

WRITTEN TESTIMONY OF RODNEY MCMULLEN, CHAIR AND CEO, THE KROGER CO.
BEFORE THE SENATE COMMITTEE ON THE JUDICIARY, SUBCOMMITTEE ON ANTITRUST, COMPETITION
POLICY, AND CONSUMER RIGHTS
NOVEMBER 29, 2022

INTRODUCTION

Thank you, Chair Klobuchar, Ranking Member Lee and members of the Subcommittee on Competition Policy, Antitrust and Consumer Rights. My name is Rodney McMullen. I have served as Chair and Chief Executive Officer of Kroger since 2015. We have a saying at Kroger – ‘come for a job, discover a career.’ I am living proof of that, and I am incredibly proud to have spent my entire career at an organization that serves a fundamental need: Feeding the Human Spirit. I began my career in 1978, serving as a part-time stock clerk and bagger at a store in Lexington, Kentucky. I worked my way through college in various jobs across the store, from dairy to the deli. During my 44-year career with Kroger, I have had the opportunity to play a number of roles within the organization and help lead an incredible transformation at the Company. Today we are proud to provide fresh, accessible food to more than 60 million households across the United States.

I appreciate the opportunity to be here today alongside Vivek Sankaran of Albertsons Cos. to discuss the benefits of the proposed merger of our two companies, which will:

- Bring together two complementary organizations to establish a national footprint, allowing us to expand our customer reach and improve proximity to deliver fresh and affordable food
- Continue a track record of investments across lowering prices, enhancing the customer experience and increasing associate wages and benefits.
- Provide one-of-a-kind benefits by delivering quality, value, convenience and choice to customers nationwide, fostering innovation and securing the future of union jobs
- More effectively compete with larger non-union retailers on a national basis, which in turn will allow us to invest billions of dollars into the company to benefit our customers, associates and communities in a way that neither company can do alone
- And enhance competition in the evolving and highly competitive grocery industry.

Our business model is built around lowering prices to attract more customers, rather than making higher margins on fewer customers. Then we earn our customers’ loyalty daily by providing an

outstanding shopping experience and affordable, high-quality products they love. As America's grocer, we take seriously our responsibility to provide customers with fresh, affordable food, a commitment which is essential today considering the ways in which inflation is impacting our customers' lives. We are always aware customers have endless options when it comes to where they purchase their groceries. If we do not provide value and quality, customers will shop somewhere else.

We help our customers save in a variety of ways — by keeping everyday prices low, by offering personalized promotions and fuel rewards, and by creating a large selection of high-value and high-quality private label products we call *Our Brands*. Together with Albertsons, we will be able to do even more for our customers — including delivering a wider variety of fresh options and offering a broader portfolio of approximately 34,000 total private label products — allowing customers to stretch their grocery budgets without compromise.

As part of this merger, we made an additional commitment to invest \$500 million to lower prices and \$1.3 billion to improve the customer experience. The \$1.3 billion store investment will improve the associate and customer experience, creating a place where associates love to work and customers love to shop. We will begin these investments on day one after the merger closes.

We also committed \$1 billion to continue raising associate wages and comprehensive, industry-leading benefits, including quality and affordable healthcare, continuing education, wellbeing, and financial literacy programs. Kroger employs one of America's largest unionized workforces, and this merger secures the long-term future of union jobs by establishing a more competitive alternative to large, non-union retailers.

Kroger recognizes the important role of this Subcommittee in providing oversight of competition policy and the FTC as it prepares to review our merger with Albertsons; and we are here to answer your questions and clarify our commitments to you and your constituents. We intend for our testimony to plainly articulate the significant benefits this merger will bring to customers, associates and the communities we serve.

SIGNIFICANT SHIFTS MAKING RETAIL INCREASINGLY COMPETITIVE

Grocery is a highly fragmented industry, and the landscape in which Kroger operates has shifted dramatically during the past several decades. We are seeing increased competition with large companies expanding both their brick-and-mortar and online presences. For example, consider that since 2010, online retailers increased their share of all grocery sales by more than 14%. Often, these increases come at the expense of companies like Kroger.

Kroger currently is ranked fourth in total revenue among U.S. grocery retailers behind Walmart, Amazon and Costco. A combined Kroger and Albertsons will remain at number four as we will continue to compete with these companies to sell groceries. Those same three competitors have nearly three times the share of grocery sales of Kroger and Albertsons combined.

