



Kroger®

Peets Coffee & Tea

Blue Sky  
Kroger  
Clear Sweet

DEPT



**Welcome**

**2010 Investor Conference:  
Creating Sustainable Long Term Value**

September 29, 2010



# Agenda

8:00 am	Welcome & Introduction	Dave Dillon
8:10 am	How We Drive Value Creation	Rodney McMullen
8:40 am	Customer Loyalty	Don Becker
8:55 am	Associate Engagement	Katy Barclay
9:10 am	Break	
9:25 am	Financial Review	Mike Schlotman
9:55 am	Technology Innovation	Chris Hjelm
10:10 am	Summary	
10:25 am	Q&A Session	
11:15 am	Lunch & Tour	



# Forward-Looking Statements

This presentation includes forward-looking statements which are subject to risks and uncertainties. Actual results might differ materially from those projected in the forward-looking statements. Additional information concerning factors that could cause actual results to materially differ from those in the forward-looking statements is contained in our Securities and Exchange Commission filings.



# Welcome and Introduction

Dave Dillon  
Chairman and Chief Executive Officer



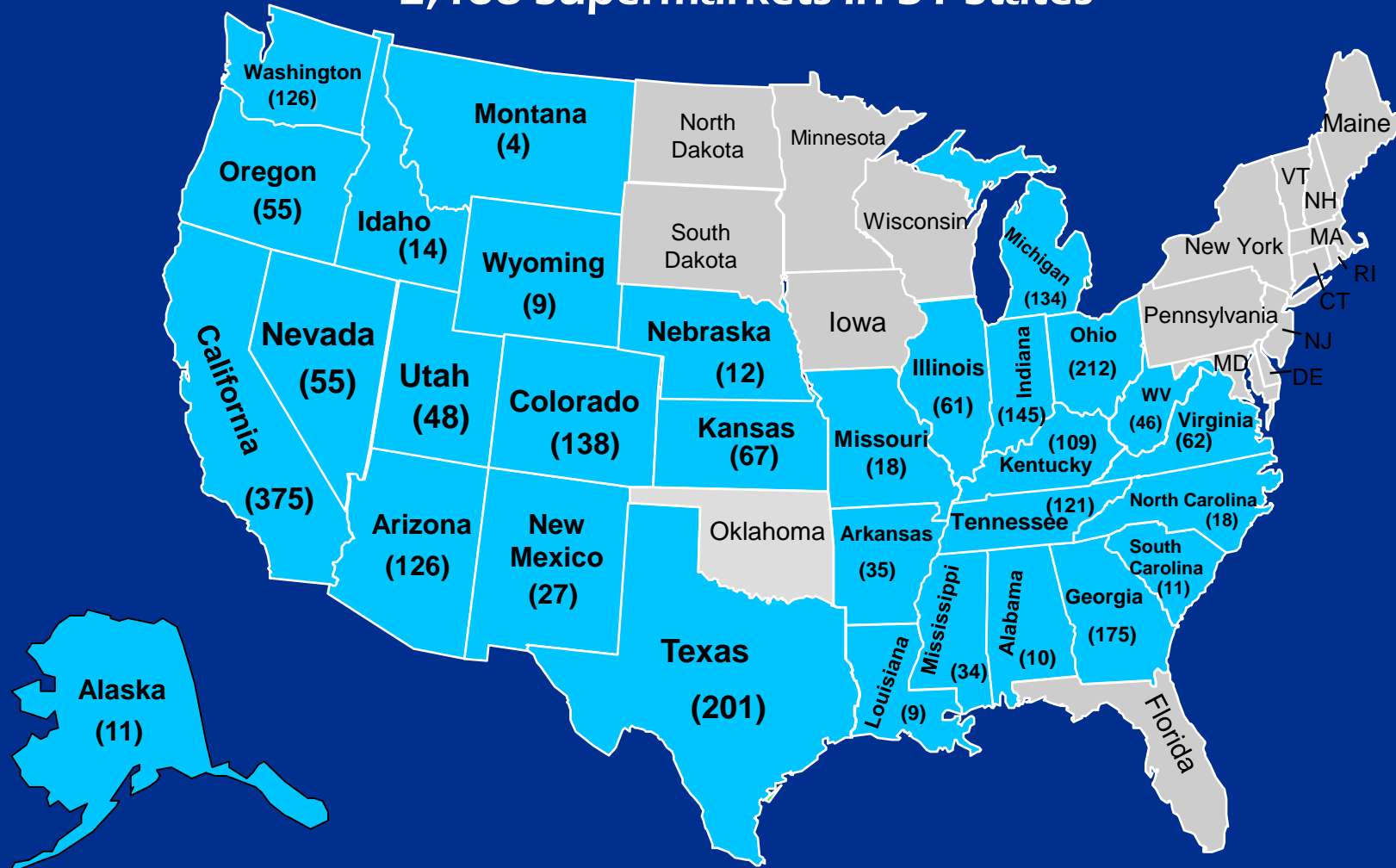
## Kroger at a Glance

- One of the largest U.S. retailers
- 2,468 supermarkets and multi-department stores in 31 states
- 2009 annual revenues: \$76.7 billion
- 2009 operating profit: \$1.1 billion
- #1 or #2 market share in 38 of 42 major markets
- Nearly 50% of households hold one of our shopper cards
- 334,000 associates



# A Broad Footprint Across the U.S.

2,468 Supermarkets in 31 States





# Key Retail Grocery Industry Trends

- Continued macro uncertainty
- Consumer behavior mirroring economic realities
- Cost volatility in food
  - Inflation in perishables
  - Deflation in grocery tied to promotions to drive volumes
- More rational approach to managing for profitability
- Performance closely tied to successfully meeting customers needs



# Sustained Industry Leadership Over Time

1987	1997	2007
Safeway	<b>Kroger</b>	Walmart*
<b>Kroger</b>	Safeway	<b>Kroger</b>
American Stores	Walmart*	Safeway
Winn-Dixie	Albertsons	Costco
A&P	American Stores	SUPERVALU
Lucky Stores	Costco	Publix
Albertsons	Winn-Dixie	Ahold USA
Supermarkets Gen.	Publix	Delhaize America
Publix	A&P	H.E. Butt
Vons Companies	Food Lion	A&P

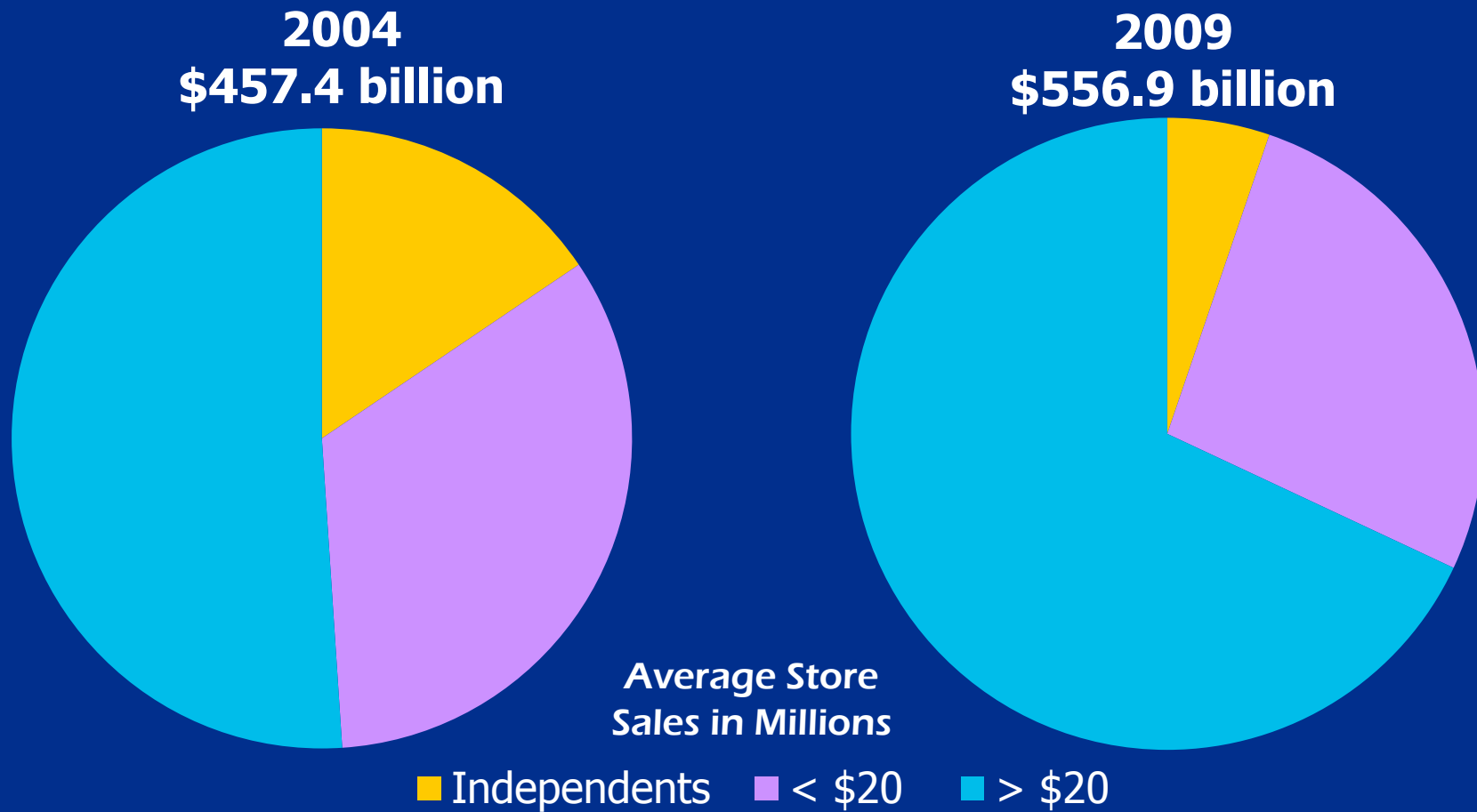
\* Includes Walmart Supercenters and Walmart subsidiary Sam's Clubs.

