Statement of Vivek Sankaran, Chief Executive Officer, Albertsons Companies, Inc.

Before the U.S. Senate Judiciary Committee Subcommittee on Competition Policy, Antitrust, and Consumer Rights November 29, 2022

Chairwoman Klobuchar, Ranking Member Lee, and Members of the Subcommittee, my name is Vivek Sankaran, and I am Albertsons' Chief Executive Officer. I appreciate the opportunity to be here today with Rodney McMullen, Chair and CEO of Kroger, and to share my views on why Albertsons' proposed merger with Kroger is good for consumers and the communities we serve, why it will result in more competition, not less, and why it will provide our employees with security and create one of the largest private-sector union employers in the country.

I am humbled to sit before you. **Both my story and the story of Albertsons are American stories.** I am a fortunate immigrant American. I came to the United States in 1986 to earn a Master's in Engineering from Georgia Tech. While there, I worked in a photocopy shop, my first job in America, where I earned $3.25 per hour, a lot of money for a young immigrant. After graduating, I worked as an engineer in factories in rural Georgia, Tennessee, and Arkansas. I then earned an MBA, worked as a consultant, and ultimately ran PepsiCo's North American foods business, including Frito-Lay. In April of 2019, I was privileged to join Albertsons Companies as CEO.

My experience and professional path allow me to understand well our mission to support all of Albertsons' stakeholders, starting with the communities that we serve, our growing work force with good union jobs, our national footprint of vendors and distributors, and our shareholders who include some of the largest municipal pension plans and endowments in the country, supporting the retirement plans of millions of firefighters, police officers, municipal workers, and other hardworking Americans.

History of Albertsons

Joe Albertson, who founded our company in Boise, Idaho in 1939 on the heels of the Great Depression, believed the key to running a great store was working hard to improve the customer experience and giving customers the products they want at a fair price. It has been, and it continues to be, an honor to carry on his legacy and the legacy of the other great leaders this company has had over the years.

The most recent decade of Albertsons' history has been a story of improving stores and creating jobs. Only 10 years ago, Albertsons was 192 stores.[1] In 2013, we invested in 600 SuperValu

[1] *Cerberus Will Acquire Albertsons, Acme, Jewel-Osco, Shaw's, Star Market from Supervalu,* Food Trade News (Jan 10, 2013), https://www.foodtradenews.com/2013/01/10/supervalu-cerberus-deal-announced/.

stores in danger of closing.[2] In 2015, we acquired Safeway, which was also in decline.[3] We also saved A&P, Kings and Balducci's from distress when they were in bankruptcy proceedings. We have a proven track record of saving jobs and ensuring that grocery stores can continue to serve their communities. Because of this commitment, we now have nearly 2,300 thriving stores that provide 290,000 jobs and fresh food for customers to put on their tables across the country.[4]

The past several years put a spotlight on just how important our stores are to the communities in which we operate. During the early months of the COVID pandemic, our frontline employees—who are our lifeblood—bravely showed up to work every day to ensure that our communities could put fresh food on their tables. This was particularly important at a time when restaurants were closed. Our stores also served as a source for vaccinations in our communities. Finally, in recognizing the economic distress faced by many families due to the economic fallout of COVID and now the inflation hitting our country, in 2021 alone, the Albertsons Companies Foundation contributed nearly $200 million in food and financial support, including approximately $40 million through our Nourishing Neighbors Program to ensure those living in our communities have enough to eat.[5]

Albertsons' Success in Creating Strong Grocery Stores

Albertsons and our other banners like Safeway, Shaw's, and ACME, have hundreds of years of combined history serving our communities. Our operating philosophy is **"Locally Great. Nationally Strong."** We have worked hard to retain what makes those banner stores a special part of their local communities, while becoming more efficient and effective.

Creating a national grocery company with strong local stores that put the customer at the center of everything we do is the result of an intentional effort to invest in people, places, and performance. As noted, ten years ago, Albertsons was a company with 192 stores. It was our *investors* that supported us to take Albertsons from a struggling 192-store company to one with nearly 2,300 stores that employ and sustain 290,000 jobs. We are proud of the fact that it was not just growth, but also helping stores that may not have otherwise survived, which created a successful business that provided food for customers to put on their tables across the country. Over that time, we invested **over $11 billion dollars** into the company to help our stores succeed.

In February 2022, Albertsons announced that we were undertaking a strategic review as we worked to continue to enhance Albertsons' growth and maximize value for all our stakeholders including

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[2] *Albertson's to buy back Shaw's, Star Market in $3.3B deal*, Boston Business Journal (Jan. 10, 2013), https://www.bizjournals.com/boston/blog/mass_roundup/2013/01/supervalu-shaws-star-market-parent-sold.html; *Supervalu completes sale of Albertson's grocery stores to investor group*, Las Vegas Sun (March 26, 2013), https://lasvegassun.com/news/2013/mar/26/supervalu-completes-sale-albertsons-grocery-stores/.

