Institute of Advanced Investment Management
THE UNIVERSITY OF UTAH

The Kroger Co.

Team 7

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10/26/24

Business Model

Description

- Kroger is one of the largest supermarket chains in the U.S., offering a wide range of groceries, pharmacy services, and retail products across various store brands.

Founding

- Founded in 1883 by Barney Kroger in Cincinnati, Ohio with the desire to provide quality goods at fair prices while emphasizing customer service.

Services

- Grocery and Fresh Foods, Pharmacy and Health Services, Financial Services, Online Shopping and Delivery, Fuel Centers

Products

Company Overview

Company Name:	Kroger Co.	**Current Price:**	57.37
Ticker:	KR	**Current Date:**	10/25/2024
Sector:	Consumer Staple	**Monthly Volume:**	3.3 Million
Industry:	Grocery Store	**Beta:**	0.40
Shares Out:	723.5 Million	**Target Price:**	63.00
Market Cap:	41.61 Billion	**Target Date:**	Buy and hold

Investment Thesis: BUY 30,000 of KR

Performance History - Nikhil

Total Return		
Year	KR US Equity	SPX Index
YTD	136.55%	154.92%
2023	85.18%	107.05%
2022	76.37%	63.98%
2021	75.61%	100.29%
2020	20.77%	55.65%
2019	7.92%	31.47%
2018	0	0

Return (YoY)		
Year	KR US Equity	SPX Index
YTD	25.51%	21.77%
2023	2.53%	24.23%
2022	-1.50%	-19.44%
2021	42.51%	26.89%
2020	9.56%	16.26%
2019	5.42%	28.88%
2018	0.18%	-6.24%