We do not expect this merger to have any impact on the strong independent grocery stores that are critical to the industry and vital to communities across the country. According to National Grocers Associations research in 2021, independent grocers accounted for 33% of overall U.S. grocery sales, up from 25% nearly a decade ago. Sales by independent grocers rose almost 94% from 2012 to 2020. These stores will remain formidable competitors.

While we firmly believe Kroger offers the best products at the best prices, we acknowledge both Walmart and Amazon have clear advantages. Our combination with Albertsons will allow us to more effectively compete against non-union retailers, from Amazon and Walmart to Costco and Aldi. The customer reach as well as digital and technology capabilities we expect to gain through this merger will enable us to provide an enhanced seamless shopping experience, both in store and online. We will have an expanded network of stores and distribution centers, and a broader supplier base allowing us to deliver fresher food faster to more customers. Albertsons' portfolio will expand our core supermarket, fuel and pharmacy businesses, bolstering our ability to drive additional traffic into stores and digital channels, which in turn provides even more value to our customers.

KROGER TRANSFORMATION

In my more than four decades at Kroger, I learned that staying ahead of the curve and anticipating customers' needs is critical to surviving in this incredibly competitive industry. Kroger

certainly has evolved through the years. We are constantly innovating and adapting to anticipate and deliver on customers' needs, using technology to enhance the customer experience, responding to an evolving environmental and social issues and, crucially, to new competition.

As an example, several years ago, our leadership team recognized that we had to transform our business to compete and respond to new ways the customers want to shop. We began our journey to create a seamless shopping platform that combines the best experiences of a physical store environment with convenient e-commerce solutions. Through our *Restock Kroger* transformation, we improved processes and freed resources to invest in associates, technology and lower prices. In just three years, we took more than \$3 billion in costs out of the business.

Kroger's innovation at work is reflected in our response to changes in consumer spending at restaurants and demand for organic food. On average, almost half of all consumers' food budgets is spent at restaurants. With customers looking to restaurants for convenience, Kroger responded by adding more ready-to-eat/ready-to-heat options, including through our merger with Home Chef in 2018. Whole Foods became an early natural and organic food innovators, kicking off a national trend in 2016. We responded by launching our Simple Truth brand. This product line offers more affordable natural and organic products, and we have since grown Simple Truth to become a billion-dollar brand.

We invested in all these innovations to better compete – establishing a seamless ecosystem, offering restaurant-style food choices, and creating an affordable natural and organic product line. They each became critical to our business as the COVID-19 pandemic took hold. In the depths of the crisis, we recognized food – and particularly food at home – was more than a necessity; it was a way to spend quality time with family, a way to lead a healthier life, and a reminder that we are more resilient than we realize. The pandemic nearly doubled the number of customers looking for a seamless shopping experience – one that makes it easy to choose whether to shop in store, for pickup or delivery, or even ship-to-home, based on their needs in the moment. We knew we had to deliver for the customers who count on us, and that is exactly what we did and continue to do. We are extremely proud of these efforts, and in 2020, we more than doubled our digital sales and the number of digital households within our network.

We continue to prioritize using our data and technology to enhance the customer experience, our supply chain, our business operations and productivity, and our associates experience — and doing it all in an accessible and seamless way. Our digital investments are focused on growing our Kroger Delivery network. This includes Kroger Delivery Now with Instacart, which established Kroger as the first grocery retailer to directly provide a convenience delivery solution, with deliveries made in as little as 30-minutes. It also includes our collaboration with technology firm Ocado Group to build out e-commerce customer fulfillment centers.

Looking ahead, we will continue to make decisions on a five- to ten-year horizon, focusing on what's right for our customers and our associates — just as we have done for many decades. As we see how the landscape is evolving and what customers want, we know that we need to further develop competitive technology, find creative ways to combat inflation and keep food affordable for America, and continue to deliver quality, value, convenience and choice. Simply stated, to provide customers with fresh and affordable food for years to come, we must continue to invest in lowering prices, enhancing the customer experience and supporting our associates. With Albertsons, we will accelerate that journey.