[3] *Albertsons, Safeway complete merger*, Supermarket News (Jan. 30, 2015), https://www.supermarketnews.com/safeway-albertsons-merger/albertsons-safeway-complete-merger; *Safeway stuck with low valuation*, Daily Herald (March 11, 2014), https://www.columbiadailyherald.com/story/news/nation-world/2014/03/11/safeway-stuck-with-low-valuation/25734172007/.

[4] *Kroger and Albertsons plan merger to combine 2 largest supermarket chains*, NPR (Oct. 14, 2022), https://www.npr.org/2022/10/14/1129014897/kroger-and-albertsons-plan-merger-to-combine-2-largest-supermarket-chains.

[5] *Albertsons Companies*, CSR Wire, https://www.csrwire.com/members/12822-albertsons-companies?page=4.

our customers, associates, and investors.[6] As is evident in the way most Americans now shop for their groceries, **the marketplace for groceries over the past decade has completely transformed**, making the competition for consumers fierce. Ultimately, we determined that the best way to compete directly against mega-stores like Walmart and highly capitalized online companies like Amazon, would be through this proposed merger with Kroger. And, even after this merger, ***Walmart, Costco, and Amazon together will still have nearly three times the share of grocery sales as Kroger and Albertsons combined***.

<u>Returning Capital to Investors</u>

Albertsons has had a longstanding plan to return capital to our shareholders because **our commitment to invest in our stores, our employees, and our communities hinges on our ability to attract investors**. Without the capital from investors, we would not have been able to grow our business, open new stores, create jobs, and make a difference in our communities. This strategy preceded discussions to merge with Kroger and, while those merger discussions proceeded, we independently continued to explore shareholder capital return alternatives.[7] Although we announced the capital return, through the payment of a special dividend to all our shareholders, when we announced the proposed merger so our shareholders would understand the value placed on their shares, let me be very clear: our decision to return capital to our shareholders and the merger with Kroger are not connected. While we are currently unable to pay the dividend due to litigation, we intend to pay it as soon as possible without regard to whether the merger closes.

This dividend payment is the first major return of capital to our shareholders since our IPO,[8] and returning capital to shareholders is a key component of our growth strategy and our ability to attract investors, so that we can continue to invest in our business and employees. The special dividend is fair to all our shareholders; each of our shareholders is entitled to benefit from the dividend in proportion to the number of shares they hold. Our shareholders are a diverse group—they include teachers' and firefighters' pension funds, and private equity groups that have been long-term investors, as well as individual shareholders who believe in our company.

Albertsons is in excellent financial condition. Our balance sheet is strong, with significant cash and relatively little debt. After paying the dividend, we will have approximately $3 billion of liquidity, and we expect to continue generating strong revenues and positive free cash flow, further

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[6] *Albertsons Companies Announces Review of Strategic Alternatives*, Business Wire (Feb. 28, 2022), https://www.businesswire.com/news/home/20220228006022/en/Albertsons-Companies-Announces-Review-of-Strategic-Alternatives

[7] *See* Declaration of Sharon McCollam, Doc. 37-1, *District of Columbia et al. v. Kroger, et al.*, D.D.C. Case No. 1:22-cv-03357-CJN, ¶¶ 13, 16.

[8] *See* Albertsons Companies Inc., Amend. No. 3 to Form S-1 (June 18, 2020), at 55, *available at* https://sec.report/Document/0001193125-20-172409/#rom885054_6 ("[W]e have established a dividend policy pursuant to which we intend to pay a quarterly dividend on our common stock in an annual amount equal to 2.5% of the initial public offering price"); *see, e.g.*, Albertsons Companies, Inc., 2021 Annual Report, at 45, available at https://sec.report/Document/0001646972-21-000026/ ("Our capital allocation strategy balances investing for the future, strengthening our balance sheet and returns to shareholders through a combination of dividends and opportunistic share repurchases.").

increasing liquidity.[9] In recent years we have also significantly reduced our debt to a lower level than many other companies in our industry. Nothing about the payment of the dividend changes this. Even after payment of the dividend, our debt ratio will be materially lower than in recent years. Far from weakening the company, **the dividend shows our financial strength and the results of our strong cash generating performance over many years.** The rating agencies—Moody's and Standard and Poor's—indicated in conversations we had with them before making the decision to pay the dividend that the dividend will not impact Albertsons' long-term corporate credit ratings.

