THE ANALYST

Ocado: International Thoughts & Kroger Moves in the US
STRONG BUY @ £2.32

Ocado – View All Notes and Models

Recommendation: **Strong Buy (No Change)**

Price: **£2.32**	Market Cap: **£1.5bn**	Ticker: **OCDO LN**
3m Average Daily Volume (USD): **$7m**	2 Year Price Target: **£6.80**	Forecast Return: **193%**

Investment Thesis:

- **Share price still gives optionality on further growth in the UK beyond CFC1 and CFC2 revenue, and international deals.**
- **Core business (CFC1, CFC2 and the Morrisons JV) close to £100m free cash flow (2017e), headlines in P&L carry significant costs for platform businesses with no revenue today. Market doesn't understand the business.**
- **Low-cost supplier of groceries based on superior cost structure against offline players. Best grocery shopping experience for the consumer, can keep driving market share.**
- **Stock back below fair value of current UK business.**

We note some interesting developments at Kroger in the US. If Kroger is going into online in a big way alone, or using technology partners other than Ocado, it will support the bear thesis. If Kroger is using Ocado it is very bullish for the stock.

Very few people active in the stock market now genuinely believe Ocado will win an international customer, although management continues to reiterate previous guidance of being *'in multiple discussions with international grocery retailers to use Ocado Smart Platform……we believe our commercial proposition to international grocery retailers is compelling and remain confident in our ability to sign multiple deals in the medium term'*. (Source: Ocado Half-Year results).

Ocado made £83m cash from operations last year, and will make £94m this year. If we add back £20m of P&L costs for Ocado Smart Platform (OSP), on which there is no revenue, and deduct £30m of maintenance capex, Ocado is approaching £100m of free cash on CFC1+CFC2+Morrisons. Investors are paying 14x that number today.

Who would use Ocado's Smart Platform?

Ocado has repeatedly stated that when it does a deal, it would prefer it to be a large one. In addition, it has stated that the first deals are likely to be in the US and Western Europe – there are large grocery markets that are under-penetrated by online. We have considered most of the larger grocers either side of the Atlantic.

As Ocado would like to do a big deal, we rule out countries such as Portugal (Jeronimo, Sonae) and Finland (Axfood). Other European markets that are technologically advanced such as Sweden and Norway have their own challenges – ICA is a franchise model in Sweden, whilst the population of Norway is only five million. A city such as Atlanta, Georgia alone has five million people in the urban area.

In the US, there are multiple regional and local players. If the capital commitment to use OSP is $100-200m (a logistics center, van network, cash payments to Ocado and reconfiguring elements of the supply chain) then we should focus on companies spending at least $1bn of capex per year. A customer also needs to have healthy profitability, a forward-thinking management and board, and a large and loyal customer base (to take the 'risk' in online).

We completely understand the markets scepticism over this deal. However, at a share price close to £2, Ocado offers an attractive investment opportunity if it can execute on the OSP/international strategy. We have reduced the deal partner target set further and, in our opinion, the most likely candidates are as follows:

- **WalMart**: We have initially ruled out Walmart, although they certainly have the scale and are obviously challenged by Amazon. We believe WalMart would almost certainly want exclusivity, and/or would want to own Ocado. They have seen firsthand in the UK through ASDA that Ocado has become a relevant and strong player with an excellent product, whilst online results from the incumbents are mixed at best (although click & collect has worked, and online penetration is most advanced in the UK, we believe Tesco and Sainsbury lose money online). Analyst estimates suggest WalMart has lost $1.5bn in e-commerce (see conference call transcripts in the appendix to this note). WalMart recently announced last mile delivery testing with Uber, Lyft and Deliv. WalMart seems to be quite advanced with its online plans, which are in excess of $12bn globally.

- **Kroger**: We discuss the Kroger case below as they seem to be approaching something large in online.

- **Publix, Florida**: This was a rumoured deal earlier in 2016, but the rumours seemed to be unsubstantiated. Publix had already tried online twice (Publixdirect in 2001, Publix Curbside in 2010) and use Shipt (similar to Instacart) in a number of cities. The company also has a history of developing its own technology, and it has a new CEO.

- **Aldi & Lidl:** We don't think the hard discount model is immediately conducive to online. Basket sizes may be too small, quantities are often large, and the SKU range is narrow. These two companies may not 'believe' in online at the German headquarters.

- **Ahold/Delhaize** (US, Netherlands, Belgium): These two companies recently merged and may be too busy with integration challenges to adopt OSP. There has been speculation that this merger was the reason for the delay or cancellation of the deal that was promised in 2015. Ahold has its own Peapod division doing online.

- **Supervalue, Trader Joe's, Costco, Whole Foods** (all US nationals) and US regionals: These are all retail models we would like to explore in further detail in future notes.

- **Carrefour** (France): In its investor call in March 2016, we believe Carrefour effectively put to bed any notion of using Ocado. In addition, the click & collect model in France has been extremely popular. Exhibit 1 below from the company's call addresses online & digital.

- **Spain**: Mercadona is the only operator with national scale, and reports around 20% of market share. We aren't clear that urban densities away from Madrid are large enough to support online, whilst Spain is a large country with huge distances between cities, small basket sizes, and a high use of local fresh providers (e.g. the local grocer, butcher, and fishmonger). Carrefour (addressed above) and DIA are smaller and DIA is a value operator which is making small initial steps into online but this is difficult to control through a franchise model, as ICA is finding out in Sweden.

- **Other Europe**: We do not believe Eastern European markets are sufficiently advanced to support high-basket size online grocery; many of the European countries are too small, and we rule out France, Netherlands, Belgium, Spain and the Nordics.

- **Germany** is another large country we would like to do further work on to explore the possibility of a deal.

Exhibit 1: Carrefour conference call transcript

<Q - John Kershaw>: Yeah. Good morning, guys. Hopefully, you can hear me and I'll speak slowly because I know my accent is difficult to understand. First of all, perhaps just talk to the broader profit trend if you can. Lots of change, but an uncertain economic backdrop out there. So, has the business still got lots of energy to grow profit or is it getting harder into 2016?

Secondly, lots of comments again subjectively online, but can you talk more specifically how you will address online grocery particularly in France. Leclerc with over €2.3 billion of online sales, I have to guess €300 million for yourself. So, how would you play catch-up there?

And finally, just on data more broadly. When do you think you will have a single view of the consumer, so you can use the data more powerfully?

<A - Jérôme Bédier>: Well, I would say that the hearing conditions were not optimal. But I'll try to answer your questions, should I answer that in English or in French? Does the gentleman have access to the translation? He does. Okay. Well, thank you very much for your question.

And indeed, this is a question that focuses mostly on digital and on the levers for profit for 2016. That's the first point, I believe. And the second point was, what about sales for food or food sales in France? So, €3 billion were mentioned by one of our competitors. That's the second topic, these are the two topics.

So, anyway on the food question, home deliveries, that's the only question really, will drive – yeah, maybe. I think I've answered that question already by explaining the strategy of Carrefour. The idea would be to have stores as close as possible to catchment areas, to cut the distances between our stores and where people live. That's all I need to say. If this is not understood, I can't do more. That's the only thing I can do. That's the first thing.

Secondly, if fresh produce is a key component of food, which is my belief, then obviously, the fresh will be better served when it is based in small warehouses, which I shall call convenience stores, local stores.

And when you think you can deliver food and non-food at the same time, you are wrong. This is quite clear-cut as a statement.