AS A PREMIER MULTI-CHANNEL GROCERY RETAILER WE WILL BE MORE COMPETITIVE AND WILL LOWER PRICES FOR OUR CUSTOMERS

Our merger is a win for customers, a win for associates and a win for American competition: It will benefit associates and customers, preserve good union jobs and enhance the competitive landscape. We know that groceries are more than just essential to our survival. Food provides us with the nutrients and energy we need to be healthy, to move, to play, to work, to think and to learn. The right ingredients to make an important family recipe transforms a simple meal into a cherished memory. Through this merger, we will invest in lower prices and give customers more choices. With Albertsons, we will be able to compete more effectively with retailers who — today — are the primary grocery provider for 61% of U.S. consumers: Walmart, Target, Ahold, Whole Foods and Aldi.

Customers are looking for unique, high-quality products, and this merger will enable us to offer a broader selection of fresh products and an expanded *Our Brands* portfolio. This means we are both lowering costs for our customers and giving them more options when they shop with us.

We bring to life new items that meet customers' needs today and exceed their expectations with innovative new flavors, products and healthy alternatives. Kroger's *Our Brand* portfolio has been a key growth driver as customers discover Private Selection, Simple Truth, Kroger, Home Chef and Murray's Cheese alongside our expansive banner brands that offer innovative products at a great value. Albertsons has a portfolio of 14,000 owned brands, including O Organics, Open Nature, Lucerne and Signature products. The merger will create a broader portfolio of approximately 34,000 total private label products across premium, natural and organic, and opening price point brands that will allow customers to save without sacrificing quality. Currently, Kroger and Albertsons have a manufacturing footprint of 52 plants, expanding our capacity and providing us with even more ability to assure the quality and supply of *Our Brands* products for years to come.

We will be able to give customers even more of what they want. We aim to provide a deep breadth of assortment as well as a compelling presence on the shelf. In 2021 alone, Kroger launched more than 660 new products. Together, we'll be able to accelerate these new product offerings and give customers more of what they want in one place.

We know this is a critical time in the grocery industry, as inflation is forcing many customers to make difficult choices. Customers look to us to continue delivering high-quality products while keeping food affordable and accessible. This is of crucial importance to us, and we have a long track-record of investing to lower prices. In fact, it is our fundamental go-to-market strategy. You can see the evidence of our investment to lower prices in Kroger's total gross margin, which has declined from 26.43% in Fiscal Year 2006 to 23.27% in Fiscal Year 2021 – a more than 300 basis points decline in the last 15 years. Because of our consistency in executing this strategy, since 2003, customers have seen \$5 billion in lower pricing when they shop with us. As part of this merger, we have committed to invest \$500 million to lower prices even more. Our history of mergers shows we follow through on our commitments. Following our merger with Harris Teeter in 2014, we lowered prices by \$130 million per year. After our merger with Roundy's in 2017, we lowered prices by \$110 million per year.

To provide one recent example, the average cost of turkey rose nearly 17% this year. We decided to absorb that cost and did not pass it on to customers. We invested approximately \$10 million in turkey prices this year to ensure our customers had their favorite protein at the center of their plate

with no price increase. We were proud to feature promotions that meant our customers were able to feed ten people at Thanksgiving dinner for as little as \$5 per person.

The merger creates a broader network of stores and distribution centers, enabling a more efficient, resilient supply chain and resulting in fresher food delivered to our customers faster. By combining our supply chains, we will be able to remove valuable days from the producer or farmer to our customers' tables. This optimized supply chain will ensure products remain fresher longer, both in store and in our customers' homes. It will help us to reduce costs for customers and to reduce waste.

OUR ASSOCIATES ENABLE OUR SUCCESS, AND WE ARE COMMITTED TO INVESTING IN THEIRS, WHILE SECURING UNION JOBS

Being successful starts with our associates. As someone who has worked at all levels of the company, I am personally dedicated to developing our talented team. We have a long history of investing in and supporting our associates in many aspects of their lives from pay and benefits, to training, education assistance, well-being, advancement and work simplification. We are pleased to commit \$1 billion to continue raising associate wages and comprehensive industry-leading benefits as a result of the merger. We expect that by bringing together Kroger and Albertsons, we will create new and exciting career opportunities for associates of both companies.