Performance Overview

Beta: 0.45

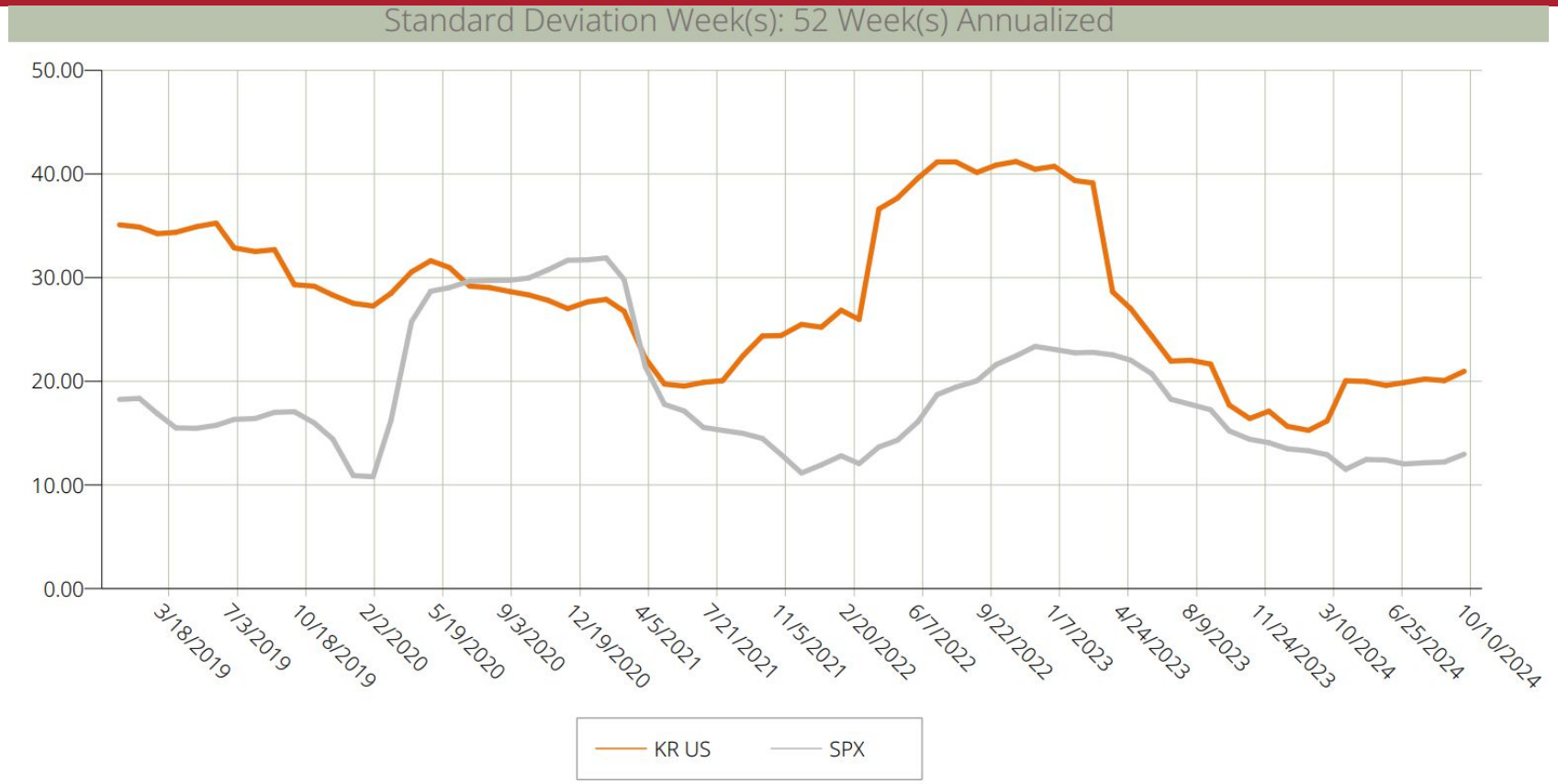
Standard Deviation: 20.98

Alpha: 0.84

Correlation: 0.32

Sharpe vs Risk Free: 1.13

Comparison to SPX



Standard Deviation vs : 20.98 vs 12.97

Sharpe vs Risk Free: 1.13 vs 2.31

Industry Analysis

Competitive Advantages:
- 2nd Largest Chain After Walmart
- Strong Brands (Particularly Simple Truth and Private Selection)
- Customer Loyalty Program

Cyclicality:
- Low industry cyclicality
- Discretionary spending on premium products could affect sales
- Consumer trading down during recessions could affect sales too

Growth Potential
- Kroger may acquire Albertsons

Industry Regulation
- Trial for the Albertsons acquisition ended 9/26/2024

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Acquisition Information

4 Trials

- Washington
- Oregon
- US Federal Trade Commission
- Colorado

The last trial (Colorado) just ended and the decision announcement will be on Nov 15, 2024

Growth Potential : Industry Acquisition History

	Merger	Merger Announcement Date	Market Reaction For Announcement (2 Month Window)
1	Mars Buys Kellanova — $36 Billion	8/14/2024	-8.51%
2	Campbell Soup Acquires Sovos Brands — $2.33 Billion	8/7/2023	-9.98%
3	General Mills Buys Blue Buffalo Pet Products — $8 Billion	2/23/2018	-26.22%
4	Keurig Green Mountain and Dr Pepper Snapple Group — $21 Billion	1/29/2018	19.44%
5	H.J. Heinz Co Acquires Kraft Foods Group Inc — $46 Billion	3/25/2015	Data Unavailable
6	Nestlé Buys Pfizer's Infant Nutrition Business — $11.85 Billion	4/23/2012	-2.81%
7	Mars Acquires Wm Wrigley Jr Co. — $23 Billion	4/28/2008	5.98%
	Kroger Buys Albertsons	**10/14/2022**	**-5.94%**

Acquisitions Data

Growth Potential : Industry Acquisition History

Announcement Date: 3/25/2015

Growth Potential : Industry Acquisition History

The General Mills and Blue Buffalo numbers are scary

The stock price did drop due to sentiments about the acquisition

“ Most of the drop in shares occurred after fiscal third-quarter results were released in March. Management said higher transportation costs were affecting margins and lowered constant currency operating profit guidance, from a range of down 1% to flat to a new range of down 5% to 6%.”

