The Kroger Co.

"A family of Companies"

By
Veronica Enright

History

- The Kroger Company was founded in 1883 by **Bernard Kroger** with the first store opening on 66 Pearl Street in downtown Cincinnati.
- In 1916 the company began self-service shopping.
- In the 1930s, Kroger became the first grocery chain to monitor product quality and to test foods offered to customers
- In the 1950s to 1960s, the company began expanding into new markets by acquiring supermarkets, such as: **Henke & Pilot, Krambo Food Stores, Inc., Childs Food Stores, Inc., Big Chains Stores Inc., Market Basket**
- In the 1970s, Kroger became the first grocer in the United States to test an electronic scanner and the first to formalize consumer research.
- In the 1990s, Kroger acquired Great Scott (Detroit), Pay Less Food Markets, Owen's Market, JayC Food Stores, and Hilander Foods.

Quick facts

- Produces about 40% of the corporate brand units sold in its stores.
- Owns 37 manufacturing plants, which create at a rapid rate products for brands like Simple Truth and banner-specific private label products.
- Largest producer and seller of flowers in the US and the world.
- In 2014, the company spent more than agreed upon to shareholders through dividends and stock buybacks in the amount of $1.6 billion .
- The retailer spent over $2.8 billion on capital projects last year. These included new stores, remodels, technology upgrades and logistics innovations.
- Kroger sold 265 million cage-free eggs in 2014. That accounted for 11.3% of total egg sales.

Income Statement

(In millions, except per share amounts)	2017 (53 weeks)	2016 (52 weeks)	2015 (52 weeks)
Sales	$ 122,662	$ 115,337	$ 109,830
Merchandise costs, including advertising, warehousing, and transportation, excluding items shown separately below	95,662	89,502	85,496
Operating, general and administrative	21,568	19,178	17,946
Rent	911	881	723
Depreciation and amortization	2,436	2,340	2,089
Operating profit	2,085	3,436	3,576
Interest expense	601	522	482
Net earnings before income tax (benefit) expense	1,484	2,914	3,094
Income tax (benefit) expense	(405)	957	1,045
Net earnings including noncontrolling interests	1,889	1,957	2,049
Net earnings (loss) attributable to noncontrolling interests	(18)	(18)	10
Net earnings attributable to The Kroger Co.	$ 1,907	$ 1,975	$ 2,039
Net earnings attributable to The Kroger Co. per basic common share	$ 2.11	$ 2.08	$ 2.09
Average number of common shares used in basic calculation	895	942	966
Net earnings attributable to The Kroger Co. per diluted common share	$ 2.09	$ 2.05	$ 2.06
Average number of common shares used in diluted calculation	904	958	980
Dividends declared per common share	$ 0.495	$ 0.465	$ 0.408

Balance Sheet | Assets

Total assets in 2018 has seen an increase of about 1.89% compared to the previous year.

(In millions, except par amounts)	February 3, 2018	January 28, 2017
ASSETS		
Current assets		
Cash and temporary cash investments	$ 347	$ 322
Store deposits in-transit	1,161	910
Receivables	1,637	1,649
FIFO inventory	7,781	7,852
LIFO reserve	(1,248)	(1,291)
Assets held for sale	604	—
Prepaid and other current assets	835	898
Total current assets	11,117	10,340
Property, plant and equipment, net	21,071	21,016
Intangibles, net	1,100	1,153
Goodwill	2,925	3,031
Other assets	984	965
Total Assets	$ 37,197	$ 36,505

Balance Sheet | Liabilities

Total liabilities in 2018 has seen an increase of about 1.67% compared to the previous year.

(In millions, except par amounts)	February 3, 2018	January 28, 2017
LIABILITIES		
Current liabilities		
Current portion of long-term debt including obligations under capital leases and financing obligations	$ 3,560	$ 2,252
Trade accounts payable	5,858	5,818
Accrued salaries and wages	1,099	1,234
Deferred income taxes	—	251
Liabilities held for sale	259	—
Other current liabilities	3,421	3,305
Total current liabilities	14,197	12,860
Long-term debt including obligations under capital leases and financing obligations	12,029	11,825
Deferred income taxes	1,568	1,927
Pension and postretirement benefit obligations	792	1,524
Other long-term liabilities	1,706	1,659
Total Liabilities	30,292	29,795

Balance Sheet | Shareholders Equity

Total equity in 2018 has increased by about 2.9% compared to the previous year.

