

UNPACKING

THE DECLINE

KROGER'S RECENT
SHARE PRICE DIP

ABSTRACT



- Kroger's proposed acquisition of Albertsons was terminated in October 2023 due to regulatory hurdles and divestiture to C&S Wholesale Grocers.
- To provide a nuanced understanding of Kroger's position in the evolving grocery market and the broader implications for the industry.

BACKGROUND

1883-BERNARD KROGER FOUNDS
THE COMPANY WITH \$372

1988-FRED MEYER MERGES WITH
KROGER IN A \$13 BILLION DEAL

2018-THEY PARTNERS WITH OCADO TO
BOOST ITS DELIVERY SYSTEM AND
WAREHOUSE TECHNOLOGY

1930S-KROGER BECAME THE FIRST
GROCERY CHAIN TO MONITOR PRODUCT
QUALITY AND TEST FOOD

2014-THEY INTRODUCES ITS "SIMPLE
TRUTH" BRAND FOR NATURAL AND
ORGANIC PRODUCT LINE

2022/23-HIGH COST INPUT DUE TO
INFLATION AND RISING OF OIL PRICES
DUE TO RUSSIAN UKRAINE WAR

BUSINESS ISSUES WITH KROGER

Lack of International Presence

The supermarket has not gone international compared to its competitor Walmart. The lack of geographical expansion means it has a hard time balancing bad performance from one geographical region with better performance elsewhere.

High Running Cost

It paid to the tune of \$134.4 billion in operating expenses, which is around 97.4% of total revenue. Furthermore, it now has almost half a million employees on its payroll.

High Debt and Liquidity Risk

Kroger has a significant debt on its balance sheet and a debt-to-equity ratio of 80%. Thus, Kroger has limited room to raise debt for expansion and business development.

RESEARCH OBJECTIVE

TO ANALYZE THE IMPACT OF KROGER'S FAILED ACQUISITION OF ALBERTSONS, INCLUDING THE RECENT DECLINE IN ITS STOCK PRICE OVER THE PAST TWO QUARTERS, CONSIDERING THE INFLUENCE OF BROADER MACROECONOMIC FACTORS.

RESEARCH QUESTION

What are the potential financial, market share, and strategic implications of Kroger's failed acquisition of Albertsons?

What are the risks and opportunities associated with the ongoing lawsuit against Kroger?

How will these events affect the broader grocery industry?

LITERATURE REVIEW

Author(s)	Year	Title
Brock & Sheffrin	1983	Mergers, Efficiency, and Antitrust Policy
Baker & Martin	2002	The Effects of Horizontal Mergers on Prices and Output
Kwoka	2018	The Antitrust Revolution: Economics, Politics, and the Public Interest
Grewal et al.	2020	The Digital Transformation of the Grocery Industry: A Review and Research Agenda
Kim et al.	2019	The Impact of Grocery Store Closures on Consumers and the Food Retail Industry
Schmalensee	2017	Food Retailing Revolution: How Hypermarkets and Superstores Have Changed the Food Industry

DATA SOURCES

- Bloomberg Intelligence
- Yahoo Finance
- Company's official website
- News articles



RESEARCH METHOD

Quantitative Research Approach



Qualitative Research Approach



ANALYSIS

<u>Stock Performance</u>		<u>Firm Performance</u>					
			Company	Ind. Median		Company	Ind. Median
Current stock price	\$ 44.16	TTM Rev (\$mil)	148,823	125.7	TTM PE	19.49	20.6
<u>52 week range</u>	\$ 41.82 - 50.41	Rev Growth (%)	7.52	5.9	TTM PEGY	0.72	0.85
<u>Valuation Analysis</u>			<u>Financial Strength</u>				
	Company	Ind. Median		Company	Ind. Median		
TTM Dividend Yield	2.60%	2.56%	TTM D/E	45%	53%		
Beta:	0.74 (SPX)		TTM PM	32%	42%		
	1.03 (IWR)		TTM ROE:	15.75%	13.26%		

The company's return on equity at 15.75% surpasses the sector average of 13.26%, reflecting its proficiency in generating profits from equity. Additionally, the trailing twelve months (TTM) PM ratio of 0.32, below the industry's 0.42 average, suggests Kroger's stock may be undervalued, further highlighting its potential for growth.

