

KROGER CO
Form 8-K
December 04, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report: **December 4, 2014**

(Date of earliest event reported)

THE KROGER CO.

(Exact name of registrant as specified in its charter)

Ohio
(State or other jurisdiction
of incorporation)

No. 1-303
(Commission File Number)

31-0345740
(IRS Employer
Identification No.)

1014 Vine Street
Cincinnati, OH 45202
(Address of principal executive offices, including zip code)

Registrant's telephone number: **(513) 762-4000**

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02 Results of Operations and Financial Condition.

On December 4, 2014, The Kroger Co. issued a press release announcing its earnings for the third quarter of 2014. Attached hereto as Exhibit 99.1, and filed herewith, is a copy of that release.

Item 7.01 Regulation FD Disclosure.

Fiscal 2014 Annual Guidance (unless otherwise noted), including Harris Teeter

| | |
|--|---|
| <u>Identical supermarket sales growth (excluding fuel sales)</u> | 4.0% to 5.0% for the fourth quarter of fiscal 2014 |
| <u>Adjusted net earnings per diluted share</u> | \$3.32 to \$3.36 |
| <u>Non-fuel FIFO operating margin</u> | We expect our FIFO operating margin growth rate, excluding fuel and charges related to the restructuring of certain pension plan agreements, to slightly expand on a rolling four quarters basis. |
| <u>Capital investments</u> | We expect capital investments, excluding mergers, acquisitions and purchases of leased facilities, to be near the low end of \$2.8 to \$3.0 billion for the year, including those for Harris Teeter. These capital investments include approximately 55-60 major projects covering new stores, expansions and relocations, 150 to 170 major remodels, and other investments including minor remodels and technology and infrastructure to support our Customer 1st business strategy. |
| <u>Return on invested capital</u> | We expect our year-end ROIC, which will factor in a full year of increased capital investments and fully reflect Harris Teeter in our calculation, to be similar to our ROIC at the end of fiscal 2013. |
| <u>Supermarket square footage growth</u> | Approximately 1.8% before acquisitions and operational closings |
| <u>Expected tax rate</u> | For the fourth quarter of fiscal 2014, we expect the effective tax rate to be approximately 35% to 36%, excluding the resolution of certain tax items and potential changes to tax regulations. |
| <u>LIFO</u> | \$180 million |
| <u>Pension Contributions/Expenses</u> | <u>Company-sponsored pension plans</u> |
| | We expect fiscal 2014 expense to be approximately \$40 million. We do not expect to make a cash contribution in fiscal 2014. |

401(k) plan

For fiscal 2014, we expect an increase in our cash contributions and expense of approximately \$30 million compared to fiscal 2013, primarily due to the Harris Teeter plan contributions.

Multi-employer plans

In fiscal 2014, we expect to contribute approximately \$225 - \$250 million to multi-employer pension funds. This amount excludes any contributions related to the restructuring charge taken in the first quarter of fiscal 2014.

Labor

In the remainder of fiscal 2014, we will negotiate with the Teamsters

covering several distribution and manufacturing facilities. These negotiations will be challenging as we must have competitive cost structures while meeting our associates needs for solid wages and good quality, affordable health care and retirement benefits. We will also continue to work to address the underfunding of some of our pension plans.

Fiscal 2015 Initial Guidance

Our long-term net earnings per diluted share growth rate guidance is 8-11%, plus a growing dividend. If fuel margins return to historical levels, we expect fiscal 2015 results to be closer to the low end of the guidance range, compared to our 2014 adjusted results, which exclude certain tax benefits and charges related to the restructuring of certain pension plan agreements.

Long-Term Guidance

Our long-term net earnings per diluted share growth rate guidance is 8-11%, plus a dividend that we expect to increase over time.

Forward Looking Statements

This Current Report contains certain statements that constitute forward-looking statements about the future performance of The Kroger Co. These statements are based on management's assumptions and beliefs in light of the information currently available to it. Such statements are indicated by words or phrases such as expect, believe, guidance, plan, committed, goal, will and continue. Various uncertainties and 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 our annual report on Form 10-K for our last fiscal year and any subsequent filings, as well as the following:

- The extent to which our sources of liquidity are sufficient to meet our requirements may be affected by the state of the financial markets and the effect that such condition has on our ability to issue commercial paper at acceptable rates. Our ability to borrow under our committed lines of credit, including our bank credit facilities, could be impaired if one or more of our lenders under those lines is unwilling or unable to honor its contractual obligation to lend to us, or in the event that natural disasters or weather conditions interfere with the ability of our lenders to lend to us. Our ability to refinance maturing debt may be affected by the state of the financial markets.
- Our ability to use cash flow to continue to maintain our investment grade debt rating and repurchase shares, pay dividends and fund capital investments, could be affected by unanticipated increases in net total debt, our inability to generate cash flow at the levels anticipated, and our failure to generate expected earnings.
- Our ability to achieve identical 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 us; pricing and promotional activities of existing and new competitors, including

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non-traditional competitors, and the aggressiveness of that competition; our 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 our logistics operations; trends in consumer spending; the extent to which our 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; our ability to retain pharmacy sales from third party payors; consolidation in the healthcare industry, including pharmacy benefit managers; natural disasters or adverse weather conditions; the potential costs and risks associated with potential cyber-attacks or data security breaches; the success of our future growth plans; and the successful integration of Harris Teeter. Our ability to achieve sales and earnings goals may also be affected by our ability to manage the factors identified above.

- Our capital investments could differ from our estimate if we are unsuccessful in acquiring suitable sites for new stores, if development costs vary from those budgeted, if our logistics and technology or store projects are not completed on budget or within the time frame projected, or if economic conditions fail to improve, or worsen.
- During the first three quarters of each fiscal year, our LIFO charge and the recognition of LIFO expense is affected primarily by estimated year-end changes in product costs. Our fiscal year LIFO charge is affected primarily by changes in product costs at year-end.
- If actual results differ significantly from anticipated future results for certain reporting units including variable interest entities, an impairment loss for any excess of the carrying value of the reporting units' goodwill over the implied fair value would have to be recognized.
- Our effective tax rate may differ from the expected rate due to changes in laws, the status of pending items with various taxing authorities, and the deductibility of certain expenses.
- The actual amount of automatic and matching cash contributions to our 401(k) retirement plans will depend on the number of participants, savings rate, compensation as defined by the plans, and length of service of participants.
- Changes in our product mix may negatively affect certain financial indicators. For example, we continue to add supermarket fuel centers to our store base. Since gasoline generates low profit margins, we expect to see our FIFO gross margins decline as gasoline sales increase.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

| Exhibit No. | Description |
|-------------|--------------------------------------|
| 99.1 | Press Release dated December 4, 2014 |

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

THE KROGER CO.

December 4, 2014

By:

/s/ Christine S. Wheatley

Christine S. Wheatley

Group Vice President, Secretary and General Counsel

EXHIBIT INDEX

| Exhibit No. | Description |
|--------------------|--------------------------------------|
| 99.1 | Press Release dated December 4, 2014 |