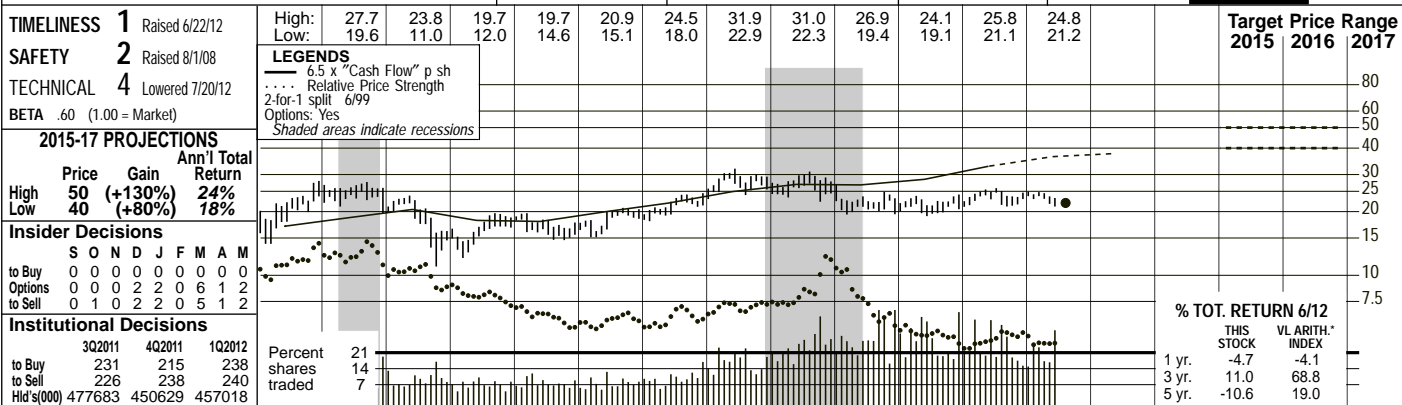


THE KROGER CO. NYSE-KR

RECENT PRICE **21.96** P/E RATIO **9.3** (Trailing: 10.6 Median: 14.0) RELATIVE P/E RATIO **0.64** DIV'D YLD **2.4%**

VALUE LINE



Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	© VALUE LINE PUB. LLC	15-17
Price	49.60	52.10	54.88	54.31	60.12	63.02	68.28	72.40	77.52	83.75	93.77	105.94	117.10	119.52	132.56	161.10	180.35	189.05	Sales per sh ^A	224.50
Gain	1.37	.85	1.02	1.13	1.34	1.48	1.65	1.16	1.03	1.31	1.54	1.69	1.90	1.73	1.74	2.00	2.35	5.80	"Cash Flow" per sh	7.00
Ann'l Total Return	.67	-.33	-.33	-.33	-.33	-.33	-.33	-.33	-.33	-.33	-.33	-.33	-.33	-.33	-.33	-.33	-.33	-.33	Earnings per sh ^B	3.20
Div'd Yld	-.33	-.33	-.33	-.33	-.33	-.33	-.33	-.33	-.33	-.33	-.33	-.33	-.33	-.33	-.33	-.33	-.33	-.33	Div'ds Decl'd per sh ^C	.82
Book Value	d2.33	d1.54	d.75	3.21	3.79	4.41	5.08	5.40	4.86	6.07	6.98	7.41	7.98	7.53	8.54	7.10	8.00	9.45	Book Value per sh	13.80
Common Shs	507.52	509.94	513.92	835.00	815.00	795.00	758.00	743.00	728.00	723.00	705.00	663.00	649.00	642.00	620.00	561.00	535.00	525.00	Common Shs Outst'g ^D	490.00
P/E Ratio	15.3	17.2	23.1	22.4	15.8	16.2	11.3	14.3	16.3	14.0	14.1	16.4	14.1	12.5	12.4	11.8	11.8	11.8	Avg Ann'l P/E Ratio	14.0
Div'd Yld	.96	.99	1.20	1.28	1.03	.83	.62	.82	.86	.75	.76	.87	.85	.83	.79	.74	.74	.74	Relative P/E Ratio	.95
Div'd Yld	-.33	-.33	-.33	-.33	-.33	-.33	-.33	-.33	-.33	-.33	1.2%	1.1%	1.3%	1.7%	1.9%	1.9%	1.9%	1.9%	Avg Ann'l Div'd Yield	1.8%

2015-17 PROJECTIONS

Price	Gain	Ann'l Total Return
High 50	(+130%)	24%
Low 40	(+80%)	18%

Insider Decisions

	S	O	N	D	J	F	M	A	M
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	2	2	0	6	1	2
to Sell	0	1	0	2	2	0	5	1	2