ANALYSIS

KR US Equity 96 Actions 97 Export 98 Settings					
39 ADJ Kroger Co/The ASC 842 2 Periods 5 Annuals Cur USD					
1 Key Stats 2 I/S 3 B/S 4 C/F 5 Ratios 6 Segments 7 Addl 8 ESG 9 Custom 10 Shared					
11 By Measure 12 By Geography 13 By Segment					
In Millions of USD except Per Share	2019 Y	2020 Y	2021 Y	2022 Y	2023 Y
12 Months Ending	02/02/2019	02/01/2020	01/30/2021	01/29/2022	01/28/2023
Supermarket Fuel Sales					
Revenue	14,903.0	14,052.0	9,486.0	14,678.0	18,632.0
Revenue - Supplementary Breakd...	14,903.0	14,052.0	9,486.0	14,678.0	18,632.0
Revenue Growth %	15.50	-5.70	-32.50	54.70	26.90
Percentage of Revenue	12.20	11.50	7.20	10.60	12.60
Other					
Revenue	882.0	747.0	878.0	917.0	962.0
Revenue Growth %	15.90	-15.30	17.50	4.40	4.90
Retail Customers Without Fuel					
Revenue	105,123.0	107,487.0	122,134.0	122,293.0	128,664.0
Revenue Growth %	2.20	2.20	13.60	0.10	5.20
Non Perishable					
Revenue - Supplementary Breakd...	60,649.0	61,464.0	71,434.0	69,648.0	74,121.0
Percentage of Revenue	49.80	50.30	53.90	50.60	50.00
Fresh					
Revenue - Supplementary Breakd...	29,089.0	29,452.0	33,449.0	33,972.0	35,433.0
Percentage of Revenue	23.90	24.10	25.20	24.60	23.90
Pharmacy					
Revenue - Supplementary Breakd...	10,617.0	11,015.0	11,388.0	12,401.0	13,377.0
Percentage of Revenue	8.70	9.00	8.60	9.00	9.00
Other					
Revenue - Supplementary Breakd...	5,650.0	6,303.0	6,741.0	7,189.0	6,695.0
Percentage of Revenue	4.60	5.10	5.10	5.20	4.50
Supermarkets and multi-department ...					
Same Store Sales %	1.80	2.00	14.10	0.20	5.60
Internet Sales Growth	58.00	29.00	116.00	113.00	—
Same Store Sales % with fuel	15.50	-5.70	—	—	—
Convenience Stores					
Revenue Growth %	-78.70	0.00	0.00	—	—
Revenue	944.0	0.0	—	—	—
Revenue - Supplementary Breakd...	944.0	0.0	—	—	—
Percentage of Revenue	0.80	0.00	—	—	—

Kroger, a major player in retail and grocery, achieved robust revenue growth in the past five years across key segments. The grocery segment, contributing over 80%, surged from \$119.3 billion in 2019 to \$144.9 billion in 2023 due to pandemic-driven shifts in consumer behavior. The pharmacy segment, consistently at 10%, grew from \$10.5 billion to \$12.5 billion, driven by an aging population and increased healthcare demand. Despite its smaller scale, the fuel center segment reached \$5 billion in 2023

ANALYSIS

Kroger's revenue climbed steadily from \$122.286 billion to \$150.152 billion (FY2020 to FY2023), with a 1.28% growth projected for FY2024. Despite a -2.27% sales dip in 2023 due to external factors, net income for common shareholders increased from \$1.659 billion in 2020 to \$3.099 billion in 2023, expected to grow at 8.0% annually through 2024. While the sustainable growth rate declined, indicating challenges in sustaining current growth, a low dividend payout ratio suggests potential for future dividend increases. The projected rise in basic earnings per share to \$2.42 in 2024 signals a positive outlook.

In Millions of USD except Per Share	FY 2020	FY 2021	FY 2022	Last 12M	FY 2024 Est
12 Months Ending	02/01/2020	01/30/2021	01/29/2022	08/12/2023	01/31/2024
Performance Measures					
Revenue	122286	132498	137888	148039	150151.818
Revenue Growth Year over Year	0.3562	8.3509	-4.068	-2.26629713	1.27379073
Net Income Available to Common	1659	2585	1655	1630	3099.917
Basic Earnings per Share	2.05	3.3441	2.2245	2.25	4.167
Dividend 12 Month Yld - Gross	2.2338	1.971	1.7943	2.417532677	
Dividend Payout Ratio	29.2948	20.6576	35.5891	0	23.92651616
Sustainable Growth Rate	14.2285	22.5657	11.2045		
In Millions of USD except Per Share	Last 12 Month Trailing Month Performance Vs. Competitors				
12 Months Ending	Median	KR US	ACI US	SFMUS	GOUS
Revenue	5270.058426	148039	78389.6	6593.137	3824.737
Revenue Growth Year over Year	7.768463806	7.520596426	8.016331186	4.989516988	16.18787874
Net Income Available to Common	172978414	1630000000	1446500000	254354000	71575000
Basic Earnings per Share	3.1613585	4.348402	2.864062	2.737654	0.715725
Dividend 12 Month Yld - Gross	2.755630968	2.422458801	32.72321395	0	0
Dividend Payout Ratio	16.50143814		16.50143814	0	0
Sustainable Growth Rate	9.947441101		39.79200363	24.35357857	6.443830013

