The Kroger (NYSE:KR) Q3 2012 Earnings Call November 29, 2012 10:00 AM ET

Executives

Cindy Holmes - Director of Investor Relations

David B. Dillon - Chairman, Chief Executive Officer and Member of Proxy Committee

W. Rodney McMullen - President, Chief Operating Officer and Director

J. Michael Schlotman - Chief Financial Officer and Senior Vice President

Analysts

Edward J. Kelly - Crédit Suisse AG, Research Division

Tiffany Kanaga

John Heinbockel - Guggenheim Securities, LLC, Research Division

Meredith Adler - Barclays Capital, Research Division

Kenneth Goldman - JP Morgan Chase & Co, Research Division

Shane Higgins - Deutsche Bank AG, Research Division

Charles Edward Cerankosky - Northcoast Research

Mark Wiltamuth - Morgan Stanley, Research Division

Karen F. Short - BMO Capital Markets U.S.

Scott Andrew Mushkin - Jefferies & Company, Inc., Research Division

Andrew P. Wolf - BB&T Capital Markets, Research Division

Stephen W. Grambling - Goldman Sachs Group Inc., Research Division

Operator

Good day, ladies and gentlemen, and welcome to the Third Quarter 2012 The Kroger Co. Earnings Conference Call. My name is Derek, and I will be your operator for today. [Operator Instructions] At this time, I would like to turn the conference over to Ms. Cindy Holmes, Director of Investor Relations.

Cindy Holmes

Thank you, Derek, and thank you, everyone, for your patience while we work out these technical issues. Good morning, and thank you for joining us.

Before we begin, I want to remind you that today's discussion will include forward-looking statements. We want to caution you that such statements are predictions, and actual events or results can differ materially. A detailed discussion of the many factors that we believe may have a material effect on our business on an ongoing basis is contained in our SEC filings, but Kroger assumes no obligation to update that information.

Both our third quarter press release and our prepared remarks from this conference call will be available on our website at www.thekrogerco.com. After our prepared remarks, we look forward to taking your questions. [Operator Instructions] Thank you.

I will now turn the call over to Dave Dillon, Chairman and Chief Executive Officer of Kroger.

David B. Dillon

Thank you, Cindy, and good morning, everyone. Thank you for joining us today. If you're on the call, it probably means you did not win the Powerball last night. We do apologize for the technical phone difficulties we had earlier, and thank you for sticking with us.

With me to review Kroger's third quarter 2012 results are Rodney McMullen, Kroger's President and Chief Operating Officer; and Mike Schlotman, our Senior Vice President and Chief Financial Officer.

We are obviously delighted about the numbers we just released. Both our GAAP and our adjusted earnings per share growth are the result of the powerful foundation that we have laid for our business to grow. Our core business drove earnings per share growth by more than 20%. This strong result excludes the 2 items identified in our earnings release and the swing in LIFO from year to year.

This was a remarkable quarter by several measures. We achieved our 36th consecutive quarter positive ID supermarket sales growth, we realized a record third quarter earnings per share, we increased total FIFO operating profit dollars and we saw the highest increase in unit movement since the second quarter of 2010.

This quarter illustrates that the strength of our core business positions Kroger to accelerate our earnings per share growth. The economy is slowly improving, but value customers are still struggling. We continue to monitor changes in gas prices and inflation. Customer concern over fuel and energy costs lessened as gas prices declined through the quarter. Rodney will have more to say about declining inflation shortly, which contributed to the growth in our unit movement in the quarter. Overall consumer confidence is up, but it remains fragile. Uncertainty around issues like the fiscal cliff can have a short-term impact on consumer sentiment, as we saw last year during the debt ceiling debate. Kroger is well positioned to successfully navigate through these factors.

I'd like to say thank you again for your participation in the Investor Conference in New York City last month. The purpose of that event was to outline for you our plans to accelerate Kroger's earnings growth. We're implementing our long-term growth strategy, and we are committed to achieving fully diluted earnings per share growth of 8% to 11% plus a higher dividend over time, supported by targeting capital expenditures to grow our business in new and existing markets, leveraging dunnhumby insights to solve varied customer needs through both traditional and digital channels and continuing our share buyback program. That is what we believe will grow Kroger and shareholder value, and we are bullish about our future.

Rodney will now discuss how Kroger is executing our growth plans and our positive business results in the third quarter. Rodney?

W. Rodney McMullen

Thank you, Dave, and good morning, everyone. It is definitely an exciting time at Kroger. We have aligned our senior leadership team to accelerate our growth strategy. All across the business, our associates are executing to deliver growth results. In 2013, we plan to build, expand or relocate 50 supermarkets compared to 40 expected this year. We are making good progress adding square footage in 4 fill-in markets, and others are being identified based on various metrics. We are narrowing the list of new markets for future expansion.

Earlier this month, we announced that Kroger will acquire the outstanding shares of Axium Pharmacy, a leading specialty pharmacy that provides specialized drug therapies and support services for patients with complex medical conditions. Axium has the skills Kroger doesn't have, and Kroger's size can help Axium grow. Offering specialty pharmacy services will give our customers greater access to drugs we currently can't dispense and access to additional services that we don't provide today. We're very excited about this new partnership.

One of the most important measures of our business is loyal household growth because it lets us know how well we are connecting with our best customers. During the third quarter, we grew the number of loyal households in all divisions. Our loyal household count grew at a much faster rate than total household growth, which was also up for the quarter.

We also achieved positive identical supermarket sales growth for all households. ID sales growth among loyal households outpaced total household growth. Customers continue to visit our stores more frequently and buy more on a monthly basis. Customers also purchased more items on each trip, a welcome change from what we've seen for the last several quarters. As a result, total units sold were up compared to last year. This tonnage growth confirms our belief that we continue to make market share gains in the overall food retailing industry.

The rate of product cost inflation in the third quarter continued to flatten faster than originally anticipated. We estimate the rate of inflation declined to 1.4%, excluding fuel. Once again, every store department had inflation with the exception of produce and seafood, which both were deflationary.

Now before I discuss our sales results, there are a couple events that affected our pharmacy and overall identical supermarket sales results that I want to share. The growth in generic drugs reduced total identical supermarket sales by 1% in the quarter. Our ability to attract and retain Express Script business has largely offset this effect. The effect of generics is consistent with what we outlined at the start of this year.

