27-Jun-2019

# The Kroger Co. (KR)

Annual General Meeting





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# CORPORATE PARTICIPANTS

W. Rodney McMullen
*Chairman & Chief Executive Officer, The Kroger Co.*

Rebekah Manis
*Director-Investor Relations, The Kroger Co.*

Lee Cassiere
*Vice President, Audit, The Kroger Co.*

Michele Colopy
*Program Director, Pollinator Stewardship Council*

# MANAGEMENT DISCUSSION SECTION

## Unverified Participant

Ladies and gentlemen, please welcome to the stage our Chairman and CEO, Rodney McMullen.

## W. Rodney McMullen
*Chairman & Chief Executive Officer, The Kroger Co.*

Good morning and welcome to Kroger's Annual Meeting of Shareholders. Thank you for joining us today. Our first order of the business, I appoint point Lee Cassiere, Vice President of Internal Audit, as Inspector of Elections.

Lee, do you have a report?

## Lee Cassiere
*Vice President, Audit, The Kroger Co.*

On May 1, 2019, the record date of this meeting, there were 806,682,213 common shares par value of $1 per share issued an outstanding. Each share is entitled to one vote on each matter submitted to the shareholders for a vote at this meeting. 725,113,714 common shares were represented by proxy and in person at 11:00 AM on June 27, 2019. A quorum exists.

## W. Rodney McMullen
*Chairman & Chief Executive Officer, The Kroger Co.*

Thank you. I declare that a quorum exists and that this meeting is lawfully convened and ready to transact business.

It is now my privilege to introduce your board of directors. Please stand and remain standing as I call your name. After the introductions, I will invite our audience to recognize your important contributions to Kroger. Nora Aufreiter, Director Emeritus at McKinsey & Company; Anne Gates, former President of MGA Entertainment and Anne is joining us by phone today; Susan Kropf, former President and Chief Operating Officer of Avon Products Inc.; Jorge Montoya, former President of Procter & Gamble's Global Snacks & Beverage division and the Latin American division; Clyde Moore, former Chairman and CEO of First Service Networks; James Runde, Special Advisor and former Vice Chairman of Morgan Stanley; Ron Sargent, former Chairman and CEO of Staples, Inc., Ron serves as our Lead Director of our board; Bobby Shackouls, former Chairman, President and CEO of


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Burlington Resources; Mark Sutton, Chairman and CEO of International Paper; and recently named Director Ashok Vemuri, CEO of Conduent, Inc.

We are fortunate to have a highly engaged board of directors, each of whom brings valuable experience and expertise to Kroger. Please join me in thanking our board for their outstanding service and contributions.

And it's the only fitting – Bob is probably used to be in the first to call him with the last name that starts with B, but it's only fitting that we take this moment to recognize a special day and thank Bob Beyer for his service as our Lead Director from 2013 to 2018, for his dedication and passion to our company over the last 20 years. Kroger is a better company because of him. Our associates are better, our shareholders are better, and our communities are better. And we will miss Bob.

Let's all wish Bob the best, and we know that he will always be a special friend to Kroger. Bob, thank you for everything.

Now, I would like to invite Kroger's corporate officers to please stand and be recognized. I'd also like to invite Scott Hays, President of Cincinnati/Dayton division, to stand as well.

Kroger is fortunate to have such a strong group of leaders across our company. Our entire senior leadership team brings unmatched depth and experience to achieve our Restock Kroger goals. Please join me in recognizing the entire team for their leadership on behalf of our customers and associates.

Two of our senior officers are retiring this year: Mike Schlotman, who has served Kroger for 34 years most recently as Executive Vice President and Chief Financial Officer; and Chris Hjelm, who will retire after 14 years most recently serving as Executive Vice President and Chief Information Officer. Mike and Chris' contribution have shaped and advanced our business in countless ways. Everything from our technology, our point of sale equipment to our financial strategy, how we invest our capital, these two executives have been an amazing partner for the journey for the last 14 and 34 years, in addition great friends and great friends for Kroger. The entire Kroger family wishes both you and your family a wonderful retirement. Thank you for everything.

Finally, I'd like to add acknowledge several past leaders who are with us today: Dave Dillon, Lyle Everingham, Paul Heldman and Dennis Hackett, and other retirees. Kroger would not be Kroger without you and we get to build on the wonderful foundation you put in place. Thank you very much.

There are several long-serving leaders who have had an impact on our company. I'd like to take a moment to thank them as well. Several of these leaders have retired in the past year or have announced their retirement. Zane Day, President of our Nashville division, 44 years; Scot Hendricks, President of our Delta division, 38 years; Bruce Lucia, President of our Atlanta division, 44 years; Don Rosanova, President of Mariano's, 16 years; Marlene Stewart, President of the Houston division, 41 years. We are a better company because of their leadership. Let's give them a round of applause as well.

I will now introduce Bob Guido of PricewaterhouseCoopers, the independent auditors for Kroger. Bob, please stand. Bob, along with Gary Millerchip, Michael Schlotman and Christine Wheatley, will assist us in answering questions about the 2018 Annual Report.

Here is a copy of Kroger's 2018 Annual Report. If you'd like to ask a question about the Annual Report, please stand and make your way to the end of your aisle so we can bring a microphone to you.


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At this time, please limit your questions to matters contained in the Annual Report. Later in the meeting, we will address shareholder proposals and invite general questions and comments. Under Kroger's usual rules of conduct, each speaker will be limited to three minutes per question.

Any questions on the Annual Report at this point? Seeing none concerning the Annual Report, I direct that it'd be filed with the minutes of this meeting.

Our next item of business is the election of directors. All directors are to be elected to serve until the Annual Meeting of 2020, or until their successors have been elected and qualified. Do I hear a motion?

## Rebekah Manis

*Director-Investor Relations, The Kroger Co.*

I nominate the slate of candidates for directors set forth in the proxy material to serve until the Annual Meeting in 2020.

## W. Rodney McMullen

*Chairman & Chief Executive Officer, The Kroger Co.*

Thank you, Rebekah. Is there a second?

## Unverified Participant

I second the nomination.