And there is no single site that can actually do great when doing home deliveries especially in the fresh sector. So this is my answer to that question. This is my answer, the fresh is fresh. The fresh is fresh, the fresh is local, the fresh is professional. And this means that you have very limited room for manoeuvre for stores that need to be as close as possible to the customers.

Source: Bloomberg transcript

Financial implications

Ocado has a market capitalisation of £1.5bn. This is a lot for an unprofitable challenger grocer that is threatened by Amazon. However, we consider Ocado to be a winning technology and logistics provider. Firstly, Ocado supported only £1.2bn of gross sales last year; it is yet to scale, which is why profitability is so low. Secondly, it has not monetised the technology outside of its own Ocado.com operation and its platform partner in the UK, Morrisons.

If Ocado was to provide $5bn online revenue capacity to an OSP partner through the provision of CFCs coupled with an in-store/click & collect solution at a 5% fee, it would make $250m from that customer annually. If we assume annual costs of $50m to provide the service, and fully tax the recurring profit stream on a 20x multiple that represents £120m of income and nearly £4/share. Clearly this is an undiscounted, un-risked number to be achieved in perhaps five years' time, but we are discussing the direction of travel in this note.

We propose that a large international deal would be completely transformative to the Ocado investment case at the current share price level of £2.32. Ocado is losing money investing in the OSP, which is currently a business with no revenue.

A large deal with attractive economics makes Ocado a global technology provider (as verified by its own customers in the UK, and Morrisons, the first retail partner). This de-risks the investment case significantly and opens the roadmap to a share price a multiple of the current level.

Developments Stateside

Evidence is building that Kroger is about to make a play into e-commerce. We do not know if they will use technology partners, or the timing of a broad launch on home delivery and click & collect, but we lay out our thought process here.

- Kroger has a $36bn market cap and generated $110bn of sales in 2015 (same-store sales were +5%). Last year it bought back $703m of stock, and paid $385m in dividends. It invested $3.3bn of capex, and generated $5.2bn EBITDA, with $2bn of net income. The company calculates an invested capital base of $46bn, and carries net debt of around 2x EBITDA or $10.4bn.

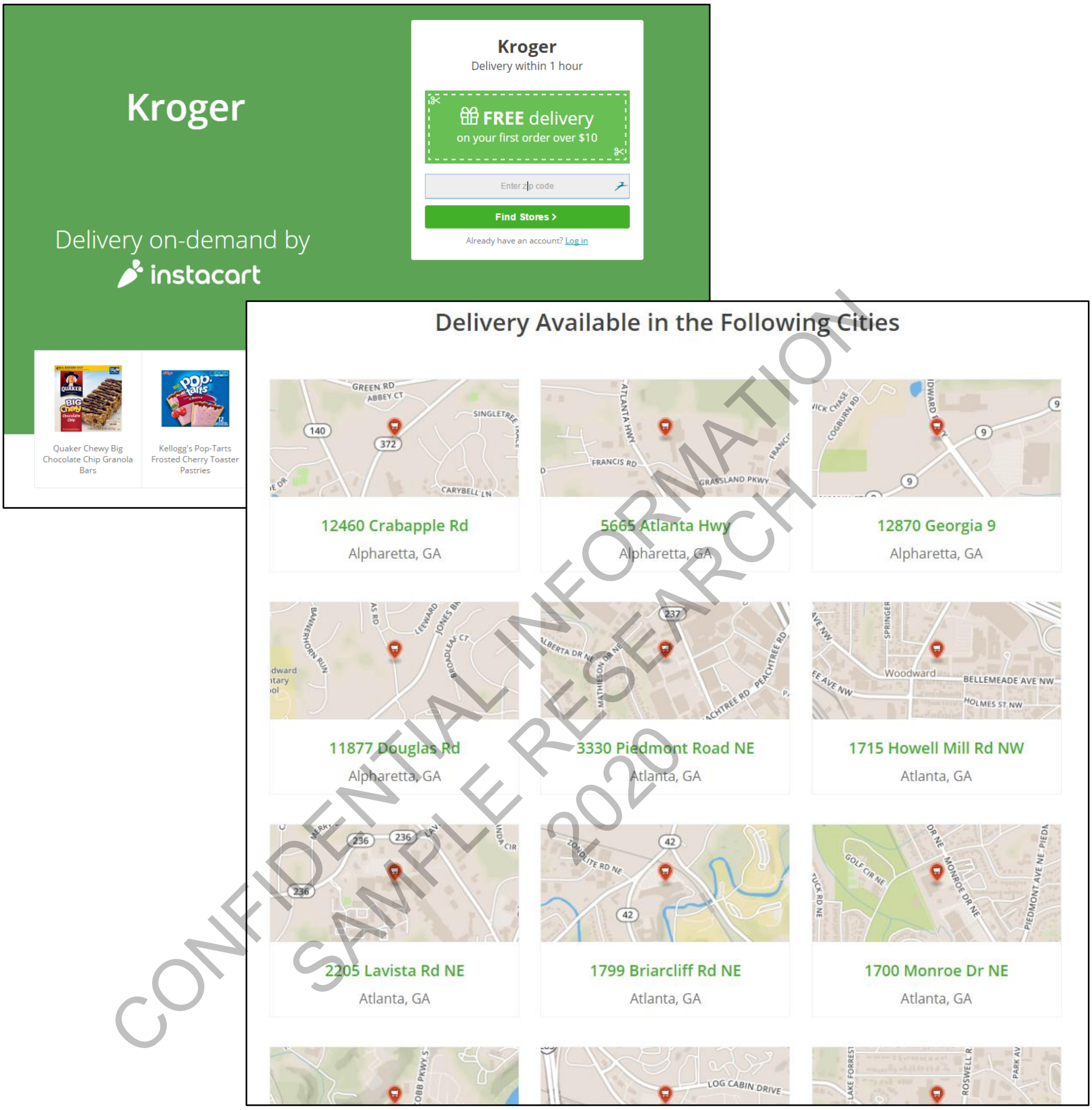
- In simple terms, Kroger can easily afford to use Ocado's OSP offering. In our last discussion with Ocado, it was suggested by management that a partner could begin on OSP with less than £30m investment in the first year. Ocado could provide a first piece of capacity (for example $1bn revenue) which would be scaled as a modular facility, with the client paying a small initial technology fee ($10m?), a total capacity fee (1-2% or $10-20m?) and an active capacity fee based on the actual capacity required each year (perhaps 5% or $5m per $100m increment).

- On the assumption that only 5% of Kroger's revenue goes online (the current level of UK penetration), the board should be thinking hard about how to supply $5bn of sales to their customer base in the next five-to-ten years. One solution would be using Ocado's OSP, beginning with a first modular facility in a key market, followed by multiple modular CFCs across the country. For example, Ocado's CFC3 in Andover will fulfill 65,000 orders per week at 180+ units per hour (picking speed), providing a maximum revenue capacity of £350m/$500m.

- Kroger operates 2,778 retail food stores (42% in company-owned facilities), uses 39 distribution centres, and employs 430,000 associates. A typical Kroger supermarket stocks 14,000 private label items, whilst it has 38 food production plants which supply 40% of the brands sold in the supermarkets.

- In online, they provide 'ClickList' (order online, store collection) although this is only operating in 221 stores (less than 10% of the base). In fact, the company barely mentions online and digital in its annual report. Kroger is available on Instacart, but this only appears to be in 26 cities in Atlanta, Georgia. Interestingly, Kroger could be testing the Atlanta online market through Instacart, before launching its own direct offering in that region for the reasons discussed in this note. Instacart represents a tool for trialing online whilst it is not at scale. Grocers can see if there is customer demand, but if they scale through Instacart they eventually 'lose' the customer and associated data to Instacart. In addition, we are sceptical that Instacart could be scaled to provide a cost-effective $5bn online solution to large national grocery chains.