This is especially important to me as I reflect on my own story. Although my parents did not have the means to pay for my education beyond high school, working at Kroger afforded me the opportunity to earn my degree. I hope that explains why I feel so strongly about the support we provide to our associates and communities. So far in 2022, 20% of our new hires were 18 years old or younger, and for more than 60% of that group, Kroger is their first job. I am incredibly proud that we are able to introduce so many young people to a strong career in the grocery industry.

As the cost of living in the United States has rapidly increased, Kroger has more than kept pace with wages and benefits. Since 2018, Kroger invested an incremental \$1.2 billion in wages and comprehensive benefits. Our commitments to our associates' well-being goes further. At Kroger, we:

- Invest approximately \$1.8 billion annually in quality, affordable healthcare and contributed more than \$2 billion to associate pensions from 2018 to 2021

- Offer up to \$21,000 to both part-time and full-time associates for continued education
- Provide a scholarship fund for children of our associates
- Offer on-demand mental health assistance and free counseling to support emotional wellness
- Gave \$5.5 million to support associates through unexpected hardships and disaster relief with our Helping Hands Fund in 2021
- And invested more than \$140 million in training and development in 2021.

With approximately 420,000 associates, the Kroger team looks like America. In fact, nearly 40% of our workforce is diverse by race or ethnicity and more than 50% of our total workforce are women. Our goal remains for our company to reflect our country, communities and local neighborhoods. In 2021, 18% of the United States population was Hispanic or Latino and represented nearly 14% of our total associates. The Black or African American U.S. population in 2021 was 11.9% and represented 15% of our total associates. And Asian or Asian-Americans represented 5.1% of the country's population and 3.7% of Kroger's total associates. And we are committed to ensuring everyone feels comfortable bringing their whole self to work. We have launched strategic relationships with educational institutions and community organizations to provide regular diversity, equity and inclusion training across the company

Importantly, as I have touched on earlier, this merger secures the long-term future of union jobs. Since 2012, Kroger associate memberships with the United Food and Commercial Workers International Union ("UFCW") has gone from 208,602 members to 327,618 members, an increase of 57%. Combined, Kroger and Albertsons currently employ more than 710,000 associates. Our three largest competitors by revenue are non-union. Our ability to secure union jobs is enhanced by this merger.

I understand The Committee has highlighted the importance of job security, and I want to be very clear on this topic. We will not close any stores, distribution centers or manufacturing facilities as a result of this merger, including stores that may need to be divested to obtain regulatory approval.

BUILDING ON OUR CULTURE OF CONTINUOUS INNOVATION

As I have said before, it is through investments in innovation and technology that we will be able to continue growing our business. By bringing together Kroger and Albertsons, we will be able to use an expanded set of first-party data and stronger customer insights to offer our customers best-in-class personalization. More relevant recommendations and promotions save customers time and money. This means we will be able to help customers save on the products they love whenever and wherever they want to shop.

As the industry continues to evolve and new competition arise, Kroger evolves as well. Our delivery network powered by Instacart, Ocado and others enables Kroger to reach more people with affordable, fresh food. It empowers the company to achieve a reliable experience in current and new geographies. Kroger Delivery and our fulfillment center networks promise an unparalleled shopping and delivery experience, making groceries just one click away at Kroger.com or through the Kroger app. From personalized digital offers to our in-house delivery service, the Kroger seamless ecosystem saves time and money. Kroger Delivery orders are brought to customers in our branded refrigerated trucks and delivered to their doorstep by our trained and uniformed associates, all with zero compromise on quality, selection, convenience and value. We know this is what our customers want.

Underscoring all this work is Kroger's commitment to building a more responsible and inclusive global systems, including data privacy and cybersecurity as well as adopting more responsible marketing practices. We know we must earn our customers' trust. We use data to deliver more value by providing customers with better recommendations and personalized promotions to save on the products they love while ensuring their personal information is secure. We take great pride in safeguarding the information entrusted to us. We have robust cybersecurity practices and policies to prevent the loss or misuse of any data we collect. As part of our integration planning process, we will develop a thoughtful roadmap to bring together Kroger's and Albertsons' cybersecurity and information technology programs to ensure the combined company continues to maintain a high standard of data protection. We will also continue to evaluate and enhance cybersecurity training and policies to strengthen data protection in the future.

COMBINED COMMITMENT TO SUSTAINABILITY AND ENDING HUNGER

As bipartisan federal policies are crafted and put into law to increase access to nutritious foods and eliminate food deserts, Kroger plays an important role in helping make this a reality through our Zero Hunger | Zero Waste social and environmental impact plan.