## W. Rodney McMullen

*Chairman & Chief Executive Officer, The Kroger Co.*

Thank you, [ph] Dawn (00:08:02). Are there shareholders present who wish to have ballots to vote at this meeting?

While we wait for the report on the results of the vote, I'd like to share a few words about our progress in the first year of our transformation plan, Restock Kroger. Please note that today's presentation will include forward-looking statements as described in the slide. Fortunately, I don't have to read the whole slide.

We hear this phrase so often that it's easy to dismiss. Change is life's only constant. We hear it so often that it becomes cliché. But like many clichés, it may no longer be original, but it's still true. It is especially true in grocery retail. And it's because the grocery retail industry is constantly changing that we proactively launched Restock Kroger in October 2017.

Restock Kroger starts with customer obsession at every level of our organization. That's why we're building an omnichannel platform to serve customers with anything, anytime, anywhere. That is why we're joining with exciting partners, both large and small, who share our passion for using technology to create innovative customer experiences and additional value. That is why we're developing leaders who are passionate about people and food. And that is why we are meeting the customers' growing desire to know that a company they choose to shop with is a company with a purpose.

Restock Kroger is our blueprint for transformation. And we are executing our plan. We will deliver for our customers, associates and communities while maximizing shareholder value.


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Customer obsession drove us to build a platform to serve customers anything they want, anytime they want, anywhere they want. Our customers don't distinguish between an in-store or an online experience, rather they want to have a food-related need or a problem to solve and they want the easiest, most convenient, seamless solution.

Our digital sales grew 42% in the first quarter and 58% in fiscal 2018. We also expanded our coverage area to reach 93% of our customers in the first quarter. By the end of this year, everyone in America will have the ability through our modalities to shop with Kroger, whether they decide to come to a store, use or Pickup or Delivery service, or a Kroger Ship.

Since 2014, we've gone from no digital sales dollars to a 2018 annual run rate of about $5 billion, which will trend toward our $9 billion digital sales run rate in the future. I call this out because while we're not only in the middle of the transformation, it's important to frame up the magnitude of the progress that we've already made. Our efforts are positioning Kroger to be a leading omnichannel retailer in the food industry.

Customer-focused innovation is part of who we are. One of the most powerful examples of this is Our Brands. Six years ago, Simple Truth did not exist. Now, it is the largest natural organic brand in the country, reaching more than $2.3 billion in sales annually. To me, that's just fabulous.

In the room today, you can experience one of our recent trips to Rwanda, through an interactive VR headset to see where we source some of our Simple Truth teas with Fair Trade USA. And if you didn't get a chance to do it beforehand, I would highly recommend it. But you may want to hold on to something while you do it. I don't know about you, but the VR experience, I'm still getting used to.

The team between Our Brands is always innovating and developing new products for our customers. In 2018, we introduced more than 1,000 new products. And on top of that, we introduced more than 200 in the first quarter. The R&D process is fascinating and I want to share with you how our team goes from concept to cart. So let's take a look behind the scenes.

[Video Presentation] (00:12:39-00:14:33)

Isn't that so cool? I don't know about you, but that video always makes me incredibly hungry. And I just want one of those chips or something. As you can see, Kroger has a world-class food innovation team that provides our customers with new and exciting ways to enjoy food that they can only get by coming to Kroger.

This summer, where we will be introducing Treasure EmporiYum, a curated collection of trend-inspired Our Brands product in nearly 200 marketplace stores across the country and through our e-commerce site. Before you leave today, be sure you experience the taste of Treasure EmporiYum and a scoop of our new Unicorn Swirl Ice Cream.

We continue to improve the customer experience in our stores and across our digital properties by partnering with industry innovators such as Home Chef, Microsoft, Ocado, and Walgreens. This is one of the most exciting areas of Restock Kroger because all of these partners accelerate our ability to provide customers anything, anytime, anywhere.


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Like Kroger, each of these partners share our passion for exploring the nexus between technology and customer experiences, provided by creativity and innovation. Our associates' passion for innovation is driving our transformation. Let's watch.

[Video Presentation] (00:15:59-00:17:02)

As you heard from our associates, innovation is part of our DNA and it's driving Kroger to create a new model for grocery retail industry.

When I think of innovation, I think of our partnership with the UK-based, Ocado, another accelerator in our transformation journey. Ocado will help us reinvent the cost model for digital customers and increasing their profitability quicker.

Two weeks ago, we broke ground on America's first high-tech customer fulfillment center powered by Ocado right here in the Cincinnati region. The innovative facility brings first-of-its-kind technology to the United States and creates over 400 new jobs in our home state. We are excited to build nearly two dozen customer fulfillment centers across America. We recently identified additional sites in Central Florida and the Mid-Atlantic region.

Be sure to check out one of the Ocado robots in the back of the room before you leave today. It won't talk to you, but it's a cool robot.

As you know, at last year's meeting, we debuted Nuro, the fully autonomous on-road vehicle that uses robotics and machine learning to transport goods quickly, safely and affordably. Since that meeting, Nuro has been promoted to serving our customers first in Scottsdale and now in Houston. Nuro's world-class expertise in robotics, automation, and digital experience has created an entirely new platform for local e-commerce and solving the last mile.

Kroger is nearly 0.5 million associates all working toward the same vision, to serve America through food inspiration and uplift. We are creating a purpose-driven culture where people may come for a job, but often stay for a career with promise. We are supporting associates in a wide variety of ways, including more than $0.5 billion invested in raising wages, enhancing training, and developing leaders.

I am pleased to share our recently updated average hourly rate is now over $20 per hour with comprehensive benefits factored in, benefits that many of our competitors don't offer.

As a result of our investments in talent development through Restock Kroger, we are significantly improving employee retention in one of the most tightest labor markets in years. Our culture is changing, our business is changing, and I've never been prouder of our associates. I'm inspired by them every day. I am proud to say I am Kroger.

[Video Presentation] (00:20:01-00:21:16)

Transforming from a grocery company to a growth company means we will need a flexible workforce with new skills and knowledge. We are securing Kroger's continued success in the next chapter of retail by encouraging lifelong education through Feed Your Future, our industry-leading education assistance program.

