24-Jun-2021

The Kroger Co. (KR)

Annual General Meeting

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CORPORATE PARTICIPANTS

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

Lee Cassiere
Vice President-Audit, The Kroger Co.

Conrad MacKerron
Senior Vice President, As You Sow

Keith G. Dailey
Group Vice President-Corporate Affairs, The Kroger Co.

MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to The Kroger Company's 2021 Annual Meeting of Shareholders. I would now like to turn the conference over to Rodney McMullen, Chairman and CEO. Please go ahead.

W. Rodney McMullen

Chairman & Chief Executive Officer, The Kroger Co.

Thank you, Matt. Good morning and hello, everyone. I am Rodney McMullen, your chairman of the board and Chief Executive Officer. It is my privilege to call to order Kroger's Annual Meeting of Shareholders through today's live webcast, enabling more of our shareholder community to participate no matter where they are located.

Before we get into the business of the meeting and introduce our board of directors, I want to take a moment to reflect and acknowledge our associates, as well as the customers we lost earlier this year to senseless violence during the tragedies at our Oconomowoc facility in our Boulder, Colorado store. Thank you to the first responders who provided courageous support every step of the way. To the family, friends, and colleagues who continue to grieve, we stand with you and sharing your sadness. I'd like to take a moment of silence.

Thank you, everyone. Now, because we want to empower you, our shareholders, to experience this meeting as you would have experienced it in person in prior years, let me open by making it clear that if any of you would like to ask a question during this meeting, you may do so by typing it in the box located at the bottom-left corner of the webcast screen. We ask that you limit yourself to one question per shareholder. We also enabled you to present question in advance of today's meeting. We will respond to several of these questions during the meeting as well. And we'll note where we've collected multiple questions on similar topics. Additionally, if you have not already voted your shares, you may do so by clicking on the vote here button at the bottom right of the webcast screen. The polls will remain open until the conclusion of my business remarks.

Our first order of business, I appoint 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 April 26, 2021, the record date of this meeting, there were 757,100,868 common shares par value $1 per share issued and outstanding. Each share is entitled to one vote on each matter submitted to the shareholders for a vote at this meeting. 643,057,026 common shares were represented at 11:00 AM on June 24, 2021. A quorum exists.

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W. Rodney McMullen

Chairman & Chief Executive Officer, The Kroger Co.

Thank you, Lee. I declare that we have a quorum and this meeting is lawfully convened and ready to transact business. Bob Guido of PricewaterhouseCoopers, the independent auditors for Kroger, is with us today and is available for questions. Bob as well as Gary Millerchip, our Senior Vice President and Chief Financial Officer; and Christine Wheatley, Group Vice President and General Counsel will assist us in answering questions about our 2020 annual report. If you have a question, please enter it in the box located at the bottom left corner of the webcast screen. We will address any question about the annual report, as well as other topics during our question-and-answer session.

It is now my privilege to introduce my fellow members of our board of directors who are joining us today for the virtual meeting. Nora Aufreiter, Director Emeritus of McKinsey & Company; Kevin Brown, Executive Vice President and Chief Supply Chain Officer, Dell Technologies. This is Kevin's first annual meeting. Anne Gates, former President of MGA Entertainment, Inc.; Karen Hoguet, former CFO of Macy's, Inc; Clyde Moore, former Chairman and CEO of First Service Networks; Ron Sargent, our Lead Director and former Chairman and CEO of Staples, Inc.; Amanda Sourry, former President of North America Unilever. This is Amanda's first annual meeting. Mark Sutton, Chairman and CEO of International Paper; and Ashok Vemuri, former CEO of Conduent.

Our board was highly engaged throughout the unprecedented events of 2020 and we are thankful for their outstanding service and contributions. I especially would like to take this moment to recognize and thank Susan Kropf, who just retired from our board for her dedication and passion over the last 13 years. We thank Susan for numerous contributions and commitment to Kroger. Because of Susan, we are a better company and she will always remain a special friend to our organization. Susan had the unique and amazing ability to ask hard questions and do it in a way that was incredibly helpful for our whole team, and she did it with grace and smile, but at the same time, pointed and hard. Susan, we will forever miss that.

We will now transition to the proposals. The first motion to be voted on is the election of directors. The 10 directors nominees, who have been nominated by the board of directors as candidates for election are shown in the proxy statement. All elected directors will serve until the annual meeting in 2022 or until their successors have been elected and qualified. May I have a second?

Unverified Participant

I second the motion.

W. Rodney McMullen

Chairman & Chief Executive Officer, The Kroger Co.

Thank you. Let's move on to the second motion. The next motion is an advisory vote to approve the compensation of Kroger's named executive officers. May I please have a second?

Lee Cassiere

Vice President-Audit, The Kroger Co.

