

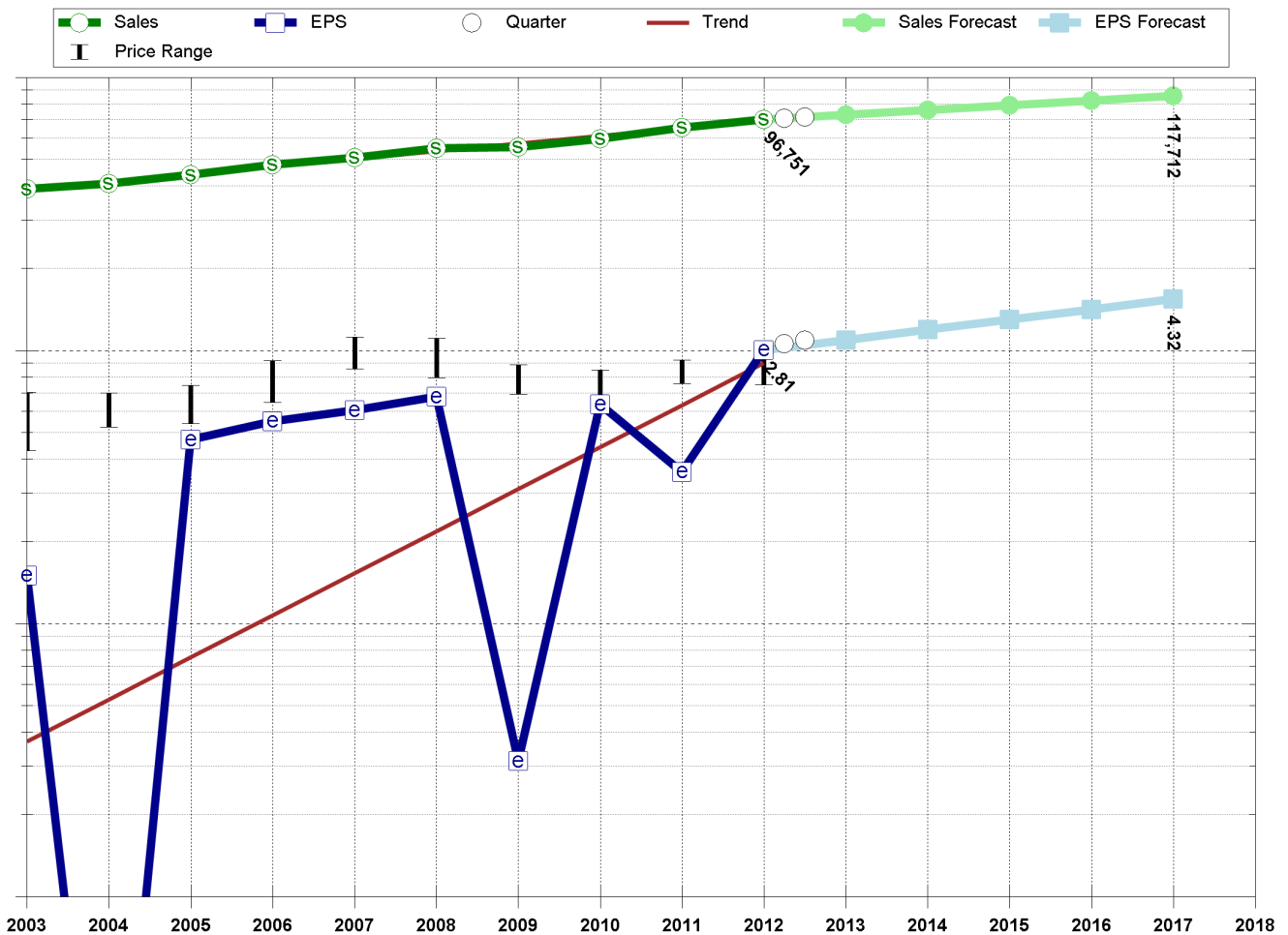
| | | | | | |
|--|-----------|--------------|-----------------|---------------|-----|
| Company | Kroger Co | | Date | 9/23/2013 | |
| Prepared by | DIKEMAN | | Data taken from | BI Stock Data | |
| Where traded | NYSE | Industry | Grocery Stores | | |
| Capitalization --- Outstanding Amounts | Reference | | | | |
| Preferred (\$M) | 0.0 | % Insiders | % Institution | | |
| Common (M Shares) | 515.0 | | 1.0 | 84.5 | |
| Debt (\$M) | 0.0 | % to Tot Cap | 0.0 | % Pot Dil | 1.2 |

Stock Selection Guide

Symbol: KR

1 VISUAL ANALYSIS of Sales, Earnings, and Price

| FY2012 Quarter Ending (07/13) | Sales (\$M) | Earnings Per Share |
|-------------------------------|-------------|--------------------|
| Latest Quarter | 22,722.0 | 0.61 |
| Year Ago Quarter | 21,726.0 | 0.52 |
| Percentage Change | 4.58% | 18.30% |