Throughout our history, Kroger has focused on connecting people with the food and nourishment they need to thrive. We know meals matter. Research shows when families share meals, their children achieve more in all aspects of their lives. And yet, hunger remains a persistent challenge in our communities. In fact, looking at the state of hunger in America, we see a startling absurdity: One in eight people go to bed hungry every night and yet 40% of the food produced in the United States is thrown away every year. In 2017, we made a commitment to change this.

Put simply, our goal is to create a more equitable and sustainable food system ensuring no one in the areas we operate wonders where their next meal will come from. This merger is based in growing our footprint with well-run stores and seamless online options, which will provide fresher food faster to our customers anytime, anywhere.

Our Zero Hunger | Zero Waste social impact plan informs our decision-making to support healthier, more sustainable lifestyles for the customers and the communities we serve. Since we made this commitment in 2017, Kroger directed a total of \$1.65 billion in food and funds to help end hunger, including donating 2.3 billion meals. To put those figures in perspective: We have donated 12 meals every second of every day for five years – right here in America’s communities. We are proud of these achievements and are committed to building on these successes to provide even more support to those who need it most.

The addition of Albertsons’ sustainability program and resources will complement the important work we are doing and will accelerate our progress. I am most passionate about the work we are doing to end hunger in the communities we serve and eliminate waste across the company.

WORKING WITH OUR COMBINED SUPPLIERS – AMERICA’S FOOD PRODUCERS

To win and keep our customers, we need to work with our suppliers. With a broader network and even more customers to serve, we believe the merger will benefit our suppliers as it will allow for a more efficient distribution chain, provide opportunities to grow sales together and reduce waste. With Albertsons, we will optimize our supply chain to deliver fresher food faster, move products from the farm to our stores more efficiently and ensure products stay fresher longer, both in store and in our customers’ homes. With our expanded delivery network, we can bring more products directly to our customers’ doorsteps, which in turn, will expand our suppliers’ reach. For example, we can reduce transportation time and cost through our expanded distribution center network by stocking a Kroger store with products from an Albertsons distribution center located closer to that Kroger store, or vice versa. We can also better utilize local distribution centers versus regional centers, allowing us to facilitate more deliveries per week and keep more items in stock.

Kroger’s commitment to Fresh products is a perfect example. Fresh starts with our farmers. Kroger’s End2End Fresh program demonstrates how we are working with farmers to improve the customer experience and build a deeper, long-term relationship with suppliers. By thinking creatively about how we move products from the farm to our customers’ tables, we are providing a fresher experience, the products are lasting longer and our customers are benefitting. Where we have implemented the End2End Fresh program, we are seeing higher Fresh sales and higher overall identical store sales.

Kroger is deeply committed to supporting and growing diverse suppliers. We are a founding member of the Billion Dollar Roundtable, an organization focused on recognizing corporations that spend at least \$1 billion with minority and women-owned businesses. Today, Kroger spends \$4 billion with diverse suppliers and our commitment is to grow that number to \$10 billion by 2030.

CONCLUSION

As we think about how to best position ourselves to provide fresh, affordable food for America and secure union jobs into the future, we believe in the proposed merger with Albertsons. The merger

allows us to more effectively operate in the constantly evolving and fiercely competitive grocery landscape. We would not be proposing this merger if we did not truly believe all our stakeholders would benefit. From the outset, we have been candid about our intention to work with the Federal Trade Commission and state Attorneys General to develop a thoughtful divestiture plan - either through divesting stores to strong buyers or creating a standalone independent company.

