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## ANALYST QUICK NOTES

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**Kroger Co. (NYSE: KR: BUY)**

**Target Price: \$43**

**Chris Graja, CFA**

**1/23/2017**

### **A Top Pick for 2017:**

- Winning more customers.
- Increasing the number of loyal customers.
- Selling more units
- Gaining market share.
- Management's focus on delivering value to shoppers should continue to boost market share in an economic environment that is still challenging for many customers.
- Despite food deflation, we still expect average EPS growth of 11% over the next five years along with continuing dividend increases.

### **Innovation:**

- Kroger has been a leader in using rigorous data analysis to offer personalized promotions; these drive traffic and support margins.
- It is using sophisticated artificial intelligence to analyze customer behavior and develop promotional strategies.
- The company is also innovating by offering its own growing brands, including natural foods and organics.
- It is offering an online ordering application called Click List. The company's operating strategy is based on a four-point platform called "Customer 1st."
- It is making investments to reduce wait time to current 40 seconds from about 4 minutes.

### **More on Innovation – WSJ 1/20**

- KR testing sensors and analytics technology to drive business and make stores more interactive.
- System can offer tailored pricing on specific items and, through 4-inch color display screens, highlight products on the customer's mobile shopping list.
  - Tests began late last year and are expected to expand in the coming months.

**Conclusion:**

- KR is a stock we would BUY.
  - We see recent deflation as a buying opportunity.
    - This is third instance in 30 years.
    - Previously, these lasted 3-5 quarters.
    - Management believes we are about half way through.
  - We believe important metrics remain on track:
    - Number of households.
    - Number of loyal households that shop in its stores.
    - More units amid deflation in product prices.
    - Gaining share.
  - We believe efficient operations and deep customer insights should help KR to drive sales to value-conscious shoppers and boost return on capital.
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