Exhibit 2: Kroger on Instacart (26 cities listed, all in the state of Georgia)



Source: Instacart.com

Exhibit 3: Kroger online

If you think about Harris Teeter, right? We talk a lot about Harris Teeter, up to about 160 or so Express Lane, click-and-collect location throughout that banner. And we always thought from the beginning that Harris Teeter really set the standard for customer service and convenience, where customers define that as wanting to order online, but pick up at store.

And just over a year ago, we built on that Express Lane learnings and launched a new way to shop in Cincinnati. As I've said before, our intent was to build out personalization and efficiency capabilities on top of what we had seen at Harris Teeter for both our customers and our associates. And that's really important.

Source: Bloomberg transcript of Kroger investor meeting

- ClickList was acquired with Harris Teeter (which operates 237 stores and is based in North Carolina). The merger closed in early 2014. Kroger seems happy with the Express Lane offer (click & collect) as per the comments above. We speculate that Ocado may be required to integrate store-based picking and collection into their OSP offer. An expansion of the offer in 2015 may have led to greater complexity for Ocado than they initially expected. Adding technology and support to integrate a client's store network to the centralised picking of the CFC would be additional complex work. We know Morrisons will begin to offer an element of store collection through M.com, as well as taking additional Ocado capacity in CFC4 when it opens in 2017.

Exhibit 4: Tim Steiner on store picking

We're not seeing any specific difficulty – just to understand that these are very major strategic decisions. So if you're a sizeable player and if you're talking to us, for example, and we explain to you that today, Ocado's sales are something I think just over 20% of the sales of Waitrose, if you're running a $20 billion or $50 billion or $100 billion retail, you are thinking about a business that could scale to $2 billion, $4 billion or $20 billion in the next 5 years to 10 years.

*And deciding how you're going to run that business is not a small decision. And there's a lot of things to think about in terms of how it integrates to your existing systems, how it integrates to your existing – or how it appears to your customers, how you might solve challenges in terms of **picking in far-flung regions where they don't justify the size of an automated solution, how you might utilize those facilities to enable you to do other activities that could benefit from fast, efficient, single picking, like, some single picking for store replenishment. It's just – it's a big strategic decision.***

I think the only question that in some markets people have is, there are still some players – and I think sitting in the UK we might feel that's a little bit remarkable – that aren't sure if the online market will ever take 5% share in their market, whether they ought to be investing any energy or money into it. Personally, sitting here with the scale of the UK market, the continued growth, and in particular, the market share that we've taken by doing a better job, we think that people will slowly come to realize that this is a bigger market opportunity. But overall, I'd just say that the conversations are taking longer rather than there is a specific hurdle to them.

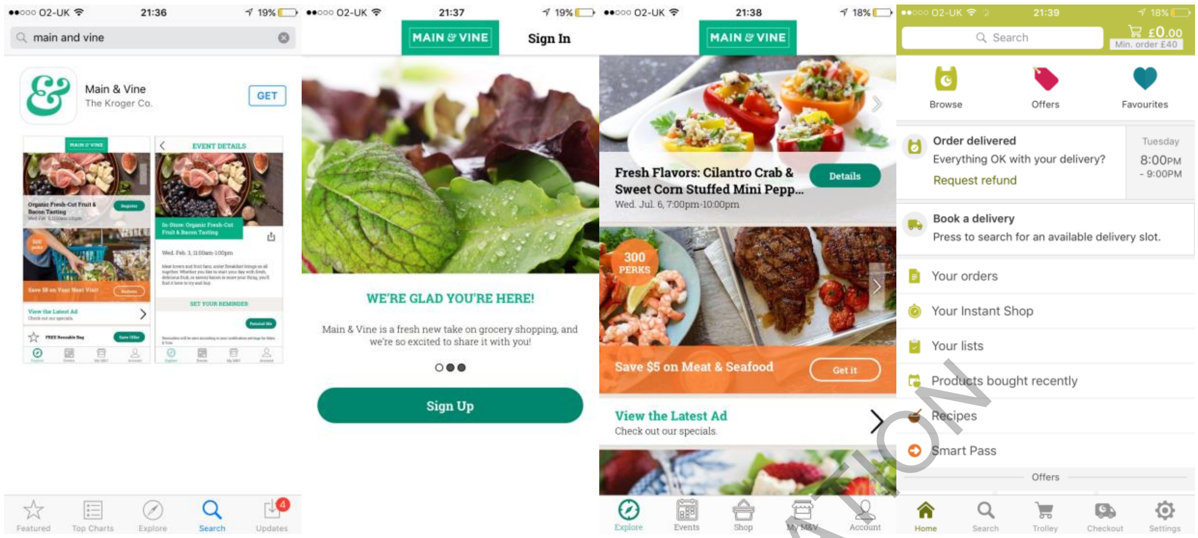
The timelines, as I mentioned before, are not as fast as turning on a kind of a manual solution where some crowdsourced people come in and pick a few groceries for your customers and somebody needs to charge more money because it's rather expensive. The timelines look like – usually, and it depends where and who with and when exactly…

Source: Bloomberg transcript of Ocado Q4 2015 earnings call

- Kroger is based in Cincinnati, Ohio and in June last year began to add 650 jobs at a new building in Blue Ash, Ohio. Alongside the recruiting, the company began to convert a dormant 375,000 square foot facility to take over work handled by three other centers in the area. We believe Ocado has commented in investor meetings that reasons for the delays to an international deal could include changes to the corporate structure of the client during the negotiations, or the requirement for a client to convert existing facilities already in their supply chain (rather than going greenfield with Ocado immediately).

- Early this year, Kroger launched 'Main and Vine', a new concept grocery store in Gig Harbour, Washington. In addition to the Kroger app, we also found the Main & Vine app available to download on the US Apple Store. The Main & Vine app is not fully developed, and based on our testing does not yet fully work. There are some similarities to the Ocado app (for example the 'five options' at the bottom of the screen) but nothing to suggest Ocado has anything to do with this Kroger project at the moment.

Exhibit 5: Main & Vine app (3 images on left hand side) and Ocado app (right hand image)



Source: Apple App Store

- In July 2013, Kroger registered a 'Main and Vine' trademark covering retail grocery store and on-line grocery store services with in-store pickup or home delivery.

