eCommerce business to deliver growth, while improving profitability; accelerating our store footprint, taking meaningful action on our non-core assets; and strengthening our leadership team with key appointments. These actions reflect our focus on serving customers better, running great stores and simplifying the company so we can move faster.

And to our associates listening in, thank you. I'm proud of what this team has accomplished. The work you delivered has built a stronger, more focused company. And I'm confident in where we're heading. It has been a privilege and I'm honored to continue serving on the board as we enter this next chapter.

And with that, I'll turn it over to David.

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## David Kennerley

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

Thank you, Ron, and good morning, everyone. Kroger delivered another strong set of results this quarter in an environment that remains dynamic. We executed well, delivering solid eCommerce growth, maintaining cost discipline and achieving our profitability goals.

From a financial perspective, this was a year of both strong performance and deliberate investment in the future. We invested in price, while improving our FIFO gross margin rate, excluding fuel and adjustment items.

We accelerated eCommerce profitability. And we improved our cost structure to redeploy those savings into areas that drive growth. These actions strengthen our financial foundation and support sustainable performance going forward. The momentum in our business gives us confidence in our outlook for next year.

Today, I'll start by covering our Q4 results in more detail and highlight some key full year metrics, and then share our guidance for 2026 and the key drivers behind it.

We achieved identical sales without fuel growth of 2.4%, a strong result that includes a nearly 40 basis point headwind from the Inflation Reduction Act. On a two year stack basis, identical sales without fuel grew by 4.8%.

Growth was primarily driven by improving trends in units. As Ron mentioned earlier, our share trends improved in 2025, with fourth quarter trends again improving and culminating in positive share gains in our final period of the year.

Sales growth was led by eCommerce and Pharmacy, along with strong performance from Fresh. As Ron mentioned, what's encouraging is the underlying composition of that growth. We saw continued improvement in food volumes, with grocery sales representing a larger portion of our overall sales mix.

Pharmacy had another strong quarter, led by growth in both core scripts and GLP-1s. That said, Pharmacy contributed nearly 50 basis points less than in the third quarter, reflecting the impact of the Inflation Reduction Act and an accelerating shift from brand to generic, beginning in January.

Food inflation moderated further in the quarter, down approximately 90 basis points compared to Q3, with egg deflation a significant headwind, partially offset by beef inflation.

Our FIFO gross margin rate, excluding rent, depreciation and amortization and fuel, was flat in the fourth quarter, compared to the same period last year. This result was primarily attributable to sourcing improvements, lower supply chain costs and lower shrink, offset by price investments and the mix effect from growth in Pharmacy sales, which has lower margins.

When we provided our second half outlook, we updated our FIFO gross margin rate expectations, excluding fuel and KSP, to be relatively flat for the full year. We delivered better than that and as our rate improved in the second half of the year, primarily driven by our performance in the fourth quarter, with favorable mix and better shrink results.

For the full year, excluding the effect of KSP, fuel and adjustment items, we improved our rate by 14 basis points while investing more in price, reflecting the balance we are focused on achieving between delivering value and maintaining margin discipline. The operating, general and administrative rate, excluding fuel and adjustment items, increased 21 basis points in the fourth quarter compared to the same period last year. The increase in rate was primarily attributable to cycling real estate gains from a year ago and labor investments to improve customer experience, partially offset by lower incentive plan costs and improved productivity.

We continue to make progress on improving our cost structure. And importantly, we're generating more durable cost savings, which we are reinvesting into stores and the customer experience to deliver better service and more value to customers.

With that said, we believe we are still in the early stages of what we can achieve. Sourcing and procurement remains a significant opportunity. Together with modernizing our ways of working, we see substantial runway for cost savings ahead.

Our LIFO charge for the quarter was \$11 million compared to a LIFO charge of \$30 million last year. On a full year basis, our LIFO charge was \$157 million in 2025 compared to \$95 million last year, resulting in a \$0.07 headwind to EPS. We expect our LIFO charge in 2026 to be similar to 2025.

Our adjusted FIFO operating profit in the quarter was \$1.2 billion. Q4 adjusted EPS was \$1.28, reflecting 12% growth compared to last year. For the full year, adjusted EPS was \$4.85 and grew by 9%, coming in at the top end of our long-term growth expectations.

Fuel results were better than expected this quarter, driven by strong fuel margin performance even as gallon volumes declined. Q4 fuel profitability came in ahead of last year. Fuel continues to be an important part of our strategy, building loyalty through our fuel rewards program and providing another source of value for our customers.

I'd now like to turn to capital allocation and financial strategy. We delivered strong adjusted free cash flow of \$3.9 billion this quarter, exceeding our expectations. This was driven by the strength of our operating performance, good progress on a range of working capital initiatives and favorable year-end timing. Our balance sheet remains healthy, with our net debt to adjusted EBITDA ratio still below our long-term target range.

This gives us the financial flexibility to pursue growth investments and other opportunities to enhance shareholder value. Over time, we expect to move back towards our target leverage ratio.

During the year, we completed our \$7.5 billion share repurchase authorization. This included a \$5 billion accelerated share repurchase program, followed by open market repurchases, which completed our remaining authorization in Q4. In December, our board approved an additional \$2 billion share repurchase authorization. And we expect to complete these repurchases by the end of fiscal 2026.

Our capital allocation framework remains consistent. We are focused on investing in opportunities where we can generate the highest long-term returns. And improving ROIC remains a core priority.

We are encouraged by the progress we're making on our major store projects. And our recent remodels are delivering higher than expected returns. These investments will be important to driving ROIC improvement over time.