SWOT Analysis

Strengths

Extensive Store Network
Strong Brand Loyalty
Strategic Partnership
Strong Commitment to Charity

Weaknesses

Dependency On the Us Market
High Operational Cost
Limited International presence

Opportunities

International Expansion
Prioritize organic food
Mergers and Acquition

Threats

Intense Competition
Economic Uncertainty
Threats From Ecommerce Platforms

SWOT Analysis - Strengths

Extensive Store Network - 2726 store across 35 states

Strong Brand Loyalty - Kroger's commitment to quality products, competitive prices, and excellent customer service has earned it a strong consumer reputation.

Strategic Partnership - Kroger has leveraged strategic partnerships and collaborations to enhance its offerings and drive growth.

Strong Commitment to Charity - Company donated $1 billion for hunger relief and these charitable moves would further help establish a brand image among its customers.

SWOT Analysis - Weaknesses

Dependency On the Us Market - Kroger's operations are primarily focused in the United States, making it heavily reliant on the domestic market.

High Operational Cost - The operating, general, and administrative expenses remain high at $5,886 million, indicating ongoing pressures on operating margins

Limited International Presence - It 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.

SWOT Analysis - Opportunities

Mergers and Acquisition - Kroger can pursue strategic mergers and acquisitions to strengthen its market position, expand its product offerings, and enter new geographic regions. This approach can help the company achieve economies of scale and better compete with larger rivals.

International Expansion - Kroger can look into expanding internationally as a major growth area

Prioritize Organic Food - There is a sudden rise in the demand for organic food.Bringing more organic food brands can help increase sales and generate more profit.

SWOT Analysis - Threats

Intense Competition - Increasing competition from the likes of Walmart, Target, and Amazon means Kroger has to invest more in marketing to remain relevant.

Economic Uncertainty - Kroger is often hit hard by economic issues in the US market.considering that the company only operates in the US.

Threats From Ecommerce Platforms - E-commerce stores like Amazon have been expanding their offerings, gradually taking a share in the groceries market while reducing Kroger's revenue.

Valuation: DCF Assumptions

3% Perpetuity growth assumption for non volatile industry

-3.1% Bear and +2.2%Bull (Revenue) based on historical deviation from 5 year average of 4.3%

0% Bear and 8% Bull (Dividend) based on CAGR if 12.89% never not increasing and a largest change of +20%

Exit EV / EBITDA Multiple 7.5x historical for consumer staples from bloomberg.

Valuation - 5 year Average of revenue growth

Valuation Scenarios					
Model	Base	Bear	Spread	Bull	Weights
52 Week Low / High	57.37	42.10	16.24	58.34	
Perpetuity DCF	124.46	108.36	29.14	137.50	10.00%
EBITDA DCF	68.28	56.61	20.82	77.43	25.00%
Comparable Peers	83.81	26.33	88.00	114.34	25.00%
Internal Rate of Return	101.64	87.80	25.04	112.84	20.00%
Dividend Discount	52.34	52.34	20.28	72.62	20.00%
Target Price	81.26	59.60		98.78	100.00%

Valuation - CAGR based on dividend growth

Valuation Scenarios					
Model	**Base**	**Bear**	**Spread**	**Bull**	**Weights**
52 Week Low / High	57.37	42.10	16.24	58.34	
Perpetuity DCF	354.20	309.39	79.96	389.36	**10.00%**
EBITDA DCF	211.15	185.20	45.94	231.15	**25.00%**
Comparable Peers	83.81	26.33	88.00	114.34	**25.00%**
Internal Rate of Return	298.40	260.09	68.37	328.45	**20.00%**
Dividend Discount	52.34	52.34	20.28	72.62	**20.00%**
Target Price	**179.31**	**146.31**		**205.52**	**100.00%**

Recommendation

Investment Thesis: BUY $30,000 of KR

Low beta compared to market

Lower chance of downside risk which will help to bring overall beta of our portfolio down, so that we as a class can invest in stock that have higher beta

May be some upside with the acquisition

Sources

Kroger Cyclicality Article
Kroger 2017 21% Loss
Kroger Acquisition Article
Acquisitions Data
General Mills Blue Buffalo Article