KROGER CO KR

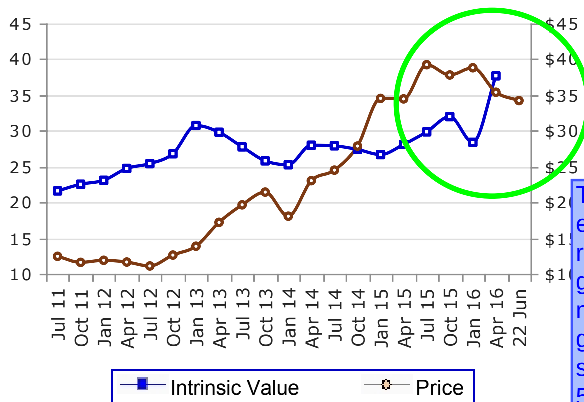
		Report Date : **22Jun16**	Price :	**$ 34.22**
Address	**1014 Vine Street** **Cincinnati OH 45202**	**Intrinsic Value**	IV	Price / IV
Telephone	**513-762-4000**	**Trailing 12 Months :**	$ 37.68	0.91
Stock Exchange	**NYSE**	**Trailing 36 Months :**	$ 33.18	1.03
Web Site	**www.thekrogerco.com**	**Market Value Added (MVA)**	$	%
Fiscal Year	**January**	Market Value of Total Capital :	50,333.728	100.0%
Economic Sector	**Consumer Staples**	- Invested Capital :	30,218.977	60.0%
SIC	**5411**	**= Market Value Added :**	20,114.751	40.0%
Price / Earning Ratio	**15.8**	**Future Growth Value (FGV)**	$	%
Price / Book Value Ratio	**2.70**	**Market Value of Total Capital :**	50,333.728	100.0%
Currency	**US $ in Millions**	**- Current Operating Value :**	43,446.756	86.3%
		= Future Growth Value :	6,886.972	13.7%

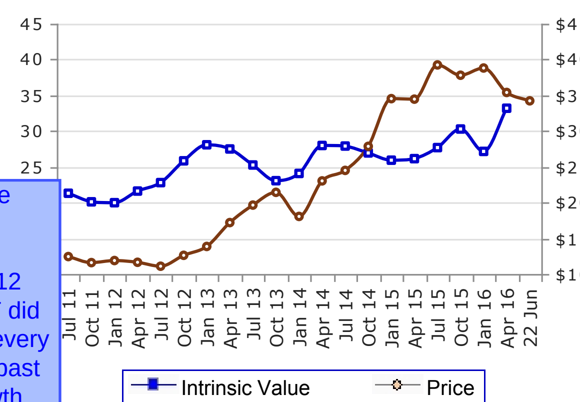
For the first time since July '14, the intrinsic value is higher than the stock's price, a very bullish signal when considering that this was caused by the intrinsic value jump.

Peers US: AHONY CASY CBD COST CVS DEG PUSH RAD SPTN SVU SYY UNFI WBA WFM WMMVY

Peers CND: ATD.B DOM.UN EMP.A GCL. L. LIQ. MRU. NWC. PJC.A WN.

INTRINSIC VALUE





This IV growth can be explained by the remarkable NOPAT growth over the last 12 months. The NOPAT did grow by about 12% every single year over the past 5 years, but the growth rate of 17% was much higher in the last 12 months.