- | | | | |
|-----------------------------------|-------|--|-------|
| (1) Historical Sales Growth | 6.7% | (3) Historical Earnings Per Share Growth | 31.1% |
| (2) Estimated Future Sales Growth | 4.00% | (4) Estimated Future Earnings Per Share Growth | 9.00% |

2 EVALUATING Management

Kroger Co

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | Last 5 Year Avg. |
|--|-------|--------|--------|--------|--------|--------|-------|--------|--------|--------|------------------|
| Pre-tax Profit on Sales (Net Before Taxes/Sales) | 1.43% | 0.51% | 2.52% | 2.64% | 2.60% | 2.59% | 2.22% | 2.13% | 0.93% | 2.38% | 2.05% |
| % Earned on Equity (E/S / Book Value) | 7.85% | -2.90% | 21.81% | 22.15% | 23.23% | 23.76% | 1.17% | 20.79% | 14.16% | 34.61% | 18.90% |

3 PRICE-EARNINGS HISTORY as an indicator of the future

This shows how stock prices have fluctuated with earnings and dividends. It is building block for translating earnings into future stock prices.

PRESENT PRICE 40.5

HIGH THIS YEAR 41.14

LOW THIS YEAR 23.09

| | A | B | C | D | E | F | G | H |
|-------------------------------------|-------|-------|-----------|----------------------|-------------------------------------|-----------|-------------|--------------|
| Year | Price | | Earnings | Price Earnings Ratio | | Dividend | % Payout | % High Yield |
| | High | Low | Per Share | High A / C | Low B / C | Per Share | F / C * 100 | F / B * 100 |
| 1 2008 | 30.99 | 22.30 | 1.90 | 16.35 | 11.77 | 0.345 | 18.21 | 1.55 |
| 2 2009 | 24.80 | 19.39 | 0.09 | 281.82 | 220.34 | 0.365 | 414.77 | 1.88 |
| 3 2010 | 23.76 | 19.08 | 1.78 | 13.38 | 10.74 | 0.390 | 21.96 | 2.04 |
| 4 2011 | 25.85 | 21.14 | 1.01 | 25.72 | 21.03 | 0.430 | 42.79 | 2.03 |
| 5 2012 | 28.00 | 20.98 | 2.81 | 9.97 | 7.47 | 0.495 | 17.63 | 2.36 |
| 6 TOTAL | | 102.9 | | 347.2 | 271.4 | | 515.4 | |
| 7 AVERAGE | | 20.6 | | 69.4 | 54.3 | | 103.1 | |
| 8 AVERAGE PRICE EARNINGS RATIO 61.9 | | | | | 9 CURRENT PRICE EARNINGS RATIO 13.2 | | | |

4 EVALUATING RISK and REWARD over the next 5 years

Assuming one recession and one business boom every 5 years, calculations are made of how high and how low the stock might sell. The upside-downside ratio is the key to evaluating risk and reward.

A HIGH PRICE - NEXT 5 YEARS

Avg. High P/E 61.00 X Estimate High Earnings/Share 4.32 = Forecasted High Price \$ 263.52

B LOW PRICE - NEXT 5 YEARS

(a) Avg. Low P/E 54.00 X Estimate Low Earnings/Share 2.81 = Forecasted Low Price \$ 151.74

(b) Avg. Low Price of Last 5 Years 20.58

(c) Recent Market Low Price 20.98

(d) Price Dividend Will Support $\frac{\text{Present Dividend}}{\text{High Yield}} = \frac{0.660}{2.40\%} = 27.50$

Selected Forecasted Low Price 151.74

C ZONING using 25%-50%-25%

Forecasted High Price 263.52 Minus Forecasted Low Price 151.74 = 111.78 Range. 25% of Range 27.95

Buy Zone 151.74 to 179.69

Hold Zone 179.69 to 235.58

Sell Zone 235.58 to 263.52

Present Market Price of 40.48 is in the **Buy** Zone

D UPSIDE DOWNSIDE RATIO (POTENTIAL GAIN VS. RISK OR LOSS)

$\frac{\text{High Price} - \text{Present Price}}{\text{Present Price} - \text{Low Price}} = \frac{263.52 - 40.48}{40.48 - 151.74} = \frac{223.04}{-111.26} = \text{Invalid To 1}$

E PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)

$\frac{\text{High Price}}{\text{Present Market Price}} = \frac{263.52}{40.48} = 6.51 \times 100 = 650.99 - 100 = 550.99 \%$ Appreciation

5 5-YEAR POTENTIAL

This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.

A $\frac{\text{Present Full Year's Dividend \$}}{\text{Present Price of Stock}} = \frac{0.660}{40.48} = 0.02 = 1.63\%$ Present Yield

B AVERAGE YIELD - USING FORECAST HIGH P/E

$\frac{\text{Avg. \% Payout}}{\text{Forecast High PE}} = \frac{103.07}{6100} = 1.69\%$

C COMPOUND ANNUAL RETURN - USING FORECAST HIGH P/E

Annualized Appreciation 45.45 %

Average Yield 1.69 %

Annualized Rate of Return 47.14 %