I second the motion.

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W. Rodney McMullen

Chairman & Chief Executive Officer, The Kroger Co.

Thank you. Let's move to the third motion. The next motion is to ratify the appointment of Kroger's independent auditor, PricewaterhouseCoopers LLC. May I have a second?

Lee Cassiere

Vice President-Audit, The Kroger Co.

I second the motion.

W. Rodney McMullen

Chairman & Chief Executive Officer, The Kroger Co.

Thank you. We have one shareholder proposal on the ballot and we've asked a representative of the proposal to present item number four regarding the publication of a report assessing the environmental impact of plastic packaging. Allow me to introduce Conrad MacKerron.

Conrad MacKerron

Senior Vice President, As You Sow

Good morning. I'm Conrad MacKerron, Senior Vice President of As You Sow, filer of proposal number four on the proxy. Plastic pollution has become an international environmental crisis, drawing top of mind attention from governments and citizens. Public concerns about plastic pollution now rivals that of climate change. 11 million tons of plastic waste enters the ocean every year, fatally impacting more than 800 marine species and causing up to $2.5 trillion in damage to marine ecosystems. Every month brings new reports of degraded plastic in our air, water, and food. Kroger is a major user of plastic packaging, its private brand items, many of which are packaged in unrecyclable plastic packaging earns more than $26 billion in sales annually, comprising 22% of total company revenue. Kroger's substantial and growing use of plastic packaging exposes it to increased financial and reputational risk.

Our proposal asks the company to report on how much of its plastic packaging is released to the environment to help investors assess its exposure to plastics-related risks and to set goals for significant cuts in plastic use to help manage that risk. A recent groundbreaking study, Breaking the Plastic Wave by Pew Charitable Trusts concluded that if all current industry and government commitments to reduce ocean plastic pollution were met, it would result in only a 7% cut in pollution. Without immediate new commitments throughout the plastics value chain, the flow of plastic into oceans could nearly triple by 2040. The report called on brand owners and retailers to reduce at least one-third of plastic demand through plastic elimination and adoption of reusable, refillable, and other new delivery models.

The company lags its peers in addressing this growing problem. Kroger has not taken basic corporate accountability action such as disclosing the amount of plastic it uses or made recent commitments to cut plastic use as competing retailers like Target and Walmart have done. Since Kroger does not disclose how much plastic packaging it uses or how much ends up mismanaged in the environment, it is difficult for investors to assess financial and reputational risk. This proposal was filed this year with nine other major brands and retailers and within just a two month span, five of them including our major competitors Walmart and Target as well as brands Keurig Dr Pepper, PepsiCo and Mandalay International agreed to significant cuts in plastic use.

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I move proposal number 4 and ask for your support. The information requested will help investors assess the extent of the company's exposure to plastic pollution and encourage it to step up and match its peers by committing to significant cuts in plastic use. Thank you.

W. Rodney McMullen

Chairman & Chief Executive Officer, The Kroger Co.

Thank you, Conrad. May I please have a second?

Lee Cassiere

Vice President-Audit, The Kroger Co.

I second the proposal.

W. Rodney McMullen

Chairman & Chief Executive Officer, The Kroger Co.

We appreciate your engagement with our team and value input from all stakeholders. We remain focused on the future and how our company can continue to create more positive outcomes for people and the planet following the achievement of our 2020 sustainability goals last year.

We greatly share the proponents desire to increase packaging sustainability and reduce packaging pollution in the environment. And we've been taking strong actions for many years already. To shape our focus in the next decade, we recently introduced new 2030 sustainability packaging goals for all of Our Brands' products by setting targets like achieving 100% recyclable, compostable and reusable packaging and increasing the amount of recycled content in all of our products. We are driving more circular systems given the breadth and depth of Kroger's product offering, we are confident that these goals are providing us with ambitious aspirations while also being achievable for our business and we're already on the way.

During Earth Week, we announced the expansion of our partnership with TerraCycle. That offers customer a free and easy way to recycle flexible plastic packaging. We are the first, repeat that, the first retailer on the planet to make this innovative program available for our entire Our Brands portfolio.

Advancing our Zero Hunger Zero Waste social and environmental impact plan, we have also added recycled content to additional products in the last year, creating more demand for recycling markets. And we're also finding ways to transition our packaging to more recyclable formats.

Additionally, we are participating in multi-stakeholder collaboratives that are helping move the needle in scalable ways. Our goal is to remain a leader in leveraging our resources and scale to help people and the planet while creating shareholder value. We look forward to sharing more about our achievement of our 2020 sustainability goals and providing a deeper look at our 2030 sustainability commitments and our 2021 environmental, social and governance report that will be published next month.