(In millions, except par amounts)	February 3, 2018	January 28, 2017
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	3,161	3,070
Accumulated other comprehensive loss	(471)	(715)
Accumulated earnings	17,007	15,543
Common shares in treasury, at cost, 1,048 shares in 2017 and 994 shares in 2016	(14,684)	(13,118)
Total Shareholders' Equity - The Kroger Co.	6,931	6,698
Noncontrolling interests	(26)	12
Total Equity	6,905	6,710
Total Liabilities and Equity	$ 37,197	$ 36,505

Accounts Receivable

- Capital investments, including changes in construction-in-progress payables and excluding mergers and the purchase of leased facilities, totaled $3.0 billion in 2017, $3.7 billion in 2016 and $3.3 billion in 2015.

- Capital investments for mergers totaled $16 million in 2017, $401 million in 2016 and $168 million in 2015.

- Kroger merged with ModernHEALTH in 2016 and Roundy's in 2015.

    - Capital investments for the purchase of leased facilities totaled $13 million in 2017, $5 million in 2016 and $35 million in 2015.

Inventory

Last-in, first-out “LIFO” basis

- Inventories are stated at the lower of cost (principally on a last-in, first-out “LIFO” basis) or market. In total, approximately 93% of inventories in 2017 and 89% of inventories in 2016 were valued using the LIFO method.

- The remaining inventories, including substantially all fuel inventories, are stated at the lower of cost (on a FIFO basis) or net realizable value.

- Replacement cost was higher than the carrying amount by $1,248 at February 3, 2018 and $1,291 at January 28, 2017.

- The Company follows the Link-Chain, Dollar-Value LIFO method for purposes of calculating its LIFO charge or credit.

Inventory

Item-cost Method of Accounting

- The item-cost method of accounting to determine inventory cost before the LIFO adjustment is followed for substantially all store inventories at the Company's supermarket divisions. This method involves counting each item in inventory, assigning costs to each of these items based on the actual purchase costs (net of vendor allowances and cash discounts) of each item and recording the cost of items sold.

- The item-cost method of accounting allows for more accurate reporting of periodic inventory balances and enables management to more precisely manage inventory. In addition, substantially all of the Company's inventory consists of finished goods and is recorded at actual purchase costs (net of vendor allowances and cash discounts).

The Company evaluates inventory shortages throughout the year based on actual physical counts in its facilities. Allowances for inventory shortages are recorded based on the results of these counts to provide for estimated shortages as of the financial statement date.

Property, Plant, and Equipment

Property, plant and equipment are recorded at cost or, in the case of assets acquired in a business combination, at fair value. Depreciation and amortization expense, which includes the depreciation of assets recorded under capital leases, is computed principally using the straight-line method over the estimated useful lives of individual assets. Buildings and land improvements are depreciated based on lives varying from 10 to 40 years. All new purchases of store equipment are assigned lives varying from three to nine years. Leasehold improvements are amortized over the shorter of the lease term to which they relate, which generally varies from four to 25 years, or the useful life of the asset. Food production plant and distribution center equipment is depreciated over lives varying from three to 15 years. Information technology assets are generally depreciated over five years. Depreciation and amortization expense was $2,436 in 2017, $2,340 in 2016 and $2,089 in 2015.

Property, Plant, and Equipment

Interest costs on significant projects constructed for the Company's own use are capitalized as part of the costs of the newly constructed facilities. Upon retirement or disposal of assets, the cost and related accumulated depreciation and amortization are removed from the balance sheet and any gain or loss is reflected in net earnings.

Sources

- https://en.wikipedia.org/wiki/Kroger
- http://www.supermarketnews.com/blog/5-facts-krogers-latest-sustainability-report
- https://www.sec.gov/Archives/edgar/data/56873/000155837018002753/kr-20180203x10k.htm