We've had more than 2,500 associates receive funds, pursuing every type of credential from GEDs to Ph.Ds. Among all participants, more than 80% are hourly store associates like Molly here our pharmacy technician in our


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Columbus Division. Molly moved to the United States from Uganda six years ago and became a courtesy clerk. She is now studying to be a Kroger pharmacist at The Ohio State University and is using Feed Your Future dollars.

We know that by making educational benefits available to more associates and at more generous levels than ever before is the best way to support future career and personal growth. We know associates increasingly choose where to work based on a company's purpose. We know customers increasingly select where to shop on a company's commitment to making the world a better place. And we know other stakeholders increasingly decide which companies to support based on a company's leadership in environmental, social, and governance areas.

Kroger has a multi-generational history of using our community presence and scale to improve places we call home. Leading social causes, especially in the area of hunger relief, it's authentic to who we are. Now, together with our associates and customers, we are leveraging our collective power to boldly transform the world around us through Zero Hunger | Zero Waste, our plan to end hunger in the communities we serve and eliminate waste across their entire company by 2025. You, too, each of us, play an important role in driving Zero Hunger | Zero Waste efforts this year. If you submitted a ballot, we match your vote with one meal donated to Feeding America to help feed families across our country.

In the context of Zero Hunger | Zero Waste, we're evaluating every aspect of our business, including taking a deeper look on how plastic is affecting our communities and environment. Last year, Kroger became the first major U.S. retailer to announce the phase out of single-use plastic bags, starting with our QFC division in the Pacific Northwest.

This industry-leading decision enhanced our existing commitments to recycle more plastic, add more reusable containers in our supply chain, reduce the amount of plastic resin in our own brands manufactured packaging, and enhance customer recycling programs. Looking beyond our near-term plastic reduction goals, we've already started to develop the next phase of our commitment. One example is our exclusive partnership with Loop. Loop is a circular economy platform developed by TerraCycle. Together, we will advance Kroger Zero Waste vision by offering customers another way to reduce single-use plastics in the environment. You can see and learn more about the platform here today in the back of the room.

We fundamentally believe customers will reward us for the work we are doing to make the world a better place. Together with our associates and communities, we will continue to reach milestones to make tremendous progress in our journey to achieve Zero Hunger | Zero Waste. You can learn more about Zero Hunger | Zero Waste plus our broader sustainability commitments on thekrogerco.com.

Restock Kroger is built on the foundation of operational excellence and everyday productivity improvements that have long defined Kroger. The four drivers of Restock Kroger, Redefine the Customer Experience, Partner for Customer Value, Develop Talent, and Live Our Purpose, will come together to create shareholder value through incremental operating profit and cash flow growth by 2020.

Kroger solidly delivered on our key year-one Restock Kroger commitments. I'm especially proud that we achieved an unprecedented savings and benefits of more than $1 billion through process improvements in 2018.

When you look at the full year, we delivered against our FIFO operating profit and cash flow goals. When you look at our first quarter, we continued this positive momentum. Last week, we shared that we are making progress building out our alternative businesses for profitable growth. We've made several organizational changes to allow deeper concentration on alternative profit streams while maintaining our laser focus on delivering for our


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customers in the core business. Kroger expects alternative profit streams to contribute an estimated incremental $100 million in net operating profit in 2019 compared to 2018. This is in line with our year-two Restock Kroger expectations.

Last year we returned more than $2.4 billion to shareholders through share buybacks and dividends combined. We have delivered annual increases in our dividends since it was reinstated in 2006. Today, I am pleased to announce that our board of directors have approved over a 14% increase in our dividend to $0.14 per quarter or from $0.56 to $0.64 per year. This is Kroger's 13th year of dividend increases. This demonstrates our board's confidence in our ability to generate strong free cash flow and to deliver on Restock Kroger.

Kroger is transitioning from a grocery company to a growth company, from physical to omnichannel, and we are partnering with the world's best innovators to accelerate this transformation. I've never been more confident in Kroger's future because I believe in our talented and passionate associates and their unending commitment to our customers. Together, we are transforming Kroger for the better and living our purpose through Zero Hunger | Zero Waste.

[Video Presentation] (00:28:16-00:30:09)

## W. Rodney McMullen

*Chairman & Chief Executive Officer, The Kroger Co.*

That concludes our annual business review. Now, we'll return to our formal agenda.

The first item is the report of election of directors. Lee, your report, please.

## Lee Cassiere

*Vice President, Audit, The Kroger Co.*

We find that the nominees for the board of directors have been duly elected as directors of The Kroger Co. with over 88% of the votes cast in favor of the nominees.

## W. Rodney McMullen

*Chairman & Chief Executive Officer, The Kroger Co.*

Thank you, Lee. I therefore declare that all directors have been elected to serve until the annual meeting in 2020.

The next item is an advisory vote to approve the compensation of Kroger's named executive officers. Do I hear a motion?

## Unverified Participant

I move that shareholders approve the compensation of our executive officers.

## W. Rodney McMullen

*Chairman & Chief Executive Officer, The Kroger Co.*

Thanks, [ph] Paaras. (00:31:02) Do I hear a second?


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### Unverified Participant

I second the motion.

### W. Rodney McMullen
*Chairman & Chief Executive Officer, The Kroger Co.*

Thanks, [ph] Brad (00:31:08). Is there a report on the proposal, Lee?

### Lee Cassiere
*Vice President, Audit, The Kroger Co.*

We find that the resolution approving the compensation of the company's named executive officers was adopted with over 89% of the votes cast in favor of the resolution.

### W. Rodney McMullen
*Chairman & Chief Executive Officer, The Kroger Co.*

I therefore declare the advisory resolution is approved.

The next item is a vote to approve Kroger's long-term incentive plan. Do I hear a motion?

### Unverified Participant

I move that shareholders adopt the amendment.

### W. Rodney McMullen
*Chairman & Chief Executive Officer, The Kroger Co.*

Thanks, [ph] Denise. (00:31:38) Do I hear a second?

### Unverified Participant

I second the motion.

### W. Rodney McMullen
*Chairman & Chief Executive Officer, The Kroger Co.*

Thanks, [ph] Dawn (00:31:42). Is there a report on the proposal?