While we wait to receive the results of the vote, I'd like to share some thoughts about key events and drivers that shaped our 2020 successes. And as noted here, this presentation includes forward-looking statements, as I will share what's influencing and shaping our business moving forward. I always appreciate our annual meeting in part because it provides us an opportunity to step back from daily management and leadership and talk about our themes and dreams and what our most recent year suggests about our future.

[Video Presentation] (00:14:07-00:15:34)

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2020 was an incredible year. And every time I see that video, it reminds me how important stepping back to consider the big picture is but it is especially valuable in times of exceptional change and uncertainty. So to ground us, let me start by highlighting three fundamentals that have remained constant in a year of upheaval. One, to survive, people need food and other essentials we provide. This is one of the many reasons why Kroger has thrived for 138 years, while the average public company lasts less than 20 years, because our business not only nourishes bodies, but also feeds the human spirit. And our purpose is to feed the human spirit.

Two, the number of people who need more convenient and consistent access to fresh and affordable food remains. The pandemic shined a brighter light on this issue and the need to build a more efficient and resilient global food system, presenting additional opportunities for our company, Kroger. And three, in the United States and across the globe, there is a rapidly growing need to feed people in ways that are more cost effective and better protect our planet.

Now with those three constants in mind, let's consider three of the macro trends that they drive, each of which is creating opportunities that we, at Kroger, are leaning into. First, I mentioned the increasing urgency of feeding people in ways that better protect our natural resources and provide affordable fresh food for everyone. What are we doing to meet this urgent financial environmental and social demand? To provide just one example, we continue to leverage our size to create significant economies of scale. To give you a sense of the scale, we already serve 60 million households annually. Our nearly 2,800 stores put us within reach of 45% of the US population. Our rapidly expanding Kroger delivery network, powered by customer fulfillment centers and fueled by Ocado technology will create an opportunity to serve 75% of the US population within a 90 mile radius.

Our Brands is a CPG brand tucked inside our business. But it's anything but small. It's a business that's eight times larger, that's right, eight times larger than the sales of the largest CPG company selling products in our stores. And most importantly, our phenomenal team of nearly 0.5 million growth-minded associates are powering customer solutions of today and tomorrow.

Second, one of the many lessons the pandemic highlighted is the need to anticipate, manage, and benefit from accelerating change. Fortunately, Kroger was already well along this path before the pandemic took hold. How? Let me highlight a few contributors that have increased our efficiency and agility. The Restock Kroger transformation that we started in 2018 was guided by our strong foundation and positioned us to make investments that are paying dividends and increasing our resilience today.

Through Restock Kroger, we removed more than $3 billion in costs out of our business, freeing up resources to invest in associates, technology and pricing for our customers. We strengthened our competitive moats and established a flywheel to monetize the traffic and data generated by our supermarket business and to identify new growth opportunities. We improved talent development at all levels across the business, placing the right people in the right roles. And we made a series of bold commitments to advance our zero hunger, zero waste vision at the center of our environmental, social, and governance portfolio. We invested meaningfully in associate training and wages and invested an incremental $800 million to raise our average national wage to more than $15.50 per hour, plus almost a $5 an hour for benefits that many of our competitors do not offer.

Through additional investments, by the end of the year, we anticipate raising our average hourly rate to $16, and then when you factor in the benefits, that will bring Kroger's average hourly rate to nearly $21 per hour, that's something that we're very proud of. We also began to expand our e-commerce platform more rapidly, enabling greater nimbleness as the pandemic set in, supporting our ability to triple the number of pickup orders our stores

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could field and expand our delivery volume by more than tenfold and it was literally within a matter of days. I'll highlight other examples in a minute when I summarize the year for you.

Third, there is an explosion in the number of investors seeking to invest money in companies. The core products and services, both add value and make the world a better place. We are that kind of company. And we stand to benefit from these investment tailwinds. Consider just a few examples of what we are doing that can both attract ESG-screened capital and turn it into sustainable, financial, social, and environmental returns. Our focus on fresh, organic, and better-for-you products contributes to improved health and nutrition, fulfills our purpose to feed the human spirit, and drives growing demand.

Our Simple Truth collection is the leading private label natural and organic brand in the United States, and last year alone, it exceeded $3 billion in annual sales. And our zero-hunger, zero-waste principles are helping to create communities free of hunger and waste across the country.

Last year, we directed a record one-year total of 640 million meals to fight food insecurity in the United States during the COVID-19 pandemic, and we achieved 81% waste diversion from landfills company-wide, that's up 1% from the prior year. And when you think about being able to accomplish all of that in a year even when COVID was going on, I'm just so incredibly proud of our teams, keeping focus on the long-term thing of helping make the world a better place. We also have programs to increase sustainable packaging, eliminate waste, reduce water and energy consumption, and decrease greenhouse gas emissions, all of which are important to our planet and future generations.