I'd now like to share our guidance for 2026 and walk through the key factors shaping our outlook. We expect identical sales without fuel growth in a range of 1% to 2%. It is important to note that the Inflation Reduction Act will create an approximately 130 basis point headwind to identical sales without fuel this year, reflecting the impact of lower reimbursement rates on key medications, while having no impact on gross profit dollars. Excluding the IRA impact, we would expect identical sales without fuel growth in a range of 2.3% to 3.3%.

In terms of quarterly cadence, we expect Q1 identical sales without fuel to come in near the low end of our full year range, driven primarily by continued egg deflation. As this headwind eases, we expect sales trends to improve.

A few other dynamics to keep in mind as we think about the year, we expect overall inflation to be lower than it was in 2025. Within Pharmacy, we expect sales growth to moderate to low to mid-single digits, reflecting the impact of the Inflation Reduction Act on reimbursement rates, and the ongoing shift in brand to generic mix, which is currently greater than we've seen in the past, partially offset by continued GLP-1 adoption and script growth.

We'll also continue to regain ESI households, though progress remains gradual and we do not expect to fully recover the business we previously lost. We expect eCommerce to accelerate from 2025 growth rates, with continued strength in delivery and increased store-based fulfillment through our third-party delivery providers. We're also enhancing our loyalty program in 2026. This includes updates to our rewards program and a revamped Kroger credit card; both designed to deepen customer engagement and drive increased shopping frequency across our in-store and eCommerce channels.

Total sales without fuel should be slightly lower than identical sales without fuel, reflecting an approximately \$350 million headwind from the closure of our Florida fulfillment center and \$300 million headwind from the sale of Vitacost, partially offset by new store openings. We expect adjusted FIFO operating profit in a range of \$5 billion to \$5.2 billion.

We will continue to drive greater value for our customers by investing in price, both in everyday value and through promotions. And we expect these investments to increase compared to 2025. We are also investing in the customer experience, particularly in service and labor hours, ensuring our stores are well staffed. Even with these increased investments, we expect our FIFO gross margin rate, excluding fuel and adjustment items, to improve in 2026.

These investments will be funded through increased productivity and cost savings. We expect to exceed our 2025 cost savings with increased contributions from two areas in particular, eCommerce and procurement.

In eCommerce, we will lower our cost to serve by fulfilling more orders out of stores, closer to our customers, and by leveraging our third-party delivery providers. In procurement, we are going after both cost of goods sold and goods not for resale with a level of intensity that reflects the scale of the opportunity.

In Fresh imports, national brands and Our Brands, we are renegotiating supplier agreements, going direct, where we have historically used intermediaries and ensuring that every dollar of Kroger's purchasing power is working for us and our customers. The savings we generate flow directly into lower prices for our customers. We have dedicated teams focused on these areas. We are confident in our ability to deliver.

Our media business delivered solid results in 2025. And we expect to build on that momentum. Our merchandising and media teams are working more collaboratively, which is improving the quality of our activations and outcomes for brands. In 2025, our alternative profit businesses, which include media, Kroger Personal Finance and Insights, delivered \$1.5 billion in operating profit. And we expect media to deliver double-digit growth in 2026.

To support our modernization efforts, we are launching the Kroger Global Capability Center. This initiative is designed to streamline decision-making, improve productivity, and increase the speed at which we execute on behalf of our customers. It complements the work already underway across the organization to modernize how we

operate. Work has started and is progressing with speed. We expect modest benefits in 2026, with more significant benefits expected in 2027 and 2028.

Turning to capital allocation, we will continue taking a disciplined approach, focused on long-term shareholder value. We expect capital expenditures of \$3.8 billion to \$4 billion, with increased investments in new store growth. These new locations are strategic investments in our future. They follow a natural maturation curve. It takes time to build customer awareness, establish traffic patterns and reach profitability.

In early months, we absorb start-up costs and elevated labor expenses as we staff up and invest in training. This is expected and it reflects the same disciplined approach we have executed successfully for many years. These stores will drive volume growth, expand our customer base and strengthen our presence in key markets. We are confident they will deliver meaningful long-term returns.

As part of our new store strategy, we're also testing different formats and bringing fresh thinking to the in-store experience. That means evaluating new concepts, making sure every element of the store is relevant, productive, and aligned with how customers want to shop today.

Beyond new stores, our capital investments will support technology and AI, where we're investing aggressively. These investments serve two purposes, improving the customer experience and driving productivity throughout the company. This year, we're introducing agentic AI shopping for our customers, which will help them discover items, build baskets, plan meals, and stay within budgets, all in a personalized way.

We're also investing in supply chain modernization, with more automation and expanded capacity. And we'll also continue investing in our remodels to ensure our stores deliver a consistently strong experience. We expect adjusted free cash flow of \$2.7 billion to \$2.9 billion and adjusted net earnings per diluted share of \$5.10 to \$5.30.

I will now turn the call over to Greg.

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## Greg Foran

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

Thank you, David, and good morning, everyone. I'm excited to be here and grateful for the opportunity to lead this great company. It's been about a month since I started. And I've spent that time learning Kroger from the inside out. I've been spending time with Ron and the leadership team, having one-on-one conversations with leaders across the organization and getting out to visit stores, distribution centers and manufacturing facilities and, importantly, also watching how our customers shop.

I've begun working with the team to review our strategic plan. And I'll share more as that work progresses. What I've seen so far has reinforced my belief that Kroger has tremendous strengths to build on. We have a loyal customer base, dedicated associates, a strong store network and real momentum in areas like Fresh, eCommerce and Our Brands.

I've also been impressed by the energy I've seen in the stores, associates taking ownership of their work and taking pride in serving customers. The team has done excellent work, particularly over the past year to strengthen the business. And my focus is on how we operationalize our strategy to make us even better.

