Kroger Reports Second Quarter 2023 Results and Reaffirms Guidance

Second Quarter Highlights

- Identical Sales without fuel increased 1.0% with underlying growth of 2.6%[(1)]
- Operating Loss of ($479) million; EPS of ($0.25)
    - Includes a $1.4 billion charge ($1.54 loss per share) for nationwide opioid settlement framework
- Adjusted FIFO Operating Profit of $989 million**;** Adjusted EPS of $0.96
- Achieved strong Adjusted Free Cash Flow leading to a record low net total debt to adjusted EBITDA ratio
- Executed its go-to-market strategy to deliver value for customers
    - Grew digital sales 12%
    - Increased total and loyal customer households

CINCINNATI, September 8, 2023 – The Kroger Co. (NYSE: KR) today reported its second quarter 2023 results, reaffirmed 2023 guidance and updated investors on how *Leading with Fresh and Accelerating with Digital* continues to position Kroger for long-term sustainable growth.

Comments from Chairman and CEO Rodney McMullen

"The strength and diversity of Kroger's business model is delivering consistent results in what remains a challenged environment.

By investing in price and providing more personalized offers, we are helping customers stretch their budgets and manage the ongoing effects of reduced government benefits, inflation and higher interest rates. Kroger is funding these investments by collaborating with vendors to deliver exceptional value, managing costs and growing alternative profit businesses.

We are growing households as our associates are providing a full, fresh and friendly shopping experience across our seamless ecosystem. While we expect the environment to remain challenged going forward, we are committed to delivering exceptional value for our customers

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[(1)] Identical sales without fuel would have grown 2.6% in the 2nd quarter of 2023 if not for the reduction in pharmacy sales from the previously communicated termination of our agreement with Express Scripts effective December 31, 2022. In the 2nd quarter of 2023, the terminated agreement had a positive effect on the FIFO Gross Margin Rate, excluding fuel, and a negative effect on the OG&A Rate, excluding fuel and adjustment items. The overall net effect on operating profit was slightly positive.

and investing in our associates, and by doing so, we expect to generate attractive returns for shareholders."

Second Quarter Financial Results

	2Q23 ($ in millions; except EPS)	2Q22 ($ in millions; except EPS)
ID Sales* (Table 4)[(1)]	**1.0%**	**5.8%**
Earnings (Loss) Per Share**	**($0.25)**	**$1.00**
Adjusted EPS (Table 6)	**$0.96**	**$0.90**
Operating (Loss) Profit**	**($479)**	**$954**
Adjusted FIFO Operating Profit (Table 7)	**$989**	**$1,110**
FIFO Gross Margin Rate*[(2)]	**Increased 35 basis points**	
OG&A Rate*[(2)]	**No change**	

* Without fuel and adjustment items, if applicable. [(1)] Identical sales without fuel would have grown 2.6% in the 2nd quarter of 2023 if not for the reduction in pharmacy sales from the previously communicated termination of our agreement with Express Scripts effective December 31, 2022. [(2)] In the 2nd quarter of 2023, the terminated agreement had a positive effect on the FIFO Gross Margin Rate, excluding fuel, and a negative effect on the OG&A Rate, excluding fuel and adjustment items. The overall net effect on operating profit was slightly positive.
** Includes a $1.4 billion ($1.54 loss per share) charge related to nationwide opioid settlement framework.

Total company sales were $33.9 billion in the second quarter, compared to $34.6 billion for the same period last year. Excluding fuel, sales increased 1.1% compared to the same period last year.

Gross margin was 21.8% of sales for the second quarter. The FIFO gross margin rate, excluding fuel, increased 35 basis points compared to the same period last year. This increase in rate was achieved while also investing in price to maintain a competitive price position and deliver greater value for our customers. The improvement in the FIFO gross margin rate, excluding fuel, was primarily attributable to *Our Brands* performance, lower supply chain costs, sourcing benefits and the effect of our terminated agreement with Express Scripts, partially offset by higher shrink and increased promotional price investments.

The LIFO charge for the quarter was $4 million, compared to a LIFO charge of $148 million for the same period last year.

Fuel operating profit declined $192 million compared to the same period last year, primarily due to the cycling of historically high fuel results from a year ago.

The Operating, General & Administrative rate was flat, excluding fuel and adjustment items, compared to the same period last year. This OG&A result was driven by continued execution of cost savings initiatives and lower incentive plan costs partially offset by planned investments in associates, an increase to our self-insurance reserves and the effect of our terminated agreement with Express Scripts.

Nationwide Opioid Settlement Framework

Included in Kroger's results this quarter was a $1.4 billion charge related to a nationwide opioid settlement framework. The timing of the settlement payments will be over 11 years, most of which are tax deductible.

This settlement and the payment terms will not affect Kroger's ability to complete its proposed merger with Albertsons and the Company still expects to reduce its net total debt to adjusted EBITDA ratio to 2.50 within 18 – 24 months post-close.

For more information, please refer to the separate press release issued this morning.

Capital Allocation Strategy

Kroger expects to continue to generate strong free cash flow and remains committed to investing in the business to drive long-term sustainable net earnings growth, as well as maintaining its current investment grade debt rating. The Company expects to continue to pay its quarterly dividend and expects this to increase over time, subject to board approval. Kroger has paused its share repurchase program to prioritize de-leveraging following the proposed merger with Albertsons.

Kroger's net total debt to adjusted EBITDA ratio is 1.31, compared to 1.63 a year ago (Table 5). The company's net total debt to adjusted EBITDA ratio target range is 2.30 to 2.50.

Full-Year 2023 Guidance*

Reaffirmed

- Identical sales without fuel of 1.0% – 2.0%, with underlying growth of 2.5% – 3.5% after adjusting for the effect of Express Scripts
- Adjusted net earnings per diluted share of $4.45 – $4.60, including an estimated benefit from the 53rd week of approximately $0.15
- Adjusted FIFO Operating Profit of $5.0 – $5.2 billion
- Adjusted effective tax rate of 23%**
- Capital expenditures of $3.4 – $3.6 billion
- Adjusted Free Cash Flow of $2.5 – $2.7 billion***

* Without adjusted items, if applicable. Kroger is unable to provide a full reconciliation of the GAAP and non-GAAP measures used in 2023 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 2023 GAAP financial results.
** The adjusted tax rate reflects typical tax adjustments and does not reflect changes to the rate from the completion of income tax audit examinations, changes in tax laws, which cannot be predicted, or the effect of certain non-deductible charges related to opioid settlements.