We are also using our extensive supply chain to drive positive social and environmental changes. We are deeply committed to responsible sourcing, and recently expanded our framework for human rights to align with the United Nations guiding principles and human rights due diligence process. Our ability to create an exceptional number of jobs with advancement opportunities both personally and professionally is perhaps one of the least appreciated ways we make the world a better place. This summer alone, we're hiring 10,000 people to support our retail, e-commerce, pharmacy, manufacturing and logistics operations. During the height of the pandemic when so many companies were reducing their headcounts, we hired more than 100,000 new associates providing temporary employment to many furloughed and laid-off workers.

Last year, we scaled our spend with diverse suppliers to $4.1 billion, representing a 21% increase versus 2019. And as part of our framework for action, diversity, equity and inclusion plan, we are committed to increasing our spend with diverse suppliers to $10 billion by 2030. We benefit from the skills and insights of a highly diverse board of directors, which has evolved to be comprised of 40% women and 30% people of color as well as reflect other attributes and backgrounds.

Further, we support the diversity of our culture and workforce by providing valuable compensation packages, benefits, scheduling flexibility and training and educational programs including industry-leading tuition reimbursement program that provides any associate full or part time with up to $21,000 over the course of their career to personalize their own experience and education.

Lastly, Kroger Health has been a tremendous partner in helping America heal and recover from COVID-19. Our group of dedicated and educated pharmacists, nurse practitioners and healthcare technicians have distributed more than 5.1 million COVID-19 vaccines, and that number continues to grow daily.

Through our $5 million community immunity giveaway, we continue to partner with the Biden administration as part of the national push to have at least 70% of the United States adults with at least their first dose by the 4th of

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July. We do these things because we are that kind of company. But it is encouraging that there are more people wanting to shop with us, work for us, invest in us and support us because of it.

Now, let's take a closer look at our 2020 results. We didn't just rely on powerful tailwinds. We created programs to enhance them. Last year, we took numerous steps to leverage each of our four key strengths or moats that differentiate us from our competitors. These are our seamless ecosystem, our personalized customer experience, the strength of our brands and its portfolio and our reputation as the number one national retail leader in fresh. Each of these strengths is important and combined they are truly powerful. I will share only a few of the 2020 highlights here, but note how they strongly align with the external drivers I summarized earlier.

Our digital platform enabled us to support 1.3 billion customer interactions, a 30% increase over 2019. Our e-commerce business doubled across our pickup, delivery and ship distribution channels. Together, these yielded over $10 billion in digital sales. We grew the important food-at-home market, achieving a 10% share in the industry. Our ability to offer many ways to interact with us increase the number of seamless customers. Those are customers who engage with us through more than one modality. This is an important growth area because these customers spend twice as much with us as other customers. And, we retain their loyalty at rates reaching 98%.

Even in a digital era, proximity to the customer continues to matter, giving us with our nearly 2,800 stores and other touch points an advantage over pure e-commerce companies. The improvement of our operations helped us to reduce the cost to serve from our stores by 14%. We accomplished this through investment in our store associates, innovation in our business processes and technology enhancements. It's all those teams working as one.

Our industry-leading data and technology is enabling us more cost effective personalization of both our customers' experiences as well as products, whether that is via ready-to-eat solutions, restaurant-quality meals, meal kits, quality ingredients or specialty items. We continued to protect and advance our position as the national retailer in fresh foods through refinements in our distribution model. These include fewer touches, greater quality controls, enhanced use of science and automation and strong sourcing partnerships.

Data continues to show that a retailer's leadership in fresh products drives demand more generally. To that end, our new Go Fresh & Local Supplier Accelerator attracted more than 1,000 supplier applicants already. We are also leveraging both new and mature business divisions to create a mosaic of parts that strengthen the whole. These include Kroger Precision Marketing, our retail media business, as well as Kroger Personal Finance and 84.51°, our data and analytics firm.

The strong foundation and drivers I've already described contributed to our fiscal 2020 financial results. These included identical sales excluding fuel growing 14.1%, including a digital sales lift of 116%; supermarket sales growth of $14.4 billion, this is the equivalent of adding three entire supermarket operating divisions to our overall company; record sales of Our Brands of $26.2 billion, up 13.6%; earnings per share of $3.27 and adjusted earnings per share of $3.47; operating profit of $2.8 billion and adjusted FIFO operating profit of $4.1 billion; and an investment of $2.5 billion to support and safeguard associates and customers including committing nearly a $1 billion to better secure pensions for over 30,000 associates; cost savings greater than $1 billion for the third consecutive year; and a contribution of an incremental $150 million from our alternative profits fueled by retail media.