Source: Business Guides, *Directory of Supermarket, Grocery & Convenience Store Chains, 1988, 1998, 2008*



# Significant Growth Opportunities

## Industry Market Share



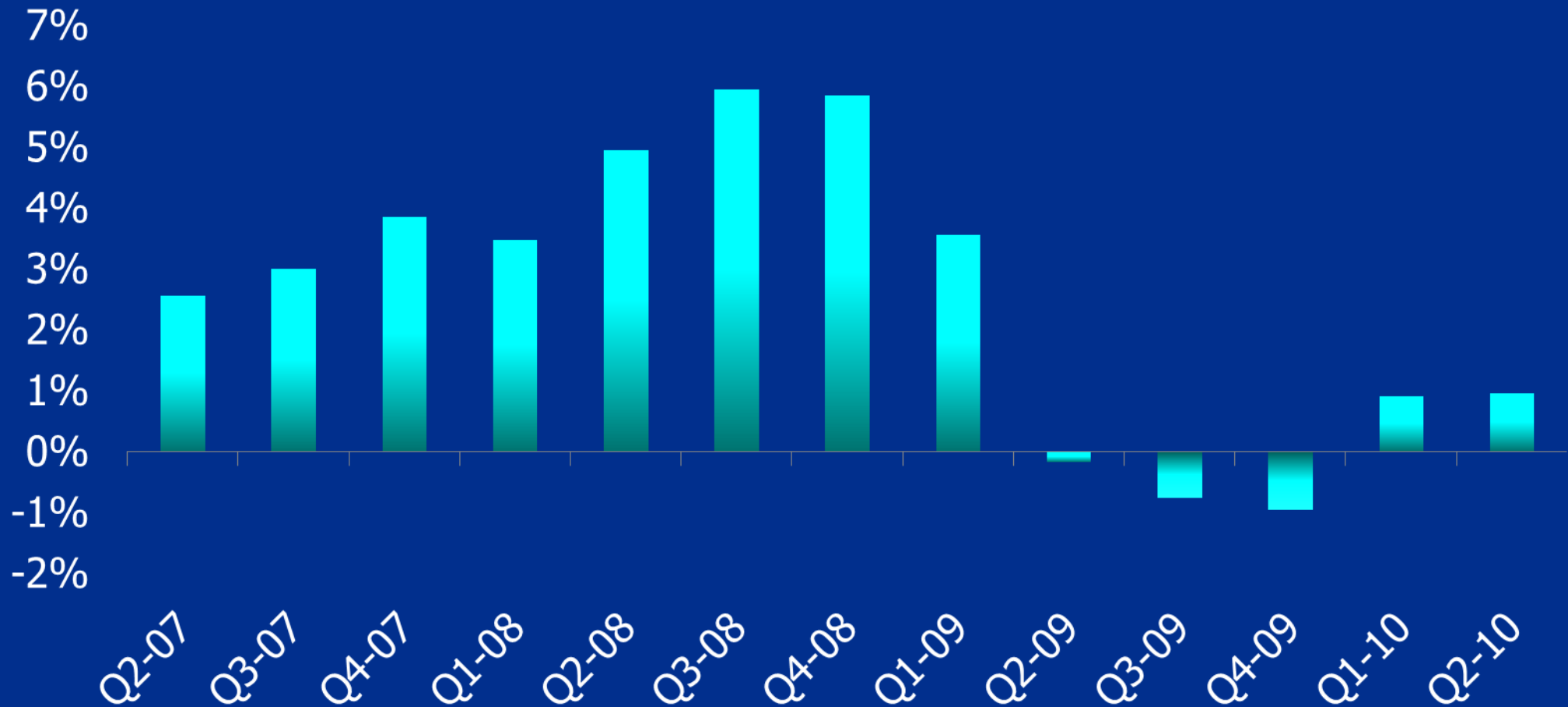
Source: Progressive Grocer's 72<sup>nd</sup> and 77<sup>th</sup> Annual Reports of the Grocery Industry

\*Independents classified as fewer than 10 stores



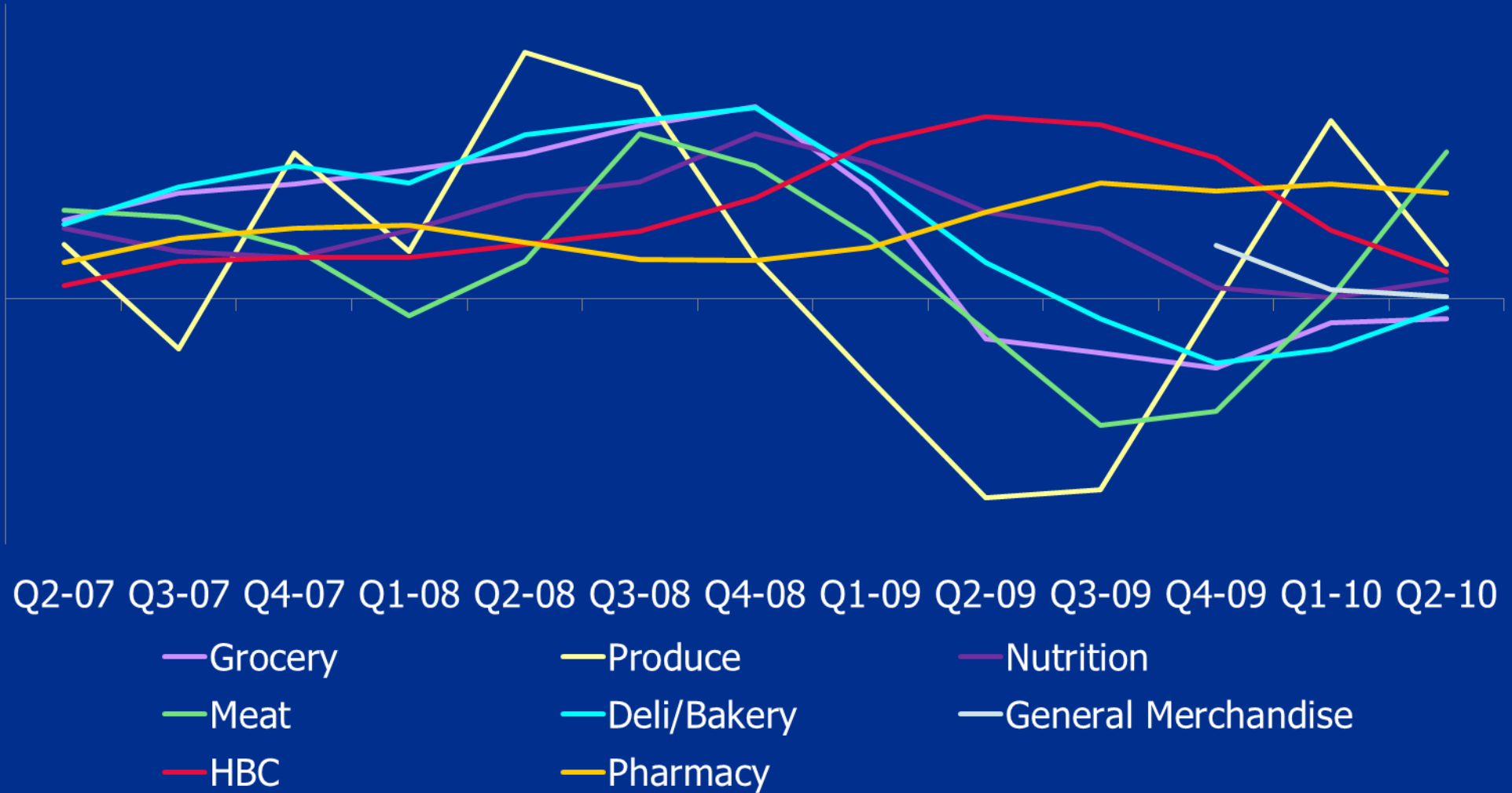
# Volatility in Food Costs

Kroger estimated product cost inflation/(deflation) excluding fuel inventories





# Cost Volatility Across Departments





# The New Consumer Reality

- Drivers of consumer behavior:
  - ~ 10% unemployment
  - Flat/falling home prices
  - Customer uncertainty regarding economy is reflected in cautious spending
- Our competitive response:
  - Rewarding most loyal customers
  - Balancing price and tonnage
  - Targeted offerings to meet unique needs
  - Balance of corporate brand, national brands
  - Superior shopping experience



# How We Drive Value Creation

Rodney McMullen

President and Chief Operating Officer



# Our Competitive Advantages

- Unique consumer insights drive high customer loyalty
- Compelling three-tier corporate brand strategy
- Successful multi-faceted strategy is difficult to replicate
- Leader in growing identical sales – 27 consecutive quarters
- Gaining market share and leveraging scale
- Solid balance sheet with significant financial flexibility
- Seasoned and proven leadership team
- High quality asset base
- Track record of rewarding shareholders through dividends and share repurchases



# Customer 1<sup>st</sup> Strategy

## Four Key Elements:





# A Virtuous Cycle of Value Creation

Improve Connection  
with Customers

Strong ID Sales  
Growth



Invest in Shopping  
Experience

Operating Cost  
Leverage



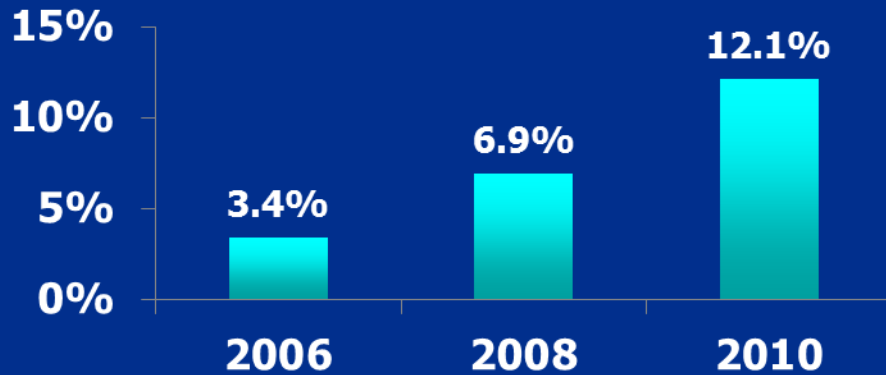
# How We Measure Our Success

- Financial Metrics (all excluding fuel)
  - ID sales
  - Supermarket selling gross margin
  - Operating costs
  - Operating margin
- Non-Financial Metrics
  - Customer 1<sup>st</sup> Tracker scores
  - Loyal household growth
  - Market share

