

KROGER CO  
Form 10-Q  
December 08, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q

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QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended November 4, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from            to

Commission file number 1-303

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(Exact name of registrant as specified in its charter)

Ohio	31-0345740
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1014 Vine Street, Cincinnati, OH 45202

(Address of principal executive offices)

(Zip Code)

(513) 762-4000

(Registrant's telephone number, including area code)

Unchanged

(Former name, former address and former fiscal year, if changed since last report)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer

Non-accelerated filer (do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  
No .

There were 881,361,794 shares of Common Stock (\$1 par value) outstanding as of December 4, 2017.

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements.

## THE KROGER CO.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(In millions, except per share amounts)	Third Quarter Ended		Three Quarters Ended	
	November 4, 2017	November 5, 2016	November 4, 2017	November 5, 2016
Sales	\$ 27,749	\$ 26,557	\$ 91,631	\$ 87,726
Merchandise costs, including advertising, warehousing, and transportation, excluding items shown separately below	21,532	20,653	71,422	68,019
Operating, general and administrative	4,708	4,443	15,606	14,695
Rent	196	199	691	666
Depreciation and amortization	573	549	1,871	1,768
Operating profit	740	713	2,041	2,578
Interest expense	136	124	453	396
Earnings before income tax expense	604	589	1,588	2,182
Income tax expense	215	206	552	727
Net earnings including noncontrolling interests	389	383	1,036	1,455
Net loss attributable to noncontrolling interests	(8)	(8)	(17)	(14)
Net earnings attributable to The Kroger Co.	\$ 397	\$ 391	\$ 1,053	\$ 1,469
Net earnings attributable to The Kroger Co. per basic common share	\$ 0.44	\$ 0.41	\$ 1.16	\$ 1.54
Average number of common shares used in basic calculation	887	940	901	946
Net earnings attributable to The Kroger Co. per diluted common share	\$ 0.44	\$ 0.41	\$ 1.15	\$ 1.52
Average number of common shares used in diluted calculation	893	953	910	962

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Dividends declared per common share	\$ 0.125	\$ 0.120	\$ 0.370	\$ 0.345
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The accompanying notes are an integral part of the Consolidated Financial Statements.

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## THE KROGER CO.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

(In millions)	Third Quarter Ended		Three Quarters Ended	
	November 4, 2017	November 5, 2016	November 4, 2017	November 5, 2016
Net earnings including noncontrolling interests	\$ 389	\$ 383	\$ 1,036	\$ 1,455
Other comprehensive income (loss)				
Realized gains and losses on available for sale securities, net of income tax(1)	—	—	—	(20)
Amortization of amounts included in net periodic pension expense(2)	10	8	33	23
Unrealized gains and losses on cash flow hedging activities, net of income tax(3)	9	46	(26)	(52)
Amortization of unrealized gains and losses on cash flow hedging activities, net of income tax(4)	1	—	2	1
Total other comprehensive income (loss)	20	54	9	(48)
Comprehensive income	409	437	1,045	1,407
Comprehensive loss attributable to noncontrolling interests	(8)	(8)	(17)	(14)
Comprehensive income attributable to The Kroger Co.	\$ 417	\$ 445	\$ 1,062	\$ 1,421

(1) Amount is net of tax of \$(16) for the first three quarters of 2016.

(2) Amount is net of tax of \$5 for the third quarter of 2017 and \$4 for the third quarter of 2016. Amount is net of tax of \$19 for the first three quarters of 2017 and \$14 for the first three quarters of 2016.

(3) Amount is net of tax of \$5 for the third quarter of 2017 and \$27 for the third quarter of 2016. Amount is net of tax of \$(15) for the first three quarters of 2017 and \$(31) for the first three quarters of 2016.

(4) Amount is net of tax of \$1 for the third quarter of 2017 and 2016. Amount is net of tax of \$2 for the first three quarters of 2017 and \$1 for the first three quarters of 2016.

The accompanying notes are an integral part of the Consolidated Financial Statements.



## THE KROGER CO.

## CONSOLIDATED BALANCE SHEETS

(unaudited)

(In millions, except par amounts)	November 4, 2017	January 28, 2017
<b>ASSETS</b>		
Current assets		
Cash and temporary cash investments	\$ 352	\$ 322
Store deposits in-transit	1,163	910
Receivables	1,452	1,649
FIFO inventory	8,222	7,852
LIFO reserve	(1,305)	(1,291)
Assets held for sale	604	—
Prepaid and other current assets	437	898
Total current assets	10,925	10,340
Property, plant and equipment, net	20,966	21,016
Intangibles, net	1,113	1,153
Goodwill	3,035	3,031
Other assets	989	965
Total Assets	\$ 37,028	\$ 36,505
<b>LIABILITIES</b>		
Current liabilities		
Current portion of long-term debt including obligations under capital leases and financing obligations	\$ 1,729	\$ 2,252
Trade accounts payable	6,307	5,818
Accrued salaries and wages	1,074	1,234
Deferred income taxes	—	251
Liabilities held for sale	259	—
Other current liabilities	3,521	3,305
Total current liabilities	12,890	12,860
Long-term debt including obligations under capital leases and financing obligations	13,118	11,825
Deferred income taxes	2,452	1,927
Pension and postretirement benefit obligations	522	1,524
Other long-term liabilities	1,835	1,659
Total Liabilities	30,817	29,795
Commitments and contingencies (see Note 7)		



## SHAREHOLDERS' EQUITY

Preferred shares, \$100 per share, 5 shares authorized and unissued	—	—
Common shares, \$1 par per share, 2,000 shares authorized; 1,918 shares issued in 2017 and 2016	1,918	1,918
Additional paid-in capital	3,124	3,070
Accumulated other comprehensive loss	(706)	(715)
Accumulated earnings	16,263	15,543
Common shares in treasury, at cost, 1,037 shares in 2017 and 994 shares in 2016	(14,364)	(13,118)
Total Shareholders' Equity - The Kroger Co.	6,235	6,698
Noncontrolling interests	(24)	12
Total Equity	6,211	6,710
Total Liabilities and Equity	\$ 37,028	\$ 36,505

The accompanying notes are an integral part of the Consolidated Financial Statements.