As I said at the opening, people need food and the other products we offer. And we are here to serve those needs. Our ability to meet these needs across all channels helps insulate us from temporary and permanent

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swings and societal shifts and consumer behavior. Our scale and technology helps us meet and exceed increasing environmental and social expectations. And our moats help protect our differentiation.

What then do we see going forward? Well, we're already off to a strong start. Our Leading with Fresh and Accelerating with Digital initiatives are positioning Kroger for long-term sustainable growth. Last week during our first quarter report out, we shared our two-year stack identical sales excluding fuel increased 14.9% and digital sales grew 108% on a two-year basis.

Based on the momentum within our business, we have raised our full year guidance. We now expect our two-year identical sales stack to be in the range of 10.1% to 11.6%. Additionally, our new $1 billion share buyback program reinforces our board of directors' and management's confidence in our ability to generate strong free cash flow and is consistent with our commitment to deliver strong and sustainable total shareholder returns of 8% to 11%.

We are also looking to double our digital sales and pass-through profitability by the end of 2023, while bringing the new profitability of these new channels in line with the profitability of our existing physical stores. Within three years, we expect the customer fulfillment center to achieve overall site profitability and within four years of opening to catch up and perhaps surpass the profitability of our stores on a rate basis.

Building on last year's 14% reduction in cost to pick an order, we hope to further reduce our cost to serve an additional 30% over the next few years. We will continue to recognize and uplift our associates and plan to invest an additional $350 million that we expect will increase our average associate wage to $16 by the end of the year and $21 when you include benefits as well.

We continue to reward our shareholders as well. We have delivered annual increases in our dividend since it was reinstated in 2006. Today, I am pleased to announce that our board of directors has approved a total increase in the dividend to $0.21 per quarter, or if you look at that on an annual basis, from $0.72 annualized to $0.84 per year. This 16.7% increase is slightly higher than historical growth rate, which underscores our board and management's confidence in Kroger's long-term model. This is Kroger's 15th consecutive year of a dividend increase. These challenging times are also exciting times for us, for every shareholder, for every associate, because we are one.

[Video Presentation] (00:35:03-00:36:28)

Unverified Participant

We will now return to the core business of this meeting.

W. Rodney McMullen

Chairman & Chief Executive Officer, The Kroger Co.

Our voting period is closed. We will provide a report on the results of the votes for the four items outlined earlier. 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 91% of the votes cast in favor of the nominees. We find that the resolution approving the compensation of

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the company's named executive officers was adopted with over 89% of the votes cast in favor of the resolution. We find that the resolution ratifying the selection of PricewaterhouseCoopers as the company's auditors for the year 2021 was adopted with over 93% of the votes cast in favor of the resolution. We find that the resolution that the board of directors issue a report estimating the amount of plastics used in packaging and describing company strategies and goals to reduce the use of plastic packaging and their environmental effects was defeated with over 54% of the votes cast voting against the resolution.

W. Rodney McMullen

Chairman & Chief Executive Officer, The Kroger Co.

Thank you, Lee. This concludes the formal portion of today's agenda and we will now transition to the question-and-answer period. Kroger's Group Vice President of Corporate Affairs, Keith Dailey, will read several of the questions we've received, both prior to the meeting and during the meeting, and I will respond.

During the question-and-answer period, we'll cover all the key themes informed by the questions we've received from you, our shareholders. If you submitted a question in accordance to our rules of conduct, we may address it while acknowledging similar questions from other shareholders. If your question is about our assortment, for example, or a specific store, please know that we've shared it directly with our merchandising and/or operations team, respectively. This would include questions related to the availability of specific products or how store hours are determined.

We'll have about 20 minutes for the question-and-answer session. And I'll now take the first question. Keith?

QUESTION AND ANSWER SECTION

Keith G. Dailey

Group Vice President-Corporate Affairs, The Kroger Co.

A

Thank you, Mr. Chairman. The first question is from an unidentified shareholder who asked, how is Kroger strategically addressing proposed supplier cost increases?

W. Rodney McMullen

Chairman & Chief Executive Officer, The Kroger Co.

A

Thank you for the question. And this question is something obviously we spend a lot of time on as well. One of the things about Kroger and being in business for obviously well over 100 years, we've negotiated and dealt with environments both high inflationary environments and low inflationary environments, and it's something that company does well and we know how to deal with it regardless of the situation. As you know, the market looking forward continues to be volatile. In our first quarter earnings call, we talked a little bit about we really haven't seen much inflation so far, but we certainly anticipate going forward seeing more inflation when you look at the center of the store based on what CPG companies are telling us. If you look at the fresh departments, we did see inflation there during the first quarter and we had throughout.