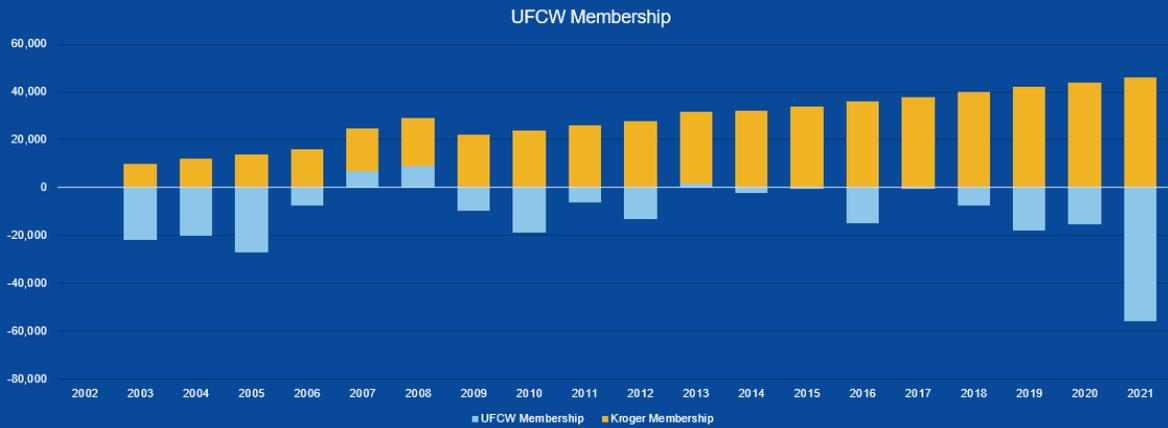
Albertsons chose Kroger because of the benefits only we can provide. Benefits that are backed by our track record of lowering prices for customers, investing in our associates, securing union jobs and making a meaningful difference in our communities.

At Kroger, delivering superior value to our customers has always been the top priority. It is in our nature to continually innovate and find new ways to bring customers more of what they want. We are confident this merger is the best way to continue fulfilling our commitments to our customers, our associate and our communities for years to come.

Thank you for the opportunity to speak today. I welcome any questions you may have.

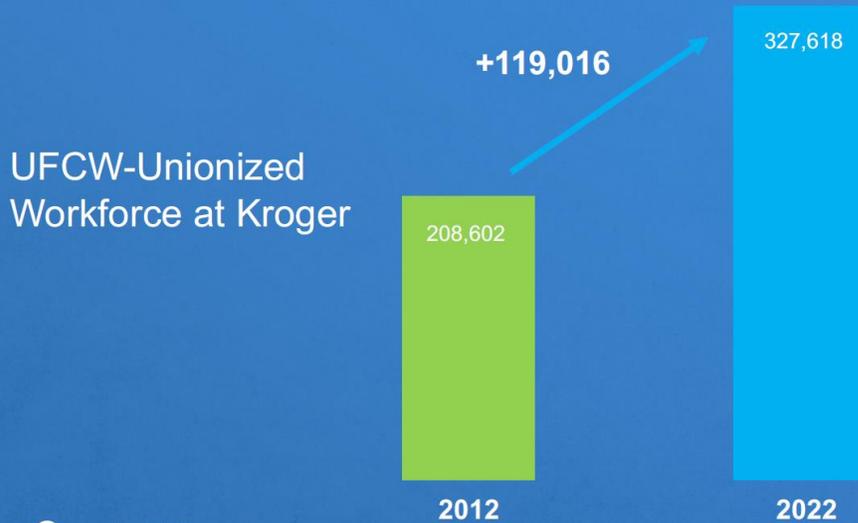
APPENDIX

Kroger Continues to Grow Our Unionized Workforce



7

Kroger's UFCW-Unionized Workforce Continues to Grow



7

\$1B Investment in Associate Wage & Comprehensive Benefits



Since 2018, our incremental wage investments total \$1.2B



5

Total Gross Margin Decline YOY



2025 Zero Hunger Zero Waste Commitments	Progress (2017 – 2021)
Meals: Direct 3B meals to our communities	2.3B meals
Surplus food: Optimize surplus food recovered through Zero Hunger Waste Food Rescue program	500M pounds
Donations: 100% of stores with regular surplus food pickups	>93%
Nutrition: Increase donations of surplus fresh Produce, Dairy & Deli items to be 45% of total food rescue to improve health	42%
Direct charitable giving to hunger relief: Strategically align giving to nonprofit partners feeding people	\$1B (Total giving: \$1.65B)
Operational waste: Achieve zero-waste of 90%+ waste diversion from landfill company-wide	79%
Food waste reduction: Reduce total food waste generated in retail supermarkets by 50%	19.7%
Food waste diversion: Achieve 95%+ food waste diversion from landfill	49%
Food waste recycling: 95%+ of retail stores have active food waste recycling programs	92% (2,539 stores)