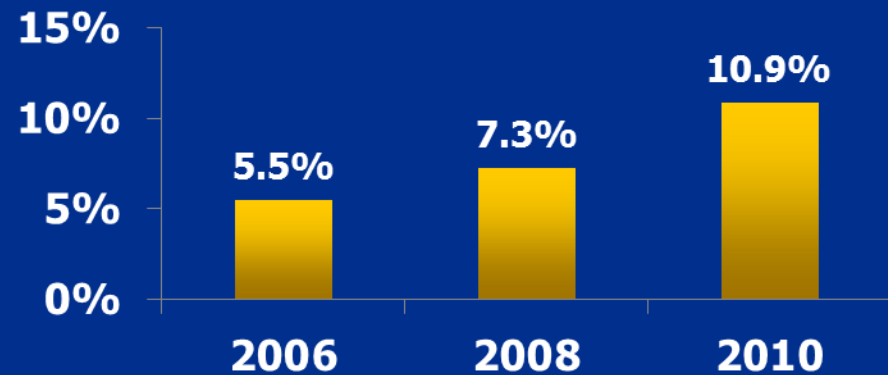


# Progress on Key Customer 1<sup>st</sup> Metrics

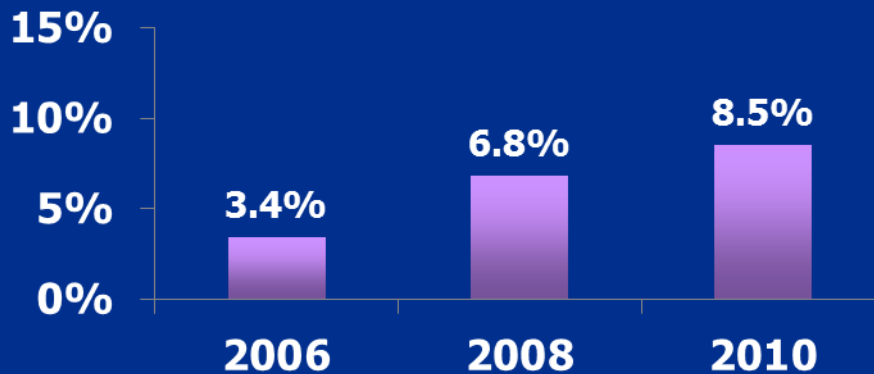
## PEOPLE



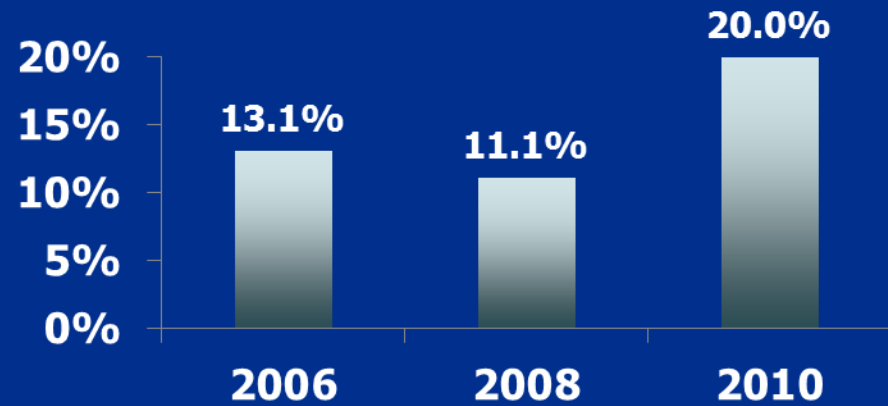
## SHOPPING EXPERIENCE



## PRODUCTS



## PRICE





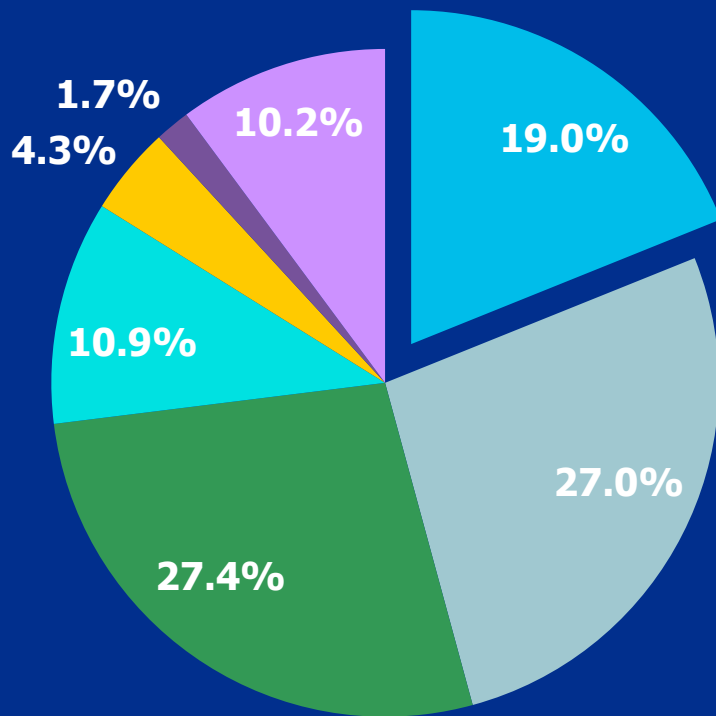
# Driving Loyal Household Growth

- Over 90% of Kroger's transactions involve a loyalty card\*
- Nearly 50% of U.S. households carry one of our shopper cards
- Our ability to collect and analyze customer purchase data allows us to respond rapidly to shifts in buying patterns
- The data allows us to segment and target
- dunnhumby enables us to more effectively partner with our national vendors than our peers

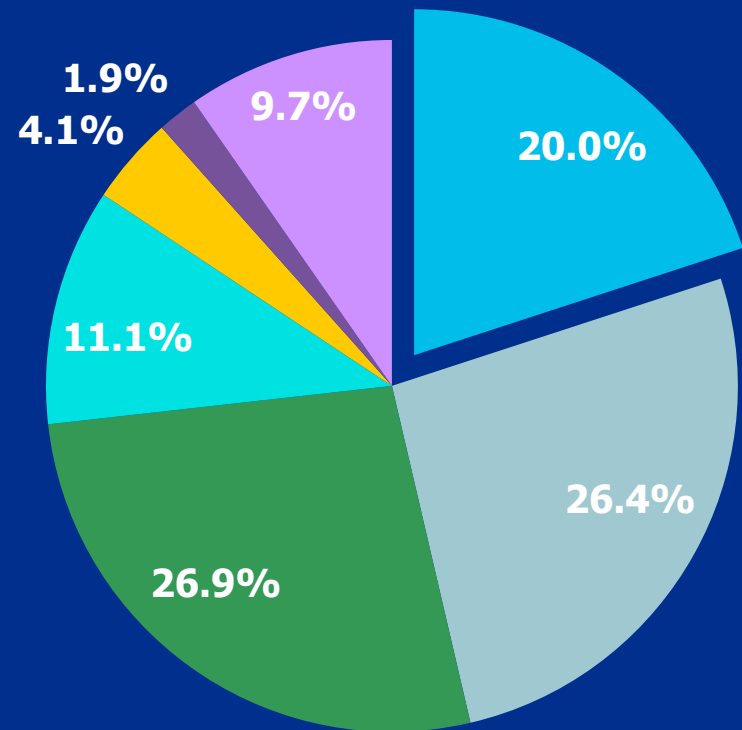


# Growing Share of Market – Dollar Sales

FY 2007



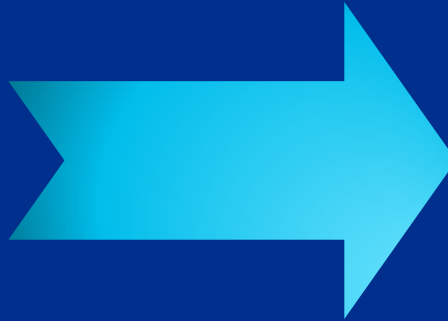
FY 2009



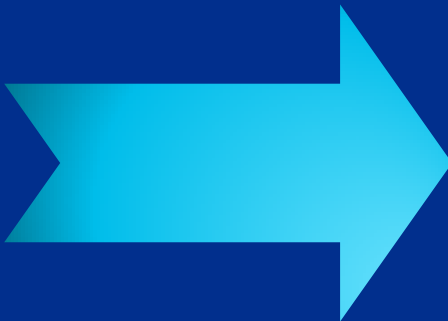
■ Kroger ■ Rem Food ■ Mass ■ Warehouse ■ Drug ■ Dollar ■ A/O Channels



# Customer 1<sup>st</sup> Drives Value Creation



More return visits and  
increased  
sales and share



Growing profits and  
cash flow to reinvest in  
business & enhance  
shareholder value



# Earning Customer Loyalty

Don Becker

Executive Vice President



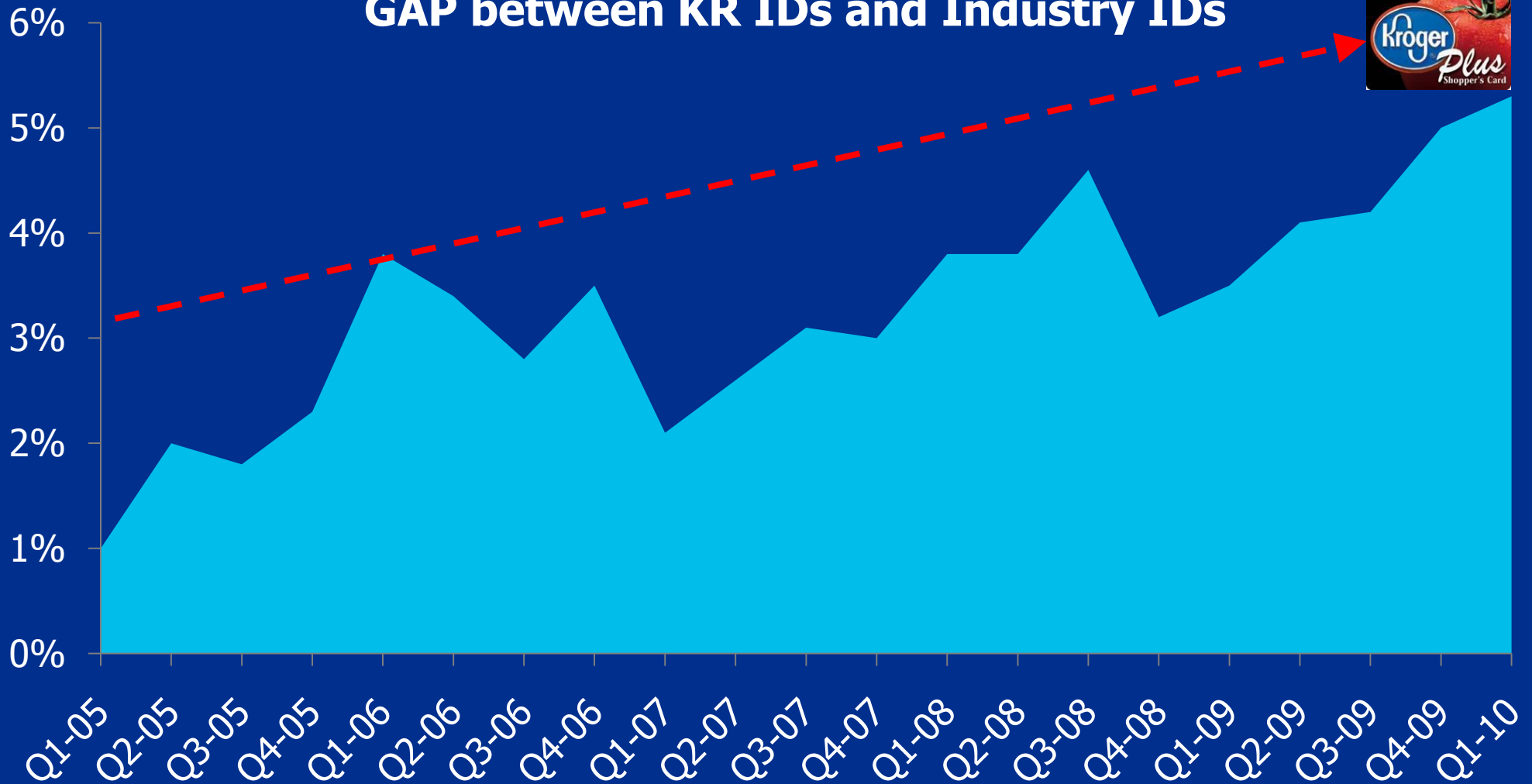
# Deep Customer Knowledge





# Growing Loyalty Helps Drive ID Sales

## GAP between KR IDs and Industry IDs





# Our Pricing Strategy

- Significant investment in price based on research data
- Strategy focuses on three areas:
  - Everyday prices
  - Weekly specials
  - Store brands
- We are price competitive for everyday items important to price sensitive shoppers
- Shoppers are willing to pay a certain premium for Kroger store experience



# Products

- Produce & meat quality
- Offer the products our customers want
- Corporate brands