I think it's important to know it's one of our advantages with our Own Brands program and manufacturing our own products, we understand exactly when raw material costs are going up. So, if you look in the case of a CPG that's raising the price on something, if it's not market-driven, what we have found historically is Our Brands takes share and takes meaningful share and Our Brands have gained share like 23 of the last 25 years, and it's very hard for CPGs to get it back once they lose it. So – and we also would expect to be able to pass through inflation as we

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have it as well. And when you look at in our retail environment, a little bit of inflation always makes it a little bit easier to operate our business on a daily basis. So, thanks again for the question.

Keith G. Dailey
Group Vice President-Corporate Affairs, The Kroger Co.

A

Second question is also from an unidentified shareholder who notes the increasing in grocery competition and asks, how is Kroger innovating to stay ahead of the competition?

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

A

Well, this is a question that my predecessor, Dave Dillon, and I used to talk about all the time. And one of the things about Kroger, we've been in existence for 138 years, but if you look at the company today, it's nothing like what it used to be. And if you look at over the history of the company, the company has transformed itself, always using innovation and focusing on the future probably six or seven times. And previously, if you look at those transformations, it was typically the small stores to bigger stores and stores that offered more service, for example, pharmacy, extended assortment, bigger fresh departments, bigger produce, things like that.

If you look at today, it's – as we look at into future, our objective is when a customer thinks food, they think Kroger and we have a database of over 60 million households across the United States. And what we will do is use that database to help support our customers and our associates to help support when a customer thinks food, they think Kroger. If you look at, for example, our merger with Home Chef a couple of years ago, we identified that meal kits was a high growing area and we were able to leverage Home Chef into the Kroger stores that you saw earlier in some of the slides. And Home Chef on their own has continued to aggressively grow their business from a delivery online business.

So, we're constantly thinking about innovation. And if you look our Kroger Delivery is really best in class and you continue to see us accelerate that using the Ocado proprietary technology. And we've opened up two of our sheds; one in Monroe, Ohio; one in Groveland, Florida, and Groveland, Florida is a totally new market for us. And we'll continue to open more sheds as you look forward to 2022 as well. So, it's incredibly exciting.

And when you look at innovation going forward and you think about when a customer thinks food, they think Kroger, that'll be satisfied in multiple different ways. Internally, we call it seamless and what we – obviously, last year, we were incredibly proud of the fact that our digital business grew to over $10 billion, and that's a business that you go back five short years ago, it was basically nonexistent. And it really has been fascinating to watch because when a customer becomes a seamless shopper, after a year they physically go into the store more often than they did before they became a seamless shopper.

And one of the commitments we've made to our shareholders is that we now have that seamless business incrementally. When we add customers, it's profitable, and we have a path to where the profitability of that customer really isn't different than somebody shop in the store because of the gain in market share, taking cost out of serving that customer, and continuing to use technology and other innovations like the shed that I talked about.

So, I love the question, it's something that we spend a lot of time on and we think the only really common denominator is people will keep eating and we want to be there ever how they eat and whether that's eating on the run, picking up a meal to make at home or having it delivered using us as a delivery service or our relationship in a ghost kitchen or whatever. But we strive and we will be there for the customer ever how they want to eat and it'll be high quality innovative fun food.

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Keith G. Dailey
Group Vice President-Corporate Affairs, The Kroger Co.

A

Mr. Chairman, we received 12 questions seeking to understand rising executive compensation compared to employee wages, which several shareholders have suggested needs to be raised. Can you please respond?

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

A

Yeah. Thank you for the questions from everyone, really appreciate it. As I said earlier, we are committed to raising wages of our hourly associates in ways that offer value to our associates and sustainability for our business. And over the last several years, we've accelerated our wage investments and we've invested since 2018 more than $800 million. And by doing that, it's raised our average hourly rate to $15.50 an hour. And as you know, when you look at the retail industry overall, that's meaningfully above where the retail industry is overall.

The other thing I think it's always important to remind each of us is that we also provide benefits [indiscernible] (00:46:08) terms of healthcare, retirement benefits and other things that adds about $5 an hour to that. And we've also committed to incrementally invest another $350 million in wages this year. That will take our average hourly rate to $16. And then when you add in the benefits, it's approaching $21 an hour.

Other things we do [ph] is like (00:46:33) discounts on Kroger brand products. We have an industry leading education assistance program that we call Feed Your Future because we have so many people that come to Kroger for a job and make it a career. 70% of our store directors started out as hourly associates. So, when you think about a company that has people coming for a job and then they make it a career, Feed Your Future is incredibly critical part of that.

And we will provide support up to $21,000 to person and it doesn't matter whether they're part time or full time over the course of their career. And I always like to say, that'll cover somebody from getting their GED to their PhD because what we find is that people continue to grow personally. The company benefits from that as well because that person then is able to take on bigger responsibilities, more roles and that's when they fall in love with us and that's when they make it a career.

