Kroger Reports Record Third Quarter Results

ID Sales Up 5.4% Without Fuel; Raises Annual ID Sales Guidance

Q3 EPS of $0.43; Raises 2015 EPS Guidance to $2.02 to $2.04

Third Quarter 2015 Highlights:

- **Achieved 48th consecutive quarter of positive identical supermarket sales growth, excluding fuel**
- **Exceeded goal to slightly expand FIFO operating margin, without fuel, on a rolling four quarters basis**
- **Leveraged operating expenses as a rate of sales due to strong cost controls and identical supermarket sales growth**

CINCINNATI, December 3, 2015 – The Kroger Co. (NYSE: KR) today reported net earnings of $428 million, or $0.43 per diluted share, and identical supermarket sales growth, without fuel, of 5.4% in the third quarter of fiscal 2015.

Net earnings in the same period last year were $362 million, or $0.36 per diluted share, including the benefit of certain tax items. Excluding this, Kroger's adjusted net earnings were $345 million, or $0.35 per diluted share, for the third quarter of fiscal 2014.

Comments from Chairman and CEO Rodney McMullen

"Our associates delivered another quarter of excellent identical supermarket sales and earnings results that provide great momentum as we head into the holiday season. Kroger's consistent results demonstrate once again that our relentless focus on customers is the key to sustainable shareholder returns. We continue to implement our growth plan and expect to exceed our long-term net earnings per diluted share growth rate for fiscal 2015."

Details of Third Quarter 2015 Results

As a result of lower retail fuel prices, total sales increased 0.4% to $25.1 billion in the third quarter compared to $25.0 billion for the same period last year. Total sales, excluding fuel, increased 5.5% in the third quarter over the same period last year.

Kroger recorded a $9 million LIFO charge during the third quarter compared to an $85 million LIFO charge in the same quarter last year.

FIFO gross margin was 22.4% of sales for the third quarter. Excluding retail fuel operations, FIFO gross margin decreased 4 basis points from the same period last year.

Total operating expenses – excluding retail fuel operations, a $25 million contribution to The Kroger Co. Foundation in the third quarter of 2014, and an $80 million contribution to the UFCW Consolidated Pension Plan in the third quarter of 2015 – decreased 23 basis points as a percent of sales compared to the prior year.

On a rolling four quarters basis – excluding fuel, the 2014 and 2013 adjustment items, the contribution to The Kroger Co. Foundation in the third and fourth quarters of 2014, and the contribution to the UFCW Consolidated Pension Plan in the fourth quarter of 2014 and third quarter of 2015 – the company's FIFO operating margin increased 18 basis points.

Return on invested capital (ROIC), on a rolling four quarters basis, was 14.16%. The prior year third quarter calculation does not include a full year of Harris Teeter assets and results, so the company is not presenting a comparative number. Kroger continues to expect fiscal 2015 ROIC to increase from the fiscal 2014 result.

Financial Strategy

Kroger's long-term financial strategy is to use its financial flexibility to drive growth while also returning capital to shareholders. Maintaining its current investment grade debt rating allows the company to use its cash flow to take advantage of strategically and financially compelling opportunities and to continue its fill-in strategy, repurchase shares and fund the dividend, which is expected to increase over time.

Kroger's strong financial position allowed the company to return more than $1.1 billion to shareholders through share buybacks and dividends over the last four quarters. During the third quarter, Kroger repurchased 853 thousand common shares for a total investment of $31 million.

Capital investments, excluding mergers, acquisitions and purchases of leased facilities, totaled $832 million for the third quarter, compared to $681 million for the same period last year.

The company's net total debt to adjusted EBITDA ratio decreased to 1.99, compared to 2.27 during the same period last year (see Table 5).

Fiscal 2015 Guidance

Based on its strong year-to-date results, Kroger raised its net earnings per diluted share guidance to a range of $2.02 to $2.04 for fiscal 2015. The previous guidance was $1.92 to $1.98 per diluted share. This range exceeds the company's long-term net earnings per diluted share growth rate guidance of 8 – 11%, plus a growing dividend.

For the fourth quarter of fiscal 2015, Kroger expects identical supermarket sales growth, excluding fuel, of 4.0% to 4.5%. This implies an annual growth rate of approximately 5.0% to 5.25% for fiscal 2015.