Institutional Decisions

	3Q2011	4Q2011	1Q2012
to Buy	231	215	238
to Sell	477	238	240
Hlds(000)	27683	450629	457018

CAPITAL STRUCTURE as of 5/19/12

Total Debt \$8106 mill. Due in 5 Yrs \$4183 mill.
 LT Debt \$6771 mill. LT Interest \$435.0 mill.
 (Includes \$272.0 mill. in capital leases.)
 (LT interest earned: 5.2x; total interest coverage: 5.1x) (62% of Cap'l)

Leases, Uncapitalized Annual rentals \$725.0 mill.

Pension Assets-1/12 \$2.5 bill. **Oblig.** \$3.6 bill.

Pfd Stock None

Common Stock 549,000,000 shares (559.3 mill. diluted shs.)
MARKET CAP: \$12.1 billion (Large Cap)

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Sales (\$mill) ^A	51760	53791	56434	60553	66111	70235	76000	76733	82189	90374	96500	99250	96500	99250	110000	110000	110000	110000
Gross Margin	27.1%	26.3%	25.3%	24.8%	24.2%	24.9%	23.2%	23.2%	22.9%	22.2%	20.9%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
Operating Margin	7.3%	6.0%	5.3%	5.4%	5.3%	5.2%	5.1%	4.9%	4.6%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%
Number of Stores	3616	3679	3667	3636	3567	3571	3550	3532	3605	3574	3575	3600	3600	3600	3650	3650	3650	3650
Net Profit (\$mill)	1304.0	873.0	759.0	958.0	1115.0	1181.0	1249.0	1122.0	1116.0	1192.8	1300	1350	1300	1350	1600	1600	1600	1600
Income Tax Rate	37.5%	37.5%	36.2%	37.2%	36.2%	35.4%	35.8%	35.8%	34.7%	33.9%	36.5%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%
Net Profit Margin	2.5%	1.6%	1.3%	1.6%	1.7%	1.7%	1.6%	1.5%	1.4%	1.3%	1.3%	1.4%	1.4%	1.5%	1.5%	1.5%	1.5%	1.5%
Working Cap'l (\$mill)	d42.0	33.0	90.0	d249.0	d826.0	d1575	d423.0	d264.0	d449.0	d1780.0	d1700	d1625	d1625	d1625	d1625	d1625	d1625	d1625
Long-Term Debt (\$mill)	8222.0	8116.0	7900.0	6678.0	6154.0	6529.0	7505.0	7477.0	7304.0	6850.0	6900	6800	6800	6800	6350	6350	6350	6350
Shr. Equity (\$mill)	3850.0	4011.0	3540.0	4390.0	4923.0	4914.0	5176.0	4832.0	5296.0	3981.0	4285	4965	4965	4965	6750	6750	6750	6750
Return on Total Cap'l	13.2%	9.6%	9.0%	10.9%	12.0%	12.1%	11.5%	11.0%	10.5%	13.0%	13.5%	13.5%	13.5%	13.5%	14.0%	14.0%	14.0%	14.0%
Return on Shr. Equity	33.9%	21.8%	21.4%	21.8%	22.6%	24.0%	24.1%	23.2%	21.1%	30.0%	30.5%	27.0%	27.0%	27.0%	23.5%	23.5%	23.5%	23.5%
Retained to Com Eq	33.9%	21.8%	21.4%	21.8%	19.8%	19.9%	19.7%	18.3%	16.4%	23.5%	24.0%	21.0%	21.0%	21.0%	17.5%	17.5%	17.5%	17.5%
All Div'ds to Net Prof	--	--	--	--	13%	17%	18%	21%	22%	22%	21%	22%	22%	22%	26%	26%	26%	26%

CURRENT POSITION

	2010	2011	5/19/12
Cash Assets	825	188	511
Receivables	845	949	922
Inventory (LIFO)	4966	5114	4977
Other	985	1074	1186
Current Assets	7621	7325	7596
Accts Payable	4227	4329	4518
Debt Due	588	1315	1335
Other	3255	3461	3501
Current Liab.	8070	9105	9354

ANNUAL RATES

	Past 10 Yrs.	Past 5 Yrs.	Est'd '09-'11
of change (per sh)			
Sales	9.0%	10.0%	8.5%
"Cash Flow"	5.5%	8.0%	7.5%
Earnings	3.5%	7.0%	10.0%
Dividends	--	--	12.5%
Book Value	7.5%	5.5%	10.0%