And we've had over 6,000 associates take advantage of Feed Your Future. It's one of those where we hope everybody would take advantage of it. And 84% of the people that's taking advantage of it are hourly associates. And it is – Kroger really strives and believes in having a culture of opportunity. And as I said, 70% of our store directors started out as hourly associates. If you look at – for me personally, I started out as an hourly associate at Lexington, Kentucky and a stock crew. And I always like to joke about I went to college on a Kroger scholarship. I just had to pay – I just had to work 32 hours a week to get it.

Unfortunately back then we didn't have Feed Your Future. I wish [ph] we would have, it would have make – I wouldn't have had (00:48:20) to work as many hours, but I wouldn't give that up for anything. And when you look at somebody starting out, you learn to come to work on time, do a good job and take care of customers. Those are things that people benefit from regardless of where they are in their life, regardless of what they do with their personal career.

So, incredibly proud of what we've done. Incredibly proud of the things we're doing to [indiscernible] (00:48:46) people to grow individually and then personally. And also over the summer, we'll hire 10,000 new associates as well. So if you know anybody that wants to work in retail, I would highly recommend this. If you'd like food and you like people, there's no better place to be. So keep onto the next question.

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Keith G. Dailey
Group Vice President-Corporate Affairs, The Kroger Co.

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We received seven questions related to extra pay mandates that several communities in California and Washington State imposed on the grocery industry earlier this year. Can you explain the decision to close stores in three communities in response to those extra pay mandates?

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

A

I think whenever somebody asks me this question, I always like to remind everybody first and foremost, throughout the pandemic, we did everything that we could do to make sure that we kept the safety of our associates and customers top of mind. And we made over 30 different changes with processes to keep associates and customers safe. When you look at – obviously 2020 required more – any – all of our associates than any of us would have imagined when we started out the year. And obviously, COVID-19 went on much longer than any of us would have imagined.

During the pandemic itself, we hired over 100,000 new associates. And a lot of those people, we really were their [indiscernible] (00:50:13) employment from – where they got laid off almost immediately from restaurants, places like that. So, we were really a transitional employer for a lot of those people. They had a lot of great experience, so they hit the ground running. The other thing I think it's important to note is if you look at during the pandemic, we invested over $2.5 billion in incremental pay, safety and about $1 billion to improve the pension, support for over 30,000 of our associates. All of those things are things that we did to invest in our associates to help support our associates during the year. We also put in place an emergency paid leave program. We also funded our Helping Hands Fund which provides financial support to associates that have hardship incrementally.

When you look at then other – there's other retailers that have done something similar, some more, some less but generally we would be the top among the top. Regardless of that, several city governments in California and Washington State mandated that grocery providers alone provided extra pay to store associates that was basically a 20% plus cost to our cost structure. When you look at – the other thing I think it's important to note is that mandates targeted pure play grocery, in many cases unionized grocery and did not apply broadly to all food retailers, which really created an unleveled playing field. You should know that we never desire to close a store, and anytime we have to close the store, it's a very, very difficult decision.

And the other – last point I would make is that we continue to operate more than 400 stores in California and Washington State, and we abide by the extra pay mandates as required. But it's – we view it's incredibly important to invest in wages on a sustainable basis, on a regular basis, not just temporarily. And we intend to have industry leading compensation packages when you look at competitive wages, comprehensive healthcare and retirement. So, thanks for the question and keep on to the next question.

Keith G. Dailey
Group Vice President-Corporate Affairs, The Kroger Co.

A

A shareholder suggests that the grocery space is showing much room for innovation and asked, is Kroger considering acquiring early-stage companies to obtain strong talent and new technologies to stay ahead of the competition?

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

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The question is absolutely the change that is going on in our industry, I've never seen it at this level. I think it's incredibly exciting because change creates opportunity. And we continue to explore looking at innovative and efficient approaches to business. Some of it could be internally developed. Some of it could be merging with somebody. If you look at – we merged with a company called YouTech, a company called Market6 which brought capabilities to us and talent both that we were able to scale across our company.

If you look at Kroger Precision Marketing, it's our retail media business which is the fastest growing part of our business. We started that from ground up. And it's something that – it's been an incredibly important driver in alternative profit. And I mentioned earlier, Home Chef. And Home Chef, we merged in 2018 and it will soon be our next billion dollar brand which is incredibly exciting.

So, all ideas are appreciated and welcomed and we're open to. We continually look at things that can't – that we can scale across 2,800 stores or the fact that we have 11 million customers a day visiting our stores and 4 million customers a day visiting our website. All of those things are incredibly important and incredibly exciting.

Keith G. Dailey
Group Vice President-Corporate Affairs, The Kroger Co.

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Shareholder noted the company's proxy statement regarding board refreshment and diversity and asked if you could please share more on the board recruitment process and guiding principles.