I want to congratulate and thank our pharmacy teams for managing through a difficult year. They have done a phenomenal job, and that's an understatement. We are also very pleased with our third quarter identical supermarket sales growth of 3.2%, without fuel. The cadence of identical sales throughout the year was balanced. We've also had consistent sales trends through the year when you look at our identical sales, excluding both fuel and pharmacy. And I realize this is a number we normally don't give, but we thought this quarter, you would find it helpful. On this basis, and this is without fuel and pharmacy both, identical sales were a strong 3.2% in the first quarter and 3.1% in the second and third quarters.

Moving now to Kroger's corporate brands. We recently introduced our new Simple Truth and Simple Truth Organic brands, which are free from 101 artificial ingredients and preservatives that some customers have said they do not want in their foods. Together, these are our fastest growing brands, and we are very excited about our early results.

Corporate brands represented approximately 26% of grocery department sales dollars in the third quarter, and grocery department corporate brand units sold were 32.9%. Some of the decline in corporate brand share in grocery is due to some CPG companies getting more aggressive and promoting certain items.

While we strive to grow the corporate brand part of our business over time, we have long said our goal is to give the best value to our customers. And in this quarter, some of the national brands provided a great value. The mix between national brands and corporate brands fluctuate in any given quarter, and we continue to be the market leader in corporate brands.

Kroger leveraged operating expenses in the third quarter as OG&A cost, plus rent and depreciation, without fuel and the 2 adjustment items, were down 21 basis points as a percent of sales. On this basis, we have had 7 consecutive years of improvement in this metric, and we expect to achieve our eighth consecutive year in 2012.

Last quarter, I provided several examples of investments we are making in non-price keys of our Customer 1st Strategy: Our people, products and shopping experience. Today, I'd like to share one of our great people initiatives that is designed to improve the health and wellness of our associates and keep our health care costs down.

Earlier this year, we partnered with Anthem Blue Cross and Blue Shield to develop an innovative program to provide our associates with access to the top-performing health care providers for several common but expensive surgeries. Participating associates pay less out of pocket at these facilities and benefit from higher quality of care. Kroger pays about 15% less in these hospitals than at others for the same services, even including travel costs. We're excited to be on the leading edge of this kind of program and are pleased with the results so far. We believe it improves our connection with our associates, which in turn strengthens our connection with customers.

Finally, an update on labor relations. Associates in Arizona, Columbus and Memphis have ratified labor agreements. We continue negotiations on many contracts, including Indianapolis, Nashville and Portland for store clerks and a distribution center in Delaware, Ohio. Our objective in every negotiation is to find a fair and reasonable balance between competitive costs and compensation packages that provide good wages, a quality affordable health care and retirement benefits for our associates.

Next, Mike will share additional detail on Kroger's third quarter financial results and guidance for the rest of the year. Mike?

J. Michael Schlotman

Thanks, Rodney, and good morning, everyone. I'd like to also thank you for your participation in our investors meeting last month. At that meeting, we laid out 4 key performance targets for shareholders to measure our success, including ID sales growth, FIFO operating margin growth, a stable and growing return on invested capital and market share growth. We believe holding ourselves accountable for these key metrics will drive shareholder value. We will measure our progress on the first 3 on a quarterly basis and continue to report market share growth on an annual basis at year end.

Rodney went into a lot of detail about the strength of our identical supermarket sales and our ability to leverage operating costs. We are very pleased with our strong performance in these metrics. FIFO gross margin was 20.35% of sales in the third quarter of fiscal 2012. Excluding retail fuel operations, FIFO gross margin decreased 25 basis points from the same period last year.

Net earnings for the third quarter totaled $316.5 million or $0.60 per diluted share. This includes a $0.14 benefit from a settlement with Visa and MasterCard and a reduction in the company's obligation to fund the UFCW consolidated pension fund created in January. Excluding the benefit of these 2 items because they were not the result of our normal operations, Kroger's adjusted net earnings for the third quarter totaled $242.4 million or $0.46

per diluted share. Net earnings in the same period last year were $195.9 million or $0.33 per diluted share.

I want to spend just a couple of minutes on LIFO. Many of the items we discuss are on a FIFO basis. We manage the company without regard to our LIFO charge. When we develop our expectations for any given year, we estimate LIFO last. The reason for this is LIFO is merely an accounting convention. We don't believe our operation should generate more or less EBITDA because LIFO was higher or lower in a given period of time. As a result, if LIFO was lower than the prior year, our EPS growth rate will be higher than our targets. And if LIFO is higher than the prior year, our EPS growth rates will be lower than our targets.

This quarter is a good example. We reduced our LIFO charge estimate to $125 million for the year. Previously, we internally estimated the LIFO charge at $150 million. The change in LIFO benefited the quarter by $0.02, which you saw in the earnings that we reported.

Third quarter FIFO operating profit, excluding the 2 adjustment items, increased approximately $29 million over the prior year. Excluding fuel and the adjustment items on a rolling 4 quarters basis, the company's FIFO operating margin was 7 basis points lower compared to last year. Kroger expects to have a slightly higher FIFO operating margin rate, excluding fuel, for the full 2012 fiscal year in line with our commitment to grow the rates slightly over time on a rolling 4 quarters basis.

Return on invested capital in the third quarter was 13.3% compared to 13.5% during the same period last year. As I said in New York, we are committed to growing ROIC over time.

Turning now to retail fuel operations. We disclosed many items with and without fuel due to its effect on operating costs and gross rates. But we view fuel as a core department that over time is expected to contribute to earnings per share growth. About half of our supermarkets have fuel centers today. In the third quarter, our supermarket fuel centers margin per gallon was approximately $0.149 cents per gallon compared to $0.13 in the same quarter last year.

Our planned uses of cash remain unchanged: To fund capital expenditures, repurchase shares, pay dividends to shareholders and maintain our current investment-grade debt rating. Capital expenditures excluding acquisitions and purchases of lease facilities, totaled $473.5 million for the third quarter compared with $497 million for the same period last year. We continue to expect full year capital expenditures to be in the $1.9 billion to $2.2 billion range and expect 2013 to be approximately $2.4 billion.

During the third quarter, Kroger repurchased 14.5 million common shares for a total investment of $333 million. Kroger's strong financial position has allowed the company to return more than $1.7 billion to shareholders through share buybacks and dividends over the last 4 quarters. As it relates to dividends, you should receive the first payment since our 30% increase this coming Monday.

Net total debt was $8.7 billion, an increase of $1 billion from a year ago. On a rolling 4 quarters basis, Kroger's net total debt to adjusted EBITDA ratio was 2.08 compared to 1.89 during the same period last year. Our objective is to maintain our current debt rating. We believe a net total debt to EBITDA ratio of 2 to 2.2 will support this.