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In Millions of USD except Per Share	FY 2020	FY 2021	FY 2022	Last 12M	FY 2024 Est
12 Months Ending	02/01/2020	01/30/2021	01/29/2022	08/12/2023	01/31/2024
Market Value Ratios					
Current Market Cap	21503.7752	26266.4736	31961.5594	31764.98476	
Price Earnings Ratio (P/E)	12.4268	9.9072	11.4211	10.26228548	9.774236388
Best PEG Ratio	2.416	1.344	1.514		2.148183821
Price to Book Ratio	2.4606	2.7309	3.3389	2.992207782	2.695806117
Enterprise Value/EBITDA	7.3053	7.0521	7.0749	8.58849987	5.396691709
In Millions of USD except Per Share	Last 12 Month Trailing Month Performance Vs Competitors				
12 Months Ending	Median	KRUS	ACUS	SFUS	GOUS
Current Market Cap	2200.157477	31764.98476	12835.21856	4407.68639	2718.355314
Price Earnings Ratio (P/E)	11.38582763	10.26228548	8.128676818	15.90390103	39.61542015
Best PEG Ratio	2.211480024	2.148183821	10.68274165	2.274776227	2.09014034
Price to Book Ratio	2.048694668	2.992207782	6.447064402	4.106700091	2.333625676
Enterprise Value/EBITDA	6.288501263	6.523180008	6.674852848	11.1870718	18.4799633

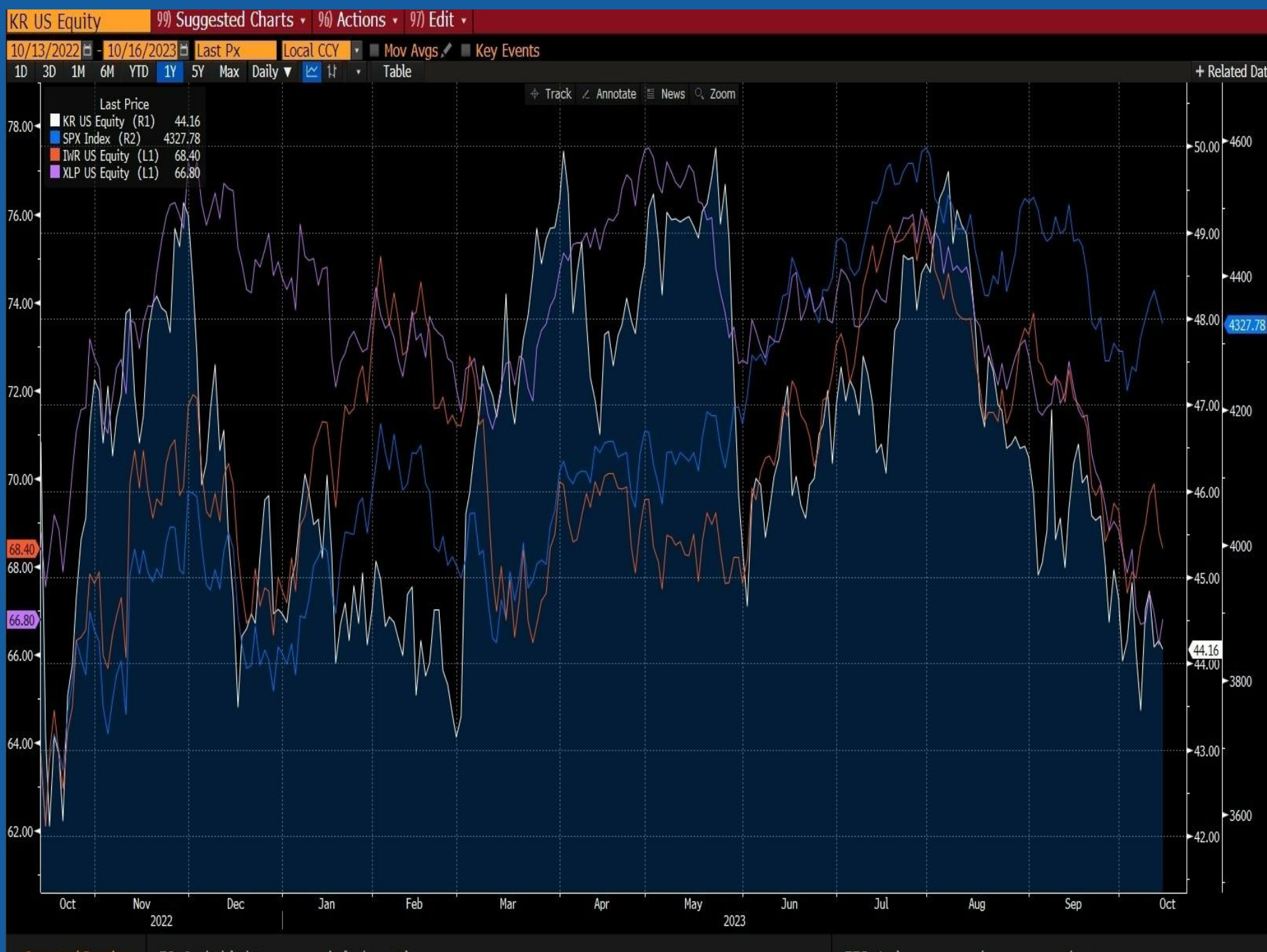
Kroger's stock is attractively priced (P/E of 10.26), but its PEG ratio indicates uncertain growth compared to competitors. The P/B ratio varies, and the EV/EBITDA ratio of 8.59 suggests fair valuation. Despite mixed growth and pricing potential, Kroger maintains market dominance with a substantial market capitalization. The competitive P/E and EV/EBITDA ratios affirm its fair valuation.