### Lee Cassiere
*Vice President, Audit, The Kroger Co.*

We find that the resolution to approve The Kroger 2019 long-term incentive plan was adopted with over 88% of the votes cast in favor of the resolution.


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### W. Rodney McMullen
*Chairman & Chief Executive Officer, The Kroger Co.*

I therefore declare the amendment is approved.

The next item is a vote to approve an amendment to our regulations to permit board amendments in accordance with Ohio law. Do I hear a motion?

### Unverified Participant

I move that shareholders approve the amendment.

### W. Rodney McMullen
*Chairman & Chief Executive Officer, The Kroger Co.*

Thanks, [ph] Paaras. (00:32:18) Do I hear a second?

### Unverified Participant

I second the motion.

### W. Rodney McMullen
*Chairman & Chief Executive Officer, The Kroger Co.*

Thanks, [ph] Tara. (00:32:22) Lee, is there a report on the proposal?

### Lee Cassiere
*Vice President, Audit, The Kroger Co.*

We find that the resolution to amend the regulations to permit board amendments in accordance with Ohio law, which require the affirmative vote of 75% of outstanding shares was approved with 76.7% of outstanding shares voted in favor of the resolution.

### W. Rodney McMullen
*Chairman & Chief Executive Officer, The Kroger Co.*

I therefore declare the amendment has passed.

The next item is to ratify the appointment of Kroger's independent auditors, PricewaterhouseCoopers LLP. Do I hear a motion?

### Unverified Participant

I move that shareholders ratify the amendment.


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### W. Rodney McMullen
*Chairman & Chief Executive Officer, The Kroger Co.*

Thanks, [ph] Denise. (00:33:02) Do I hear a second?

### Unverified Participant

I second the motion.

### W. Rodney McMullen
*Chairman & Chief Executive Officer, The Kroger Co.*

Thanks, [ph] Fred. (00:33:07) Is there a report on the proposal?

### Lee Cassiere
*Vice President, Audit, The Kroger Co.*

We find that the resolution ratifying the selection of PricewaterhouseCoopers LLP as the company's auditors for the year 2019 was adopted with over 94% of the votes cast in favor of the resolution.

### W. Rodney McMullen
*Chairman & Chief Executive Officer, The Kroger Co.*

I therefore declare that the selection of PricewaterhouseCoopers has been ratified.

There are two shareholder proposals. A representative for each is welcome to present the proposal and, in accordance with our rules, will have three minutes each to do so. Is there a representative here to present the proposal for Item Number 6 regarding the publication of a report assessing the environmental impact of using unrecyclable packaging in Our Brands product?

### Unverified Participant

Good morning.

### W. Rodney McMullen
*Chairman & Chief Executive Officer, The Kroger Co.*

Good morning.

### Unverified Participant

My name is [ph] Leah Eskin (00:34:01) and I am representing As You Sow, a non-profit group promoting corporate social responsibility, which filed Item Number 6 on the Proxy. This proposal asks the company to assess the environmental impacts of continuing to use non-recyclable brand packaging. We are concerned that the company uses a significant amount of packaging that is not recyclable, especially plastic packaging. Dried fruit, frozen meat, cheese, and pet food are just some of The Kroger house brand items packaged in unrecyclable


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plastic pouches or flexible packaging. Using unrecyclable packaging when recyclable alternatives are available wastes valuable resources that could be recycled many times over.

Our proposal has appeared for four straight years on the Proxy Statement and each time received impressive support of between 24% and 31%. Still the company has taken no substantive actions in this regard. By not taking action it now lags its competitors. Our direct competitor well agreed to switch all its private brand packaging to make it recyclable, reusable, or compostable by 2025. It also agreed to reduce the overall volume of private brand plastic packaging where possible.

Plastic packaging is a prime component of ocean pollution, which threatens marine animals and human health. Recent studies estimate that 8 million to 12 million tons of plastic are dumped in oceans annually. And these studies project that oceans may contain more plastic than fish by weight by 2050. This issue has exploded in recent months. The European Commission has released a plastics policy strategy to require all packaging in the EC marketplace to be recyclable by 2030. The UK retailer called Iceland went even further, pledging to stop using all plastic packaging by 2023. Making all packaging recyclable is the first step to reduce the threat posed by ocean debris.

Association of Kroger brand products with littered packaging and toxic ocean pollution could put the company's brands at risk. We do acknowledge that after presenting this proposal for several years it is encouraging to see the company finally state it will review its packaging and look for opportunities for improvements. It says it will, at some point, set targets for increasing the recyclability of packaging. These are welcome steps forward but still weak and tentative given the stronger and more specific time-bound commitments made by competitors. The proposal merits continued shareholder support to send a message to management that a stronger, more specific response is warranted. We respectfully ask for your support on proposal six. Thank you.

## W. Rodney McMullen

*Chairman & Chief Executive Officer, The Kroger Co.*

Is there a second? Thank you. I'll second it. Thank you. We appreciate your ongoing engagement, as you mentioned, with our team. And as you should know, we hope all of our stakeholders know it influences our path going forward. We share your concerns about packaging sustainability, that's why three years ago we set public goals to make our brands packaging more sustainable by 2020. These commitments include making plastic packaging more recyclable by 20%, reducing by 10 million pounds the amount of plastic resin in our brands packaging, and increasing recycled content material in our packaging.

As an example of our progress, we have reduced more than – by more than 9.1 million pounds – on our way to 10 million pounds – plastics in our manufacturing packaging area from our 2015 baseline. This is a large part due to converting to our lighter weight milk jug, which is 10% lighter than our previous jug.

We continue to work toward reaching our 2020 goals. And as now the deadline is approaching and as a result of your engagement with us, we are also developing new goals aimed at further reducing plastic waste in the environment after 2020.

Lee, your report, please.

## Lee Cassiere

*Vice President, Audit, The Kroger Co.*


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We find that the resolution that the board of directors issue a report assessing the environmental effects of using unrecyclable brand packaging was defeated with over 61% of the votes cast voting against the resolution.

## W. Rodney McMullen

*Chairman & Chief Executive Officer, The Kroger Co.*

Thanks, Lee. I therefore declare this proposal has been defeated.

