

The Kroger Co.

Consumer Conference Key Takeaways

Maintain Rating: BUY | PO: 70.00 USD | Price: 55.97 USD

Key highlights from KR group meetings

We hosted KR Investor Relations for group meetings at our 2024 Consumer Conference in Miami, FL. We reaffirm our Buy rating and highlight our key takeaways below:

See improving ID sales through the year

KR continues to expect identical store ("ID") sales (ex-fuel) in the range of +0.25-1.75% for the full-year F25. F1Q trends should be softest given remaining headwinds from SNAP (which KR will not start to fully cycle until after F1Q) and Express Scripts as well as lower inflation. KR ended F24 with ~flat inflation overall (with ~4-5 categories deflationary and offset by higher inflation elsewhere) and expects F1Q to look similar. However, KR expects inflation to increase modestly as the year progresses, with full-year inflation coming in at around 1%.

Expense discipline enabling strategic investments

Both FIFO gross margin and OG&A (adj. & ex-fuel) are expected to be roughly flat y/y for KR in F25. This incorporates continued cost savings execution as well as KR's plans for continued investments in prices (with KR's price gaps strong in our latest [Pricing Study](#)), wages (with F25 wage investments expected to be similar to F24 levels), and customer experience/digital. We see support for improving digital profitability from KR's investments in tech at the store level (such as AI-enabled store routing tech for picking orders and pickup lockers), as well as improving Ocado profitability from higher volumes as the sheds continue to ramp and KR's focus on improving last mile economics.

Pharma & alternative profit streams support KR's outlook

KR's outlook continues to be supported both near and long-term given growing contributions from alternative profit streams (\$1.3bn in F24 led by KR Precision Marketing) and KR's increased focus on pharmacy (with significant opportunity to convert existing customers that do not current utilize KR's pharmacies).

See KR well-positioned into 2024; Reaffirm Buy

We see KR well-positioned into 2024 as we think shoppers will continue to favor value and variety (incl. in price points and higher-margin private label items) as consumers are still adjusting to grocery prices that are up +25% vs. pre-pandemic (see our latest [Tracking Food at Home Inflation update](#)). We see further support for KR's market share trends from strong digital execution as well as its fuel rewards/loyalty program. Moreover, we see margin support for KR from likely continued growth in alternative profit streams, improving digital profitability and strong cost savings execution.

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Equity

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Stock Data

Price	55.97 USD
Price Objective	70.00 USD
Date Established	7-Mar-2024
Investment Opinion	B-1-7
52-Week Range	42.10 USD - 56.08 USD
Mkt Val (mn) / Shares Out (mn)	40,480 USD / 723.3
Free Float	92.3%
Average Daily Value (mn)	329.53 USD
BofA Ticker / Exchange	KR / NYS
Bloomberg / Reuters	KR US / KR.N
ROE (2025E)	25.2%
Net Dbt to Eqty (Jan-2024A)	89.2%
ESGMeter™	High

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Key terms:

AI = artificial intelligence

FIFO = first in first out

LT = long term

OG&A = operating general & administrative

SNAP = supplemental nutrition assistance program

Price objective basis & risk

The Kroger Co. (KR)

Our PO of \$70 is based on roughly 15x our F2026E EPS of \$4.55, a premium to conventional supermarket peers given our outlook for continued momentum from fresh, Our Brands, personalization & seamless initiatives, but a discount to the Food Retailers & Discount Stores group avg. (18-20x) given KR's lack of general merchandise offering that we think supports a higher multiple for key digital competitors.

We see upside to KR's valuation from strategic initiatives (including fresh, Our Brands & digital), alternative profit streams & continued cost savings execution.

Downside risks to our PO are greater-than-expected headwinds from pharmacy, fuel, the build-out of the Ocado network, and employee wage/healthcare benefits as well as potential for deflation or accelerating industry promotions.

Analyst Certification

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Important Disclosures

The Kroger Co. (KR) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	96	57.83%	Buy	39	40.63%
Hold	32	19.28%	Hold	12	37.50%
Sell	38	22.89%	Sell	18	47.37%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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