Exhibit 6: Main & Vine trademark

JUSTIA Trademarks

Statements

Goods and Services	Retail grocery store and on-line grocery store services with in-store pickup or home delivery in the field of packaged and fresh foods and beverages, natural and organic foods and beverages, general merchandise, health and beauty products, vitamins and supplements; retail delicatessen store and on-line delicatessen store services with in-store pickup; retail pharmacy and on-line pharmacy services with in-store pickup and home delivery
Goods and Services	Food delivery
Goods and Services	Restaurant services, namely, delicatessen services with in-store pick or food service for consumption on premises or carry-out
Pseudo Mark	MAIN AND VINE

Source: trademarks.justia.com

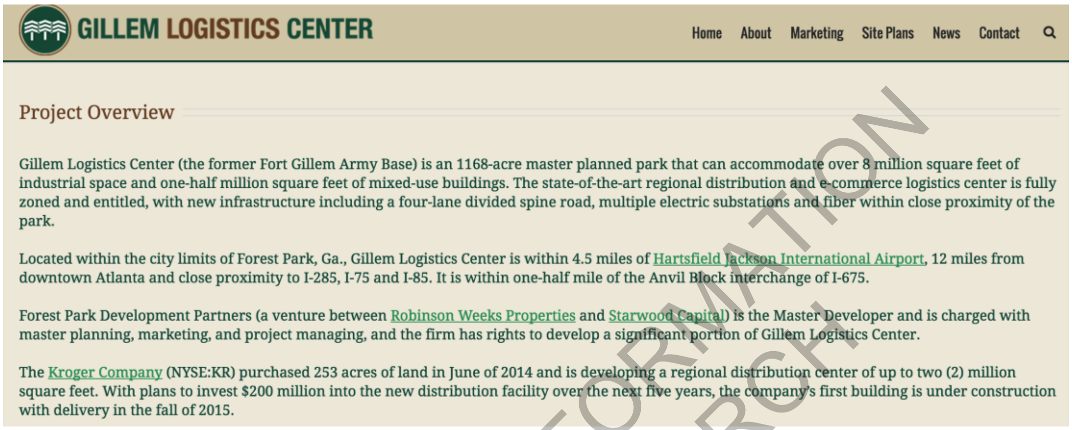
- The Fort Gillem logistics center in Atlanta, GA has a video update as at 29 June 2016. The Kroger logo flashes up at around 25 seconds on the video – Kroger is currently occupying the building behind and has 253 acres of the site before building #200.

- Kroger does not appear to be committed to building #200, which is an 848,000 square foot concept that has had the shell erected – this is much larger than CFC2 in Dorden (350,000 square feet) or CFC4 in Erith (563,000 square feet). The location is 12 miles from Atlanta, as described on the center's website. Atlanta is a large urban sprawl, with a population of 5.5 million in the greater urban area. This sort of population could easily support a $1-2bn CFC. In addition, Atlanta is within two-to-four hours of cities such as Augusta, Birmingham, and Colombia. Charleston is a push at five hours and Jacksonville may be too distant at nearly six hours. In the UK, we believe Ocado sees a catchment of up to three hours

(CFC to hub). Perhaps in the US, greater distances are possible by using the larger highways, client supply chain assets and overnight driving.

- Fort Gillem has 10.9m height to the eaves, whilst Dorden is 16.5m and CFC4 Erith is 11m. As we have not yet visited the Atlanta site, we are unclear if the facility is designed in a similar way to a CFC, with the configuration of the incoming suppliers, the car park layout and the dock doors. Fort Gillem will have 141 dock doors, which compares to 28 van docks, and 32 HGV loading bays at CFC4.

Exhibit 7: Gillem Logistics Center overview



GILLEM LOGISTICS CENTER

Home About Marketing Site Plans News Contact

Project Overview

Gillem Logistics Center (the former Fort Gillem Army Base) is an 1168-acre master planned park that can accommodate over 8 million square feet of industrial space and one-half million square feet of mixed-use buildings. The state-of-the-art regional distribution and e-commerce logistics center is fully zoned and entitled, with new infrastructure including a four-lane divided spine road, multiple electric substations and fiber within close proximity of the park.

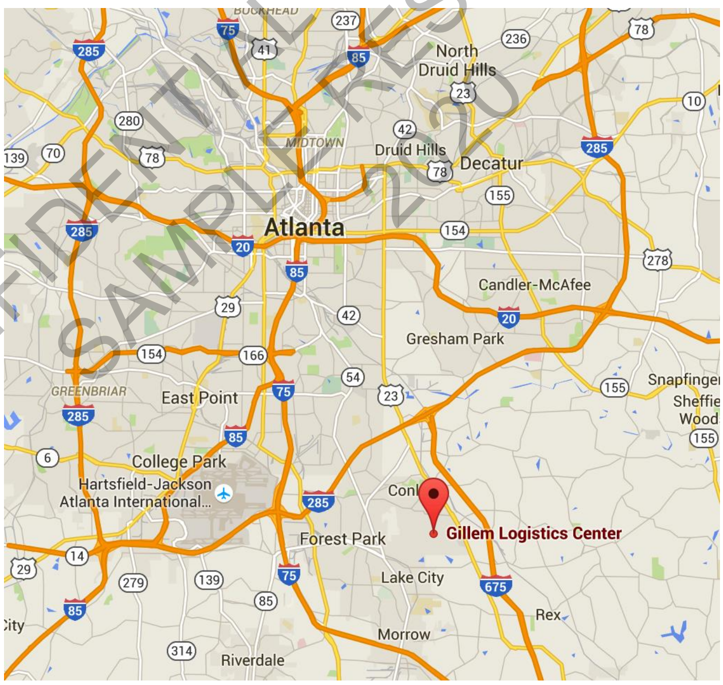
Located within the city limits of Forest Park, Ga., Gillem Logistics Center is within 4.5 miles of Hartsfield Jackson International Airport, 12 miles from downtown Atlanta and close proximity to I-285, I-75 and I-85. It is within one-half mile of the Anvil Block interchange of I-675.

Forest Park Development Partners (a venture between Robinson Weeks Properties and Starwood Capital) is the Master Developer and is charged with master planning, marketing, and project managing, and the firm has rights to develop a significant portion of Gillem Logistics Center.

The Kroger Company (NYSE:KR) purchased 253 acres of land in June of 2014 and is developing a regional distribution center of up to two (2) million square feet. With plans to invest $200 million into the new distribution facility over the next five years, the company's first building is under construction with delivery in the fall of 2015.

Source: www.gillemlogisticscenter.com

Exhibit 8: Location of Gillem Logistics Center



Source: Google Maps

- If Kroger is not using Ocado for online, it supports the bear thesis that Ocado's technology is not differentiated. If Kroger go into online by themselves, or with other technology partners, this would be damaging for the internationalisation thesis on Ocado.

- If Kroger is moving ahead with Ocado, then why hasn't Ocado announced it? Perhaps there is an initial testing phase for Ocado to fulfill some proof points before confirmation of a deal. Perhaps the deal is planned to be large, there are some provisional works being undertaken, but final terms are not agreed? Perhaps Ocado has signed confidentiality agreements with Kroger, who want to protect their online strategy, and secure a first mover advantage in the US? An NDA or broad heads of terms may not trigger any disclosure obligations, or initial work may be undertaken without Kroger having made a final decision as to whether to use Ocado, another technology operator, or to do it all in-house. If Ocado is involved in the project without contractual certainty, this may put significant risk on Ocado, though they may be willing to take such risks for such a large prize. Whilst there are a variety of reasons why disclosure may be legitimately withheld, we are working on the assumption that no signed contract exists and that at best an informal or non-contractual understanding is in place. Alternatively, of course, we recognise the possibility that Kroger may be working alone or with another technology partner, and Ocado is therefore continuing to face delays in achieving its first OSP deal.

- In April 2016, a Times article suggested Ocado was about to enter the US after signing a deal with logistics company Mace. This occurred alongside rumours (for example in The Telegraph) that Ocado was in talks with Publix Super Markets. Publix is Florida-based, with more than 1,000 locations.

Conclusion

On 13 July we will visit Amazon's logistics facility in Hemel Hempsted (tours are available here). We also plan another visit to see what is happening at CFC3 in Andover. Reports from the company's post interim results roadshow indicated that management had delivered test orders from the facility already. If this is the case, then the company should be on track to ramp-up the modular facility after the summer, well in time for peak ordering in the run up to Christmas.