Trailing 12 Months						Trailing 36 Months				
Apr12	Apr13	Apr14	Apr15	Apr16		Apr12	Apr13	Apr14	Apr15	Apr16
					PERFORMANCE					
1,950.358	2,136.335	2,330.083	2,686.149	3,140.178	NOPAT	1,691.265	1,976.667	2,138.925	2,384.189	2,718.803
22,421.856	22,789.680	26,622.875	27,792.498	30,218.977	÷ Capital	22,421.856	22,789.680	26,622.875	27,792.498	30,218.977
8.7%	**9.4%**	**8.8%**	**9.7%**	**10.4%**	**= Return / Capital**	**7.6%**	**8.8%**	**8.9%**	**9.3%**	**9.6%**
5.6%	5.8%	6.5%	7.4%	7.2%	- Cost of Capital	5.6%	5.8%	6.5%	7.4%	7.2%
3.1%	**3.6%**	**2.2%**	**2.3%**	**3.2%**	**= Performance Spread**	**2.1%**	**3.1%**	**2.4%**	**1.9%**	**2.4%**
					VALUATION					
14,120.740	15,688.081	12,448.317	10,821.200	17,123.539	Future EVA	10,641.784	13,322.185	12,448.317	8,930.782	12,835.300
23,040.591	23,438.930	27,475.318	28,798.670	31,291.987	+ Capital (Adj. Mid-Year)	23,040.591	23,438.930	27,475.318	28,798.670	31,291.987
37,161.331	**39,127.010**	**39,923.635**	**39,619.870**	**48,415.526**	**= Total IV**	**33,682.375**	**36,761.114**	**39,923.635**	**37,729.451**	**44,127.287**
6,771.000	6,162.000	9,664.000	9,716.000	9,710.000	- Long Term Debt	6,771.000	6,162.000	9,664.000	9,716.000	9,710.000
2,903.000	2,344.000	2,230.000	2,718.000	2,759.000	- Other Liabilities	2,903.000	2,344.000	2,230.000	2,718.000	2,759.000
27,487.331	**30,621.010**	**28,029.635**	**27,185.870**	**35,946.526**	**= IV of Equity**	**24,008.375**	**28,255.114**	**28,029.635**	**25,295.451**	**31,658.287**
1,111.600	1,028.000	1,002.000	968.000	954.000	÷ Shares Outstanding	1,111.600	1,028.000	1,002.000	968.000	954.000
$ 24.73	**$ 29.79**	**$ 27.97**	**$ 28.08**	**$ 37.68**	**= IV of a Share**	**$ 21.60**	**$ 27.49**	**$ 27.97**	**$ 26.13**	**$ 33.18**
$ 11.64	$ 17.19	$ 23.02	$ 34.46	$ 35.39	Share Price	$ 11.64	$ 17.19	$ 23.02	$ 34.46	$ 35.39
0.47	**0.58**	**0.82**	**1.23**	**0.94**	**Price / Intrin. Value**	**0.54**	**0.63**	**0.82**	**1.32**	**1.07**

The return on capital of 10.4% is the highest observed over the last 5 years.

KROGER CO KR

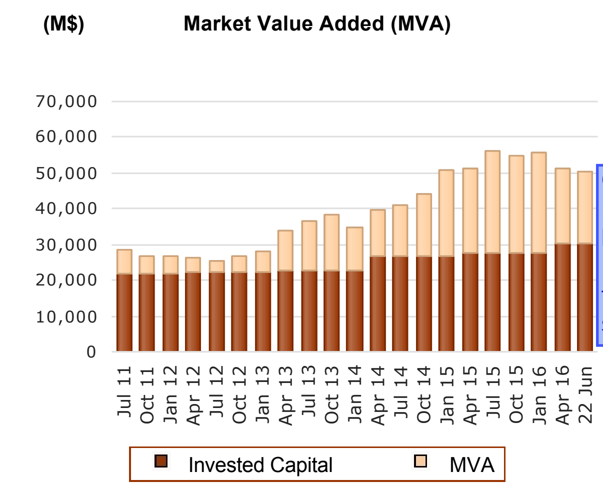
As for valuation, the current P/IV ratio indicates a 10% potential upside, but since the stock always traded above its intrinsic value over the past 2 years, it could very well happen again if the stock can get back the momentum it had in late 2015.