# Shopping Experience

- Improving speed of checkout
- Store cleanliness & convenience





# People!



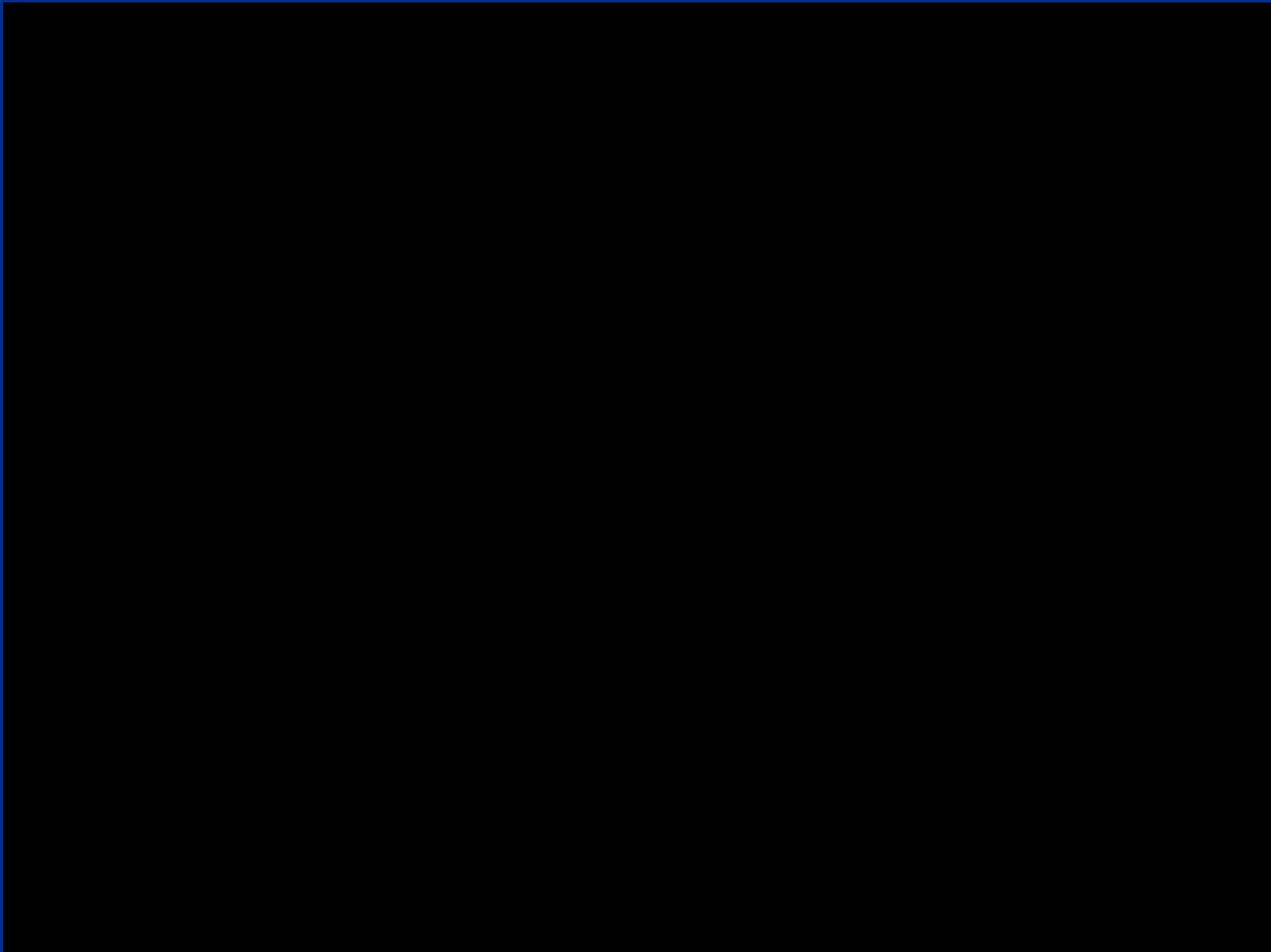


## Produce: Investing in Price

- Customer research & loyalty card data told us that we needed to address pricing
- We responded by investing in lower prices on produce
  - Lower everyday prices on fruits and vegetables that matter most to our customers
  - Weekly specials
  - Price competitive, not the price leader



# Produce: Investing in Products





# Produce: Investing in the Shopping Experience

- Great displays
- Improved signage





# Produce: Investing in Service

- Keep departments clean & well-stocked
- Engage with customers





# Produce: Investment Results

- Emphasizing the 4 Keys help drive double-digit tonnage growth
- Focusing on all 4 attributes of Customer 1<sup>st</sup> has delivered similar successes throughout our stores



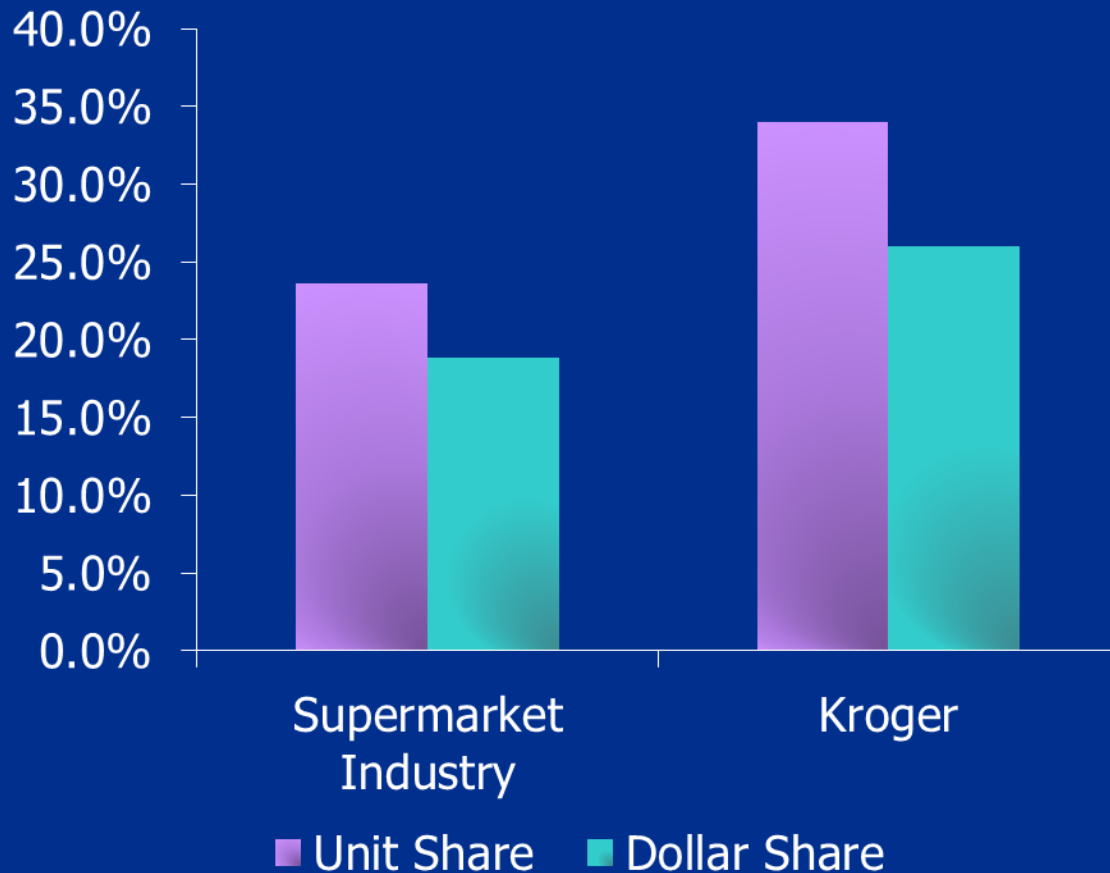


# Our Exclusive Brands





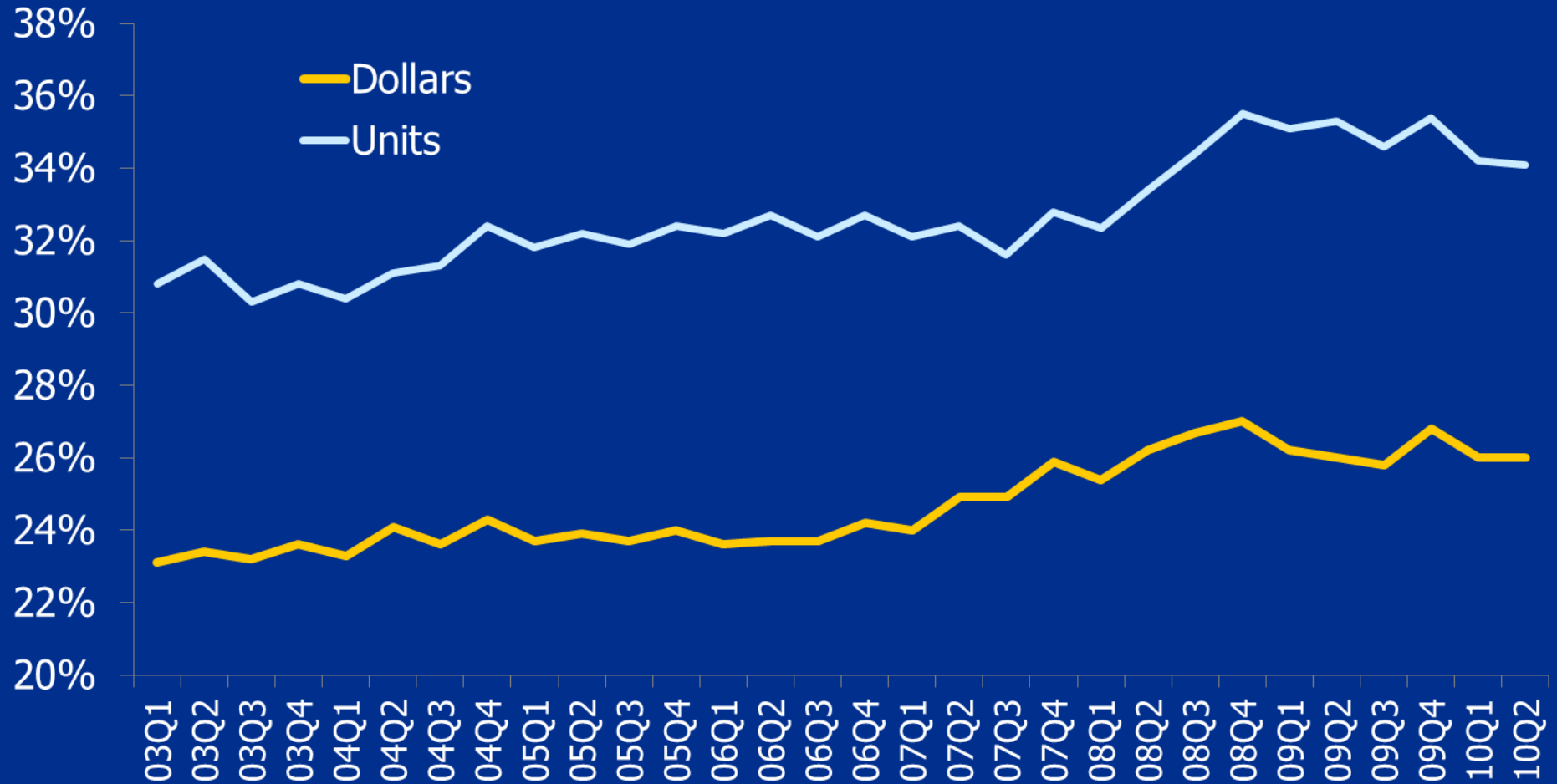
# Industry Leader in Corporate Brands...