It starts with the top line. We need to grow sales faster. And in my experience, that comes down to giving customers a compelling reason to shop with you by offering great value, great products and a great experience.

Price is an important part of that equation. Customers need to trust that they're getting a fair deal every time they walk into our stores. We've made progress on price. And I want to keep pushing by pulling unproductive costs out of the business, investing in everyday value, sharpening our promotions and making sure customers see and feel the difference when they shop with us. When you combine competitive prices with strong Fresh and a well-run store, you drive traffic, you grow baskets and you gain share. That's what I want to accelerate at Kroger.

I've spent my career in food retail and running great stores is how you make that happen. It's about delivering a great experience consistently, in every store, on every visit, whether shopping in store or online.

Fresh is a good example. Customers develop a lasting impression based on the quality of fresh foods, which is incredibly important as we accelerate eCommerce. Get those right and we earn their confidence. My focus will be on continuing to improve execution and ensuring our associates have the tools and support they need to serve customers well.

To invest more aggressively in the customer experience, we have to be disciplined and aggressive on costs. I see significant opportunity here. And we're going after every available margin dollar across the business. Some of that is buying better, improving how we source and procure products. And some of it is improving productivity by streamlining processes and modernizing our ways of working.

The savings we generate will be reinvested directly into lower prices and better service for our customers. That's how we will fund our growth. Customers want convenience and are increasingly shopping online to buy food. We have the assets to meet that demand and eCommerce is a key focus area for us. We've built this into a more than \$16 billion business with seven consecutive quarters of double-digit growth. There's a strong foundation, but we need to accelerate it.

Our stores are central to how we serve customers online. Our refreshed hybrid fulfillment model, which better leverages a store's end delivery providers like Instacart, DoorDash and Uber Eats, positions us to accelerate growth while reaching profitability next year. By using our stores as fulfillment hubs, we get inventory closer to customers, reduce last mile costs, and offer the speed and convenience that customers are looking for.

Our media business is closely tied to this eCommerce momentum. We have the data. We have the customer relationships. And we have the platform. As eCommerce grows and our digital capabilities expand, we see a long runway to accelerate growth.

My goal is to do all of this while protecting our margins. The investments we are making in price and the customer experience are funded by the cost savings and efficiencies I described, and by growth in media. That discipline is essential. We will grow the top line and gain share, invest in the customer and deliver long-term value for shareholders.

I've been in food retail a long time and I know what good looks like. It starts with the customer. It's built on strong execution in our stores and online. And it requires a team that wants to win and is willing to move fast. That's what gives me confidence. Kroger has all the ingredients to win. And my job is to bring it all together.

We'll now open it up for questions.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] Our first question for today comes from Krisztina Katai of Deutsche Bank. Your line is now open. Please go ahead.

**Ronald L. Sargent**

*Chairman, The Kroger Co.*

Good morning, Krisztina.

A

**Krisztina Katai**

*Analyst, Deutsche Bank Securities, Inc.*

Good morning and welcome, Greg, to the Kroger family.

Q

**Greg Foran**

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

Thank you.

A

**Krisztina Katai**

*Analyst, Deutsche Bank Securities, Inc.*

I wanted to focus on your initial assessment. You obviously emphasized the need to grow sales faster. You talked about offering great value. So beyond price investment, can you dig a bit into the initiatives or the strategic shifts you envision to significantly accelerate the top line growth? And we think about a potentially softening or more [ph] price intensive (33:58) environment protecting the margin that you talked about, just how much runway do you see for further improvements in sourcing and procurement?

Q

**Greg Foran**

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

Look. Hi, Krisztina. It certainly is pretty early for me. I'm just into my fourth week here. What I would say is that the foundation that Ron and the team have built is incredibly solid. So decisions that have been made, particularly in the last year, set us up. Do we need to do more in price? For sure. But the work is underway on that. I need to spend more time to get into the maths that is around that.

A

But as David has pointed out in his remarks, we see opportunities. We see opportunities in cost of goods sold. We see opportunities in doing a better job with imports. We see opportunities in the Kroger Capability Center. And then, there'll be the normal ones around shrinkage and other areas in the business that we can lean into. So, as I work through this over the next sort of 90 to 100 days, I'm working with the team closely. We'll pull this together and see how the numbers come out. And at an appropriate time before the end of the year, we'll share some real detail with you.

Now, on top of that, we know the inherent strengths we have in the business. We've got a great Fresh business. We need to make sure that it's consistent, right across every store, every day. We know we've got a great own brands business. We know that we can accelerate eCommerce. And the decisions that have been made by Ron and the team put us in a great position. As you accelerate that, you can accelerate Kroger Precision Marketing. So, look, three and half weeks in, I'm still doing lots of homework, but I'm feeling good about what we've got in front of us, so lots of runway.

**Krisztina Katai**

*Analyst, Deutsche Bank Securities, Inc.*

Q

That's great. And then, if I could just have a follow-up. I mean, you have a newly created AI role. Can you maybe, just for Kroger as a whole, just talk about maybe the top two to three specific quantifiable targets for AI's impact on the customer experience and productivity that you would expect to achieve in the next 12 to 24 months? Thank you.

**Ronald L. Sargent**

*Chairman, The Kroger Co.*

A

David?

**David Kennerley**

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

A

Hey, Krisztina, it's David. Let me take that one. Listen, we see AI as a big opportunity. And it's an area we're excited about. Obviously, Ron talked in his remarks about the appointment of Milen to lead this work. And I think that, that makes a big statement about how serious we're taking this. And we have significant investment dollars in 2026 and beyond targeted at making sure that we crystallize this opportunity.