You may notice on our balance sheet that our current portion of our debt is up compared to what it usually is. One of the reasons for this is we had a little over $1 billion outstanding of commercial paper and in our revolving credit facility with our banks that gets classified as short term. Some of that was extra borrowings, which you saw as cash on the balance sheet in anticipation of disruptions in the commercial paper market as a result of Sandy. And some of it is a strategy to fund some of our cash needs on a short-term basis because we're borrowing about 45 to 50 basis points in the commercial paper market to maintain an exposure to floating rates.

Now I'll update our guidance for the fourth quarter. As a result of solid performance in our core business, Kroger raised its earnings per diluted share guidance, excluding the 2 adjustment items, to $2.44 to $2.46 for the full year, up from the previous guidance of $2.35 to $2.42. This implies a $0.68 to $0.70 earnings per diluted share result in the fourth quarter. With only 1 quarter left in the year, we believe fourth quarter identical sales guidance is most important. And in the fourth quarter, we expect ID sales between 3% and 3.5%, excluding fuel.

We also want to remind you as you start thinking about your own estimates for 2013 that you will need to adjust 2012 results to remove the benefit of the extra week and the 2 items that totaled $0.14 from this quarter. We will provide an estimate of the benefit of the 53rd week when we provide full guidance in March.

Now I will turn it back to Dave.

David B. Dillon

Thanks, Mike. When you look at how Kroger has strengthened our business for the last 10 years and compare us to other food retailers, you'll see that we took the less -- the road less traveled. And when you look today at our ability to deliver positive growth results, you'll understand why we believe that that's made all the difference.

Kroger's proven Customer 1st Strategy continues to increase customer loyalty, identical sales -- store sales and market share. With that foundation firmly in place, we're focused on deploying capital to further accelerate growth and improve ROIC. We are committed to delivering shareholder value through stronger earnings per share growth, higher dividends and stock buyback.

We now look forward to your questions.

Question-and-Answer Session

Operator

[Operator Instructions] And our first question is coming from the line of Edward Kelly from Crédit Suisse.

Edward J. Kelly - Crédit Suisse AG, Research Division

Just a quick question for you to start on the MEPP benefit. Dave, talking about guidance that excludes the -- well, excludes both the Visa MasterCard settlement as well as MEPP. I don't remember you saying over prior quarters that the guidance excluded the pension benefit. So is that new this quarter or it was always excluded?

J. Michael Schlotman

Ed, just to clarify, the $50 million reduction that happened this quarter, back in January, we took the $900 million plus charge to establish what that obligation was going to be based on the actuaries' estimate at that point in time. The actuaries recently finished their final work on exactly what that obligation is, and it wound up being $50 million less. So it has nothing to do with what the ongoing cost of that plan is. That was a reduction of the charge we took back in January, and that won't repeat itself. It doesn't have anything to do with the annual cost of that plan.

Edward J. Kelly - Crédit Suisse AG, Research Division

Okay. So what happened this quarter is truly one time?

J. Michael Schlotman

It was an adjustment to results. Certain people don't like the use of one time. Yes.

Edward J. Kelly - Crédit Suisse AG, Research Division

I know. But back in the fourth quarter, you talked about a $0.04 to $0.06 benefit.

J. Michael Schlotman

And we're delivering on that and that's baked into the numbers, and it's our run rate. This $50 million is above and beyond that, and it was just the true-up of what that initial obligation was.

Edward J. Kelly - Crédit Suisse AG, Research Division

Perfect. Okay, that makes sense. And then my next question for you is on the gross margin, a little bit better this quarter than what I was expecting sequentially, a nice improvement, I think, lines up pretty well is what you were talking about at the analyst day. Could you just maybe give us a little bit of color around the gross margin? I know last quarter, 45% of the decline was shrink, for instance. So how did that do? How did you do with non-selling versus selling for instance? Could you talk a little bit about that?

David B. Dillon

Rodney?

W. Rodney McMullen

Yes. As you know, overall, every quarter, what we're trying to do is to balance our improvement in operating costs with a change in gross profit rate. And we continue to be focused on giving our customers a better value than before. So the change in gross profit rate really is given by lowering prices to our customers, and that's what drove it. And we were really pleased with the balance that we had in terms of expense reductions. You specifically asked about shrink. Shrink is an area where we weren't real pleased with our results, but it actually wasn't inconsistent with what I expected. And anytime when you have swings, large swings from heavy inflation to low inflation, it seems that it affects shrink. And I think a lot of the effect this -- the last couple of quarters in shrink has been that. I feel good about where we are overall. As you know, you never want to get so focused on shrink, you hurt yourself. And that's a balance we're always focused on maintaining.

Edward J. Kelly - Crédit Suisse AG, Research Division

So I mean shrink last quarter hurt you by I think it's 19 basis points if we do that 45%. Was that impact similar this quarter?

W. Rodney McMullen

It wasn't quite that bad, but it wasn't something we were pleased with.

Edward J. Kelly - Crédit Suisse AG, Research Division

Okay. And over the next few quarters, is that something that would diminish, do you think?

W. Rodney McMullen

Certainly, yes. I would certainly expect it would diminish. And what we're trying to do is to make sure we manage it on a progressive and strong basis, but not do something that overreacts.

Operator

Your next question is coming from the line of Deborah Weinswig from Citi.

Tiffany Kanaga

This is Tiffany Kanaga from Deborah Weinswig's team. We'd like to know what are you seeing in terms of the competitive environment? And how are you thinking about price investments going forward?

David B. Dillon

The competitive environment, Tiffany, really hasn't changed. We still see, as we've said just about every quarter, robust competition. About the biggest change we see is one market to another is one market might improve a little bit, another market gets a little tougher. But I certainly don't see it as being harder or difficult today than it was last quarter or easier today than it was last quarter. So I'd say it'd be very similar. Rodney, you want to add anything to that?

W. Rodney McMullen

No. I would agree completely.

David B. Dillon

And on the price area, I think Rodney answered that best when he said that our interest is in having balance between what we save in terms of operating costs and what we spend in terms of gross. We have lots of places, we think, additional price investment would give benefit not only to our customers, but would ultimately grow the sales and help the shareholders. But we are tempered in our approach to try to make sure we've offset those with costs. Do you want to add anything?

W. Rodney McMullen

I'm just going to add one other thing, Dave. And as you know, we work a lot with dunnhumby to understand the pricing dollars we have to invest to make sure we invest it in places that helps the customer the most. And we've been doing that for several years. And we would continue to work with dunnhumby to help to make sure that it benefits the customer in the best way we can, for what dollars we do have to invest.