A successful ramp-up of CFC3 is important for Ocado. Firstly, it lifts capacity constraints and allows continued volume growth at +15-20%. Secondly, it is a proof point of the capital-intensity and mechanics of the new technology. Thirdly, it is a proof point for international licensors.

Ocado may be more advanced with an international partner than current market consensus believes.

Ocado remains a Strong Buy-rated stock with a £6.80 target share price.

Appendix: Key comments on online by Kroger since start of 2015

23 June 2015 (Jefferies Global Consumer Conference)

<Q - Mark Gregory Wiltamuth>: Okay. And when we look over at e-commerce, you've got the click-and-collect model in the 165 Harris Teeters. You now have a test running in some of your Kroger bannered stores in Cincinnati. Maybe talk to us about that offering for the consumer and what you think the future is there.

<A - J. Michael Schlotman>: Well, we're happy with what we see. The consumer acceptance of it is high. There are growing pains with any new line of business like that. You have a group of associates who are now shopping for customers rather than stock in the store for customers. So they're used to putting stuff on the shelves, not taking it off the shelves as when they're working. So you have to train the associates how to do that. You have to have them understand how that customer would want to shop. So there's a bit of training. That's one of the reasons we've gone a little slow at first. That first Kroger store is now open live to anybody. If you go online, you can – anybody can shop, but it's not a limited group.

In reality, it was – even before, we said it was not a limited group. A local news reporter figured out to how get in and kind of told the world how to do it if they wanted to. So we actually had a lot of business that we couldn't fulfil because we're limiting the slots. Now, it's open to anybody. It's going very well. The second store has been opened in a limited test. But that word is getting out as well. So we're – I feel pretty good about the pace we're going to be able to deliver this for our customers.

And just based on how quickly the slots fill now, Cindy always reminds me that we have it in one store in Cincinnati, so people that want it may be going there and that's filling up slots. And as we get it to more stores, it will free up slots. But the slots fill up pretty quickly. There are windows of time where you know you're going to be by the store that you can pick the slot, and they do fill up pretty quickly, which is a good sign that these people want it.

25 March 2015 (Telsey Advisory Group Spring Consumer Conference)

<Q - Joseph I. Feldman>: Just to maybe – I know we have like a minute or two left, I always like to ask you guys or all management teams, just what are people asking, or what are people not asking that they should be asking about? Like what are people missing right now, if anything?

<A - J. Michael Schlotman>: I think one of the things that people are starting to appreciate about us a little more is our innovation. I always joke that a lot of people Kroger pops up on the screen and their image is a sleepy little Midwestern grocery retailer, until they get into our stores, until they see the stuff that Harris Teeter had brought us with click-and-collect, until they've realized we have over 300 people in Cincinnati working on a digital and e-commerce platform. Until they see some of the things we're doing from a technology standpoint with our QVision, where we saw a piece of technology and enhanced it and put it in our stores and for a one-time capital investment, no more hours we took three and half minutes out of the wait time at the front-ends of our stores.

And the tenacity we have, we don't rest in our laurels. If you listened to where we're at the Analyst Meeting in October, Rodney always likes to remind us, our to-do list is longer than our done list. And if you sat in some of our meetings, you would think that we'd had 45 straight quarters of negative IDs, not positive. Because we frankly don't think we're doing as good a job as 45 straight quarters of IDs when we do our own report card. There is a lot of room for us to do better in our stores on day-to-day basis. You're in the stores a lot more than me.

11 September 2015 (Q2 2015 Earnings Call)

<A - W. Rodney McMullen>: …I'd like to highlight three key areas of innovation and investment today. Technology, food and people. And how the steps we are taking in each of these areas are broadening our competitive advantage for the future. We are actively expanding our use of technology in ways we believe will make a difference for customers and associates. This summer we expanded our online ordering pilot in Cincinnati to three additional divisions. We are now offering our order online, pickup at the store solution in select Kroger stores in Louisville and Indianapolis and Fred Meyer stores in the Portland area. This is, of course, in addition to the Harris Teeter's successful Express Lane service.

When you think about digital opportunities, we do not limit our focus to e-commerce. Digital for Kroger includes a broad range of efforts to interact with customers in increasingly relevant and meaningful ways whether online or through a mobile app. A key metric is our measure of digital and household engagement. And during the second quarter, we continued to gain household engagement at record numbers. Our Kroger technology team continues to earn recognition for leading-edge initiatives to establish the Internet of Things in our stores. Earlier this summer, Kroger's electronic temperature monitoring project was named a winner of the CIO 100 award by CIO magazine. As we shared with you in June, the talented team at 84.51° is helping us grow and evolve even faster due to their closer daily involvement in our business. 84.51°'s specialty, helping us make data-driven decisions that truly put their customer first is a significant competitive advantage for Kroger.

Our multi-tiered Corporate Brands portfolio has always been a powerful differentiator for Kroger. Simple Truth continues to see explosive growth. Private Selection remains a vibrant billion dollar brand that is growing in the double digits and developing unique offerings in many categories.

11 November 2015 (Acquisition of Roundy's Inc)

<Q - Stacie Rabinowitz>: And I was just curious, with more stores in the Chicago market and Chicago being such a consolidated geography, does that change how you're thinking about what you might be testing in e-commerce and delivery versus pickup?

<A - J. Michael Schlotman>: We have probably a test of everything going on in e-commerce, when you think about product cost and online ordering, delivered to home via that way, when you think about Express Lane at Harris Teeter or ClickList at Kroger or home delivery in the Denver market. So it's safe to assume that we have things going on, on all facets of this. And as Rodney said at the investor conference a couple weeks ago, this isn't an or, it's not shop in the store or get home delivery, we view it as and. And we do believe we have to solve for how a customer wants to interact with us on each shopping trip. So if they want to come to the store today or if they want to drive by and have us put it in their cars, or if they want to deliver to their home, we believe we need to figure out a way to be able to address all of those needs for the customers.

15 March 2016 (BAML Consumer & Retail Tech Conference)

<A - W. Rodney McMullen>: I guess probably one of the biggest learnings that we learned from Harris Teeter, when we merged with Harris Teeter, was that a customer really continues to engage with you by coming in the store. So, it's not an either or it's an and. And that had always been our hypothesis but until we merged with Harris Teeter. We didn't really know that for sure. And, so far, there isn't anything that's caused us to see that it isn't an and. And, for us, what we're trying to do is design a model where the customer decides how they want to engage with us versus us telling them you have to. You can only buy over – deliver to your house by UPS or whatever else. And like a customer decide how they want to engage with us.

And what we find – it's just one more part of the whole shop and it's just one more easy way for the customer to engage with us. We do an awful lot of work trying to help the customer to be able to make out their shopping list as easy as they can if they want to shop with us digitally. And we track how long does it take somebody to prepare a shopping list and for how many items and everything else. So, to us, it's just one more evolution to engage with a customer the way they tell us they want to engage versus tell them you have to shop this way with us.

We're happy where we are. If you look four years ago, the revenue from that part of the business was zero and it's starting to show up towards a meaningful number. I'm really proud of the team and how they've taken something that really didn't exist. And now it's something that customer comes to us for. And we have a high percentage of our customers engaging with us digitally. And if you look at coupons, it wasn't quite 1 billion last year, I don't think.

<A - J. Michael Schlotman>: Not quite, but we're certainly hitting every 500 million download of the digital coupon multiples faster than the previous 500 million.