Address	**1014 Vine Street**
	Cincinnati OH 45202
Telephone	**513-762-4000**
Stock Exchange	**NYSE**
Web Site	**www.thekrogerco.com**
Fiscal Year	**January**
Economic Sector	**Consumer Staples**
SIC	**5411**
Price / Earning Ratio	**15.8**
Price / Book Value Ratio	**2.70**
Currency	**US $ in Millions**

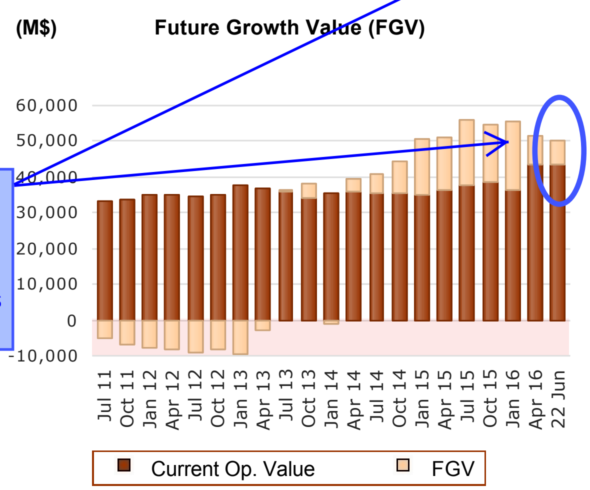
Report Date : **22Jun16**	Price :	**$ 34.22**
Intrinsic Value	IV	Price / IV
Trailing 12 Months :	$ 37.68	0.91
Trailing 36 Months :	$ 33.18	1.03
Market Value Added (MVA)	$	%
Market Value of Total Capital :	50,333.728	100.0%
- Invested Capital :	30,218.977	60.0%
= Market Value Added :	20,114.751	40.0%
Future Growth Value (FGV)	$	%
Market Value of Total Capital :	50,333.728	100.0%
- Current Operating Value :	43,446.756	86.3%
= Future Growth Value :	6,886.972	13.7%

Peers US: AHONY CASY CBD COST CVS DEG PUSH RAD SPTN SVU SYY UNFI WBA WFM WMMVY
Peers CND: ATD.B DOM.UN EMP.A GCL. L. LIQ. MRU. NWC. PJC.A WN.

MARKET PERFORMANCE



Given the 17% NOPAT growth in the last 12 months, the 13.7% premium for future growth (FGV) is seems reasonable.



Trailing 12 Months						Quarterly				
Apr12	**Apr13**	**Apr14**	**Apr15**	**Apr16**		**Apr15**	**Jul15**	**Oct15**	**Jan16**	**Apr16**
$ 11.64	**$ 17.19**	**$ 23.02**	**$ 34.46**	**$ 35.39**	**Price**	**$ 34.46**	**$ 39.24**	**$ 37.80**	**$ 38.81**	**$ 35.39**
					Market Value Added (MVA)					
26,503.538	33,967.726	39,546.639	51,278.418	51,434.698	**Total Market Value**	51,278.418	55,999.308	54,647.508	55,661.978	51,434.698
22,421.856	22,789.680	26,622.875	27,792.498	30,218.977	**- Invested Capital**	27,792.498	27,792.498	27,792.498	27,792.498	30,218.977
4,081.682	**11,178.046**	**12,923.764**	**23,485.920**	**21,215.721**	**= MVA**	**23,485.920**	**28,206.810**	**26,855.010**	**27,869.480**	**21,215.721**
15%	33%	33%	46%	41%	**% Market Value**	46%	50%	49%	50%	41%
					Current Operating Value (COV)					
1,950.358	2,136.335	2,330.083	2,686.149	3,140.178	**NOPAT**	2,686.149	2,766.195	2,816.240	2,800.286	3,140.178
5.6%	5.8%	6.5%	7.4%	7.2%	**÷ Cost of Capital**	7.4%	7.3%	7.3%	7.7%	7.2%
34,857.761	**36,967.774**	**35,812.361**	**36,438.817**	**43,446.756**	**= COV**	**36,438.817**	**37,640.774**	**38,728.752**	**36,537.698**	**43,446.756**
132%	109%	91%	71%	84%	**% Market Value**	71%	67%	71%	66%	84%
					Future Growth Value (FGV)					
26,503.538	33,967.726	39,546.639	51,278.418	51,434.698	**Total Market Value**	51,278.418	55,999.308	54,647.508	55,661.978	51,434.698
34,857.761	36,967.774	35,812.361	36,438.817	43,446.756	**- COV**	36,438.817	37,640.774	38,728.752	36,537.698	43,446.756
(8,354.223)	**(3,000.048)**	**3,734.278**	**14,839.601**	**7,987.942**	**= FGV**	**14,839.601**	**18,358.534**	**15,918.756**	**19,124.280**	**7,987.942**
-32%	-9%	9%	29%	16%	**% Market Value**	29%	33%	29%	34%	16%