What I'd say is, like many other companies, we're at the early stages. We've made some good progress, but we've got a lot more to do. And I think we've got already some emerging good proof points of the work that we're doing. I think if you look at areas like operations, some of the shrink results that you've been seeing from us are driven by technology and AI. And that's an area where I'd expect us to continue to invest.

In the people space, we've got some really good tools that are improving the employee experience, helping us manage labor better, help us schedule labor better. And I think, of course, there's then agentic shopping. We've got our own digital shopping assistant live in a couple of divisions. That's on the Kroger platform. And we'll expand that later this year to all divisions. We've obviously announced the partnership with Google. And I think there's a lot more to come in the agentic space, leveraging the advantages that we have on quality, freshness, et cetera.

So I think a big area of focus for us, some good early proof points, the organizational and foundational investments we're making super critical and much more to come, both from a customer experience and what I'd call productivity experience.

**Ronald L. Sargent**

*Chairman, The Kroger Co.*

A

Thanks, Krisztina.

**Operator:** Thank you. Our next question comes from Michael Lasser of UBS.

**Ronald L. Sargent**

*Chairman, The Kroger Co.*

A

Morning, Michael.

**Operator:** Michael, your line is now open. Please go ahead.

**Michael Lasser**

*Analyst, UBS Securities LLC*

Good morning. Good morning, Ron.

Q

**Ronald L. Sargent**

*Chairman, The Kroger Co.*

Morning.

A

**Michael Lasser**

*Analyst, UBS Securities LLC*

Thank you so much for taking my question. Welcome back, Greg.

Q

**Greg Foran**

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

Thank you.

A

**Michael Lasser**

*Analyst, UBS Securities LLC*

My first question is can you contextualize the absolute dollar level of investment that was made in the fourth quarter in order to stabilize the market share? How does that inform how you're going to invest over the next several quarters? And how do you balance this need to improve value perception without sparking a response from your discount-oriented competitors that result in a race to the bottom in terms of profitability? Thank you very much.

Q

**David Kennerley**

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

Hey, Michael, it's David. Let me take that one. So, I think as we've been talking about value perception, closing price gaps has been an important priority for us all year. And we've been deliberate about investing in promotions, giving consumers ways to stretch their budgets. And as we built our plans for 2026, it was a very, very deliberate area of focus for us that we needed to do more.

A

So whilst we're making progress on everyday price gaps and what we call the all-in price gap, it's an area where we know we need to be more competitive. So as we think about next year, it is an area where we've put more dollars, candidly, than we have really over the last several years. But we've done that and they're going to be focused on this, doing this in a very deliberate way to balance the margins.

As I talked about in the preprepared remarks and as Greg has already touched on as well, we see a very big opportunity for us to optimize the cost structure of the business. And I think about as we think about this going forward, we want to be able to take those unproductive costs. And we want to be able to, number one, invest those back into the both pricing and store experience, whilst balancing the margins.

I think as you talk about the response from competitors, I mean, candidly, we're focused on what we can control. We're certainly not interested in starting price wars. But we know that we want to make sure that when consumers walk through the door of a Kroger store or any one of our banners, they walk in and can get good affordable prices. So that's the way we're thinking about it.

**Ronald L. Sargent**

*Chairman, The Kroger Co.*

A

And, Michael, let me just add to that just briefly. As you can guess, we monitor our competitors all the time. And we certainly have a healthy respect for all of our competitors. But when you look at our share trends, we have improved share trends five quarters in a row. And we're happy they turned positive in January. And as I said before on this call, this is not a zero sum game.

At Kroger, we're playing to our strengths, whether it's Fresh categories or Our Brands or deep first-party data, our growing omnichannel business with eCommerce growing 20%, last quarter. And these are not easy things to replicate in a hurry. And when you look at our focus, it's really to be a consistent and trusted local grocery retailer, whether a customer shops in-store or online. Greg recently said it very well, he said we want to be the best Kroger we can be.

**Michael Lasser**

*Analyst, UBS Securities LLC*

Q

Got you. Very helpful. My follow-up question is on the outlook for free cash flow. Your CapEx is going to be similar to what it was last year. Free cash flow is going to be down a bit. So, A, can you explain the moving pieces there? And, B, what is the distribution of the CapEx going to look like with more new stores? How much will be invested in supply chain and the digital business to remain competitive, especially as you're leaning on some of these third-party providers for more of your incremental market share within the digital arena? Thank you.

**David Kennerley**

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

A

Yeah, Michael, let me take that one. So on free cash flow guidance, let me comment first on the cash flow number that we delivered this year. We delivered a really, really strong cash flow performance in 2025, that came in ahead of the expectations. The way I'd characterize that overdelivery is kind of in two buckets. Number one, we've been working on a range of working capital initiatives around AP, AR, normal buckets that you'd expect.

And candidly, we delivered really well on those. And so we're really, really proud about those. And, candidly, it will be an area of focus as we head into 2026 and beyond. But there's another bucket where we had a number of timing-related items that as we built the guidance and the plans for 2026, we don't think we're going to be able to kind of lap those. So they'll effectively reverse, which is what influenced the guidance range that we've offered.

On CapEx, spent a lot of time on our CapEx, making sure that we're prioritizing investments in the right areas. The big area that kind of really steps up year-over-year is, candidly, on our storing program, both on new stores and remodels. And it was important for us to make sure that we had the right level of investment against that. But we went through a very, very deep prioritization exercise against all of the other areas. And I'd say the biggest area where I think we were able to optimize, it's kind of what we call sort of run the business maintenance CapEx.