- Private label penetration as a percent of industry unit sales has risen markedly in recent years
- Kroger's three-tier corporate branding strategy serves the needs of a diverse customer mix



# ...and Gaining Share





# Three-Tier Corporate Brand Strategy



Value



Banner



Private



# Responding to Customer Needs with Unique New Products





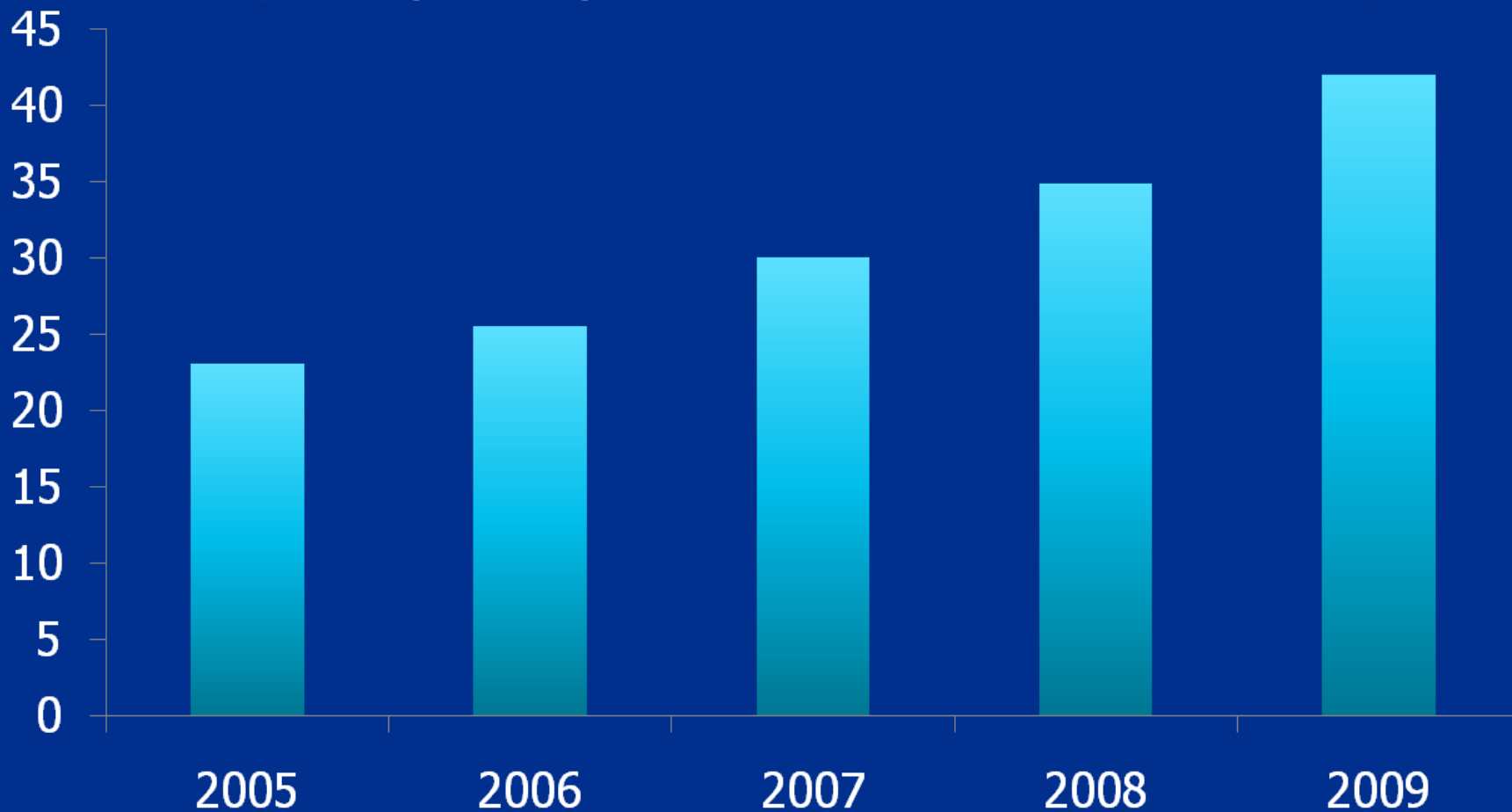
# Creating Win – Win Vendor Relationships

- Customer-centric approach to merchandising
- The right product for the right customer at the right store
- More effective promotion, advertising and direct mail spend
- Data sharing on the performance of national brands in Kroger stores
- Tonnage growth
- Growing pool of loyal lifetime customers



# Strengthening Our Relationship with CPG Companies

## Improving Rating in Cannondale Associates Survey







# Driving Success Through Associate Engagement

Katy Barclay  
Senior Vice President



**Great People**



## A More Focused Approach

- More sophisticated tools and processes to define and measure employee engagement
- Aligning associates with Kroger's business objectives and strategy
- Carefully acknowledging input from our associates and rewarding success



# What is Associate Engagement?

- A positive emotional attachment to the job and the company
- A strong personal desire for the company to be successful
- A personal commitment to always do the right thing



# Why Focus on Associate Engagement?

- Companies with engaged employees report:
  - ✓ Greater sales and profit growth
  - ✓ Higher productivity
  - ✓ Greater customer loyalty
  - ✓ Higher shareholder value



# Financial Impact of Engagement

**Companies with high levels of engagement:**

**13%**

Have higher 5-year total returns to shareholders

**50%**

Enjoy a higher market premium

**26%**

Experience greater employee productivity



## Going a Level Deeper ...

Extensive research proves that engaged employees are:

- Twice as likely to be top performers
- Exceed performance expectations
- Miss fewer days of work
- Connect with the company, products and customers
- Resilient during organizational change



# Engagement Defined

**Connected**



attached to their companies

**Committed**



motivated to help their companies succeed

**Aligned**



know how to make their companies successful



# Engagement Drivers

- Customer Focus
- Leadership
- Associate Communications
- Recognition





# Engaging Front-end Associates

- Leaders are involved and committed
- Teams come together to build and own the outcomes
- Associates are involved and excited to deliver results
- Customers are scoring us higher in the Customer 1<sup>st</sup> Tracker





# Measuring Effectiveness and Outcomes

- Measuring Effectiveness:
  - Proven, action-oriented questions
  - Highly predictive of associate engagement
  - Customer data validates effectiveness
- Outcomes:
  - Identical sales growth, excluding fuel
  - Annual productivity improvements





# Driving Success through Associate Engagement





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# Financial Review

Mike Schlotman

Senior Vice President and Chief Financial Officer



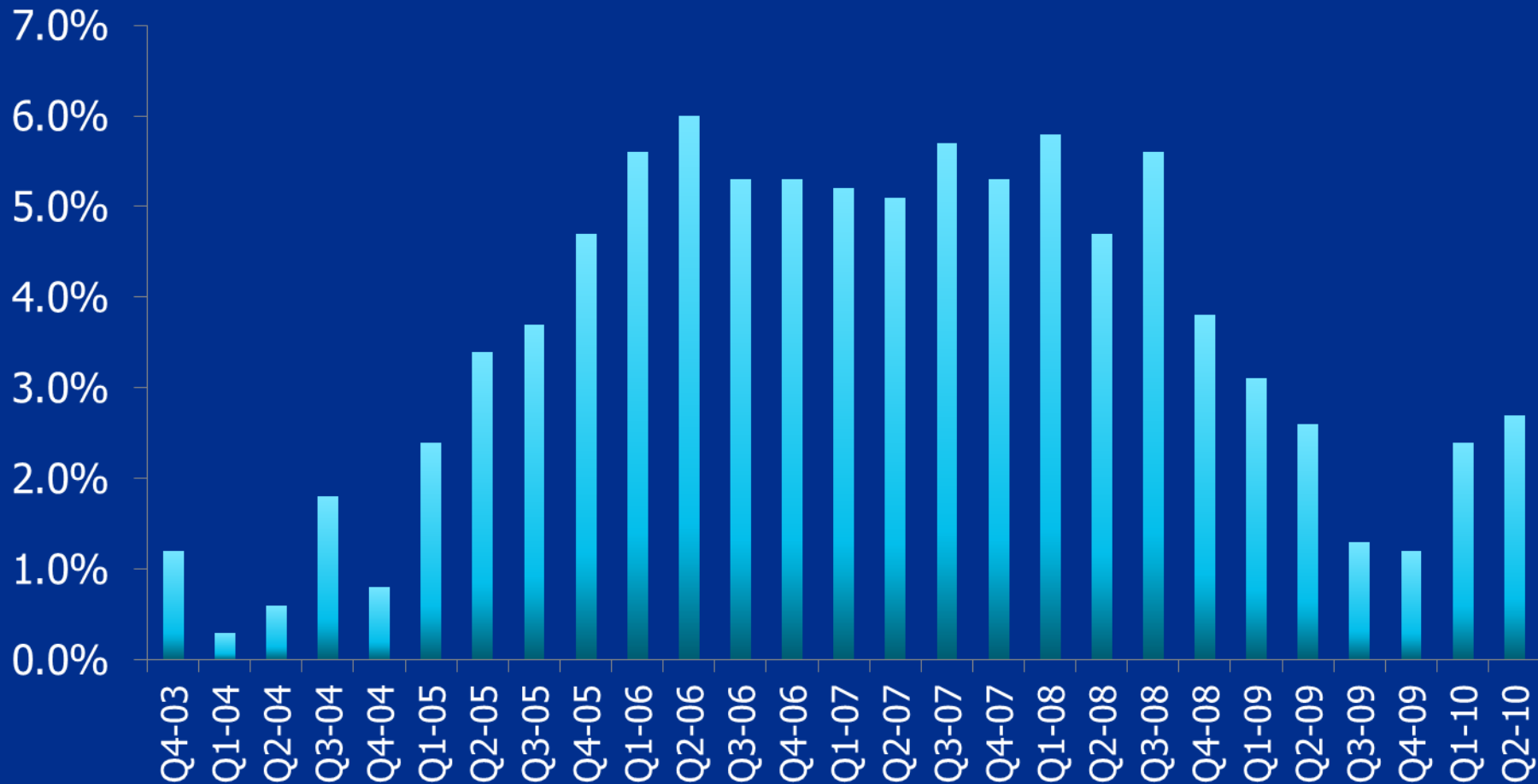
# Driving Sustainable Earnings Growth

- Objective: Grow earnings through steady increases in identical sales coupled with a slight increase in annual operating margin, both excluding fuel sales
- Key long-term financial metrics (all exclude fuel):
  - ID sales
  - Supermarket selling gross margin
  - Operating costs
  - Operating margin



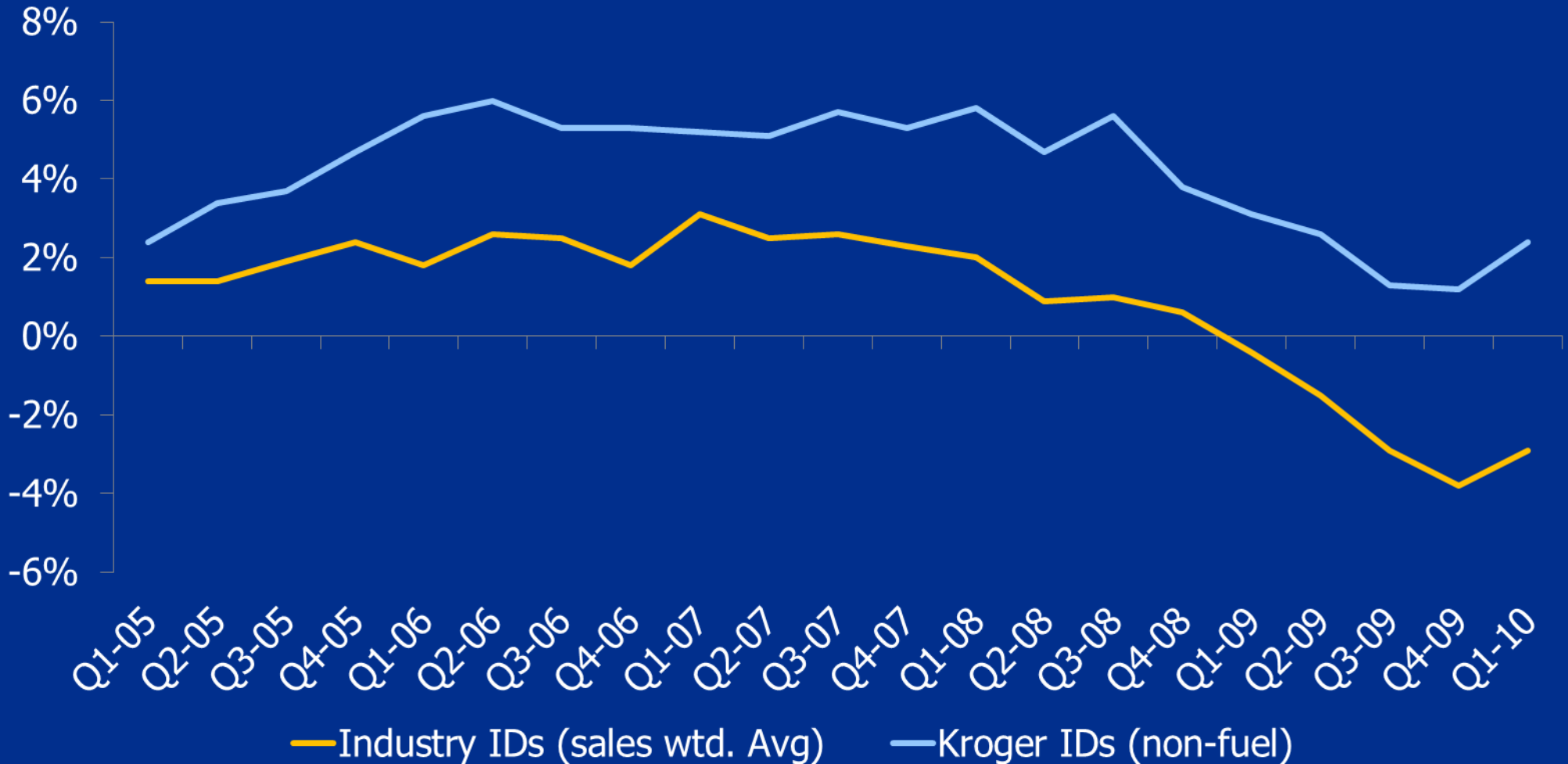
# 27 Consecutive Quarters of Positive ID Sales Growth

