KROGER CO
Form 8-K
October 11, 2017

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: **October 11, 2017**

(Date of earliest event reported)

THE KROGER CO.

(Exact name of registrant as specified in its charter)

Ohio	**No. 1-303**	**31-0345740**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

1014 Vine Street

Cincinnati, OH 45202

(Address of principal executive offices, including zip code)

Registrant s telephone number, including area code: **(513) 762-4000**

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:

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company o

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. o

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Item 7.01 **Regulation FD Disclosure.**

In connection with its Investor Conference held on October 11, 2017, The Kroger Co. issued a press release confirming its fiscal 2017 annual guidance. The net earnings per diluted share and adjusted net earnings per diluted share guidance include the effects from the 2017 named hurricanes, but exclude one-time expenses expected to be recognized upon settlements of a Company-sponsored pension plan later this year. ID sales guidance includes the effect of the 2017 named hurricanes.

In addition, we disclosed that as a result of a review of assets that are potentially of more value outside of the company than as part of Kroger, the Company has decided to explore strategic alternatives, including a potential sale, of its convenience store business. Considering the current premium multiples for convenience stores, we feel it is our obligation as a management team to undertake this review.

Attached hereto as Exhibit 99.1, and filed herewith, is a copy of that release.

Fiscal 2017 Guidance

Identical supermarket sales (excluding fuel sales)	We expect identical supermarket sales growth, excluding fuel, of 0.5% to 1.0% for the remainder of fiscal 2017.
Net earnings per diluted share	We expect net earnings to be $1.74 to $1.79 per diluted share for 2017, which includes an estimated $.09 for the 53rd week. We expect 2017 adjusted net earnings per diluted share to be $2.00 to $2.05, including the 53rd week and excluding charges related to the withdrawal liability for certain multi-employer pension funds and a voluntary retirement offering (the 2017 adjustment items).
Non-fuel FIFO operating margin	We expect full-year FIFO operating margin in 2017, excluding fuel, the 2017 adjustment items and the 2016 restructuring of certain multi-employer pension obligations, to decline approximately 30-40 basis points compared to 2016 results.
Capital investments	We expect capital investments, excluding mergers, acquisitions and purchases of leased facilities, to be $3.0 to $3.3 billion. These capital investments include investments in digital and technology; approximately 55 major projects covering new stores, expansions and relocations; 175 major remodels; and other investments including minor remodels, and upgrades to logistics, merchandising systems and infrastructure to support our Customer 1st business strategy.
Supermarket square footage growth	Approximately 1.8% before mergers, acquisitions and operational closings.
Expected tax rate	We expect the 2017 tax rate to be approximately 35%, excluding the resolution of certain tax items and effects from the 2017 adjustment items.
Product Cost Inflation/LIFO	We anticipate product cost, without fuel, to be inflationary in 2017 and a LIFO charge of approximately $80 million.
Pension Contributions/Expenses	Company-sponsored pension plans We expect 2017 Company-sponsored pension plans expense to be

approximately $90 million. Although we were not required to make a cash contribution in 2017, in the third quarter of 2017, we made a $1 billion ($650 million after-tax) contribution to the plan that will significantly address the underfunded position of the plan. We do not expect to make any additional contributions to the plan. In addition, we expect there will be a settlement charge in the fourth quarter of 2017 associated with the settlement of the Company-sponsored pension plan obligations for eligible participants pension balances that are distributed out of the plan via a transfer to other qualified retirement plan options or a lump sum payout, based on each participant s election.

In addition, there will be a one-time expense in 2017 associated with the settlement of the Company s obligations for the eligible participants pension balances that are distributed out of the plan via a transfer to other qualified retirement plan options or a lump sum payout, based on each participant s election.

Multi-employer plans
In 2017, we expect to contribute approximately $360 million to multi-employer pension funds, which excludes any additional multi-employer restructuring or withdrawal liabilities that could occur. Of this amount, $35 million has been accrued for as of year-end. Although these liabilities are not a direct obligation or liability for Kroger, any new agreements that would commit us to fund certain multi-employer plans will be expensed when our commitment is probable and an estimate can be made.

Labor

We are currently negotiating an agreement with the UFCW for store associates in Food 4 Less Warehouse Stores, with the UFCW for store associates in Charleston, West Virginia, and with the Teamsters for the Master Agreement. Negotiations this year will be challenging as we must have competitive cost structures in each market while meeting our associates needs for solid wages and good quality, affordable health care and retirement benefits. Also, continued long-term financial viability of our current Taft-Hartley pension plan participation is important to address.

Initial Guidance for 2018

- We are early in the planning process.
- We are striving for EPS to be flat to slight growth from 52-week 2017 adjusted results.
- We are not seeing anything that would cause us to be below $1.80.
- We expect the full year ID sales to be stronger than 2017.
- We expect capital expenditures of approximately $3 billion.

Investor Conference

Kroger will host an investor conference today in New York. A webcast and slide presentation will be available live online from 9:00 a.m. to approximately 2:00 p.m. (ET) at ir.kroger.com.

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 such as believe, guidance, expect, estimate, anticipate, will, would, could, consider, committed, and con 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 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 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 us; pricing and promotional activities of existing and new competitors, including 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; our 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 our future growth plans; and the successful integration of Harris Teeter and Roundy s.   Our ability to achieve sales and earnings goals may also be affected by our ability to manage the factors identified above. Our ability to execute our financial strategy may be affected by our ability to generate cash flow.

- 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.

- 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 fuel generates lower profit margins than our supermarket sales, we expect to see our FIFO gross margins decline as fuel sales increase.

Item 9.01 **Financial Statements and Exhibits.**

(d) Exhibits

Exhibit No.	**Description**
99.1	Press Release dated October 11, 2017

Exhibit Index

Exhibit No.	Description
99.1	Press Release dated October 11, 2017

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.	
October 11, 2017	By:	*/s/ Christine S. Wheatley* Christine S. Wheatley Group Vice President, Secretary and General Counsel