And I think we have an opportunity there to both optimize the returns, but also we had some things that, candidly, we just didn't need to spend on. Now, that doesn't mean that we're not doing the right things, not investing in the right areas, but we were able to optimize that area of spend, while making sure we had the right investment on storing, supply chain, eCommerce. So hopefully, that gives you a good sense of the makeup in the priority choices that we made.

**Ronald L. Sargent**

*Chairman, The Kroger Co.*

A

Thanks, Michael.

**Operator:** Thank you. Our next question comes from Leah Jordan of Goldman Sachs. Your line is now open. Please go ahead.

**Ronald L. Sargent**

*Chairman, The Kroger Co.*

Hi, Leah.

A

**Leah Jordan**

*Analyst, Goldman Sachs & Co. LLC*

Thank you. Good morning. Yes. Congrats, Greg, on the new role.

Q

**Greg Foran**

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

Thank you.

A

**Leah Jordan**

*Analyst, Goldman Sachs & Co. LLC*

I'll start with my first question for you. I know it's early days. You're still reviewing the business. But maybe if you could provide more detail on the opportunities you see regarding the in-store experience. Any color on maybe opportunities to accelerate remodels there or how you're thinking about labor hours. Thank you.

Q

**Greg Foran**

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

Yeah, sure. It is very early days. I think I have been out in stores three days. I've got to a manufacturing facilities, one of them and also a distribution center. So I need a little bit more time to get around the business. I'm getting out, obviously, whenever I can. And clearly, a lot of the stores I'm getting to at the moment are probably announced visits and that people are expecting me to show up. So I won't necessarily be seeing the full unvarnished Kroger at this point, but that will happen.

A

Look, I like the fact we're in the supermarket business. I like the fact we are primarily in the food business. When I go into stores that are sort of 50,000 square feet trading area or 70,000 square feet trading area or 90,000 square feet trading area, I like those. I think they're working really well. Now, the Marketplaces do, too. But we're in the food business. And we generally, when we get it right, are anchored around a pretty good Fresh offering, whether that's produce or meat or bakery, deli or seafood.

Really extensive grocery assortment, some may argue, in some cases, too extensive, but early days. We'll work our way through that. Our Brands are powerful. And we've seen the growth in those.

So, you start to pull this together and I like the [ph] mouse track (47:28) that I see at Kroger and its associated brands. But let's be clear, it's only the beginning of my fourth week. And I've only got out there three days, plus got to one DC, plus one manufacturing facility. But I like what I'm seeing. And I see plenty of upside.

Now, the obvious one, which we've picked up on the call is, we've got to continue to work on price. And a part of the focus that I'm going to have over this next 100 days is working with Ron and David and Mary Ellen and Yael, all the team. It's got to be a team effort here.

What else do we need to do in order to get ourselves going? Because at the end of the day, what does success look like? Looks like us selling more units. It looks like us gaining market share. And that turns into better identical sales or comp sales.

And we've got some good progress. I think Ron and the team, as I said, have done a great job building some momentum. My job now is to see whether we can operationalize that and move even faster.

But the basics, I like what I see. I don't think this is about Kroger coming up with a completely different strategy. I think we've got a good strategy. It is about executing well. And it is about moving faster. So those are the sort of things that strike me after 24, 25 days.

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**Leah Jordan**

*Analyst, Goldman Sachs & Co. LLC*

Q

Thank you. That's very helpful. And a lot we'll look forward to. Maybe just for a quick follow-up from David on the guide, for the ID sales guide, maybe just more detail on your embedded assumptions.

As we think about the drivers as we move through the year, especially around tonnage and market share, given Greg's comments. I came away from your earlier comments that, hey, it's, once we get past 1Q, it's more inflation driven, but anything else to call out there? Thank you.

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**David Kennerley**

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

A

Yeah. I mean, I think, inflation, Leah, is kind of moderately lower than last year. So maybe let me kind of talk about the units, which I think is at the root of your question. Obviously, as Greg just said, I mean, unit growth is critical.

And it's a big priority for us to improve. And as I reflect back on last year, it did improve sequentially as we went through the year. And Q4 was the best quarter that we had in terms of units. But nonetheless, units remain slightly down.

So I think as we think about the cadence for next year, the priority is keep improving. And keep improving quarter-on-quarter. Our expectations are – I still think we'll see negative units in the first half of the year, but as we move sequentially through the balance of the year, through a combination of our price investments, which will ramp up, new storing, accelerated eCommerce growth, there's a possibility that we move into better territory on units. But that, hopefully, gives you a sense of the cadence as we move through the year.

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**Operator:** Thank you. Our next question comes from Simeon Gutman of Morgan Stanley. Your line is now open. Please go ahead.

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**Ronald L. Sargent**

*Chairman, The Kroger Co.*

A

Morning, Simeon.

**Simeon Ari Gutman**

*Analyst, Morgan Stanley & Co. LLC*

Hey, good morning, everyone. Hey, Greg.

Q

**Greg Foran**

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

Hi, Simeon.

A

**Simeon Ari Gutman**

*Analyst, Morgan Stanley & Co. LLC*

Hey. So, Greg, it's early. How you doing?

Q

**Greg Foran**

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

I'm doing great. Thanks.

A

**Simeon Ari Gutman**

*Analyst, Morgan Stanley & Co. LLC*

So you mentioned early, you've gotten out a few weeks. Great. I want to push on this self-funding idea. It sounds like it's a goal. Curious how non-negotiable it is, meaning that's the only way you're looking at the business? Or do you reserve the right, after you've given your own time to review the plans and the business, to decide if the level of savings is commensurate with the amount of value that you want to achieve?