## Kroger ID Sales Growth (ex fuel)





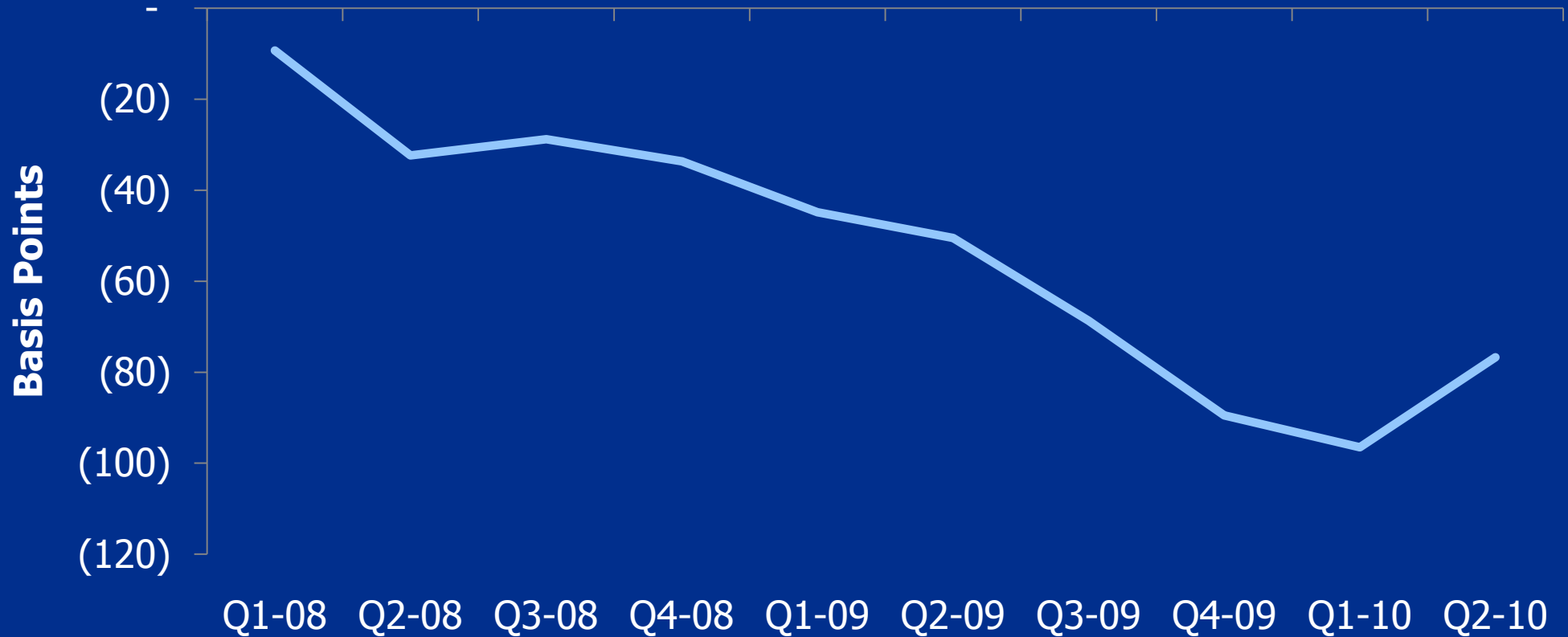
# Kroger Outperforms Industry ID Sales Growth





# Slowing the Rate of Gross Margin Decline

**Change in Supermarket Selling Gross Margin Rate  
(ex fuel, rolling 4-qtrs basis)**





## Reducing Operating Costs

- Since 2003, operating costs have declined by over 200 basis points, as a rate of non fuel sales due to:
  - Cost reduction and efficiency initiatives
  - Sales leverage
- If not for these efficiencies and increased sales leverage, operating costs would have been \$1.5 billion higher in fiscal 2009



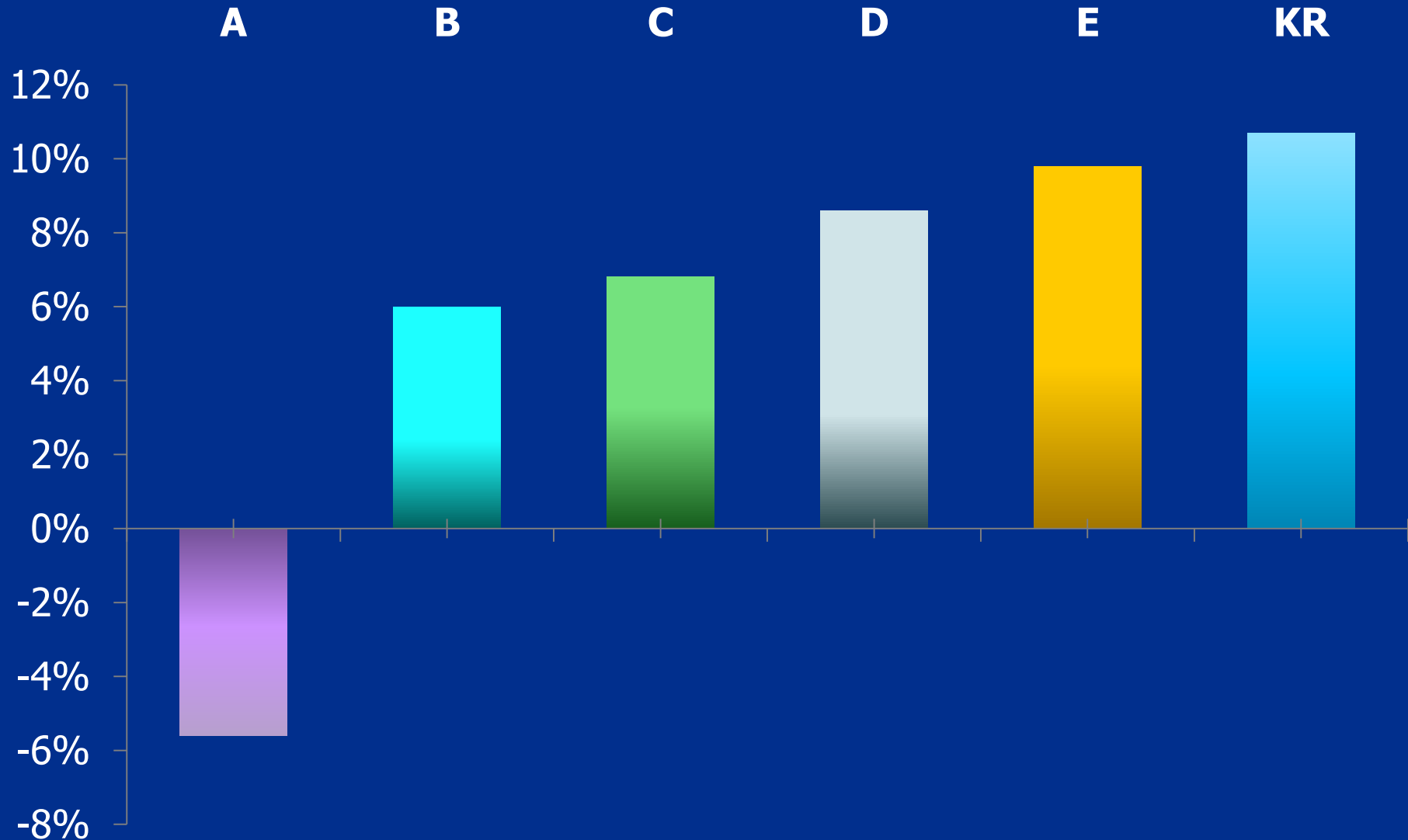
## Operating Margin Goals

- Long term objective: slight increase in operating margin annually (ex fuel)
- Sales leverage will drive operating margin improvement
- FY09 operating margin isn't "the new normal"



# Outperforming Peers

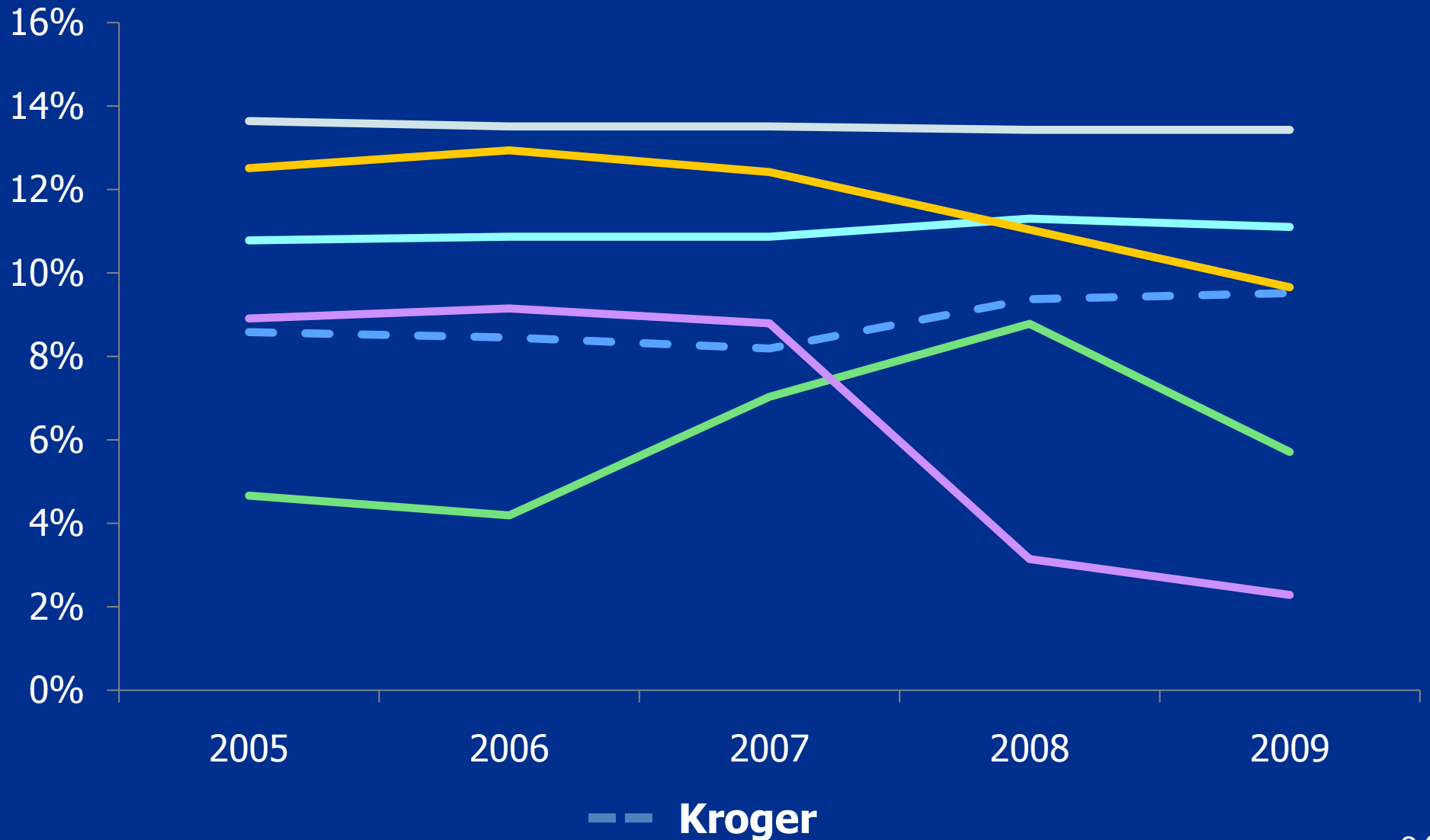
## 5-Yr Compound Annual EPS Growth Rate – Food Retailers