Is there a representative here to present the proposals for Item Number 7 regarding the adoption of a policy to require the Chair of the Board to be an independent member of the Board.

## Michele Colopy

*Program Director, Pollinator Stewardship Council*

Yes. Thank you. My name is Michele Colopy and I am the Program Director of the Pollinator Stewardship Council, I'm a second generation beekeeper, and a leader at the local and state level in Ohio beekeeping. I am presenting proposal number seven, the shareholder proposal for an independent Board Chair, a Chair who is not also the CEO. The proposal was filed by some of us, a Kroger shareholder, on behalf of its 15 million members, at least 1,700 of whom are Kroger shareholders and at least 32,900 are Kroger shoppers.

An independent Chair of the Board is a Commonsense Governance missing at Kroger. Except for a brief apprenticeship periods at the outset of their CEO service, Kroger's CEOs have also held the role of Board Chair for many decades. Currently, Kroger CEO, W. Rodney McMullen is both the CEO and the Board Chair. The Board of Directors is supposed to represent us, the shareholders, and oversee management. So, it does not make sense to have the top manager, the CEO, also Chair the Board.

When firms separate the CEO and the Board Chair roles, it eliminates the conflict of interest that inevitably occurs when the CEO is responsible for self-oversight. 60% of S&P 1500 companies have separate individuals serving as Chair and CEO. We don't think you should be your own boss, Mr. McMullen. Having a CEO who is not his own boss is especially important as Kroger struggles with important sustainability issues that bring competitive, supply chain, reputational, and legal risks. Kroger's failure to eliminate toxic pesticides in its supply chain is one example of the lack of competitive perspective that can occur when there is not independent board oversight of management. Our company lags competitors such as Costco, Aldi, and Whole Foods in eliminating pesticides in the company's food supply chain. Half a million people have signed petitions asking Kroger to eliminate bee killing pesticides, and this number includes tens of thousands of Kroger shoppers and thousands of shareholders.

Sustainability and competitive risks would be better addressed and long-term shareholder value preserved by a board of directors chaired by an independent director. We urge shareholders to vote for the proposal that the board be chaired by an independent director, and we urge the board to adopt this policy. Thank you.

## W. Rodney McMullen

*Chairman & Chief Executive Officer, The Kroger Co.*

Thank you. Is there a second? Thank you.

There are several matters here, first of all, is the proposal to establish a separate Chairman and then your concerns about pesticides. And I'd like to address them separately. First, Kroger's board is structured to provide the best governance on behalf of our shareholders. Our board is led by a strong, independent lead director who provides safeguards to ensure effective management. The board continually reviews our structure to ensure the structure best addresses Kroger's evolving and dynamic business.


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Next, on the topic of pesticides, I'd like to thank you for our ongoing dialogue. We listen closely to our stakeholders. And, as you know, last year, we committed to working with the suppliers to phase out neonics treated outdoor plants by 2020. We are on track to reach that goal. We've also just released an updated pollinator protection policy, which encourages suppliers to limit non-essential use of these pesticides and transition away from pesticides in favor of alternative pest management.

Our commitment to bringing – to affordable organics to everyday Americans over the past five years has also helped expand the organic industry. Kroger offers one of the largest organic produce departments in the country, which includes our very own Simple Truth Organic brand.

Lee, is there a report, please?

## Lee Cassiere

*Vice President, Audit, The Kroger Co.*

We find that the resolution to have the Board of Directors adopt a policy requiring the Chair of the Board to be an independent member of the Board was defeated with over 66% of the votes cast voting against the resolution.

## W. Rodney McMullen

*Chairman & Chief Executive Officer, The Kroger Co.*

Thank you, Lee. I therefore declare this proposal has been defeated.

That concludes our formal portion of today's agenda. Now, I will invite your questions. Each speaker will have three minutes to ask a question. At the end of three minutes, you'll hear a sound and we will ask you to conclude your comments. There will be a limit of two speakers per subject, and we ask you that you to address only topics that have not already been discussed at this meeting to allow for a variety of voices to be heard. We may refer appropriate questions to some of our officers in the audience.

Please raise your hand and we will bring a microphone to you at the end of your aisle. In the interest of time we've allocated 20 minutes for this portion of the meeting. First question?


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# QUESTION AND ANSWER SECTION

Q

Mr. Chairman.

W. Rodney McMullen
*Chairman & Chief Executive Officer, The Kroger Co.*

A

Wait, wait.

Q

Do you think I need a mic?

W. Rodney McMullen
*Chairman & Chief Executive Officer, The Kroger Co.*

A

Well, there's people listening online. There's people listening online, so.

Q

Okay. Buenos días, Mr. Chairman, Board of Directors, The Kroger team, and all my fellow shareholders. I'm [ph] Jane Garcia (00:44:46) and I'm coming here from the comeback city of Detroit, and it is the comeback city. I just wanted to make sure that I came today to thank you for all that you're doing for the hunger aspects of it, also to open up the issues of minority vendors. Last year we sent you some tortillas from the Hacienda Tortilla Factory, and I hope you enjoyed them.

W. Rodney McMullen
*Chairman & Chief Executive Officer, The Kroger Co.*

A

Very much so.

Q

We brought you some gorditas today. Lydia, the owner, came and unfortunately she didn't get her proxy in time, but she came to meet you personally, Mr. Chairman. So, I hope you take a minute to meet her. I think that [indiscernible] (00:45:24) and his group, [indiscernible] (00:45:25) group has done one heck of a job to have inclusion of minority women who are very successful. They did a wonderful video. And I don't know if you've seen it, but it moved my heart so much. I just want you to know I was privileged to see it. But I just wanted you to know that all of that kind of stuff makes such a difference in our community.

Detroit went through a very rough time, and I just want you to know Kroger's assisted us on the road to come back. What you do for the national organizations, I just can't begin to tell you how grateful I am. I'm a Kroger shopper. I'm a Fry's shopper in Arizona. And when I go to California, I go to Ralphs. So, you see I stay within my loyal card, so I add up my fuel points, and today is real important.


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So, I just wanted you to know how grateful I am, Mr. Chairman. And we did bring you your products. Nobody's going to take them. They're going to make sure you get them. And I'm hoping you take a few minutes to meet Lydia. She's a wonderful human being and she's made such a difference in our community, and you have helped. She went from 2 stores to 12 stores, so gracias, gracias, Mr. Chairman.