ANALYSIS

In Millions of USD except Per Share	FY 2020	FY 2021	FY 2022	Last 12M	
12 Months Ending	02/01/2020	01/30/2021	01/29/2022	08/12/2023	
Profitability					
Profit Margin	1.3567	1.951	1.2002	1.101061207	
Return on Assets	3.9797	5.5048	3.3863	3.294826314	
Return on Common Equity	20.1237	28.441	17.3954	16.07257309	
Return on Invested Capital	6.207	6.7474	9.1374	6.206012144	
In Millions of USD except Per Share	Last 12 Month Trailing Month Performance Vs. Competitors				
12 Months Ending	Median	KR US	ACI US	SFM US	GO US
Profit Margin	2.263754009	2.082140593	1.905608108	4.213996764	1.796359614
Return on Assets	5.852799478	6.254627238	5.450971719	9.005555189	2.362111631
Return on Common Equity	16.48536392	31.6706679	0	26.90212217	6.065202725
Return on Invested Capital	8.822334145	12.58474198	9.668815767	10.94015157	3.101891568

Kroger maintains a stable profit margin at 1.10%, slightly below the industry average but still respectable. Despite minor fluctuations, the return on assets remains around 3.29%, indicating the company's ability to generate income relative to total assets. With a Return on Common Equity of 16.07% in the last 12 months, Kroger demonstrates its capacity to create profits for common shareholders, although it falls below ACI US's high level and the industry median. Kroger's competitive position is evident in its 6.21% Return on Invested Capital, slightly trailing ACI US but remaining competitive within the sector.

ANALYSIS



Kroger's stock dropped 12.4% in the last year, impacted by inflation, rising interest rates, and supply chain disruptions, leading to lower profit margins and increased borrowing costs. In contrast, the Consumer Staples Select Sector SPDR Fund (XLP) saw a smaller decline of -5.4%, as the consumer staples sector is more resilient in tough economic conditions. The S&P 500 (SPY) fell by -14.8%, influenced by factors affecting Kroger and global issues like the Ukraine conflict. The iShares Russell Mid-Cap Growth ETF (IWR) experienced a larger decline of -18.2%, possibly due to a preference for value stocks over growth stocks.

CONCLUSION

1. Kroger's failed acquisition of Albertsons faced antitrust lawsuits due to concerns about competition and consumer prices.

The study explored the legal complexities of this case and its impact on Kroger.

Findings highlight the importance of legal risk management and strategic adaptability for companies facing legal challenges.

2. The study acknowledges limitations but provides valuable insights for managers.

The research focused on a single case and lacked a longitudinal perspective.

However, it emphasizes the need for proactive communication and an agile approach to decision-making in dynamic business environments.

3. Continuous monitoring and strategic flexibility are crucial for sustained success in the face of legal challenges.

Companies like Kroger must remain vigilant and adaptable to navigate complex legal issues and achieve long-term goals.



THANKYOU