# Attractive Returns on Invested Capital

5-Yr Average





# Delivering Value to Shareholders

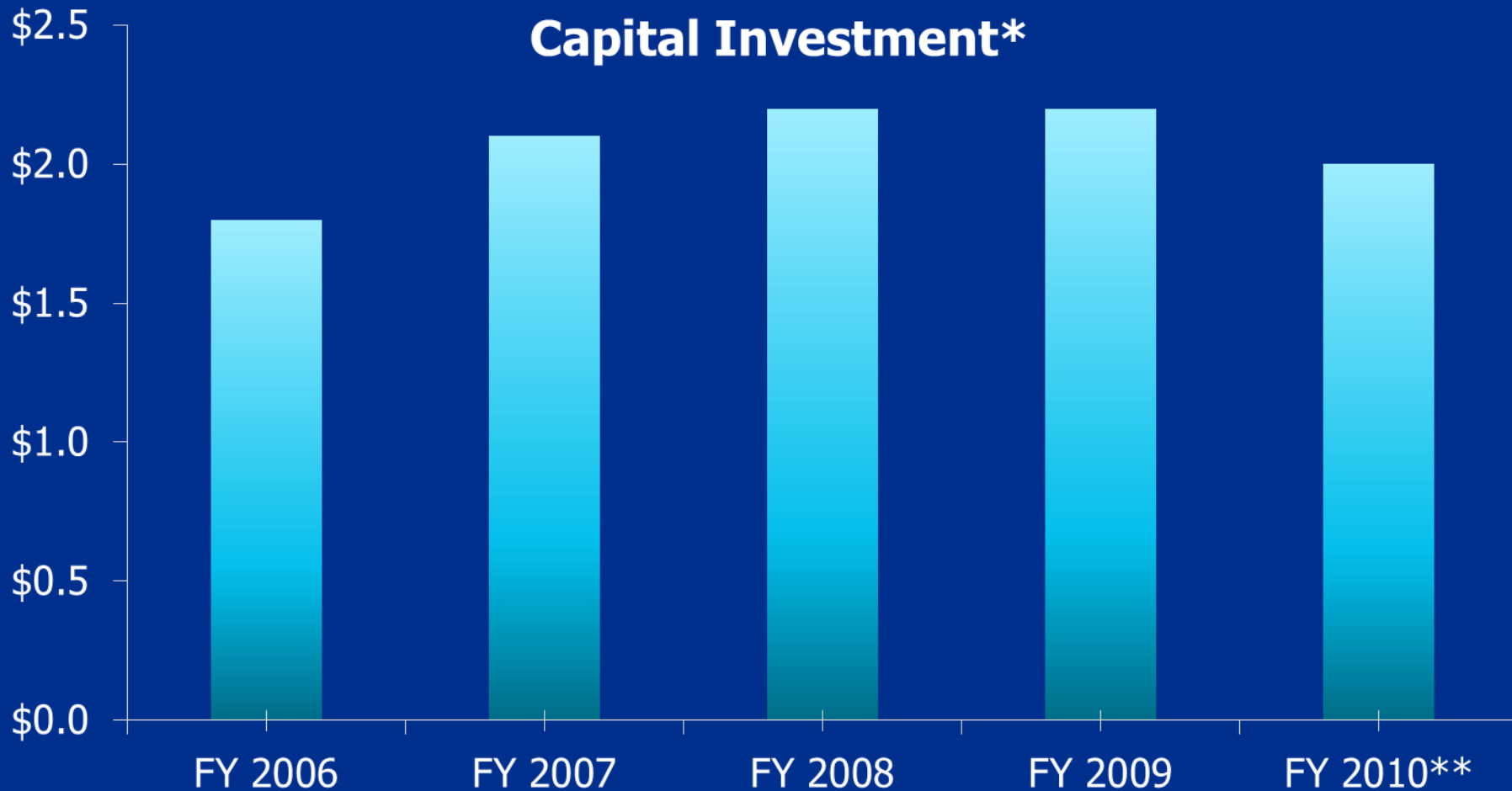
## Cash Returned to Shareholders 2005 – 2009 (\$ in Millions)

	<b>KR</b>	<b>SWY</b>	<b>SVU</b>	<b>WFMI</b>
Dividends	\$807	\$538	\$633	\$609
Share Repurchases	\$3,161	\$1,789	\$490	\$204
<b>Net Cash Returned to Shareholders</b>	<b>\$3,968</b>	<b>\$2,326</b>	<b>\$1,123</b>	<b>\$813</b>
Market Capitalization	\$12,933	\$7,363	\$2,117	\$6,098
<b>Cash Returned as % of Current Market Cap</b>	<b>30.7%</b>	<b>31.6%</b>	<b>53.0%</b>	<b>13.3%</b>



# Disciplined Investment for Future Growth

(In Billions)

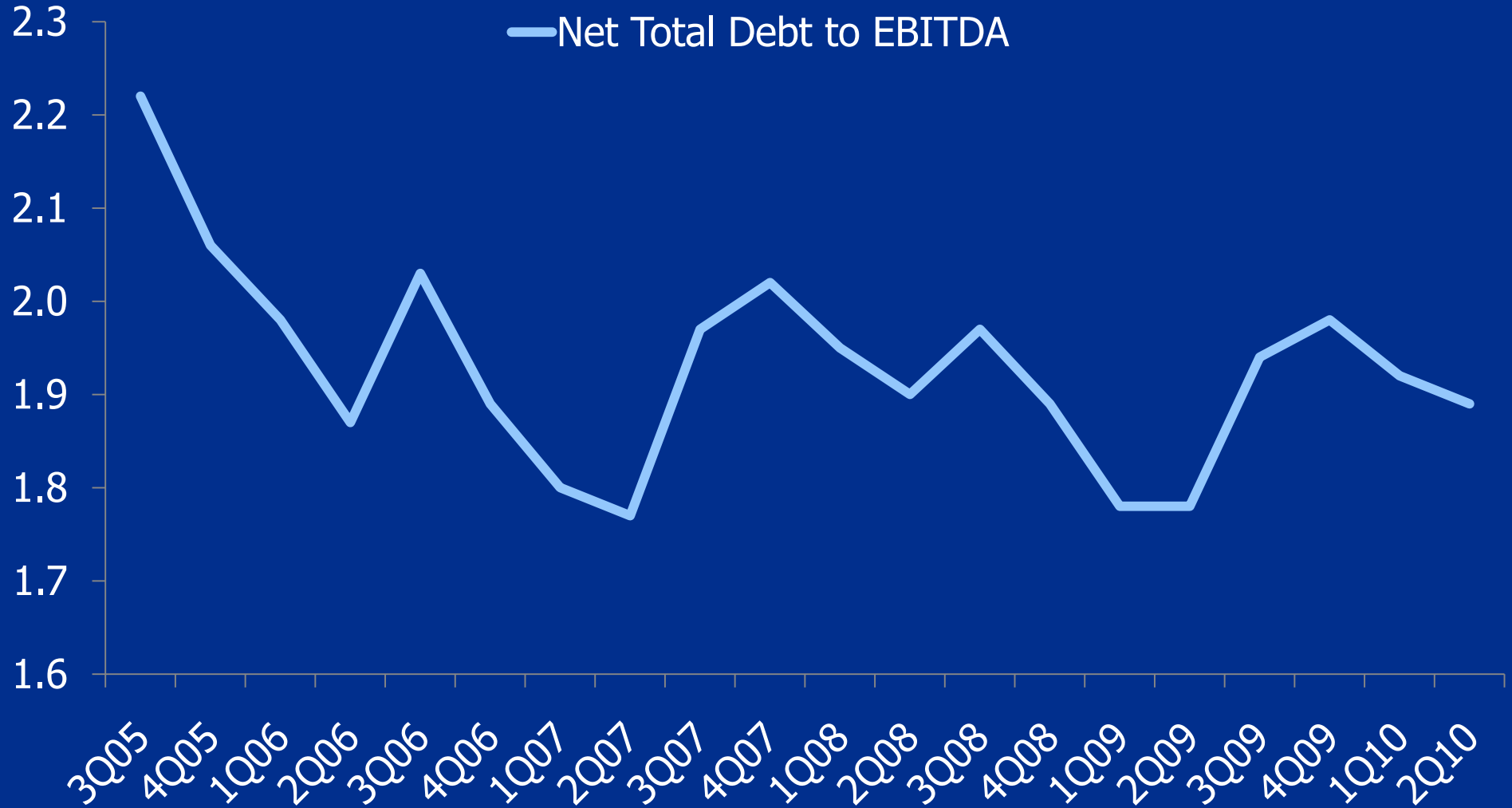


\*Excludes acquisitions & purchases of leased facilities.

\*\*Halfway point of guidance for \$1.9 to \$2.1 billion.



# Financial Leverage Decreasing





## Attractive Credit Rating

- BBB Credit Rating
- Committed to a solid investment grade
- Current \$2.5 billion credit agreement expires November 2011
- Favorable credit environment for issuers; anticipate negotiating a new credit agreement on favorable terms



# Improving Performance in Q2

(\$ in millions except for per share amounts)

	<b>2Q10</b>	<b>2Q09</b>	<b>% Change</b>
Sales	\$18,795.9	\$17,728.2	6.02%
Operating Profit	\$493.5	\$499.1	(1.12%)
Net Earnings	\$261.6	\$254.4	2.83%
EPS	\$0.41	\$0.39	5.13%
Operating Margin	2.63%	2.82%	
Tax Rate	31.70%	34.75%	



# Strong Cash Flow

## Year-to-date Highlights:

- Operating Activities
  - Generated \$2.3 billion net cash
- Investing Activities
  - \$952 million in capital expenditures
- Financing Activities
  - Issued \$300 million in long-term debt
  - Repurchased \$228 million in common stock
  - Paid out \$123 million in dividends

**More than \$1 billion in cash and temporary cash investments**



# Fiscal 2010 Annual Guidance

	<b>Guidance</b>
ID Sales (ex fuel)	2% to 3%
Non-fuel Operating Margin	Slight decline compared to FY 2009
Tax Rate	35.5%
Fuel Margin	\$0.11/gal
EPS (diluted)	\$1.60 to \$1.80 (Targeting the upper half of the range)
Capital Expenditures	\$1.9 to \$2.1 billion



# The Role of Technology Innovation in Customer 1st

Chris Hjelm

Senior Vice President and Chief Information Officer



# Our Technology Strategy

## Focus on Four Key Areas:

Build  
Reliable  
Platforms

Drive  
Innovation

Implement  
Customer &  
Associate  
Solutions

Transform  
the  
Organization



# Customer 1<sup>st</sup> Strategy

“Align Technology Objectives for Positive Business Outcomes”