KROGER CO **KR**

		Report Date : **22Jun16**		Price :	**$ 34.22**
		Intrinsic Value		IV	Price / IV
Address	**1014 Vine Street**	Trailing 12 Months :		$ 37.68	0.91
	Cincinnati OH 45202	Trailing 36 Months :		$ 33.18	1.03
Telephone	**513-762-4000**	**Market Value Added (MVA)**		$	%
Stock Exchange	**NYSE**	Market Value of Total Capital :		50,333.728	100.0%
Web Site	**www.thekrogerco.com**	- Invested Capital :		30,218.977	60.0%
Fiscal Year	**January**	= Market Value Added :		20,114.751	40.0%
Economic Sector	**Consumer Staples**	**Future Growth Value (FGV)**		$	%
SIC	**5411**	Market Value of Total Capital :		50,333.728	100.0%
Price / Earning Ratio	**15.8**	- Current Operating Value :		43,446.756	86.3%
Price / Book Value Ratio	**2.70**	= Future Growth Value :		6,886.972	13.7%
Currency	**US $ in Millions**				

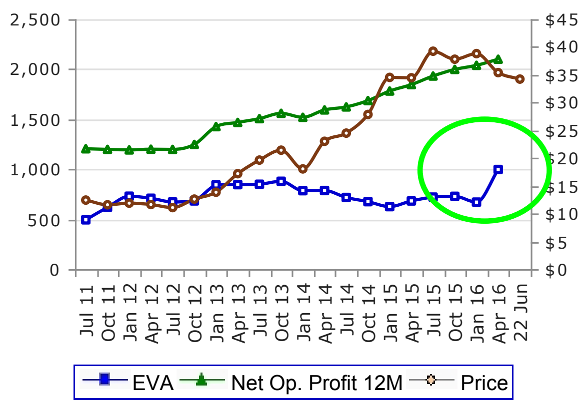
Also note that the P/E ratio of 15.8 is very reasonable compared to the S&P500 average P/E of 24 and to the Groceries average P/E of 22.6.

Peers US: AHONY CASY CBD COST CVS DEG PUSH RAD SPTN SVU SYY UNFI WBA WFM WMMVY

Peers CND: ATD.B DOM.UN EMP.A GCL. L. LIQ. MRU. NWC. PJC.A WN.

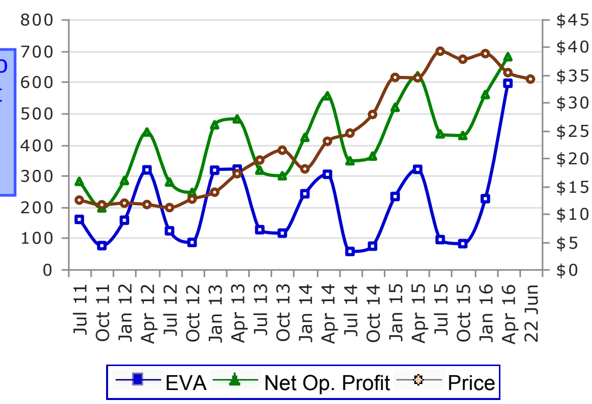
ECONOMIC PERFORMANCE

(M$) **EVA, Net Operating Profit Trailing 12 Months** Price



Kroger's EVA also jumped in the last quarter, and is now at a 5 year high.