Q

**Greg Foran**

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

It's a good question, Simeon, and one that I've been asking myself, obviously. When you write these things in the script, you got to be reasonably comfortable. I would say to you that I have a degree of comfort at the moment that what I've seen indicates that we will be able to do this.

A

I think what's probably going through your mind is 2014 and Walmart. 2014 at Walmart, we were paying, I think, about \$7.63 an hour. And we were losing a lot of our associates. So I knew that we would have to do something in terms of fixing that.

I knew we had a lot of work to do around Fresh, and we wanted to roll out online grocery. So that would require some investment. I knew we would have to get in and do remodels and those sort of things.

So I formed a view some 10-odd years ago of what was going to be required. Obviously, I've been able to get up to speed as quickly as I can here with Ron and David and the team. They haven't been sitting on their hands. They've been hard at it and made, I think, some really good decisions around Ocado, around getting new stores up and running, around getting remodels back underway.

So I'm coming in here with a business that has a good foundation. And I'm very thankful for that. And my early view, when I look at things like imports, and we don't tend to import very much in Kroger directly. So we're a big business, \$150 billion. So we need to start changing our approach and start going direct to the source.

Generally, any business I've been in, Simeon, there's opportunities around COGS. And my sense is that's not a lot different in this business. I have now walked 2.5 of the four offices that we have in Cincinnati, every single floor, meeting any associate who is on track. I've got about six more floors to do in this actual office here and one more building to do, but I've done another building, most of this and all of 84.51°.

On top of what we're doing in the Kroger Capability Center, we can continue to look at how we take cost out. But we need to get into that Kroger Capability Center. And we need to get in there in a reasonably serious fashion, sensible, but serious and execute. So after 20-odd days, I'm sitting here and I'm saying I'm comfortable with what I've said in the script. And, of course, we'll know a lot more over the next 90, 100 days. And as we do, my commitment, David's commitment, Ron's commitment is we're going to go and present that to you and share with you what's on our mind. And that will happen well before the end of the year. But at this stage, I'm feeling okay.

**Simeon Ari Gutman**

*Analyst, Morgan Stanley & Co. LLC*

Q

Thanks for that. And the follow-up is that if you track the improvement throughout the year in share, which culminated in share gains in Q4, is it resulting of eCommerce or stores? I mean, I think we're indifferent. And then is there any categories in particular that it was concentrated in, if you can talk about the movement about through the year?

**David Kennerley**

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

A

Yeah. So, Simeon, it's David. So just to clarify, we didn't gain share in Q4. So we still lost share in Q4. And it was a, sort of, we gained share in period 13, so I just want to clarify that.

As you think about the categories where we did, in my mind, a little bit better, relative to where we'd seen trends running, we did better in areas like meat and seafood, particularly meat. That was an area. We did substantially better in the deli and in bakery. Those were probably the two big areas that stood out. And I think meat, in particular, was an area where we deliberately made investments, given the inflation that consumers are facing, to drive units.

**Ronald L. Sargent**

*Chairman, The Kroger Co.*

A

The turn on grocery was better, slightly.

**David Kennerley**

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

A

Yes, yes.

**Operator:** Thank you. Our next question comes from Michael Montani of Evercore ISI. Your line is now open. Please go ahead.

**Ronald L. Sargent**

*Chairman, The Kroger Co.*

A

Morning, Michael.

**Michael David Montani**

*Analyst, Evercore ISI*

Q

Great, thanks. Good morning. And congratulations. I'll echo to Greg, good to have you back.

**Greg Foran**

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

A

Thanks, Michael.

**Michael David Montani**

*Analyst, Evercore ISI*

Q

If I could, I had a question for David and then a follow-up for Greg. So, maybe just to start with David, could you talk a little bit about the quarterly cadence you see playing out for EPS relative to the Street? So in 1Q, you mentioned comps could be at the lower end. So does that mean we need to commensurately look at the earnings growth, which is 13% there? And then anything on gross margin for the year relative to G&A?

And then the follow-up I had for Greg was just about if you think over the next several years, you've got competitors who are known for kind of winning on price, others for kind of online delivery. What do you think will be the hallmark of Kroger that allows you not just to compete, but actually to win on unit volume longer term?

**David Kennerley**

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

A

So let me take that first question. So I think the only quarter that we're going to – we've specifically guided on beyond the full year is on Q1. So we do expect Q1 ID sales to come in towards the lower end of our full year guidance range. Specifically, that's really mainly to do with the headwinds that we're facing on lapping eggs. And so, I think the cadence in Q1 is primarily driven by that.

I think as you then think about gross margin, you'll see a similar thing. I think our gross margin will be lower in Q4 again, as a result of some of that egg deflation that we're seeing, and then be broadly consistent throughout the year, but still positive, to be clear, still positive in Q1, but slightly below the full year expectations. And then I think EPS guidance or EPS again, slightly lower towards the lower end of the range in Q1 and then fairly consistent as you head through the year.

**Greg Foran**

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

A

Thanks, David. And, Michael, to your second part of your question. I guess there are five things that come to mind as to why I am excited. I actually think I've got the best retail job on the planet. I'd begin by saying in echoing the point that Ron made. This is about being the best Kroger we can be. It's not about us trying to be someone else. And what I like about Kroger, I guess, are five things.

I like the fact that we've got a business which is pretty well anchored in fresh foods. We've got a business that can be very convenient and fast for shoppers, size of our stores, where they're located. I like the fact that as we work hard to get affordable, customers are going to have a choice.

They can go to a really low priced discount and not get quite as much assortment, maybe not get as good a fresh, or they can go to Kroger or a Kroger banner and they're going to get a better experience. And for them, that will represent better value because we are affordable.

