Food Goes Back To The Future

The Pure Foods Trend, One Year Later
• Food Goes Back To The Future
• Everybody is Doing It
• The Pendulum is Swinging Toward Better Retailers
• Kroger Wins
The future of food appears to lie in the past… back in the 19th century

Female shoppers want to go back to a time when:
- the ingredient list was understandable
- food was only minimally processed (mostly for safety)
- many products came from local farms and manufacturers
- when food was more natural and chemicals were less present

Please rank in importance to you the following characteristics in your food purchasing decisions:

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>2013</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimally Processed</td>
<td>55%</td>
<td>70%</td>
</tr>
<tr>
<td>Locally Grown</td>
<td>55%</td>
<td>70%</td>
</tr>
<tr>
<td>Natural &amp; Organic</td>
<td>45%</td>
<td>55%</td>
</tr>
</tbody>
</table>

Note: N = 2013 Women: 1,011, 2015 Women: 2,076
Source: Wolfe Research
• The desire for more fruits & vegetables increased roughly 700bps since our previous survey in 2013

• With scientific data supporting a high protein diet being more mixed, the intention to buy more fresh meat, seafood and eggs has plateaued

How do you expect your purchasing behavior may change over the next 24 months in the following food categories? Do you expect to spend: Significantly/Slightly More

Note: N = 2013 Women: 1,011, 2015 Women: 2,076
Source: Wolfe Research
Everybody Is Doing It

• Three years ago, our research showed that eating fresher, organic and local foods was much more important to the educated Millennial generation.

• Our 2015 survey suggests that the obsession with buying fresh, organic and local is uniform for those households earning more than $25,000/year.

Please rank the order of importance to you: (1 Being The Most Important)

<table>
<thead>
<tr>
<th>Answer</th>
<th>Under $25,000</th>
<th>$25,000 - $49,999</th>
<th>$50,000 - $74,999</th>
<th>$75,000 - $99,999</th>
<th>Over $100,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health products and services</td>
<td>3.6</td>
<td>3.2</td>
<td>3.8</td>
<td>3.8</td>
<td>3.8</td>
</tr>
<tr>
<td>Buying fresh, organic, local food</td>
<td>6.0</td>
<td>4.1</td>
<td>4.3</td>
<td>4.1</td>
<td>4.2</td>
</tr>
<tr>
<td>Vacations</td>
<td>5.5</td>
<td>5.0</td>
<td>4.5</td>
<td>4.2</td>
<td>4.0</td>
</tr>
<tr>
<td>Entertainment</td>
<td>4.4</td>
<td>4.7</td>
<td>4.7</td>
<td>4.8</td>
<td>4.9</td>
</tr>
<tr>
<td>Going to out to eat</td>
<td>5.0</td>
<td>4.9</td>
<td>4.7</td>
<td>4.6</td>
<td>4.7</td>
</tr>
<tr>
<td>Technology products</td>
<td>5.1</td>
<td>5.5</td>
<td>5.5</td>
<td>5.6</td>
<td>5.5</td>
</tr>
<tr>
<td>The quality of your furniture, home décor</td>
<td>5.8</td>
<td>5.6</td>
<td>5.4</td>
<td>5.5</td>
<td>5.3</td>
</tr>
<tr>
<td>The type of car you drive</td>
<td>3.5</td>
<td>5.7</td>
<td>5.8</td>
<td>6.1</td>
<td>6.2</td>
</tr>
<tr>
<td>The size and quality of your wardrobe</td>
<td>6.0</td>
<td>6.3</td>
<td>6.2</td>
<td>6.5</td>
<td>6.4</td>
</tr>
</tbody>
</table>

Note: Based on annual household income
Note: N=276 Women Under $25,000, 317 Women Between $25,000-$49,000, 344 Women between $50,000 and $74,999, 280 Women between $75,000 and $99,999, 477 Women Over $100,000
Source: Wolfe Research
The acceleration in desire for better-for-you foods is currently most notable outside of Millennial generation.