Most importantly, the dividend does not affect any of our future plans to invest in our stores, our capabilities, and our employees. We will have more than sufficient resources to continue with our current strategic and operating plans. Our employees will continue to receive the increases in wages and benefits agreed to in our collective bargaining agreements, including our contributions to pension funds. And, the Multiemployer Pension Plans we participate in will remain funded. After payment of the dividend, Albertsons will have ample resources—the approximately $3 billion of liquidity noted above (including $500 million in cash and $2.5 billion available under an already existing asset-based lending facility), and $75 billion in projected annual revenues—to meet our needs, pay our employees, and compete effectively. We have every intention, and the financial wherewithal, to continue to make these investments regardless of whether the merger is consummated.

Finally, **I want to underscore that our board was planning to return capital to our shareholders** as the result of the strategic review we announced in February 2022, before we received an offer from Kroger to merge. Because we were always planning to return capital to our investors in the near-term, the special dividend was scheduled to be paid in early November 2022, regardless of whether or when the merger receives regulatory approval.

<u>The Benefit of the Merger to Albertsons' Customers, Employees, and Communities</u>

This merger will help protect the local community grocery stores that people love. Kroger-Albertsons stores will continue to be staples of their local communities—the places where teenagers have their first jobs, kids pick out a special birthday cake from the bakery, and long-time cashiers, florists, and butchers know customers by name and work for decades at our stores with good pay and benefits to provide for their own families.

I would like to endorse what Mr. McMullen submitted in his testimony regarding the benefits of the proposed Kroger-Albertsons merger. And I'd like to add that this transaction is good for Albertsons' loyal customers, employees, and communities.

[9] *See* Declaration of Sharon McCollam, Doc. 37-1, *District of Columbia et al. v. Kroger, et al.*, D.D.C. Case No. 1:22-cv-03357-CJN, ¶¶ 45, 46.

- **First, our customers come to our stores to get quality products at a fair price and this merger will help us do this even better.** For example, at Albertsons, we invest in manufacturers, transporters, and farmers to ensure that we have a stable supply chain, and this merger would allow us to provide more volume stability so manufacturers and farmers can have the certainty to invest in assets, plan production, and plant crops, reducing supply chain costs for consumers.

- **This merger will benefit Albertsons' employees**. Albertsons has a rich history of creating good jobs, adding nearly 20,000 jobs over the past five years, while maintaining a productive and positive relationship with our employees and their unions. Our stores provide many people in our communities with their first jobs, and we offer flexible schedules that give those in need of supplemental income an opportunity to join us, such as parents or retirees seeking part-time employment.

  We have a proven track record of taking care of our employees, offering benefits and competitive wages, in addition to offering many employees pensions—a benefit they would not receive from our non-union competitors. Our track record also includes ensuring that our pension funding obligations are met. The combined company will be the largest private-sector union retailer in the country, as we compete with non-union companies like Amazon and Walmart.

- **The merger is a win for the communities Albertsons serves.** Albertsons has a long history of caring for our local communities. We offer fresh food to remote and underserved communities across this country—from rural towns in Alaska and Montana to urban neighborhoods from Los Angeles to Chicago to Newark. This merger will further solidify our presence as a pillar of the communities we serve into the future.

  Albertsons has also been at the forefront of fighting hunger. Over the past 10 years, Albertsons has contributed over $1.5 billion in food and financial support to fight food insecurity and support our communities. As part of our effort to fight hunger, our charitable foundation created an initiative—Nourishing Neighbors—to raise funds to fight hunger in our communities, while also raising awareness about the issue. As part of that program, we have donated to approximately 4,000 local and national hunger relief organizations over the last decade. This, in turn, has led to the provision of more than 900 million meals to our neighbors in need. The Albertsons' foundation also has, among other things, provided grants to organizations that enhance school breakfasts and provide weekend and summer breakfasts to kids in need. Similarly, we have supported programs that make sure our communities have the food they need when disaster strikes, which in turn permits them to focus on moving forward and recovery efforts. As part of that disaster relief, since 2017, we have helped ensure over 49 million meals are delivered to neighbors during their toughest times.

  Our work is not only in the grocery space. We also literally serve as a space for communities to gather. For example, at one local Chicago Jewel-Osco, we built the first-ever 2,200 square foot community room to offer needed space to the South Shore Drill

Team, which supports 300 youth from underserved communities and operates as a prevention program that fights against gangs, drugs, and high drop-out rates.[10]

Simply put, supporting our communities is not just something we do, it is who we are at Albertsons. Nothing about the merger with Kroger changes that. For the reasons noted above, and others, the combined company will have a positive impact on our associates and the communities we are proud to serve.

Thank you again for the invitation to come before you today. I look forward to answering your questions.

[10] *See, e.g.*, *Jewel-Osco Store Reopens In Auburn-Gresham, With Space For South Shore Drill Team To Practice*, CBS Chicago (July 29, 2021), https://www.cbsnews.com/chicago/news/auburn-gresham-neighborhood-gets-jewel-osco-store-space-for-south-shore-drill-team-to-practice/.