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

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Yes. The – I appreciate you pointing out the fact that we have continually – we always think about building on the shoulders of those before us. And we continue to recruit an incredible diverse set of directors that have incredible backgrounds. If you look at some of the most recent directors, they have an incredible experience in technology, supply chain, branding, sustainability. All things – all of those things, for example, are things that are going to be increasingly important to us as we go forward.

The other thing that I love about our board and their diverse experiences is the diversity of – questions they ask us, both individually and as a leadership team, and the way they push us but at the same time do it in a way that's incredibly respectful.

And as I mentioned earlier, Susan Kropf, who's been on our board for 13.5 years that retired earlier today off our board, her closing comments from her retirement speech was giving us some challenges and things that she said, don't ever lose sight of these. And to me that just shows you the type of human beings that we have that are willing to invest their time in Kroger and invest the time in helping our shareholders and our company, our communities, our associates, and our customers to get a better experience every day. And they're an incredible group of people that have expertise beyond anything that I could imagine, and our shareholders are incredibly honored to have the team that we have leading this company.

Keith G. Dailey
Group Vice President-Corporate Affairs, The Kroger Co.

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A shareholder asked, what are your plans and timeline for increasing diversity in the workforce and management?

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

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Yeah. This is one where, in the past year, I've talked about it several times, and we are incredibly proud of what we've accomplished and what we've done that we've been very, very clear about telling people we can and we'll do more. And the past year just is another example of reminding each of us as a company and a society there's an ability and a need to do more. Our goal is always to attract, retain and develop leaders who reflect the communities we serve. And if you look, we embrace and welcome associates from every race, ethnicity, culture, ability. And we're always focused on making sure that we allow people to grow to be what they want to be based on their skills, talents and desires. And we always want people to be able to come every day, every day during the day being the person they are and a sense of belonging.

And if you look at the company, about one-third of our associates are racially diverse and it's on – if you look in our ESG report, it's on page 29 by the way. We continue to expand the diversity of our teams. We continue to focus on making sure that we have high potential, diverse talent and senior leaders throughout the company. And if you – over the last couple of years, we've been much more aggressive on recruiting senior leaders from the outside. And if you look at the senior leaders from the outside, Tim Massa, who runs our People team always shares with our board that the diversity of the people we've recruited is about 50% diverse and incredible background of experiences.

One other couple of other notes is that we are committed to recruiting even earlier in careers. We've expanded our partnerships with Hispanic Association of Colleges & Universities and historically black colleges and universities partnerships from 8 to 14. Last year, we also created our Diversity, Equity & Inclusion Advisory Council that's headed up by one of our leading division presidents and we had over 600 people apply to want to be part of the council and we were able to take some incredible human beings that will help Kroger get even better. So, I'm proud of what we've done, I'm proud of where we are, but please don't take those comments to believe that we're satisfied with where we are. So thanks, Keith.

Keith G. Dailey

Group Vice President-Corporate Affairs, The Kroger Co.

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You're welcome. That will conclude the question.

W. Rodney McMullen

Chairman & Chief Executive Officer, The Kroger Co.

Okay. Thanks very much. I want to thank you for joining us today. Along with my fellow directors and officers, I welcome your input as always throughout the year, not just during our annual shareholder meeting, and you can read in our proxy statement how you contact us. I am, as I said at the opening, proud and grateful for our nearly 0.5 million associates who continue to step forward to be here for our customers and communities when they need us the most and in the past year really needed us. I am grateful to those of you who shop with us and invest in us. In fact, obviously I hope you do both. We work every day to earn your trust and loyalty as a shareholder and as serving you as a customer.

Before we conclude, I'd like to take a moment to acknowledge several past leaders who joined us today. I know Dave Dillon is listening in and I've said this numerous times to anybody that will listen to me that the mentorship, learning, and teaching that Dave gave me over the years, I've used multiple times, but during COVID, I've used it even an accelerated rate and his teachings and ideas helped me in ways that I can't express my words. And I'm forever indebted because it helped our company to get through COVID and do it in a proud and in an amazing way.

Bill, thank you. I know you're listening in. And Bill [ph] thank you who (01:01:09) recently celebrated a birthday. And Bill is my work father and I wouldn't be in this job if it wasn't for Bill. And I know Paul Heldman joined us too.

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Paul was an amazing executive and partner. And Kevin Dougherty has joined as well. And to Kevin is really the father of our online business. And these are just some of the examples of the many contributions that people have made to this organization and we have thousands of retirees across the country.

I also want to take this moment to recognize a true friend, mentor, our former Kroger CEO, Lyle Everingham. Lyle passed away a couple of months ago. Lyle was just an amazing human being that lit up a room when he came into it. And we miss Lyle dearly.

Thank you again for your participation today. Please take care. Be well. The meeting is adjourned.

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