I like the fact that we are local. Now, I haven't got all around the country, obviously, after 20-odd days, but I know a little bit about it. I've been to all parts of America previously. And I like the fact that Kroger has different brand names and it's seen as being local in the community.

And then, finally having spent a bit of time down at 84.51° and seeing what we can do there and the caliber of the people, I like the fact that we can be pretty personal. And as you think about digital and where that's going, and we had the question previously on AI, I like the fact that we can be for you. We can deliver things for customers that are specific to those customers. So I'm pretty excited about how the business is positioned. I think it's a great business. We'll be the best Kroger we can be.

**Operator:** Thank you. Our next question comes from Ed Kelly of Wells Fargo. Your line is now open. Please go ahead.

**Ronald L. Sargent**

*Chairman, The Kroger Co.*

Morning, Ed.

A

**Edward Kelly**

*Analyst, Wells Fargo Securities LLC*

Hi. Good morning, everyone. Good morning and welcome, Greg.

Q

**Greg Foran**

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

Thanks, Ed.

A

**Edward Kelly**

*Analyst, Wells Fargo Securities LLC*

I wanted to ask as you think about pricing and price gaps, and there's been a lot of talk about investment in price today. And I think Kroger has historically said you don't need to be on top of Walmart. You just need to be close enough to win in a lot of your other competitive advantages. Can you talk about where the gap is today and where you think this gap needs to go? And then specifically, Greg, for you, my big picture question, I think, is there are a lot of cost saves in the business that you can attain. You want to keep a balanced approach, but the industry is moving rapidly. And are you moving fast enough with these initiatives or, maybe better said, why not go faster?

Q

**David Kennerley**

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

Ed, it's David. Let me take this initially, and then I'll ask Greg maybe to kind of come in on more on core principles. So I think when we think about price spreads relative to the competition, we look at a number of things. Number one, we're looking at this from an item perspective. So there are certain items that you want to make sure that you are right there with the competition on. And then there are certain items that philosophically, we think it's okay to operate within a certain spread. So we also then look at this from – we obviously track every day price spreads, so kind of non-promoted. But given we're a high-low retailer, it's also very, very important that we look at this all-in.

A

So we've been seeing this kind of improve throughout the year. And that is why we are putting a significant amount of money into this next year, because we want to make sure that we're continuing to ensure that

consumers have good value, both on an everyday basis, but also when you look all-in on a promotional basis. So I think, listen, our objective is, as you said, it's not necessarily to be right there with the competition every day, but there are a certain set of items that are important from a basket perspective that we do need to be there, right there, with the competition.

I think the other thing, Ed, that's really important for us, and we hear consistently from our consumers, is about simplicity. And one of the things consumers tell us is, hey, it's just really complicated to figure out whether I'm getting the best price at Kroger, just because of the way some of our offers are structured. And so, we're also doing work to make sure that we structure our offers in a more simple way so that they get good prices and they can understand them.

And that's really important, because not only is the price important and the value that they get is important, but also the value perception. And I think there's certainly many arguments to suggest that price perception is equally as important as the price itself. So those are our focus areas. And I don't know whether, Greg or Ron, you want to add anything in.

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**Greg Foran**

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

A

Look, I think you said it extremely well. It is a combination of some KVIs and it's also making sure we get the basket where we need to be. And there are some added value things that occur when you shop at Kroger that mean you don't have to necessarily match ALDI or anyone else in every single price point. The customer works out what the value equation is. And our job is to make sure that we deliver that.

Great question on speed. And I've said this a couple of times already, but I'm coming into a business where Ron and David and the team have already got a momentum shift in the organization. There's been a lot of work over the last year already on price. There's a lot of work that's been done on store execution. There's a lot of work done around eCommerce. And these have been very difficult, but important, decisions. There's work underway on accelerating the store footprint. There's work that's been done on getting out of non-core assets and, of course, some good leadership appointments, not mine, other good appointments in the business.

So I'm well aware that you get one point for talking and nine for doing. And part of what we're doing over the next sort of 90, 100 days is we're working hard now to take what we've got here as a strategy and building that out some further and then making sure that we've got the maths around that so that we're comfortable with it. We'll talk about that with Ron and the board in detail. We'll then make sure that we've got it all buttoned up internally with our own team, and that we've got the people in place to execute this at speed. And that's going to be important.

You're right that our competitors don't stand still. At the moment, they're going around that racetrack at a pretty good pace. We not only have to catch up to the pace that they're going, but we actually have to learn to go faster, so that we can pull back on where they were. I'm looking forward to that challenge. I've never been more excited about the opportunity. And I think we have the assets, most importantly in our people, to deliver that.

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**Ronald L. Sargent**

*Chairman, The Kroger Co.*

A

And, Ed, I'm just piling on a little bit. But our research would indicate that customers are really looking for value. And each customer defines that a little differently. And obviously, rewards is part of our offering, whether it's Fresh categories, store conditions, great service, all those things are part of the equation. And I think it's more than just price.

**Operator:** Thank you. Our next question comes from Robert Ohmes from Bank of America. Your line is now open. Please go ahead.

**Ronald L. Sargent**

*Chairman, The Kroger Co.*

Hey, Robert. How you doing?

A

**Robert F. Ohmes**

*Analyst, BofA Securities, Inc.*

Oh, thanks for taking my question. Yeah. Doing great. Greg, congrats. Look forward to seeing you again.

Q

**Greg Foran**

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

Thanks, Robert.