BUSINESS: The Kroger Company is the nation's largest grocery store operator (by sales), with about 2,450 supermarkets, multi-department stores, and warehouse stores in the Midwest, South, and West (#1 or #2 share in 38 of its 44 major markets). Also operates about 784 convenience stores and 361 fine jewelry stores. Manufactures and processes private label goods at 40 plants. Acquired Fred Meyer, 5/99. Average food store size: 60,000 sq. ft. Has about 339,000 employees. 2011 depreciation rate: 5.8%. Officers & directors own about 1.2% of stock; BlackRock, 7.0%; Kroger savings plan, 5.2% (5/11 proxy). Chairman & CEO: David Dillon. Incorporated: Ohio. Address: 1014 Vine Street, Cincinnati, OH 45202. Telephone: 513-762-4000. Internet: www.kroger.com.

The Kroger Company started fiscal 2012 in fine fashion. (Year ends February 2, 2013.) May-quarter earnings at the retailer rose 11%, to \$0.78 a share, surpassing our expectations for a modest 4% increase. A lower tax rate and better-than-expected operating margin helped the retailer to overcome a difficult comparison with the prior-year period. The double-digit gains should continue over the balance of the fiscal year, with the January quarter likely getting a bit of an artificial boost from the inclusion of an extra week versus the prior-year period.

QUARTERLY SALES (\$ mill.)^A

Fiscal Year Begins	May Per	Aug.Per	Oct.Per	Jan.Per	Full Fiscal Year
2009	22789	17728	17662	18554	76733
2010	24779	18788	18694	19928	82189
2011	27461	20913	20594	21406	90374
2012	29065	21735	21850	23850	96500
2013	30750	22350	22600	23550	99250

EARNINGS PER SHARE^{AB}

Fiscal Year Begins	May Per	Aug.Per	Oct.Per	Jan.Per	Full Fiscal Year
2009	.66	.39	.27	.39	1.73
2010	.58	.41	.32	.44	1.74
2011	.70	.47	.33	.50	2.00
2012	.78	.51	.41	.65	2.35
2013	.81	.55	.44	.70	2.50

Identical-store sales continue to advance at a good clip, rising 4.2% in the May quarter. The increase again compares favorably to those at most of Kroger's supermarket rivals, suggesting that the company is doing a good job defending its turf from alternative formats, such as discount giant Wal-Mart, and dollar-store chains. The gains will likely moderate in upcoming quarters (to 3.0%-3.5% for the full year), reflecting easing inflationary pressures and a shift in pharmacy mix from prescription to lower-price (but higher-margined) generic

drugs. Margins, though, should stabilize, allowing operating profits to keep pace with sales growth for the first time in several years.

The board has signed off on a new \$1 billion buyback program. The company wrapped up its previous \$1 billion authorization in June, less than a year after this was approved. Given the lethargic stock price, we expect Kroger to remain active on this front, while also moving to hike the dividend before the year is out. Free cash flow will likely cover most of these expenditures, with low-cost borrowings representing a smaller part of the equation, as management aims to maintain its debt rating.

This timely stock offers good total return potential to 2015-2017. While earnings have rebounded nicely over the past two years, the share price has remained stuck in neutral, as investors have little enthusiasm for supermarket operators at the moment. With the stock now trading at a single-digit P/E multiple, the current valuation may well represent an attractive entry point for patient investors.

QUARTERLY DIVIDENDS PAID^C

Calendar	Mar.31	June30	Sep.30	Dec.31	Full Year
2008	.075	.09	.09	.09	.345
2009	.09	.09	.09	.095	.365
2010	.095	.095	.095	.105	.390
2011	.105	.105	.105	.115	.430
2012	.115	.115			

Robert M. Greene, CFA
 July 27, 2012

Company's Financial Strength	B++
Stock's Price Stability	95
Price Growth Persistence	55
Earnings Predictability	90

(A) Fiscal year ends on the Sat. closest to Jan. 31st of following year. Interim periods: 16, 12, 12, 12 wks. (B) Diluted eggs. Excl. nonrecurring (losses): '98, (33c); '99, (39c); '00, (30c); '01, (22c); '02, (13c); '03, (74c); '09, (\$1.62); '11, (\$0.99). Excl. extra. (losses): '96, (1c); '97, (12c); '98, (15c). Quart. eggs. may not add due to changes in shares out. Next eggs. report due September 7th. (C) Dividends historically paid on the 1st of March, June, September, and December. (D) In millions, adjusted for stock split.

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