<A - W. Rodney McMullen>: And we really work with 84.51° in terms of using the predictive analysis to try to make it easier for the customers. So, Mike, when he logs on, his coupons will be sorted different than Kate's, different than mine, based on our own behavior.

16 March 2016 (Barclays Emerging Payments Forum)

<A - W. Rodney McMullen>: Yeah, we use 84.51 and that's our own IP to analyze the data, but what I thought it was – but I don't – it's the software – the underlying software is a third party that we would use the platform for, and I just don't remember who that is, sorry.

<Q>: Can we bring it over here to the middle?.

<Q>: Thanks. Could I just ask a quick question, people really talked about e-commerce in grocery being underpenetrated, could you give me your thoughts on that, and maybe some of the payment providers or tech companies that's kind of you feel has enabled you to drive that e-commerce business?

<A - W. Rodney McMullen>: Yeah. Our experience so far with e-commerce is it's – the customer it's an and versus an or. Where if you look at most retail businesses, it's an or, so somebody completely switches the way they shop. I think part of it is that people are social animals and they still like to go talk to people. So I think that's one of the reasons why it's an and, and not an or. For us, we want to make sure that we're positioned to deal with the customer changing at whatever speed they want to change. So if they, suddenly if it goes from 0.01% of the business to 20% of the business in two-years, we want to make sure that we're positioned to be able to successfully manage that transition. The payment piece, to me – just making it seamless, Starbucks is the one I think probably who does the best job of any retailer/restaurant that's making the experience totally seamless. Okay, Meredith.

<Q>: I have two questions. The first is you talked about the amount of change that's coming. To what extent given the size of Kroger does that make you hold off in terms of implementing a new technology because you know there is going to be another new technology and you don't want to make that investment in order to go up, and then I have another question for you.

<A - W. Rodney McMullen>: Yeah. Probably the easiest example to use on that that isn't helpful for the payments but it would give you insight in terms of how we think is, if you look at digital coupons or digital shelf tags, we've been – we've tested digital shelf tags, I don't know, probably six times or seven times over the last 15 years. As soon as we – if we could get a real return on it, we would do it even though you know what's coming out a year from now is better than what you have. The only way you would not do that is if there was some massive leapfrog, but most leapfrog you don't know about that. So you really would be driven by, can you get a return for the investment right then and obviously the life would be shorter than what you're – it's not like a physical asset where it has a 15-year or 20-year life.

<Q>: And then my second question is, maybe just a little more technical, but I read that you have cut the home delivery business in Denver which you had for very long time. But that you are moving it to the Vitacost platform, I was trying to wonder what's going to make that – what's going to be better about that functionality than what you were doing before, because you clearly were serving customers to some extent?

<A - W. Rodney McMullen>: Just for everyone, Vitacost is a company that we merged with about a year ago that's 100% dot-com and it's focused on natural and organics, vitamins, those types of items. They have about 47,000 SKUs. What we're testing at King Soopers is really using the Vitacost platform branding under King Soopers name and basically creating endless isle. So if you think about a store having 4,000 SKUs or 5,000 SKUs what we're trying to do is to open up to where there is 40,000 some SKUs.

<Q>: [indiscernible].

<A - W. Rodney McMullen>: Yes. The platform is just a facilitator. The product is what really matters and that's one of the reasons why we merged with Vitacost was because it is our ability to get the platform by three years or four years.

…

<A - W. Rodney McMullen>: Right. But, I really, if I look at what, how the payments are in Europe, I would – I really believe that pressure will be to move more in terms of what the European model is versus what we are doing in the U.S. today. How long it takes to get there, the Federal Government will obviously have an influence as well.

<Q>: Okay. I think we are about out of time. I guess maybe one last quick one and then...

<Q>: I think I can make it quick. Just e-commerce economics, just trying to understand how you think about that business if you have to run it as an entirely separate unit, have to think very long-term to make that business scale?

<A - W. Rodney McMullen>: Yeah. If you look at our e-commerce business, we've probably, our structure is different than almost any other retailer out there, and it's actually a matrix organization. And it's kind of fascinating, because you can argue, if you have standalone, but if it's complete standalone then you don't do a very good job leveraging your core assets, and we've really created a matrix so that we can leverage the assets we have, because we think that's one of the advantages we have as we have a lot of stores that are convenient.

22 March 2016 (Telsey Advisory Group Spring Consumer Conference)

<Q>: Wanted to ask about the digital strategy, obviously, it's a big topic and everybody is concerned that grocery is going the way of digital and obviously everybody's trying to do it. You guys are taking the click-and-collect approach as sort of your lead. Can you talk about how that's going, where things stand, the test stores for the core Kroger, how Vitacost fits into all this – all these things.

<A - J. Michael Schlotman>: Yeah. It's – the hope is that, it's an integrated strategy, but ultimately it's an integrated strategy. So I'll start with what – we call it Kroger ClickList, what Harris Teeter calls click-and-collect or Express Lane, that depends who you talk to, what they call it. I think, technically it's Express Lane but a lot of people call it click-and-collect. So let's just use that as a generic term, which is why we couldn't point at this click-and-collect because, we couldn't trademark that term.

<Q>: Right.

<A - J. Michael Schlotman>: And so our view is and what we learned through Harris Teeter is most of our customers live within two or two-and-a-half miles of a – one of our stores. And if you think about where they work or where their children go to school or where they take their children in after-school activities, there's probably four to five to seven even Kroger stores that they would pass in their daily travels. The opportunity to say, well, I've got a soccer game with my child at 6 o'clock and I'm on the other side of the town. So tonight, I'm going to go in and put my order and at 8 o'clock, I'm going to pick up my order on the way home at a store that's not by my house is hugely efficient for that family versus saying, okay, well I'm going to put my order in, but I got to – now, I've got to travel to the store I always go to or I want it delivered to my home, but I have to be home between 6 o'clock and 8 o'clock. Well, that won't work, my child has a soccer game at 7 o'clock. Just the convenience of our locations to where our customers live their daily lives, we believe that, and what Harris Teeter showed is, is that it's a convenience with the customer, one is wanting to pay a little bit for.

Most people weren't willing to pay what it's really cost to deliver a product to your home. How do you handle groceries being delivered to your home if it's a window of time that you have to be home because – my son lived in New York City for a couple years and in his apartment building, they had a – there was a doorman and they had refrigerated units in the lobby level of the building, so for us directly come in, put your groceries in when you finally get home from work, they're there waiting for you.

We don't have that in the suburb yet, where most of our stores are and the notion of putting groceries on your front porch is I think going to be something that people aren't willing in any near-term to live with. There are people who are home a lot that it can work for. And the other part is just the efficiency of delivery. My stores there are 24x7 in many cases and the customer decides when they wanted the delivery. The last mile is not the difficult mile for them in most of our locations. We can save *them a lot of the time shopping. The last thing a mom wants to do is if it's a rainy soccer game, it's going to the store with a muddy child and shop.*

<Q>: Right.

<A - J. Michael Schlotman>: So it's been – it's [indiscernible] something that again our – we focus on what the customer wants and the customer continues to tell us if something they like. And if you think about Vitacost, we recognize that the whole online shopping experience, these things – there are things that the customers wants to buy that way. And when we thought about getting into that world, the e-commerce world from an online capability, we were getting ready to go down that path of investing a lot of dollars in an online capability. The opportunity with Vitacost came along, while part of it was – it's an extension of what we already do in our stores which was phenomenal, a lot of it was the fact that their system is hugely scalable and it's something we can go in and play with and understand what dynamics the customer likes.