A

**Robert F. Ohmes**

*Analyst, BofA Securities, Inc.*

And maybe for David and Ron, actually two questions. Just the first is just on accelerating eCommerce. I know it's early days, but any drivers to that beyond DoorDash and Uber Eats? I mean, are there other things that you guys are looking at, new strategies in either delivery or things that you're not doing? And then, the other question, just maybe for David. Fuel sales and profitability in 2026 might be tricky, given what's been going on with oil prices. It would just – any guide on what you guys are assuming in the guidance for the fuel business sales and profit headwinds.

Q

**Ronald L. Sargent**

*Chairman, The Kroger Co.*

Yeah. I'll just start with the eCommerce. We're really excited about 20% growth in the fourth quarter. I said in the script that we plan to be profitable during 2026. The reality is we plan on being profitable in the first half of 2026.

In terms of how we're doing it, basically, we're working on a lot of different areas to just improve the experience with our customers. And whether that's the refreshed website, whether that's a lot of initiatives around AI and agentic shopping. In stock is a big focus, delivery service, so all of those things, those nuts and bolts things, are really important to the growth of eCommerce this quarter. Obviously, the new partners help and will continue to help. And we are growing eCommerce business much faster than the market. And then, as we mentioned, I think, the third party partners are on track to be over \$1.5 billion on top of our organic growth in eCommerce this year.

A

**David Kennerley**

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

Yeah. And, Robert, let me take the question on fuel. So in the guidance, and our plans for next year, we are expecting fuel gallons and profits to be slightly down year-over-year, a combination of gallons and margins.

A

**Operator:** Thank you. Our final question for today comes from John Heinbockel of Guggenheim. Your line is now open. Please go ahead.

**Ronald L. Sargent**  
*Chairman, The Kroger Co.*

A

Morning, John.

**John Heinbockel**  
*Analyst, Guggenheim Securities LLC*

Q

Hey, guys, and welcome, Greg.

**Greg Foran**  
*Chief Executive Officer & Director, The Kroger Co.*

A

Thanks, John.

**John Heinbockel**  
*Analyst, Guggenheim Securities LLC*

Q

Two quick things. David hit on value perception. So when you think value perception as a lead indicator for food volume, your thought on that and by how much might it lead, because I suspect your value perception is better than reality today, thoughts on that. And then secondly, center store SKU rationalization, right, and ability to tighten that up and then for what you do sell to have sharper, simpler prices, those two topics.

**Greg Foran**  
*Chief Executive Officer & Director, The Kroger Co.*

A

Yeah. It's a very good question and one that I could spend a long time on. And hopefully, we will get some time and I can spend a bit more time than what I'm going to at this stage. As David said, it's going to be a combination of KVIs and basket and making sure that we hit the right value equation, which is a combination of what the actual cost is and the quality perception that customers have.

So we're working on that at the moment. That's a homework assignment, which is happening right now in the business, so that we can put some math against exactly where we need to be. And we're not going to be able to do whatever we want to do in a matter of months. It needs to be a little bit like a glide path. And the analogy that I've been using is it's a bit like a Boeing 787 coming into JFK. You're at 42,000 feet. You've burned off all your fuel. And you've got to get down to basically sea level. So you start at about 30 minutes out and your glide path your way in. So that's how we'll think about it, but the glide path can't go on forever. And we'll come back to you with the timing and how that looks.

In terms of it all, it is a bit of an ecosystem when you think about it. If you want to improve your eCommerce business and you're going to do more picking from stores, you need to make sure that you've got the right assortment on your website, but just as importantly that, that assortment fits comfortably on the shelf because you want your first-time pick rate to be really good. And you need that to be efficient. So the team that are doing center of store need to make sure that the planograms are where we need them to be.

So my comment around we need to think carefully is based on sort of three to four days out in stores, where at times, we're probably trying to put four pounds of sugar in a two pound bag. And it makes it a bit difficult to get all that assortment on the shelf comfortably. That, in turn, means that your top shelf comes under a bit of pressure. In turn, that makes the picking for online grocery a bit harder. The associates find it a bit more difficult. There's a bit more stock sitting in the back room.

So it all starts to become this sort of virtuous loop. And part of what we're starting to think about now is how we go about getting to a situation where you optimize the individual components, but really what you're doing is that you're optimizing the total ecosystem. And that requires everyone to play together in a team and do that quickly. So that's the sort of thing that we're now thinking about.

Lots of detail that I could put into that because I haven't even spoken about what does that mean in terms of promotions. And you heard from Ron and David that there's some complexity around that. And I've picked that up just already in the 20-odd days that I've been around the place.

So we've got to think about how we gradually take this Boeing 787 at 42,000 feet and just glide path it in and keep everyone on an even keel and land this plane safely. But the objective is to do that and to win. You know, we didn't come and invest in all this so that we can come second. So that's on my mind as well.

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**John Heinbockel**

*Analyst, Guggenheim Securities LLC*



Thank you.

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**Greg Foran**

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

Okay, well.

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**Operator:** At this time...

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**Greg Foran**

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

I will just wrap up, if that's okay. Thank you all for the questions. And just as I close, I would like to share a few comments with our associates listening in. I have spent time visiting stores, as some of you have seen, also distribution centers and a manufacturing facility, and, of course, getting around our offices.

And I just want to tell you that I've seen the energy and the pride that all of you are bringing to work every day. So from the associates stocking our shelves and helping customers, to the teams in our supply chain support centers keeping this business running, you are what make Kroger great. So thank you for what you do. I'm incredibly excited to be on this team. And I'm looking forward to getting out and visiting more locations and meeting more of you in the weeks ahead.

Thank you, everybody, for joining us on this call this morning.

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**Operator:** Thank you all for joining today's call. You may now disconnect your lines.

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