(M$) **EVA, Net Operating Profit Quarterly** Price



Trailing 12 Months						Quarterly				
Apr12	**Apr13**	**Apr14**	**Apr15**	**Apr16**		**Apr15**	**Jul15**	**Oct15**	**Jan16**	**Apr16**
					Net Operating Profit After Tax (NOPAT)					
2,235.000	2,714.000	2,863.000	3,309.000	3,674.000	**Operating Profit**	1,102.000	774.000	772.000	928.000	1,200.000
686.504	588.762	646.185	754.974	917.053	**+ Adjustments**	187.687	187.687	187.687	187.687	353.993
971.147	1,166.427	1,179.102	1,377.825	1,450.876	**- Income Tax**	437.615	334.615	345.615	357.615	413.030
1,950.358	**2,136.335**	**2,330.083**	**2,686.149**	**3,140.178**	**= NOPAT**	**852.071**	**627.071**	**614.071**	**758.071**	**1,140.963**
					Economic Value Added (EVA)					
1,950.358	2,136.335	2,330.083	2,686.149	3,140.178	**NOPAT**	852.071	627.071	614.071	758.071	1,140.963
1,241.493	1,290.936	1,543.583	2,003.800	2,143.564	**- Capital Charge**	532.511	532.511	532.511	532.511	546.030
708.865	**845.398**	**786.500**	**682.349**	**996.614**	**= EVA**	**319.560**	**94.560**	**81.560**	**225.560**	**594.933**
364.003	136.533	(58.899)	(104.150)	314.265	**Change in EVA**	86.964	(225.000)	(13.000)	144.000	369.373
					Analysis					
22,421.856	22,789.680	26,622.875	27,792.498	30,218.977	**Capital**	27,792.498	27,792.498	27,792.498	27,792.498	30,218.977
8.7%	9.4%	8.8%	9.7%	10.4%	**Return / Capital**	3.1%	2.3%	2.2%	2.7%	3.8%
1.55	1.62	1.35	1.31	1.44	**Performance Index**	0.42	0.31	0.30	0.36	0.52
0.03	0.03	0.03	0.02	0.03	**EVA / Capital**	0.01	0.00	0.00	0.01	0.02
$ 0.64	$ 0.82	$ 0.78	$ 0.70	$ 1.04	**EVA / Share**	$ 0.33	$ 0.10	$ 0.08	$ 0.23	$ 0.62
$ 0.35	$ 0.18	$ (0.04)	$ (0.08)	$ 0.34	**Change in EVA / Share**	$ 0.09	$ (0.23)	$ (0.01)	$ 0.15	$ 0.39

KROGER CO KR

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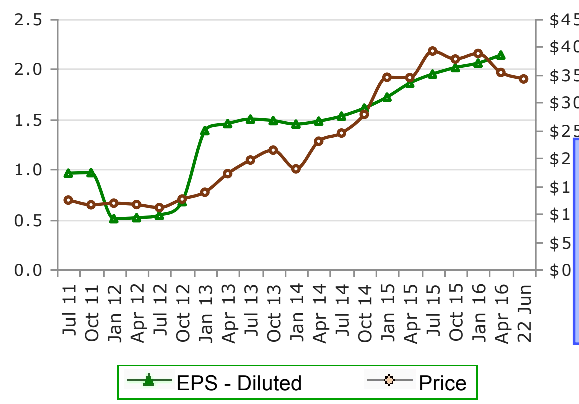
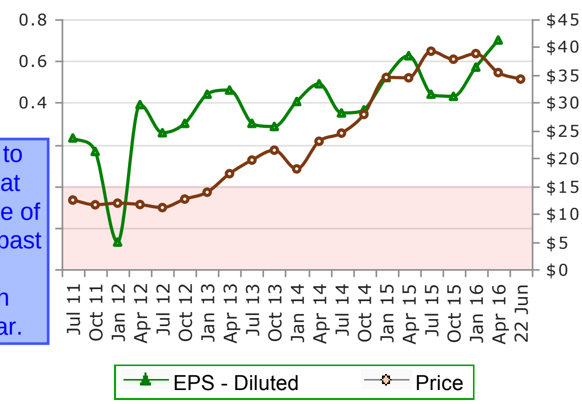
ACCOUNTING PERFORMANCE