Operator

Your next question is coming from the line of John Heinbockel from Guggenheim Securities.

John Heinbockel - Guggenheim Securities, LLC, Research Division

So Dave, you mentioned the economy is slowly improving. Do you see evidence in what people are buying or how they're behaving that they are actually reflecting that and opening up a little more? Or is that -- that's not yet happened?

David B. Dillon

Yes, I think we do. I think that -- but the evidence is the slow, gradual improvement that I described. So you look over the last several quarters, you can look at some of the categories we've described before, things like Boar's Head and high-end wines and our fine cheeses, and some of those continue to do pretty good and grow steadily. Natural food is doing well. Another good indicator and one that I'm particularly pleased with, was with our loyalty data. If you look at our loyal households, while we had a big, good solid increase in number of loyal households, the visits, of course, increased. Both of those are consistent with what we've had the last several quarters. But we also had increase in units per visit, an increase there for those loyal households. And I think that's important. I think that's an indication both of us filling all the needs of customers or a greater portion of the needs of customers, which we've talked a lot about before. But I also think it's an indication of people having a little bit more money in their pocket or at least the willingness to buy a little bit more, so that their tentativeness has dissipated somewhat. Now I would caution though, because with value customers, we think that they still are living in a very fragile world, and we think that their situation is still quite difficult. And I'm not actually sure that we've seen improvement there. And we've used the word ourselves in describing the future as pretty fragile. The fragile nature is that you could see high volatility with changes of events, which is why I think the fiscal cliff causes people some heartburn.

John Heinbockel - Guggenheim Securities, LLC, Research Division

Well, I'm going to ask you, as a follow-up on that, how do you plan for the cliff? I guess you would assume we're not going to go over entirely, but the payroll tax probably goes up and some other things happen. So there will be less money in people's pockets come January, low income and middle income as well. How do you plan for that? And do you put programs in place? Are you doing that now, designing some things that you want to hit in

January to target a more frugal customer? Or do you think that's an overly negative assessment?

David B. Dillon

I'll have Rodney add a little color in a minute. But first, I think it is an overly negative assessment, in fact, quite a bit overly negative in my view. At Kroger, I think we've built up a very strong trust with our customer. For our customers to know that where there's value to be had, they can have it with us. And as a result, I believe that whatever happens, and we think we're in a great position in any of the possible outcomes we can imagine, we think that our customers are going to trust us and continue to stay with us. Now our business is a day-to-day business. We make choices every day as merchants what we're going to do. So we read the environment where we are, we make these choices and we move through current events as we always have done. And I expect that, that will be how we would operate through whatever happens in this situation. I think it's going to be -- whatever happens, I think it's going to be overplayed in the press and so will cause a lot of people a lot of chatter in the outfield, but the actual effect will be less than that. Rodney, you may want to add some...

W. Rodney McMullen

Well, I was just going to say that the uncertainty of things I think is what creates the most pain. And the things that we've been doing for the last several years is really focused on giving the customer a better total value package, and price obviously gets a lot of discussion. But we've improved the shopping experience in the products that the customers get just as much as what we've improved pricing on. And when a customer decides where to shop, they're going to look at the total thing. But the uncertainty of it will affect you. But I don't think there's too much that you can do to anticipate a different strategy for that. We just think long term that it's important to give the customer better total value.

David B. Dillon

And John, we don't often get into the public policy arena. And so I'm not certainly trying to forecast what happens. But I do think the one message that's clear from our vantage point is that Congress and the executive branch and the press, frankly, need to look at this responsibly to try to solve the issues and to try not to create undue uncertainty. It's that uncertainty that serves the public really poorly. And we think that there's a lot everyone can do if they make up their mind that they're going to purchase in a responsible way.

John Heinbockel - Guggenheim Securities, LLC, Research Division

And then just finally, one last thing. Do you think that your market share has accelerated -- market share growth or gains have accelerated during 2012? It looks that way, looking at the data that we can see. Do you think that's right?

David B. Dillon

I don't know that I'd use the word accelerate. Although it may have, I certainly think it has continued to increase. And we think that that's been a fairly steady increase over time. Rodney, I don't know if you...

W. Rodney McMullen

I would -- yes, I don't know that I would so much word it as accelerate, I think I agree completely with Dave that we see it pretty consistent, improving as it has for the last 5 or 6 years.

Operator

Your next question is coming from the line of Meredith Adler, Barclays.

Meredith Adler - Barclays Capital, Research Division

I was wondering if you could talk a little bit about, you said you're sort of finalizing the criteria for new markets that you might be considering opening stores in. Could you talk a little bit about what those criteria are – criterion are and maybe give us a sense of how you expect to proceed?

David B. Dillon

Well, I'll give you a little sense. We obviously won't tell you a lot. And I'm not sure that what I'm going to tell you would be much more than what we said in New York. But our interest is in being able to use our existing infrastructure, warehouses and support and merchandising and so forth. And so that would tend to say that we're not going to go to some markets that are further away, and I think that's probably an accurate reflection. And we're interested in being able to, over time, grow our overall business. We think we've developed a model that the customers really like. And we think that the customers -- and particularly, if you look around, most of the markets we operate in and a bunch of markets we don't operate in, the places that the people are winning in food retailing today actually are mostly in supermarkets. Now you don't see that as much because a lot of those supermarkets are private markets, are not publicly owned, so you don't see the data. But many of the winners are supermarkets. And as a result, we think there's a lot of places that would actually benefit from our kind of store as a supermarket. And we see that as a real plus. Now other than that, I'm not sure that we're going to go out and describe much more. Our objective is to narrow it down to the markets that we think are important and then to do investigation in the real estate side of it and then to proceed through actually operating an action plan, which we would do in almost anything we do really. So that's really the basic plan, but I don't think that adds anything to what I've told you.

Meredith Adler - Barclays Capital, Research Division

Well, this may be a follow-on with that. You had opened a few Food 4 Less stores in Chicago a number of years ago. Do you see the move into new markets or even the fill-in being different kinds of formats than a traditional

Kroger? Would it be a marketplace store, more likely to be Food 4 Less or some other discount-oriented store or it'll be a little bit of everything?

David B. Dillon

We see all of those as on the table. We like the Food 4 Less format. We like the marketplace format. We like our traditional supermarket format. We like our convenience store format. So we see all of those as having high potential, and it would be based upon the specific market. Rodney, you want to add anything to that? Anything else, Meredith?