W. Rodney McMullen
*Chairman & Chief Executive Officer, The Kroger Co.*

A

Thanks so much for your comments. And I totally agree that Detroit is a comeback city and we love Detroit. The other thing that's the bigger thing here that I think is so important is that Kroger has been a member of the Billion Dollar Roundtable for years and years and years. And we continue to increase our purchases from minority and women-owned businesses, and it's, to me, one of those things where it's exciting because it's great products that really connect well with our customers. We're able to help small local businesses grow. And some of those small local businesses, as they grow, they add more jobs. And then I know one here locally. They were able to end up building a new factory and employed about 25 people in their new factory.

So, those are things that is incredibly important to Kroger, has been forever, and it will always be important to what we do in serving our customers. So, thanks again for your comments.

Next question, please.

Q

Hi. My name is [ph] Neal Roth. (00:47:47) I'm a shareholder. I have a couple of questions for you. One, is that, from a shareholder's perspective, share price is a key metric in the success of the company. I'd like you to comment on Kroger's share price and why it continues to languish.

The other issue has to do with the fact that Kroger is doing good and doing well for people. Kroger's technology is awesome. It always knows what I want and when I want it. The innovation you show is terrific. But the bottom line is that Kroger is in the business of selling groceries and you need to sell groceries to people who want to come to the store, who want to shop at the store, who find the stores appealing and attractive.

I've commented in the past about Wegmans and I know we've had that discussion before. But when I travel to the south and I go to Publix, I see another store that just is attractive. It makes you want to go there. It makes you want to buy products. When you go to Costco, you go into a store with a list of items and you come out with a lot more than you ever wanted to buy. I think that Kroger needs to make its stores attractive and enticing. It needs to make sure that people who come in buy things not only if they want, need, but things they don't want and don't need, and that's the way you drive sales and you drive growth.

And if your competitors are able to do this, I want to know when Kroger is going to be able to do it. It's not just Wegmans and Publix you're competing with, it's now European competitors coming over who will compete with you on price. Publix and Wegmans, of course, compete on the aesthetics of shopping. Costco, I don't know what they do, but they do a great job and they're doing a lot better, share price-wise, than Kroger. So, I'd like you to comment on Kroger's share price because that, to me, is a key metric on the company's success. As much as you're doing great things for the community, that's great, but this is a business that is selling groceries and trying to make a profit and trying to be sustainable. I'm not seeing that.


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And then in terms of making the shopping experience what people have come to expect and what people want and where you drive people to buy things, like I said, that they don't want and don't need but they come out with anyway. I think that that increases the bottom line, increases the share price, allows you to increase dividends even more than you have so far.

W. Rodney McMullen
*Chairman & Chief Executive Officer, The Kroger Co.*

A

Thank you for both of your questions. And in our earnings call last week, we talked about this a little bit. If you look at overall on Restock Kroger, we're making great progress on most of the aspects. The one aspect that we're not satisfied with is our identical sales growth. I also mentioned in the call that our identical sales growth through this quarter so far is better than where it was in the first quarter. And as all of us know, sales are the lifeblood of a retail organization.

So, we hear you, we listen to you. I can't be more excited about the opportunities we have in front of us and the progress that we're making relative to Restock Kroger. I totally agree, I always – when I do store walks, I always – one of the things I judge is how many things do I buy that's not on my shopping list. And that's the difference between a good experience and a great experience, and it's an area that I think we'll never arrive but we continue to make progress in the right way.

If you look at some of the customer measures, we've made significant progress both here in Cincinnati and broader across our whole company when you look at in-stock, the customer experience.

And then when you look at the overall ecosystem, the overall omnichannel experience, we're still significantly investing in the digital experience. We are starting to see where that's starting to become a tailwind versus a headwind, which we also think will affect profitability. When you look at the things like Ocado and those types of things will significantly reduce the cost as well. So, all of those things together create something that each piece is required to fit together. But thanks again for your question.

The next question, please, on the right side.

Q

Hello. My name is [ph] Alex Graf. (00:52:19) I've been an associate for two years at Kroger in Lexington, Kentucky. I started as a bagger and I have made my way up to a supervisor, and I just started training at the service desk. And I plan on attending college next year, and I'd like to thank you for the Feed Your Future program. That's a very good program. And I'd also like to ask you, as the fourth largest employer in the United States with all the automation and as well as smaller operations such as Scan, Bag, Go needing less employees, how do you plan on maintaining that status as the fourth largest employer in the United States?

W. Rodney McMullen
*Chairman & Chief Executive Officer, The Kroger Co.*

A

First of all, congratulations on your promotions and, as many of you know, Lexington is the city that's certainly near and dear to my heart because I met my wife there.

On Feed Your Future, to me, it's industry leading and it's so exciting, as I mentioned in the prepared remarks, 2,500 associates have signed up for Feed Your Future including over 80% are hourly associates. And if you look at two-thirds of our store directors started out as hourly associates. And for us it's incredibly important to have


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people come for a job and stay for a career because I can't think of a better place to be when you think about – if you love people and you love food, it's a fabulous place to be.

On automation, it's one of those questions where I always love the question and I don't think it's ever an easy one to answer, because if you go back and look at the – when I worked in a store, we still had manual cash registers. And I remember when we went to scanners, everybody thought that that was going to eliminate a lot of jobs. And if you look, what it allowed is a company to be much more progressive in terms of using data and be more productive, which allows you to grow. So, we end up now today, we have significantly more associates today than we did then because it really facilitated the growth.

Now, there will be and I always tell people it's incredibly important to continue learning and continuing to get an education because the skills needed in the future are going to be different than the skills today. And I always tell people, when I'm talking to college administrators, you guys get an important, cool job because most of the learning will be out of date before somebody finishes college. And how do you keep developing skills, how to use trade skills to develop those skills. Computer Science and Artificial Intelligence, all of those things, massive job opportunities. I can tell you, in our data science area, we've had to open up offices and places other than Cincinnati because we can't hire enough people here so.