($) **EPS (Diluted) and Price Trailing 12 Months** Price



Kroger has been able to increase its revenues at an average growth rate of 5% per year over the past 5 years. The dividend growth has been much higher, at 17% per year.

($) **EPS (Diluted) and Price Quarterly** Price



Trailing 12 Months						Quarterly				
Apr12	Apr13	Apr14	Apr15	Apr16		Apr15	Jul15	Oct15	Jan16	Apr16
					Selected Income Statement Items					
91,978.000	97,683.000	101,339.000	108,555.000	111,383.000	**Sales**	33,051.000	25,539.000	25,075.000	26,165.000	34,604.000
72,965.000	77,580.000	80,386.000	85,207.000	86,405.000	**Cost of Goods Sold**	25,760.000	20,065.000	19,478.000	20,193.000	26,669.000
0.000	0.000	0.000	0.000	0.000	**R + D**	0.000	0.000	0.000	0.000	0.000
2,235.000	2,714.000	2,863.000	3,309.000	3,674.000	**Operating Profit**	1,102.000	774.000	772.000	928.000	1,200.000
609.000	1,539.000	1,539.000	1,846.000	2,100.000	**Net Income**	619.000	433.000	428.000	559.000	680.000
$ 0.22	$ 0.27	$ 0.32	$ 0.35	$ 0.41	**Dividends**	$ 0.09	$ 0.09	$ 0.11	$ 0.11	$ 0.11
$ 0.52	$ 1.48	$ 1.50	$ 1.89	$ 2.16	**EPS**	$ 0.64	$ 0.44	$ 0.44	$ 0.57	$ 0.71
$ 0.52	$ 1.46	$ 1.48	$ 1.86	$ 2.14	**EPS - Diluted**	$ 0.63	$ 0.44	$ 0.43	$ 0.57	$ 0.70
1,111.600	1,028.000	1,002.000	968.000	954.000	**Common Shares**	968.000	963.000	965.000	966.000	954.000
					Selected Balance Sheet and CashFlow Items					
7,596.000	7,434.000	8,368.000	8,583.000	9,216.000	**Current Assets**	8,583.000	8,526.000	9,277.000	9,892.000	9,216.000
1,673.000	1,826.000	3,515.000	3,673.000	@NA	**Other Assets**	3,673.000	3,682.000	3,704.000	4,386.000	@NA
9,354.000	10,367.000	10,924.000	11,318.000	13,145.000	**Current Liabilities**	11,318.000	11,363.000	12,952.000	12,971.000	13,145.000
19,724.000	19,649.000	24,143.000	24,932.000	27,353.000	**Total Liabilities**	24,932.000	24,899.000	25,662.000	27,099.000	27,353.000
4,080.000	4,590.000	4,749.000	5,557.000	6,448.000	**Common Equity**	5,557.000	5,904.000	6,271.000	6,820.000	6,448.000
551.000	728.000	776.000	813.000	1,174.000	**Free CashFlow**	785.000	93.000	73.000	148.000	860.000

Even with this aggressive growth rate, the payout ratio is very conservative at 19%. Kroger also constantly generates positive free cash flows, and they're also at a 5 year high. The company should thus be able to sustain a high dividend growth rate as well as the share buybacks it's been doing over the past 5 years.