Meredith Adler - Barclays Capital, Research Division

Well, I guess I wanted to go back to the question about competition, which you -- I understand is pretty stable. Do you see any risk that rapidly moderating inflation and maybe not everybody's tonnage is recovering as nicely as yours that, that will get -- sort of freak out some of your competitors and we will see more price aggressiveness from them?

David B. Dillon

No, I don't expect to see that. And of course, you'll always have some individual markets and some individual settings where that might occur. But on the whole, I view that the competitors that we compete with, whether they're supermarkets, whether they're publicly owned or not, whatever they are, we view it as quite rational. We think people are making rational choices, what they view to be in their best long-term interest, and we certainly are doing the same.

Operator

Your next question is coming from the line of Ken Goldman from JPMorgan.

Kenneth Goldman - JP Morgan Chase & Co, Research Division

I'm curious what you would do if you were in a vendors' shoes right now in center store? And the reason I'm asking is across all of food, center store seems to continue to lag. Are you happy with the level and quality of innovation and marketing you're getting from your vendors? You talked about national brands promoting heavily. Is that something you want to see? Or would you rather get fewer dollars from deal backs and just have your vendors spend more money kind of investing in their brands and driving the categories higher that way? I'm just curious how you think about that balance there in the long term.

David B. Dillon

I think Rodney will answer that.

W. Rodney McMullen

Yes. Your question on innovation, if you talk to any of us, we would say that no one can ever have enough innovation. It's what makes it fun. And I can tell you every time we have a top-to-top meeting, we're always pushing our CPG partners to have more innovation. It's something that causes the shopping experience to be more fun. It causes the customer to look at somebody's product and obviously, we sell more. From our perspective, we're really kind of indifferent in terms of how a vendor spends their money. Because if they get to where their pricing is too high, that's the reason why we think our corporate brand, our strong corporate brand program is so positive, is because it gives a great value at great quality for our customers. So if a vendor CPG gets to where their price is too high and they spend 20 times as much as they spent before marketing, that balance won't work for them. So we really are focused on how do we work with our CPG partners, how do we grow their business together. And if they get to the point where they get out of balance, we find our corporate brands always picks up share. And as I mentioned in the call, obviously our grocery tonnage was up very nicely in the quarter, and in fact the best since the second quarter of 2010.

Kenneth Goldman - JP Morgan Chase & Co, Research Division

Okay. And then one quick one, maybe I missed it. Can you give us some help on what quarter-to-date comps have been?

David B. Dillon

We haven't described that yet, but we'd be happy to tell you that. At the moment, quarter-to-date and the fourth quarter were a little bit higher than what we ran in the third quarter. But I would not read too much into that because we expect, as we have seen in the last year or 2, high volatility from 1 week to the next, particularly as the payments for the food stamps, for the staff payments, how that has been smoothed out over some of the months. We've seen even higher volatility compared to the previous year. We do expect to have a good holiday selling season, with Christmas 2 days later from when Thanksgiving falls than last year. We think that actually works well. But a couple of the weeks will be pretty soft weeks. So we're giving you the reading as of today, as through yesterday. But if you look at today's sales, they're going to be pretty sloppy, as an example, because last year was the first of the month where today, it's 2 days before the end of the month. So that's why I urge caution, don't read too much into that. But we're running currently a little bit better than the third quarter.

W. Rodney McMullen

The other thing -- Dave mentioned it, but the swings within a month is a lot more than we had before. And John's earlier question about which customer segments are improving and which ones aren't, if you look at the mainstream and upscale customers, it's pretty consistent and it's solid throughout a month. But a value customer, we see a tremendous amount of more swing today than we would have seen even last year or 2 years ago. And Dave mentioned that before.

Operator

Your next question is coming from the line of Charles Grom, Deutsche Bank.

Shane Higgins - Deutsche Bank AG, Research Division

It's Shane Higgins on for Chuck. First of all, I thought it was really interesting that you guys laid out that the nonfuel, non-pharmacy IDs, and obviously they looked pretty nice and remarkably stable. How does that compare to the growth in your markets? I know you guys have been picking up share pretty consistently. Would 2% to 3% kind of growth or how should we think about that?

J. Michael Schlotman

Yes, I'm not sure what you mean by growth in the markets, if you're asking about population growth and the like. But overall, it's really the result of a combination of things Dave and Rodney have already described. Dave described increased visits and increased units per visit, and Rodney has described that our tonnage was the strongest since second quarter of 2010. And it's really a combination of all those factors that has allowed us to continue to grow. We don't want to speculate on exactly where our market share is today. It's a calculation we do once a year, and we'll describe that in March when we release full year results. But it's been pretty broad-based. As Rodney said, all of the departments have had positive identical food store sales again this quarter. And we continue to be very pleased with the broad-based performance.

Shane Higgins - Deutsche Bank AG, Research Division

Yes. So I guess as inflation has moderated and you guys touched on -- so tonnage has actually been steadily improving over the past 3 quarters, has been driving more that ID sales.

J. Michael Schlotman

It actually has -- inflation has come in a little faster than we would have originally predicted, which was reflected in the reduction of our LIFO reserve. And the effect on the tonnage picking up, it's actually picked up a little faster than we expected. I don't want to say it's all just because there's less inflation. Certainly, a lot of it is the value equation we give to our customers, and the way we go to market every day continues to resonate with the customer. So it's a combination of factors. But bottom line, that's -- your comment is true.

Shane Higgins - Deutsche Bank AG, Research Division

Yes. And how should we think about the inflation over the next couple of months? Are you hearing -- sorry if you guys already talked about this, but are you hearing anything from vendors in terms of prices going up, any impact from the drought?

J. Michael Schlotman

Well, there are certainly some of the futures out there that would indicate higher costs. Some of those, they're off their peaks when you look at the corn and soybeans and things like that. Certainly, portions of the protein complex continue to have a lot of inflation. The beef side has a lot inflation. That's offset right now by some deflation in the pork side, and the seafood right now is deflationary. So we really look at it of what item is out there that has the right price points that's going to resonate with the customer. I don't want to speculate on 2013 inflation at this point. But I think the year is playing out to end a little bit lower inflation level than we originally predicted. And there are commodities out there that are the other way; things like sugar hasn't had nearly the same effect, orange juice is below the 5-year average. So there are those categories out there that have some positive influence.

Shane Higgins - Deutsche Bank AG, Research Division

Great. Just one last question on your ID sales you guys refer on the outlook for the year. It does imply kind of a 1% to 3% type number for the fourth quarter. And based on your earlier comments about recent trends being actually slightly better than third quarter, what -- are you guys just being conservative in kind of leaving the guidance unchanged? Is there concern about the impact of the fiscal cliff? How should we think about that?