## THE KROGER CO.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(In millions)	Three Quarters Ended	
	November 4, 2017	November 5, 2016
Cash Flows from Operating Activities:		
Net earnings including noncontrolling interests	\$ 1,036	\$ 1,455
Adjustments to reconcile net earnings including noncontrolling interests to net cash provided by operating activities:		
Depreciation and amortization	1,871	1,768
LIFO charge	46	19
Stock-based employee compensation	118	110
Expense for Company-sponsored pension plans	68	62
Deferred income taxes	267	5
Other	5	(27)
Changes in operating assets and liabilities net of effects from mergers of businesses:		
Store deposits in-transit	(268)	(120)
Receivables	45	48
Inventories	(466)	(798)
Prepaid and other current assets	426	219
Trade accounts payable	620	509
Accrued expenses	26	(144)
Income taxes receivable and payable	143	267
Contribution to Company-sponsored pension plans	(1,000)	—
Other	117	83
Net cash provided by operating activities	3,054	3,456
Cash Flows from Investing Activities:		
Payments for property and equipment, including payments for lease buyouts	(2,137)	(3,025)
Proceeds from sale of assets	120	114
Payments for acquisitions, net of cash acquired	(16)	(401)
Other	(2)	39
Net cash used by investing activities	(2,035)	(3,273)
Cash Flows from Financing Activities:		
Proceeds from issuance of long-term debt	1,503	1,785
Payments on long-term debt	(769)	(1,332)
Net borrowings (payments) on commercial paper	(45)	1,200
Dividends paid	(333)	(316)

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Proceeds from issuance of capital stock	31	51
Treasury stock purchases	(1,292)	(1,401)
Other	(84)	(73)
Net cash used by financing activities	(989)	(86)
Net increase in cash and temporary cash investments	30	97
Cash and temporary cash investments:		
Beginning of year	322	277
End of year	\$ 352	\$ 374
Reconciliation of capital investments:		
Payments for property and equipment, including payments for lease buyouts	\$ (2,137)	\$ (3,025)
Payments for lease buyouts	9	5
Changes in construction-in-progress payables	(149)	14
Total capital investments, excluding lease buyouts	\$ (2,277)	\$ (3,006)
Disclosure of cash flow information:		
Cash paid during the year for interest	\$ 469	\$ 410
Cash paid during the year for income taxes	\$ 168	\$ 450
The accompanying notes are an integral part of the Consolidated Financial Statements.		

## THE KROGER CO.

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREOWNERS' EQUITY

(unaudited)

In millions, except per share amounts)	Common Stock		Additional	Treasury Stock		Accumulated	Accumulated	Noncontrolling	
	Shares	Amount	Paid-In Capital	Shares	Amount	Other Comprehensive Loss	Earnings	Interest	Total
Balance at January 30, 2016	1,918	\$ 1,918	\$ 2,980	951	\$ (11,409)	\$ (680)	\$ 14,011	\$ (22)	\$ 6,798
Change of common stock:									
Stock options exercised	—	—	—	(4)	51	—	—	—	51
Restricted stock issued	—	—	(111)	(2)	55	—	—	—	(56)
Treasury stock activity:									
Treasury stock purchases, at cost	—	—	—	37	(1,319)	—	—	—	(1,319)
Stock options exchanged	—	—	—	2	(82)	—	—	—	(82)
Share-based employee compensation	—	—	110	—	—	—	—	—	110
Other comprehensive loss net of income tax of \$(32)	—	—	—	—	—	(48)	—	—	(48)
Other	—	—	60	—	(63)	—	—	54	51
Dividends declared (\$0.345 per common share)	—	—	—	—	—	—	(330)	—	(330)
Earnings including noncontrolling interests	—	—	—	—	—	—	1,469	(14)	1,455
Balance at November 5, 2016	1,918	\$ 1,918	\$ 3,039	984	\$ (12,767)	\$ (728)	\$ 15,150	\$ 18	\$ 6,630
Balance at January 28, 2017	1,918	\$ 1,918	\$ 3,070	994	\$ (13,118)	\$ (715)	\$ 15,543	\$ 12	\$ 6,710
Change of common stock:									
Stock options exercised	—	—	—	(2)	31	—	—	—	31
Restricted stock issued	—	—	(115)	(2)	82	—	—	—	(33)
Treasury stock activity:									
Treasury stock purchases, at cost	—	—	—	45	(1,247)	—	—	—	(1,247)
Stock options exchanged	—	—	—	2	(45)	—	—	—	(45)
Share-based employee compensation	—	—	118	—	—	—	—	—	118
Other comprehensive income net of income tax of \$6	—	—	—	—	—	9	—	—	9