And again, I think it was $170 million or $175 million we paid for that merger. And if you think about what it would have cost us to build that capability with test and learns and losses you generate along the way, we would – between losses and just through capital, building the capability, we would have spent way more than $175 million. A lot of that would have gone through my income statement that sits on my balance sheet as an investment.

And we're testing things with them today in different markets, where an extension of Simple Truth can be shipped, top shelf-stable product. It's not all vitamins and supplements, there are a lot of food products in there, but it's shelf-stable product primarily at this point. When you think about the whole world of subscriptions and Kevin Dougherty who likes – who runs our digital, likes to hold up, let's assume that it doesn't have the water and because that gets pretty heavy when you ship it, you weigh it out before you cube out, but items this size that are relatively light, like a bottle of vitamins, the more of those you can get into your box, the more efficient it is. So, our whole goal is to get another item or two in the box and it doesn't just have to be a line of products they started with.

<Q>: Now, are you finding a certain type of person is the one shopping with ClickList or Express Lane? Is it – again, is it a younger, more millennial, is it the soccer mom, you kind of described that a couple of times?

<A - J. Michael Schlotman>: Let's put it this way, [indiscernible] so Kate has a five-year old and – or a six-year-old and an eight-year old. And it really is that family who's time-stressed. It's difficult oftentimes to take them to the store and shop [indiscernible]. You can decide what store, particularly as we continue to roll it out, is most convenient for you to pick it up. That said, it goes across demographics. That would be the leading demographic today. It's some kind of life event, having a child, someone has been sick in the family and it's easier just to run to the store and get a few things or have it picked for you. But people – what we've learned from Harris Teeter is people may use it less, but they don't get away from it entirely.

<Q>: Okay.

<A - J. Michael Schlotman>: If you think about, shopping at grocery store, one of the issues we have from a real estate standpoint is the bascart is only so big. So, as you shop in the store you only have so much real estate to fill up, when you're shopping in the store. And if you get bulky things, if you get paper towels, if you get bottled water and that kind of product, you're shopping cart gets filled up pretty quickly. Well, when you're doing it on ClickList, that little cart just – the number goes up, and it doesn't really ever get full, and as long as your trunk's big enough to accept the product, you really aren't limited on an order side, by the size of the bascart. That actually can be a limiting sales factor inside the store. Well, our ClickList sales, average sale, is significantly higher than our average in-store sales.

<Q>: Got it. And the nature of what they're buying is a little different too?

<A - J. Michael Schlotman>: It runs the gamut of the store. It's amazing the number of people, one of our views was that that they wouldn't want to shop the perimeter on ClickList and people are fairly okay doing that. Some people separate trips, some people buy all of the – Rodney, talked about the boring part of the store, the shop going up or down the canned vegetable aisles and the most exciting part of the store. They may have let's shop all of that, and they get all that on one trip and then they were trips for fresh product, they may stop a couple of times a week and buy that product closer to consumption.

<Q>: Got it.

<A - J. Michael Schlotman>: So, a lot of people shop. It's not – for us between Vitacost, ClickList and the brick-and-mortar, it's not an or, it's an and. And what we want is – like you can shop this way and you can shop this way and you can shop this way. We aren't going to tell the customer any one way they have to shop with you.

10 May 2016 (Goldman Sachs Global Staples Forum)

<Q - Stephen Grambling>: I'm going to tie one other related question and then go back to the audience questions. But I guess thinking beyond just ClickList, it seems like other retailers, and broader retail have often talked about omni-channel and it starts with buy online, pickup in store, and then kind of evolves to direct to the consumer. Yet, e-commerce penetration for grocery in the U.S. has basically been sub-2% range for years and years and years. I guess what do you think has kept the consumer back in the U.S. relative to other markets like the UK or Korea and what are the things that you are doing and how do you feel about direct-to-consumer?

<A - J. Michael Schlotman>: Well, first off, I think there are just demographic and lifestyle differences between us and those countries you just mentioned. If you think about London where you have to pay some very high amount just to drive your car in the London, if you're outside the circle, who is going to drive the car to the grocery store when you have to pay, I don't forget how many pounds of this, I've never driven there because I've enough troubles to stand on the right-hand side of the road, little on the left-hand side. So, first off, you have to step back and understand the mobility difference between the markets we operate in and the markets like that, that your referenced.

Our view of this is, it's much like ClickList, as the customer is going to lead us where they want to be. The one thing I can tell you about is, there really isn't an option for home delivery out there, that we aren't trying to learn and understand somewhere. And if you name most of the options, whether it's our own trucks with home delivery, whether it's an Instacart or an Uber, there is some learning going on somewhere. So, we really understand the economics and we understand what's going on. It's just like store formats. And one of the reasons, we have so many things that are out there, even if we decide format X isn't going to be one that winds up being something we want to deploy, what you learn about the financials of that model and how to compete with them, a competitor, you've just taken your learnings to another level, so that you can remain relevant with your customer. So not everything your try has to be successful for to be a success for the company.

21 June 2016 (Jefferies Consumer Conference)

<Q - Mark Gregory Wiltamuth>: Okay. Why don't we move over to e-commerce? So your ClickList offering, this is your Click-and-Collect offering in the marketplace. I understand you have 40 to 45 stores now, 25 markets, what are your plans there on expanding that? And are there any barriers in terms of pacing to get that to a broader segment of your stores?

<A - J. Michael Schlotman>: And my guess is, is it's probably pushing 60 stores by now versus the 40 stores or 45 stores when we last reported. They're opening quite quickly. The initial slot to get opened, there is a lot of entitlement work you have to do. You're altering traffic flow in the shopping center. There is new signs. You're, in some cases, blowing a hole in the wall of a building to have a door for people to go in and out of to service the customer. All of that requires entitlement work with the appropriate municipalities and permitting and things like that.

So to get the critical mass of those done, a lot of that work's behind us and now it's just a matter of getting the equipment in place, the associates hired and trained and turning on the system in those stores. We're very pleased with what we're seeing and we continue to plow forward with opening them as quickly as we can.

<Q - Mark Gregory Wiltamuth>: And is this something where it'll be an anchor store or one store in the community has it, or is it something that will work at all the stores?

<A - J. Michael Schlotman>: The direct answer to your question is it will be in a lot of stores. The whole thing that makes this work for our customer is most of our customers live within a couple of miles of the store they shop in, and we wanted to remain convenient for the customer. The biggest issue, and it'll be what my son, who's in London would say, a First World problem, is in some stores, we're already to the point where we have to figure out how to expand the pickup slots, because

some of the ones that are most popular get filled up pretty quickly. So we're going to have to figure out a way to expand the pickup slots for the customer to keep it very convenient. And it's a nice problem to have. It's better than having open pickup slots.

<Q - Mark Gregory Wiltamuth>: *And then, the other pricing points, you also do $0.99, $0.95 for a year membership more or less. So is that popular versus the $4.95 per pickup?*

<A - J. Michael Schlotman>: *We've done that at Harris Teeter, and it is proving somewhat popular. We have not offered that on the Kroger side, yet I don't believe right now as we rolled out, we're just doing the per trip offer until we get through the rollout stage. And again, the repeat customers, the first couple of times they do it, it is free and then we start charging and we have a lot of repeat customers*

<Q - Mark Gregory Wiltamuth>: *Okay. Now, Walmart is layering on top of delivery option on to their click and collect. What are your thoughts on adding delivery to this? Do you think you need to go down the delivery route or is click and collect going to be the predominant model?*

<A - J. Michael Schlotman>: *Well, you should assume that anything that's out there, we're testing somewhere. We always do it. We just don't chop from the rooftops everything we're doing. And our merger with Roundy's and the Mariano's stores in Chicago, they've had a relationship with Instacart for a while that we're continuing and we're learning from. There is a store in Washington DC under the Harris Teeter banner that if you click one more time, you can go over and schedule delivery to happen via Uber.*

And as you know, we've had our own delivery trucks in Denver, Colorado for a very long time. And you heard Rodney used the words on the first quarter earnings call, of anything, anytime, anywhere and we're trying to make this process an and for the customer, not an or. So we don't want the customer to think you can either do this or do that, wanted to be an and process. You don't get their overnight, you migrate there over time, and these are all building blocks that you try to get stronger on each day.