J. Michael Schlotman

Yes. I was worried when we used the same number in the press release that it could be read that we reaffirm 3% to 3.5% as our annual number. That's actually just specific fourth quarter guidance. And we wanted to make sure people -- I didn't want to use the annual guidance because there's only 12 weeks left in the quarter, and you would have gotten a number like that. So the 3% to 3.5% we described is actually just for the fourth quarter.

Operator

Your next question is coming from the line of Chuck Cerankosky, Northcoast Research.

Charles Edward Cerankosky - Northcoast Research

Can you give us a sense, Dave, on how the consumer behaved around the Thanksgiving buying period and how it compared to last year?

David B. Dillon

We were very pleased with the Thanksgiving selling this year, thought it went quite well. And both pleased from an operational point of view and a merchandising point of view. But the customer reaction was solid and improving, just like we've been improving all year on other things.

Charles Edward Cerankosky - Northcoast Research

Okay. And how about the gas profitability? Up nicely year-over-year. Mike, what are sort of the dynamics around that? Is it increased traffic or less competition from fuel merchants? What's happening there?

David B. Dillon

Well, you can see that the gas prices during the quarter were volatile. And anytime gas prices are volatile, you get things that change one way or the other. And this particular quarter had a bit higher margins and had even higher margins towards the end of the quarter as the gas prices came down. And in fact that helped the quarter, as you could see in the numbers, and as Mike I think described. We saw identical gallons up, so we're good, solid there. And I think that's a bit of a countertrend compared to where the industry is. And that's, we believe, because we're adding fuel stations, because we are connecting with the customers and they like having gas right at the grocery store and because of our fuel rewards program.

J. Michael Schlotman

Yes, ID gallons were up in both the C-store offering and in the supermarket fuel offering. And on the supermarkets, I think, should have -- I want to comment just a little bit more, only because to have the strong identical fuel gallons we've had is pretty impressive as we continue to add fuel markets to our existing stores. And that could potentially cause sister store impact from one fuel center to another. Our total gallons sold into supermarket fuel centers was up a lot more than our IDs were. But we still maintain that strong, solid ID even with the growing number of outlets for consumers to go to.

Operator

Your next question is coming from the line of Mark Wiltamuth, Morgan Stanley.

Mark Wiltamuth - Morgan Stanley, Research Division

It's Mark Wiltamuth, Morgan Stanley. I wanted to ask about the credit card settlement. You've got a pretty good gain there. There have been periods in the past when you've taken big windfalls and plowed it back into reinvesting into price. Is that the intention here? Or is this just separate from your overall strategy on pricing?

J. Michael Schlotman

Well, you got to think about this a little bit different. This settlement included a cash component, which obviously is in our financials, but also a change of the rules under which you could take the cards and deal with the cards with your customers. So on one hand, the amount that we've described and adjusted our earnings for, that went to the shareholders. But the rules change, we think there's some benefits there for our customers that can incentivize the customer to use the lower form of payment and that of course, goes to them. So we'd see it as a really big win. It's a win for the customer, it's a win for the shareholder. All around, we think it works well. So I think that's how we expect to play it out.

Mark Wiltamuth - Morgan Stanley, Research Division

Okay. And then looking at your rolling 4 quarter EBIT, down 7 basis points, and you're still looking for it to be up for the year once you're finished with the fourth quarter. Is there something rolling off on fourth quarter last year that really kind of helps you get to positive? And where do you kind of stand on the 3 quarters to date so far?

J. Michael Schlotman

Yes, I'm actually glad you asked that question, Mark, because we resisted the temptation to put that metric in our prepared comments because we don't like to shift how we measure ourselves. One of the things that gives us comfort with our ability to increase that for the full year, when you look at year-to-date without fuel and the 2 adjustment items, we're actually down 1 basis point year-to-date. So it's not like we have to -- from where we are at year-to-date, we only have to go up a few to get it to be positive. But the rolling 4 quarters has -- last year's third quarter actually was very strong, and that's one of the things that caused the comparison to be a little off. And that is on a 52-week basis, not a -- we're not using the extra week to cause that to be the outcome.

Mark Wiltamuth - Morgan Stanley, Research Division

Okay. So that does imply some better margin here coming up in the fourth quarter?

J. Michael Schlotman

It implies a little bit better. Keep in mind, it only has to go -- it only has to be 2 or 3 basis points better to get me positive for the year.

Operator

Your next question is coming from the line of Karen Short, BMO Capital.

Karen F. Short - BMO Capital Markets U.S.

Just to clarify on inflation for the fourth quarter. Your full year LIFO guidance implies kind of $30 million in LIFO expense for the fourth quarter. Is that -- is this quarter just a true-up, because it sounds like you're saying that you think the fourth quarter inflation is going to be similar to the third?

J. Michael Schlotman

Well, we reduced our annual estimate by $25 million based on what we see today. And to get the year-to-date rate, you have to take 10/13 of that reduction into this quarter, and then the fourth quarter winds up just being 3/13 of $125 million. So that's how you ought to wind up thinking about what the numbers are.

Karen F. Short - BMO Capital Markets U.S.

Okay, that's helpful. And then I'm just curious on your shrink, can you kind of maybe elaborate a little bit on what your strategy is to tackle shrink, and what you think the timing might be on seeing some improvement?

J. Michael Schlotman

Well, it should be a little each quarter. The detail in terms of how you accomplish it, it's all the basics. Some of it is driven by actual theft. There's all kinds of things that you work on in terms of trying to reduce the actual theft. One of the things that's constantly surprising is how much more sophisticated some of the theft rings are today than they were even 2 or 3 years ago. And it's just making sure that we put even more focus on some of those, some of it's basic operations. And that's blocking and tackling. It's nothing really very fancy. It's making sure you get deliveries into the store at the right time, i.e. take market downs appropriately and those things. So it's not fancy. Our expectation of ourselves would be to gradually improve and get it back to where we're satisfied again.

Karen F. Short - BMO Capital Markets U.S.

How much of it is actually theft versus say...

J. Michael Schlotman

Well, you never know for sure. Internally, we would probably really tell you. We think it's about half and half, but that is a wild guess because you really don't know for sure.

David B. Dillon

With all this conversation about shrink, I ought to at least add my own thought is that, as shrink goes, we actually are in pretty good shape. I don't want to give anybody the impression we think we have a big shrink problem. And by 2 questions like that on that could give you that impression. But we see improvement to be made.

Karen F. Short - BMO Capital Markets U.S.