Kroger, one of the world's largest retailers, employs more than 400,000 associates who serve customers in 2,620 supermarkets and multi-department stores in 34 states and the District of Columbia under two dozen local banner names including Kroger, City Market, Dillons, Food 4 Less, Fred Meyer, Fry's, Harris Teeter, Jay C, King Soopers, QFC, Ralphs and Smith's. The company also operates 786 convenience stores, 326 fine jewelry stores, 1,360 supermarket fuel centers and 37 food processing plants in the U.S. Recognized by Forbes as the most generous company in America, Kroger supports hunger relief, breast cancer awareness, the military and their families, and more than 30,000 schools and community organizations. Kroger contributes food and funds equal to 200 million meals a year through more than 100 Feeding America food bank partners. A leader in supplier diversity, Kroger is a proud member of the *Billion Dollar Roundtable* and the U.S. Hispanic Chamber's *Million Dollar Club*.

Note: Fuel sales have historically had a low FIFO gross margin rate and operating expense rate as compared to corresponding rates on non-fuel sales. As a result Kroger discusses the changes in these rates excluding the effect of retail fuel operations.

Please refer to the supplemental information presented in the tables for reconciliations of the non-GAAP financial measures used in this press release to the most comparable GAAP financial measure and related disclosure.

This press release contains certain statements that constitute "forward-looking statements" about the future performance of the company. These statements are based on management's assumptions and beliefs in light of the information currently available to it. These statements are indicated by words such as "expect," "anticipate," "believe," "guidance," "plans," "committed," "goal," "will" and "continue." Various uncertainties and other factors could cause actual results to differ materially from those contained in the forward-looking statements. These include the specific risk factors identified in "Risk Factors" and "Outlook" in Kroger's annual report on Form 10-K for the last fiscal year and any subsequent filings, as well as the following:

- Kroger's ability to achieve sales, earnings and cash flow goals may be affected by: labor negotiations or disputes; changes in the types and numbers of businesses that compete with Kroger; pricing and promotional activities of existing and new competitors, including non-traditional competitors, and the aggressiveness of that competition; Kroger's response to these actions; the state of the economy, including interest rates, the inflationary and deflationary trends in certain commodities, and the unemployment rate; the effect that fuel costs have on consumer spending; volatility of fuel margins; changes in government-funded benefit programs; manufacturing commodity costs; diesel fuel costs related to Kroger's logistics operations; trends in consumer spending; the extent to which Kroger's customers exercise caution in their purchasing in response to economic conditions; the inconsistent pace of the economic recovery; changes in inflation or deflation in product and operating costs; stock repurchases; Kroger's ability to retain pharmacy sales from third party payors; consolidation in the healthcare industry, including pharmacy benefit managers; Kroger's ability to negotiate modifications to multi-employer pension plans; natural disasters or adverse weather conditions; the potential costs and risks associated with potential cyber-attacks or data security breaches; the success of Kroger's future growth plans; and the successful integration of Harris Teeter. Kroger's ability to achieve sales and earnings goals may also be affected by Kroger's ability to manage the factors identified above. Kroger's ability to execute its financial strategy may be affected by its ability to generate cash flow.

- During the first three quarters of each fiscal year, Kroger's LIFO charge and the recognition of LIFO expense is affected primarily by estimated year-end changes in product costs. Kroger's fiscal year LIFO charge is affected primarily by changes in product costs at year-end.

Kroger assumes no obligation to update the information contained herein. Please refer to Kroger's reports and filings with the Securities and Exchange Commission for a further discussion of these risks and uncertainties.

Note: Kroger's quarterly conference call with investors will be broadcast live online at 10 a.m. (ET) on December 3, 2015 at ir.kroger.com. An on-demand replay of the webcast will be available from approximately 1 p.m. (ET) Thursday, December 3 through Thursday, December 17, 2015.

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3rd Quarter 2015 Tables Include:

1. Consolidated Statements of Operations

2. Consolidated Balance Sheets

3. Consolidated Statements of Cash Flows

4. Supplemental Sales Information

5. Reconciliation of Total Debt to Net Total Debt and Net Earnings Attributable to The Kroger Co. to Adjusted EBITDA

6. Net Earnings Per Diluted Share Excluding the Adjustment Items

7. Return on Invested Capital

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