Please rank in importance to you the following characteristics in your food purchasing decisions:

- Extremely/Very Important

Minimally Processed

Locally Grown

Natural & Organic

Note: N = 2013 Women: 1,011, 2015 Women: 2,076
Source: Wolfe Research
The Pendulum is Swinging

- Are we witnessing the end of traditional branded packaged food as we knew it?
  - Women indicated they intended to purchase less frozen and dry packaged foods and both measures were up meaningfully from our 2013 survey
  - Frozen foods was and remains out of favor, but the biggest change is women noting they intend to spend less on dry packaged foods

How do you expect your purchasing behavior may change over the next 24 months in the following food categories? Do you expect to spend...

Note: N = 2013 Women: 1,011, 2015 Women: 2,076
Source: Wolfe Research
The Pendulum is Swinging

- What women want ...
  - A wide selection of goods
  - Convenience
  - Customize product selection
  - A good shopping experience
  - Low prices
  - And… A one-stop-shop

When shopping at a retail store, what is most important to you? Please select all that apply.

- Find everything I need
- Store carries items that are important to me
- Close to home/school/work
- Has the lowest prices
- High quality produce/meats
- Easy to Shop
- Good customer service
- Sells products that align with my values
- Focused on natural & organic/local/sustainable, etc. products
- High quality prepared foods/meals-to-go

Note: N = All Women: 2,076
Source: Wolfe Research
• Kroger checks all the boxes on what is important for today’s female food shopper

Characteristics of Select Retailers

<table>
<thead>
<tr>
<th></th>
<th>KR</th>
<th>WMT</th>
<th>WFM</th>
<th>DG</th>
</tr>
</thead>
<tbody>
<tr>
<td>Has low prices</td>
<td>√</td>
<td>√</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Find everything I need</td>
<td>√</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High quality produce/meats</td>
<td></td>
<td>√</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tailored product offering</td>
<td>√</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Convenient to home/school/work</td>
<td>√</td>
<td></td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Easy to Shop</td>
<td>√</td>
<td>√</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Good customer experience</td>
<td>√</td>
<td></td>
<td>√</td>
<td>√</td>
</tr>
</tbody>
</table>

Source: Wolfe Research
• Kroger has low prices…

• This doesn’t include the direct-to-consumer promotions and the gasoline discounting program

Kroger Historical Price Premium / (Discount) to Wal-Mart in Houston

Note: Our baskets contain fast turning and high household penetration items. When an item is not available during our visit (cannot be found or the package size has changed), we remove this item from the comparable basket.
Source: Wolfe Research
Kroger Wins

- Kroger has high quality produce and meats…

Kroger’s King Soopers Store (Local and Organic Produce)

Source: Wolfe Research
Kroger Wins

- Kroger has a broad offering, is largely convenient, is easy to shop and provides a good customer shopping experience
  - This includes a robust private label program focused on better-for-you foods and tailored product choices to local tastes and suppliers

When shopping at a retail store, what is most important to you?

- Find everything I need
- Close to home/school/work
- Has the lowest prices

Note: N=451 Millennial Women, 2,076 All Women
Source: Wolfe Research
• Our research suggests KR’s corporate brand penetration can climb to 30% or perhaps higher as the pure foods trend continues to expand

• This is up from approximately 25% currently

• Every 1% increase in corporate brand sales is worth approximately $0.10 to EPS

Kroger’s Simple Truth Private Label Brand

Source: Wolfe Research
Kroger Risks

- A sharp pullback in the U.S. macro-economy
- An increase in the competitive climate, particularly Wal-Mart becoming more aggressive
- Higher expenses in part due to the Affordable Care Act
- Labor disputes and multi-employer pension plans
- Changes in government policies and regulations

Source: Wolfe Research
In Summary

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• The Pendulum is Swinging Toward Better Retailers
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