Got it. Okay. And then I guess last question is just a few years ago when you really had very, very strong tonnage growth, it was so strong it kind of became hard to manage from kind of an expense perspective. I guess I was just wondering if tonnage does continue to improve, what kind of changes you've made to prevent this from happening again or what you think your expenses are going to look like?

David B. Dillon

I recall those issues were really more because of the volatile nature from one quarter to the next and what we were seeing there. And I think what we've seen now is more steady. Plus, I think we've given a lot of thought to what we went through that period, and I think we're being very intelligent about the way in which we're operating our store. Rodney, if you want to add any color...

W. Rodney McMullen

Well, the only other thing that, when tonnage was so strong before, and this would happen in any situation, the actual work and the number of hours that we schedule on our stores is driven by the tonnage that goes through it. So at that point in time, we had almost -- I mean basic identical sales were only 1% to 2% positive, but we were growing our tonnage by 5% or 6%. So anytime you grow tonnage by that much, you're going to have more hours to actually do the physical work.

David B. Dillon

Yes, I'm glad Rodney added that. Because, frankly, if I look back over the last 10 years, one of the things that I'm most proud of us doing in this company is that point, is that as you experience inflation but not have tonnage growth, we modify our hours to do the work, not to handle the dollar sales. And so as you have deflation or low periods of inflation and tonnage growth, we still have the hours in to do the work, so the customers don't end up suffering. We said all along that our Customer 1st Strategy is making sure we run our stores in a way that connects really well with customers. And in the past, we ran it with the dollars, and today, we run it with the cases. And it's a much more effective way to do it. And that's one of the reasons, because we've done it for so long now, our customers really trust us and appreciate us.

Operator

Your next question is coming from the line of Scott Mushkin, Jefferies & Company.

Scott Andrew Mushkin - Jefferies & Company, Inc., Research Division

A lot of my questions have been answered, so I just want to do some housekeeping items. Did you guys actually give the tonnage number? I know you said it was the best since the second quarter of '10 or something like that. But did you give the actual number?

J. Michael Schlotman

We did not.

Scott Andrew Mushkin - Jefferies & Company, Inc., Research Division

Do you want to?

J. Michael Schlotman

I'll defer to Rodney and Dave.

W. Rodney McMullen

Scott, I don't think it's helpful to do that. We're happy with it. In prior quarters, we described it as marginally positive, and we're happier with it than that. It was a very strong quarter for tonnage.

David B. Dillon

And actually, the reason we don't want to give it is that it doesn't have the kind of precision that giving a number might imply it would have. And because it doesn't, we're trying to make a rational judgment as to what the number really says, and we're interpreting it and telling you what that number says. We try to do that really with this whole call as our objective here is to let you see this business through our eyes and give you the weight of what we think is actually happening.

J. Michael Schlotman

Yes, if you just want to get a rough calculation, Scott, just take our identical sales less the inflation estimate we provided. I mean it's not exactly right, but it's roughly close.

David B. Dillon

And certainly directionally correct, true.

Scott Andrew Mushkin - Jefferies & Company, Inc., Research Division

So that goes back to kind of a second housekeeping item. I know you guys answered this a little bit. But it seems to me that the delta, your volume delta between you and the industry, or the delta volume between you and the industry, better way to say it, has been widening out, which is very suggestive of share gains accelerating. Yet you didn't want to commit to that on the call, and I'm kind of a little surprised about that. I don't know if you have any further comments on that.

David B. Dillon

I think we're quite clear that we believe we've picked up share. We just don't think it's been dramatic or sudden. We think it's been gradual over time. And it does -- what you just said does help describe what we think is happening in the industry overall where people buy food. The industry has widened to places not just supermarkets. So you've seen a lot of the mass operators and the dollar stores and the drugstores and club stores, all those places sell food, and so now the market is a much wider market. But the winners and losers in that market, it's always been true in food retailing. There's people who are being more successful than others. And a lot of the success today comes, a few of the public companies are ones that are outside of the supermarket industry, except for Kroger. You add Kroger into that mix. And then you have some private companies, and you don't see their numbers. But we happen to know that those private companies, based on what we see in the markets, that they have been improving too. So we think that we are separating ourselves from many in the industry. We are among the winners in the industry, and we think that there are other winners in the industry as well.

W. Rodney McMullen

The only thing, Dave, I would add -- and Scott, as you know, we really focus more on market share on an annual basis rather than quarter-to-quarter. We're certainly pleased with where we think we are. But really, once a year is when we step back and really dig into the numbers in a very detailed way. So to answer the question, it isn't so much we're trying to avoid it. It's just that during the year, we wouldn't focus as much energy on trying to understand it, as long as directionally the numbers look like they're tracking in a good way.

Scott Andrew Mushkin - Jefferies & Company, Inc., Research Division

All right. Perfect. I have 2 more quick ones, I'll just roll them together. So really excited about the ROIC focus, as I think you guys know. But I was hoping for an update on when we can see ROIC as part of the long-term executive incentive plan. I think Dave indicated at the analyst day that, that change would likely be forthcoming. And then the second housekeeping item is x fuel EBIT dollars, were they up or not? So those 2, and then I'll yield.

J. Michael Schlotman

On the first one, yes, x fuel EBIT operating profit dollars, just so I'm talking to my terms versus how you may calculate it, x fuel operating profit dollars were up in the quarter, yes.

David B. Dillon

And then to your question about ROIC and the long-term incentive plan, we actually have a board meeting next week with our comp committee. And one of the areas that we plan to explore with them and to suggest to them is to add a component along those lines. But it's our comp committee that makes that decision ultimately and -- so stay tuned. But it's not going to happen instantly. You'll probably hear -- be able to hear about it on the next call.

Operator

Your next question is from the line of Andrew Wolf, BB&T.

Andrew P. Wolf - BB&T Capital Markets, Research Division

I wanted to ask you on the turnaround or the turn-up in the unit count. Using dunnhumby and other ways to look at it, can you kind of differentiate between how much of that is kind of sold on promotion? I think last quarter, you'd mentioned you were sending out more direct mail coupons to increase penetrations or in categories with certain customers. So much is sort of on promotion and maybe something that maybe only Kroger can pull off versus how much of it is maybe the environment?

W. Rodney McMullen

If you look at the mix, the growth is pretty balanced between everyday-type items and promotional-type items. So we felt really good about it because a lot of the growth is from new customers, and those are more sustainable. So a nice balance between the 2, and it really didn't change versus earlier in the year.