But most of all thank you for continuing to grow at Kroger and thank you for making it a bigger career, and good luck in college and I hope you go to the University of Kentucky. Thank you.

Next question on the left.

Q

Yes, sir. My name is [ph] Vic Ellison. (00:55:27) I've been around well – interested in the grocery business, 45 years. My parents gave me some stock. I'm must a Kroger stockholder. I spoke twice in front of you and twice in front of Dave Dillon. And the question that I have today is why are we beginning to forget brick-and-mortar. I understand that you have to be visionary but we are way, way, way out ahead of our skis. I can tell you right now that I travel all over the country and I look at a lot of different places and our in-stock position right now in our brick-and-mortar stores are terrible, and in 2017 October is when the stock began to slide. I told everybody that I knew I have a friend that holds a lot of stock in his retirement plan and he never worked for Kroger, he just likes our company. But him and I have talked about it, and I saw that slide begin. The minute we started worrying about what was – with Amazon and all them people, it's a different world. Nobody buys their main amount of groceries online like produce meat, the deli, the dairy, they're not going to let him pick that stuff out. But what we've done and then even like those modern cars, if those would hit somebody like a Tesla car, that would be horrible for our stock or create an accident.

So, I understand being visionary. We have to be visionary and Kroger always has, but it seems to me now we're following all kinds of things. As a matter of fact, The Wall Street Journal said that our Restock Kroger was a smoke and mirrors program and they wondered when it was going to start to kick back in.

I'm just so worried we forgot the fundamentals that – like at the store we're worried about checking people out. We don't worry about filling the grocery shelves. I don't understand it. I go in there and I ask him why some of these is not in grocery, and they tell me, when I'm in there, can I find this? They say, oh, that guy he's upfront checking. I don't understand and I also don't understand, I hate to say it, but our associates in my opinion, 45 years, look terrible. Some of them guys come in there and like jeans and t-shirts and I understand being like that, but I also go to the other stores and they mentioned Wegmans and all that, everybody looks really nice. And if


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there's a Wall Street Journal person in here, I can show you on my phone, I send a draft to you, somewhere back at the last – around October that I predicted this last quarter would be bad because these digital sales, if it's not – if it's just what we're selling in the stores on like these weekend sales, that's exactly it because I know for one you sold $0.98 Heinz Ketchup, that's got to be at least three dollars.

So, I mean, when are we going to get back to the brick-and-mortar business? I was shocked this year, first time ever I didn't see Kroger in the best grocers where Trader Joe's is leading the way. I thought, holy mackerel, that's scary. And I mean we didn't even come in the top 10. So, I just wondered when are we going to go back to the brick-and-mortar business. I mean, I understand being innovative, but right now, I mean, it'd be like – it's like we're ready for Model As, but we're building Ferraris. They don't run too well in gravel roads.

W. Rodney McMullen
*Chairman & Chief Executive Officer, The Kroger Co.*

A

First of all, thank you for your comments and I appreciate it, and if you don't mind afterwards, if you could spend a little bit of time with Mary Ellen and Scott to share some of your experiences. I want you to know that our physical stores is still incredibly important and critical to our future success. Our customers, if you look at our digital business, a lot of our engagement in our digital business starts in our stores and it's those convenient pickup points for our customers to pick up their groceries. So, please don't take our conversation on online and digital meaning that we think the physical stores are any less important, they are not. We always will continue to strive to make sure the customers' experience is better.

On in-stock, the friendly experience and all those aspects are things that are absolutely critical to our future success. And please don't think that just because we talk about digital that we don't feel like a physical store's important.

If you look at our in-stock position, over the last really 12 months, we've improved that by over 15%. Please don't take my comments – I mean, we're satisfied, but we are making progress. And if you don't mind sharing some additional stuff with Mary Ellen and Scot afterwards, I would appreciate it.

Next question, please.

Q

Yes. Good morning. My name is [ph] Rich Cagney (00:59:41), just an individual shareholder. And I've got a couple of comments and maybe a few statements.

About two weeks ago, I noticed in a financial publication that the value of the Kroger stock had dropped below the 50-day moving average. And additionally, it also dropped below the 200-day moving average, which the analysts determined was what is called a death cross. In other words, it's sinking fast. And that was as of two weeks ago; it's dropped even further than that. So that's a very worrisome event.

Customer service, I've talked to a number of employees in the stores where I live and they're very concerned about the reaction to a lot of their customers who want to see people in the store as opposed to like – or at least clerks in the store that I can ask questions of or to and I get help from them instead of like the Scan, Bag and Go or self-serve, fewer customer service attendants upfront as cashiers.


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They don't want to go to Meyer's where they have 25 registers and three cashiers and no baggers or a Walmart, where it looks like you're going into a circus. Not that they would prefer to go ALDI's because they like the customer service in and out fast. They may not have quite as large of a choice of product, but they're in and out fast for what they want to get.

Executive compensation, you alluded to the fact that the average salary or hourly wage of a Kroger employee is $20 an hour with benefits. Well, that employee would have to work for 300 years, if he was lucky to live that long, to make what you make in his lifetime what you get in one year of compensation. So that's never going to happen. And $20 an hour with benefits is not $20 an hour that you can spend.

And let's see, lastly, members of the board, members of the – executive officers of the company, they get stock options. I'd love to have the luxury of being able to have stock options where I could sell high and buy low on the same day. And I think you know when I'm talking about April 23 of this year. So, I know you're not going to be able to comment on everything, but I just want to get a couple of things off my chest and that's the main thing I wanted to do.

W. Rodney McMullen
*Chairman & Chief Executive Officer, The Kroger Co.*

A

Thank you for your comments. I'll talk about a couple of different ones. One of the things that I always tell whenever somebody asks me about what I make, I tell them I feel incredibly honored to have the job I have at the company I have.

And when I was hourly associate part-time in Lexington, Kentucky, I never ever dreamed of having the job that I do. And to me, it shows you what Kroger is where people can come for a job and make it a career. And that opportunity exists for everyone.

My grandfather couldn't read or write. And when I think about the things that my parents gave up and my grandparents gave up and the support that I've had from my family to allow me to be in the position I am, it's an incredible honor.