<Q - Mark Gregory Wiltamuth>: *And where are the peak demand periods? Is it 3:00 PM to 5:00 PM before dinner hour? Is that when you get loaded up? And is it to the point where it disrupts the store at all or is it just seamless in the background and in-store shoppers don't even notice this happening?*

<A - J. Michael Schlotman>: *Yeah. I wouldn't go so far, as it's completely seamless and I know there are shoppers that see the people picking. The way the process works today as it's not a same day process, you can sit down and do your order over the course of a few days. And then when you submit it, you have up until midnight before the day you pick it up to make modifications.*

So the order is actually sitting in the store for a little bit of time before the picking has to occur, so you can schedule that a little bit differently. But in a really high volume store, the addition of ClickList to it, you have to be sensitive to not detracting from the customer shopping experience. When we have our associates shopping for ClickList orders, it's a fine line you walk.

<Q - Mark Gregory Wiltamuth>: *Okay. And you think delivery is economical or do you set the charge at right amount that you cover it?*

<A - J. Michael Schlotman>: *The customers love it when it's free. They balk when you charge for it. There is a fee for the Uber attached in D.C. My guess, the dynamics of that store with how urban it is, there are probably a lot of those customers taking an Uber to the store and an Uber back from the store. [indiscernible] I ought to charge Uber for the advertising I'm giving them.*

And now if they can go to the express lane and order the product and just have the Uber deliver it, it's saving them time in an urban environment. We're not afraid to test things. We test a lot of stuff. And we'll continue to figure out what the customer wants. And you can't make money doing everything they want, so you have to make sure at the end of the day, we do have shareholders we owe a return to, and we're very cognizant of that.

Source for all comments: Bloomberg transcripts.

Important Information and Disclaimers

The accompanying documents have been prepared and issued by The Analyst Research LLP ("The Analyst"). This research is confidential and is intended only for use by persons to whom it has been directly distributed by The Analyst. This research is strictly confidential and must not be distributed to any third party by the recipient named in the watermark.

The Analyst is a limited liability partnership authorised and regulated by the Financial Conduct Authority ("FCA") of the United Kingdom (firm reference number 605593) and registered as an investment adviser in the United States of America by the U.S. Securities and Exchange Commission (registration number 801-76777). Registered office: Arthur House, Chorlton Street, Manchester, M1 3FH. Trading address: 35 Bedford Road, London, SW4 7EF.

THE ACCOMPANYING DOCUMENTS ARE MARKETING COMMUNICATIONS. The documents are not independent investment research and have not been prepared in accordance with legal requirements designed to promote the independence of investment research and, in producing these documents, The Analyst is not, and has not been, subject to any prohibition on dealing ahead of the dissemination of these documents.

The accompanying documents are intended only to promote the investment research and related advisory services of The Analyst, by using examples and case-studies to give potential clients of The Analyst a sample of The Analyst's investment research services and how such services will be provided. The examples used may be actual investment research issued previously and/or research in relation to hypothetical situations.

WITHOUT PREJUDICE TO THE FOREGOING, THESE MARKETING DOCUMENTS DO NOT RECOMMEND OR SUGGEST ANY INVESTMENT STRATEGY, DO NOT CONSTITUTE INVESTMENT ADVICE AND MUST NOT BE TREATED AS DOING SO BY RECIPIENTS OF THIS DOCUMENT.

The accompanying documents are issued by The Analyst only to and/or are directed only at (and The Analyst's services will be made available only to) persons who are "professional clients" or "eligible counterparties" (as defined in the rules of the FCA). Persons of any other description (including, without limitation, persons who are "retail clients" for the purposes of the FCA Rules) must not act or rely on this material, and the services of The Analyst will not be available to such persons.

All content within these marketing documents (including text, trademarks, illustrations, photographs, graphics, designs, arrangements etc.) are protected by copyright and other protective laws. The marketing documents should not be passed on, duplicated nor reproduced in whole or in part under any circumstances without The Analyst's express written consent.

The information in the accompanying documents is provided for information purposes only and is not comprehensive. These accompanying documents are not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation which would subject The Analyst to any registration or licensing requirement within such jurisdiction. The financial instruments described in these accompanying documents research may not be eligible for sale in all jurisdictions or to certain categories of investors.

The Analyst gives no undertaking that it will update any of the information, data and opinions in this document. The Analyst may at its discretion decide to provide you with further data or material but makes no representation that such further data or material will be calculated or produced on the same basis, or in the same format, as this material.

The Analyst's methodology for determining valuations and price targets may include, but are not restricted to, the following methodologies: analyses of market risk, growth rate, revenue stream, discounted cash flow ("DCF"), earnings before interest, tax, depreciation and amortisation ("EBITDA"), earnings per share ("EPS"), cash flow ("CF"), free cash flow ("FCF"), enterprise value ("EV")/EBITDA, price-earnings ratio ("PE"), PE/growth, price/CF, price/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group PE, sum-of-the-parts ("SOTP"), net asset value ("NAV"), dividend returns and return on equity ("ROE").

The investments described in the accompanying documents place an investor's capital at risk (i.e. an investor might lose some or all of the amount invested). Past performance is not necessarily a guide to future performance and an investor may not get back the amount originally invested. The price, value of, and income from, any of the financial instruments mentioned can rise as well as fall and may be affected by changes in economic, financial and political factors. The accompanying documents do not seek to provide an exhaustive statement of the risks associated with the investments or types of investments referred to. All information is provided AS IS with no warranties and confers no rights. If a financial instrument is denominated in a currency other than the investor's home currency, a change in exchange rates may adversely affect the price of, value of, or income derived from the financial instrument described in this report. In addition, investors in securities such as American Depositary Receipts ("ADR"s), whose values are affected by the currency of the underlying security, effectively assume currency risk. Please note that in particular the bases and levels of taxation may change.

Any prices stated in this research are for information purposes only and do not represent valuations for individual securities or other instruments. There is no representation that any transaction can or could have been affected at those prices. Different assumptions, made by The Analyst or any other source, may yield substantially different results. The accompanying documents are intended to be for information and marketing purposes only and are not intended to constitute, and should not be construed as, investment advice. These documents have no regard for the specific investment objectives, financial situation or needs of any person. Recipients of these documents should seek their own independent financial advice. They are not and should not be construed as a recommendation, offer or solicitation for the purchase or sale of any financial instrument.

No liability is accepted by The Analyst for the reliability, accuracy or completeness of such information. In no event will The Analyst be liable to any person for any direct, indirect, special or consequential losses or damages of any kind arising out of any use of or reliance on the information in the accompanying documents, including without limitation, any loss of profit, business interruption, loss of programs or data on your equipment or otherwise. This does not exclude or restrict any duty or liability that The Analyst has to its customers under the relevant regulatory systems.