Andrew P. Wolf - BB&T Capital Markets, Research Division

That's exactly what I was getting at. And my housekeeping question is on the extra week. I think you indicated you can't tell us what that might affect EPS and earnings for until -- or did you already say what it is and I missed that? And what I'm getting at is if I'm trying to adjust EBITDA to a calendarized basis, let's say -- or EBIT, FIFO EBIT, can I just straight-line it? Or are there some expenses that are treated where you get a benefit because it doesn't have the extra week?

J. Michael Schlotman

You cannot straight-line it. This isn't the first time we've had a 53rd week year, and we've always described what the effect of that is and what items you cannot straight line. So that's out there historically. The only reason -- certainly, we have an estimate internally of what we think the benefit of that extra week will be. At the end of the day, it'll be driven by how many sales dollars fall into that week. It will be one of those weeks that falls in, crossing the calendar into the first of the month, has a couple fewer days at the first of the month than the prior year's week it's going to be comparing to add. So that's the only reason we've had any hesitancy about saying exactly what that benefit is going to be. We have a good feel for it. But we'll let you know when we see exactly where sales were and when we release full year numbers in March.

Andrew P. Wolf - BB&T Capital Markets, Research Division

And my last question, actually I want to get to digital marketing, because I think Dave mentioned that in his preamble. And just looking at the website, corporate website, to me, at least, it looks like a complete makeover into a really digital-driven platform. And so my questions are twofold. First, is it too early to -- if I'm right, is it too early to -- or do you have any sort of preliminary information on what that's doing for the business? And secondly, just overall, where do you see digital marketing going? I mean some folks think it's going to slowly or maybe even rapidly, replace print media for distributing coupons on a mass basis and so forth.

David B. Dillon

Andy, I'm so glad you noticed, because that's true. We've done a lot of work on our website, and we continue to do updates to our app that's available too for mobile devices. And we're very excited about that. And I think what we've seen is that gradual interest by our customers in connecting with us both in the traditional ways, that really has continued to be strong, but also in digital ways. And the more we have improved, the more we see those customers engaged. So we're seeing a gradual improvement there. It's not some sudden improvement. And in terms of the business, we certainly are getting a lot of digital coupons that we take as an example. That number is quite high. And so we see a lot of activity. But it's hard really to measure the specific results that would be derived from digital marketing versus the specific results in traditional marketing. We see it as blended together, and we see that the customer who responds to one also responds to the other. You have some people who are just digital and others who are just traditional, but many people fall into the camp of both. And so it's really hard to read what caused their activity and what caused their emotion. Rodney, you want to add anything to that? I think that would be it, Andy. What else?

Andrew P. Wolf - BB&T Capital Markets, Research Division

Just one follow-up. Just on the development side, some companies I follow have gone outside the company to folks who have been doing digital marketing, maybe for longer in other industries, some have done it internally. Could you comment on how the development in terms of personnel has been?

W. Rodney McMullen

Yes, it's a good question. We actually have a mix of both, and the team is probably about half and half. And if you look at who's helping us, we're partnering with several different outside companies. So -- and right now, we like the balance because we think it's the best of both. Obviously, dunnhumby is helping us with that as well.

Operator

Your final question is coming from the line of Stephen Grambling, Goldman Sachs.

Stephen W. Grambling - Goldman Sachs Group Inc., Research Division

My question actually looks out towards actually 2014 with changes to the broader health care and policy there. I'm wondering if you can maybe talk about how you're thinking about the potential impact from those changes, how you might be trying to mitigate those costs going forward?

David B. Dillon

Well, there's a lot of dimensions to the health care costs. But I would start with first, which is we believe very strongly that our associates need good health care and that we want, whatever plan we do, to give them a health care program that we can be proud of. And we think we've consistently done that for many years. And so I don't really see what we'll be doing in the next couple of years as radically different than what we've been doing in the last several, and that is looking for ways in which we can improve the way in which we handle health care. The biggest change in health care over the last 3 or 4 or 5 years has been instead of trying to cost shift, that is move the cost from an employer to the associate, we've tried to find ways to actually reduce the overall cost. So that if the associate pays say a 70% or so of the health care cost, just as an example, if they pay that -- or 30% rather and the company pays 70%, as an example, if we're in that situation and we can reduce the overall cost of the health care, the associate can save and we can save. And it tends to flatten the increased cost that you might otherwise experience. Now with the new health care law taking effect, that certainly changes some of those dimensions, and it will increase some of our costs and will increase some of our associates' costs. But the overall objective still remains. Rodney, you want to add anything?

W. Rodney McMullen

Yes, just one small addition and Dave briefly mentioned it. I mean we really are focused on trying to help our associates have a healthier lifestyle and doing things to help support them. And we invest a lot of dollars for our associates to get preventive-type care or physicals, those kind of things because we really want our associates to be able to be the healthiest they can be. And that will help lower everybody's cost, but it'll also help our associates have a better lifestyle.

David B. Dillon

Before we end the call, though, I do want to share some additional thoughts, particularly with the associates that are listening. We appreciate everybody sticking with us today, given the technical difficulties at the beginning.

I have 2 special messages for our associates today. First is we take time to honor our veterans this month in November, and I'm pleased that we support our veterans and military families in so many ways at Kroger. And want I want to thank you for your support in launching, honoring our heroes, our company-wide partnership with the USO. Since 2010, Kroger has raised more than $5 million to assist service members and their families. This has been because of you, our customers and our vendor partners. Your generous support helps fund the USO's variety of programs that benefit our troops and their families.

In addition, Kroger announced Hiring Our Heroes, a renewed commitment to hiring veterans. More than 17,000 veterans have joined Kroger's ranks since 2009. By the end of this year, our human resource team will attend 15 military -- recruit military veterans career fairs, and they plan to attend even more in 2013. As always, we are pleased to welcome veterans to our Kroger family, and we continue to support our active duty military associates who work for us.

My other message for associates is about this holiday season. Because of you, Kroger is the trusted and preferred store for millions of families at this special time of the year. Your enthusiasm and creativity clearly show us -- clearly shows as we visit our stores across the country, and we appreciate everything you do to delight our customers and keep our stores running smoothly. Today, our busy shoppers have more retail choices than ever before. Offering to help somebody find something, keeping items in stock on the shelves, making checkout fast and easy, these are all ways that you can make their day a little more pleasant. So thank you for the hard work during this holiday season.

And while this completes our call today, thank you, everybody, for joining us. To all of you, Merry Christmas. Happy holidays to you and your families. Thank you.

Operator

Ladies and gentlemen, that concludes today's conference. We thank you for your participation. You may now disconnect. Everyone, have a great day.