# Good Prices – Distribution Center Automation





# Good Prices – Distribution Center Automation





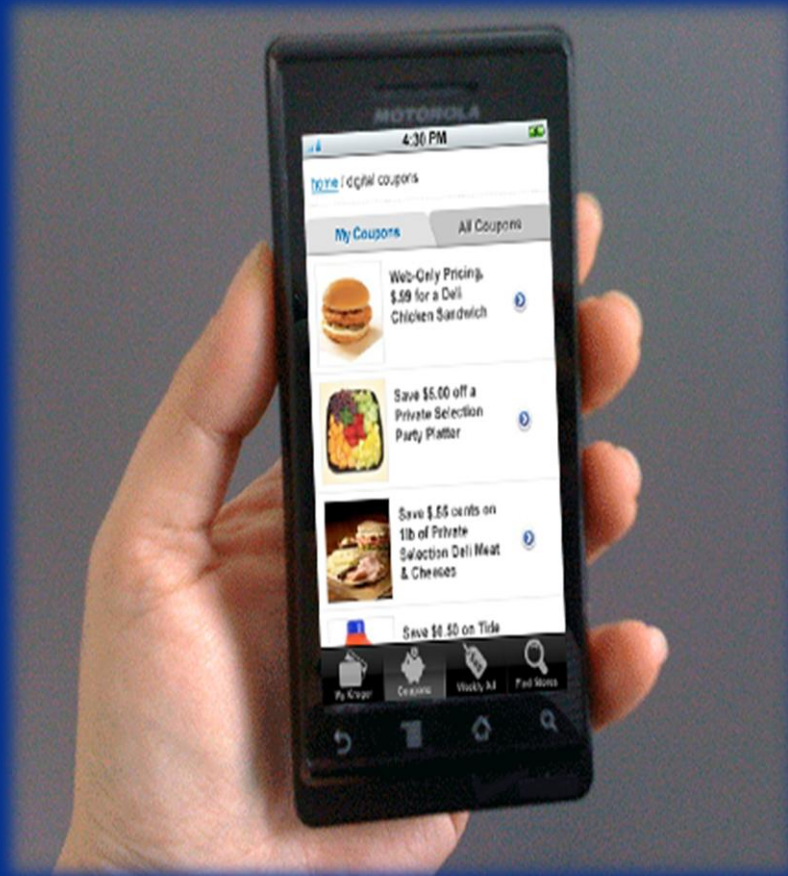
# Shopping Experience Makes Me Want to Return – Pharmacy

- Single view of patient across Kroger
- Prescription imaging
- Release to patient, we know when prescriptions are sold, not just filled
- Signature capture for HIPAA, EZ Caps, counseling, proof of delivery
- Platform for innovation





# Shopping Experience Makes Me Want to Return – Digital Coupons

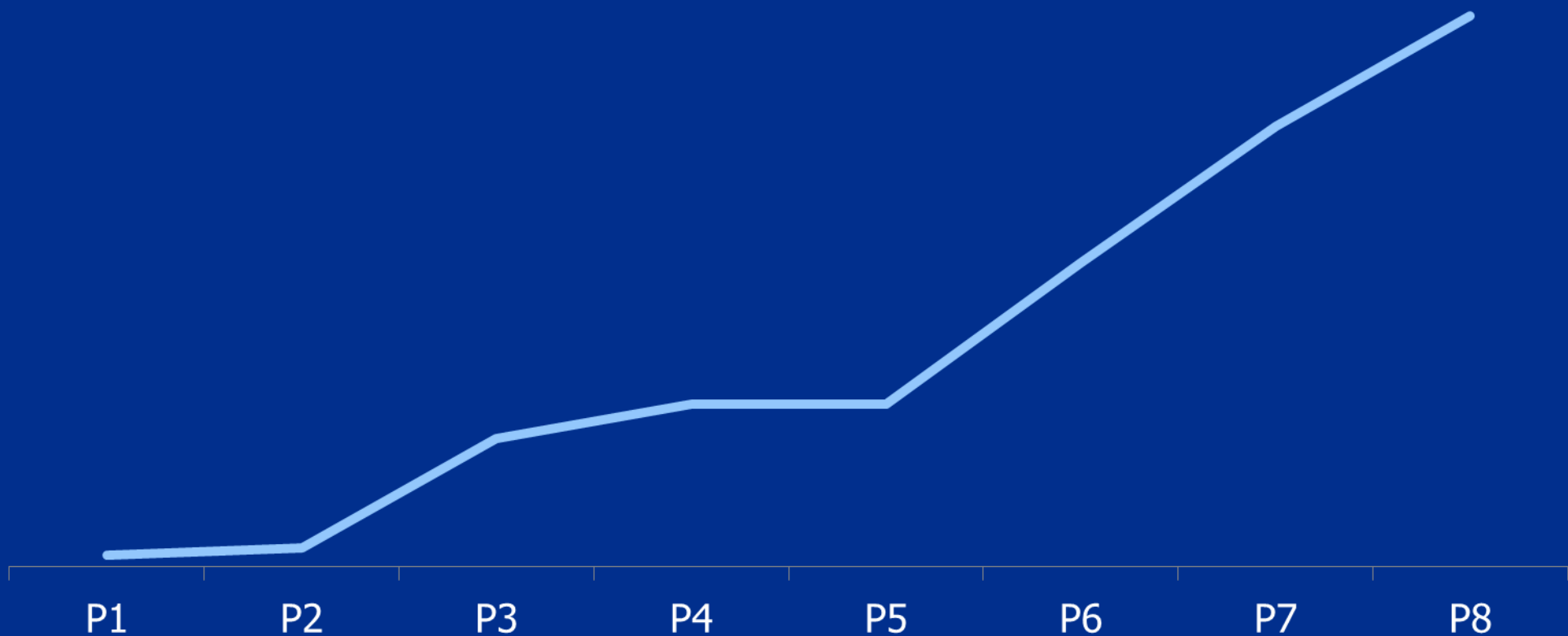


- Conservative estimates have us crossing 15M coupon downloads a month by March of next year
- We offer over 100 coupons valued at over \$150 every week
- Redemption rates are typically 10%
- We're currently working to release a cross-platform mobile coupon application



# Digital Coupon Growth

## Digital Coupons Downloaded





# Great People – Associate Portal

The screenshot displays the Great People Associate Portal interface. At the top, there is a navigation bar with 'Home', 'My Company', and 'My Benefits & Discounts'. Below this, the main content area is divided into several sections:

- Investing in Your Health:** A section highlighting the company's commitment to associate health, including health and income protection benefits and retirement benefits.
- ExpressHR:** A section for HR services, mentioning that it provides a secure way to review and update personal and employment information.
- Career Opportunities:** A section for job openings, noting that the company partners with CareerBuilder.com.
- Associate Discounts:** A section featuring various discount categories such as Cell Phone Plans, Flowers, Plants and Gifts, and Jewelry.
- Resources and Favorites:** A sidebar section with links to Associate Discounts, Career Opportunities, Community Information, and Company Information.
- Great People Stories:** A section featuring articles about store awards and employee spotlights, such as 'Smith's #48 First Store to Receive "Our Promise" Highest Award!' and 'Spotlight on Ranae Day, District 1 Manager, Utah/Idaho/Montana'.
- Open Door Blog:** A section for company news and updates, including 'Managing Time', 'Undercover CEO and My Store Visits', and '2009 in Perspective'.
- Upcoming Events:** A section listing important dates for applications and reports, such as 'Deadline for Dollars for Doers Applications' and 'Deadline for Kroger Scholars Applicants'.
- Headlines:** A section with quick news items like 'Submit FSA Claims By April 30' and 'Update Your Emergency Contacts Through ExpressHR'.

- New secure website provides content and gives associates a single trusted source for company and division information
- Access from home or work
- End goal is to personalize and provide role-specific information to our associates
- Platform for innovation



# Driving Continuous Innovation

- Research and Development Capability
  - Game changing focus
  - Challenge the status quo
  - Partnerships to accelerate commercialization
- Associate Engagement
  - Everyone plays a role
- Technology Infrastructure
- Leverage Intellectual Property



# Innovation In Process – Consumer Mobility



**Pilot in 2010 Kroger Mobile Technology Platforms  
(i-Phone/Droid)**



# Innovation in Process – Advantage Checkout





# Innovation in Process – Advantage Checkout





# Summary



# Creating Sustainable Long Term Value

- Unique consumer insights drive high customer loyalty
- Compelling three-tier corporate brand strategy
- Successful multi-faceted strategy is difficult to replicate
- Leader in growing identical sales – 27 consecutive quarters
- Gaining market share and leveraging scale
- Solid balance sheet with significant financial flexibility
- Seasoned and proven leadership team
- High quality asset base
- Track record of rewarding shareholders through dividends and share repurchases



# Questions and Answers





# Appendix



# Appendix 1: Nielsen Homescan Definitions

- Kroger
- Rem Food – all other grocery retailers excluding Kroger
- Mass – Walmart, K-mart, Target, etc.
- Warehouse – Sam's Club, BJ's, Costco, etc.
- Drug – CVS, Walgreens, Rite-aid, etc.
- Dollar – Dollar stores
- A/O Channels – Gas stations, convenience stores, military bases



# Forward-Looking Statements

The accompanying slides contain certain forward-looking statements about the future performance of the Company. These statements are based on management's assumptions and beliefs in light of the information currently available to it. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially. Our ability to achieve identical supermarket sales and earnings growth and earnings per share goals, the timing that those earnings occur within the year, our ability to achieve results in the upper half of our earnings guidance range, and our ability to continue to deliver shareholder value through dividends and share repurchases, may be affected by: labor disputes, particularly as the Company seeks to manage health care and pension costs; industry consolidation; pricing and promotional activities of existing and new competitors, including non-traditional competitors, and the aggressiveness of that competition; our response to these actions; unexpected changes in product costs; the state of the economy, including interest rates and the inflationary and deflationary trends in certain commodities; the extent to which our customers exercise caution in their purchasing behavior in response to economic conditions; the number of shares outstanding; the success of our future growth plans; goodwill impairment; volatility in our fuel margins; and our ability to generate sales at desirable margins, as well as the success of our programs designed to increase our identical sales without fuel. In addition, any delays in opening new stores, or changes in the economic climate could cause us to fall short of our sales and earnings targets. Our ability to increase identical supermarket sales also could be adversely affected by increased competition and sales shifts to other stores that we operate, as well as increases in sales of our corporate brand products. Earnings and sales also may be affected by adverse weather conditions, particularly to the extent that hurricanes, tornadoes, floods, and other conditions disrupt our operations or those of our suppliers; create shortages in the availability or increases in the cost of products that we sell in our stores or materials and ingredients we use in our manufacturing facilities; or raise the cost of supplying energy to our various operations. Our results also will be affected by the inconsistent pace of the economic recovery, consumer confidence, and changes in inflation and deflation in product and operating costs. Our capital expenditures could vary from our expectations if we are unsuccessful in acquiring suitable sites for new stores; development costs vary from those budgeted; our logistics and technology or store projects are not completed on budget or within the time frame projected; or if current operating conditions fail to improve or worsen. Our fuel margins could fail to normalize at 11¢ per gallon if rapid changes in fuel costs occur. Our non-fuel operating margin guidance could change if we are unable to pass on any cost increases, if our strategies fail to deliver the cost savings contemplated, or if changes in the cost of our inventory and the timing of those changes differ from our expectations. Any change in tax laws, the regulations related thereto, the applicable accounting rules or standards, or the interpretation thereof by federal, state or local authorities could affect our expected effective tax rate. Please refer to Kroger's reports and filings with the Securities and Exchange Commission for a further discussion of these risks and uncertainties.