And when you look at our stock price overall, I think one of the things that's incredibly important is to make sure that we're doing the things to invest for the future in terms of where the customer is headed. And as I mentioned in my prepared remarks, if you look at our digital business, we continue to make substantial investments. We continue to add hours in our stores for service if you look at the in-stock, the service and the front-end.

When you look at the checkout experience itself, one of the things that is incredibly important for us is that we allow customers to check out the way they want to check out. And what we find is some customers like to use Scan, Bag, and Go. Some customers like to have a cashier. Some people like to use U-Scan.

And one of the things I think is always fascinating is the same customer will go through the line multiple ways, depending on how big their order is and what's going on. And for us, we think it's incredibly critical for it to be a customer choice on how they engage with us and we will not force them to go one way or the other. So, as before, thank you so much for your question. I really appreciate it.

Okay. Last question.


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Q

I hope I don't get emotional. I shop at Mariemont. I'm [ph] James (01:04:26), I'm a stockholder. Mariemont has a nice store. This gentleman should go to Oakley. I'm sorry. Oakley has one of the nicest clean stores completely stocked. It's a wonderful looking store. He should check it out. It's fantastic.

Every time I go in there, I'm amazed how big and how all of you – how many products they have and how many people in a third-world nation would like to have a Kroger like that in their neighborhood where they don't even have electricity. They have to walk to get water. They wouldn't even know how to act to have a store like Kroger, and I'm thankful we have a Kroger store like that in Cincinnati and we should be thankful to God that we have a store like Kroger.

We should be thankful we have Kroger, and even our competitors. We don't know how lucky we are in this country to have Kroger [indiscernible] (01:05:32). I never say nothing negative about this company. I love the company. I get emotional when I talk about it because I care for the company. They take care of me and they take care of all of our needs.

One more thing before I leave, I have a big mouth. He talked about Costco. Costco has a different business model. Well, you know what it is? They don't have nothing labeled in the aisles. True, people wander around shopping. They're going to find something that they don't want to buy.

You can't do this concept with Kroger. Can you imagine if none of the aisles were marked and you're walking around looking for this and that, it would be horrible. But it's the Costco. We're not like them and that's a different model.

And one thing I want to say about Kroger. The store down there in Oakley, they have toys. They need to have those positioned in other areas more because that way, you'll generate sales. When I take my granddaughter there, she wanted to buy this and that. And if you have toys spread over the store, they're going to see them and they're going to want to buy them.

So, I think Kroger is doing a great job with the Oakley store. I'm sorry. There's – it's fantastic and like I said, it's clean and it's just wonderful. And I'm amazed. Every time I go in there, Mr. McMullen, I always brag to my wife and say, my God, look at this place. And it's busy and everybody is very helpful.

I had a man that worked in a different department. We were looking at some healthcare products. He went from his area, which he wasn't even in, and he went there so we could find that product. You cannot have better service than that.

He went out of his way to find this product for us and I commended him for doing it. I was going to brag when I came here to you about this one employee. But me, I don't have nothing to say negative about the company. And I hope I didn't get carried away for talking, but that's my nature.

But I love Kroger and Kroger is going to be a good company. Look what happened years ago with KKK. We made it. Sorry about that.

W. Rodney McMullen
*Chairman & Chief Executive Officer, The Kroger Co.*

A


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Thank you so much for your kind words and thank you for your comments about Kroger. Obviously, we'll make sure that our store director at Oakley gets the feedback as well because the examples that you gave is the experience that we strive for every customer to get every single day on every single interaction. And that's the thing that you can't get online. And in the store, you can have the love of food and the love of people. So, thanks so much.

## W. Rodney McMullen

*Chairman & Chief Executive Officer, The Kroger Co.*

Before we leave today, I want to express how important Cincinnati community is to Kroger. Supporting this city has always been a priority to our company and our associates. Over the years, we've invested in Cincinnati in many ways through the expansion of our downtown workforce, the establishment of Digital HQ on Fourth Street and by bringing new companies to Cincinnati like 84.51°.

We're especially excited about all the progress we've made toward opening our new downtown store at Court Street in Central Parkway opening this September. The store will offer fresh food and delicious dining options to residents and working professionals in Over-the-Rhine, Downtown and the West End.

As many of you know, the two-storey supermarket and food hall will anchor an 18-storey tower developed by our friends at 3CDC. The new store will be 45,000 square feet, which is twice the size of our Vine Street location. We will offer a greater variety of traditional supermarket items and additional food options, including fresh-prepared meals.

The store will also feature a Murray's Cheese Bar, a Starbucks, and an amazing food hall. And as a special treat, we're unveiling for the very first time today the five local restaurants that will serve customers alongside our bar and food hall: Kitchen 1883 Cafe and Bar, Kroger's first restaurant concept. Eli's BBQ, one of my personal favorites, their ribs are just amazing. And three others: Dope Asian Street Fare, Django Western Taco and Queen City Whip.

When the new store opens, all Vine St. store associates will relocate to the new store or at other nearby stores. At that time, Kroger will donate the Vine St. property to 3CDC to help them continue to develop and revitalize OTR.

I'd like to thank all of our Vine St. store associates who faithfully served customers each and every day. They do an amazing job. And without them, none of this would have been possible.

In closing, I want to thank all of you who joined us today, either in person or online. I would also like to recognize everyone who organized today's meeting. Thank you. As you know, it takes a village to bring something like this together.

As you exit, please don't forget to take a package of coupons, including 20% off at Kroger Ship order and for Our Brands product that we know you're going to love. As that has become our tradition, we are also offering ice cream, and I call it Dave Dillon's ice cream because Dave always loves ice cream, for you to enjoy on this warm day brought to you fresh from our Springdale Dairy. The team at Springdale is here. Let's thank them all for being with us.

Before I finish up, I also want – I noticed Dick Bere is in the audience. And, Dick, I appreciate you being here as well.


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We're very excited about the progress that we've made in the first year of Restock Kroger, to redefine the grocery customer experience, plus partner for customer value, develop talent and live our purpose. We look forward to sharing our continued success with all of you and I hope you enjoy the dividend increase as well.

Thank you again for joining us today. Ladies and gentlemen, the meeting is adjourned.

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