

Fellow Shareholders:

## THE FOOD INDUSTRY IS SPECIAL.

It is a sentiment I have expressed more times than I can count – often on the pages of this annual letter. It is something I deeply believe.

More importantly, it is a sentiment that has taken on new and magnified meaning as we confront the greatest health threat to our global community in 100 years.

As I write this letter, the pandemic curve in the U.S. has not yet hit its apex. We feel for those in America and around the world who have been affected by the disease and economic disruption. There is much we still do not know. *How long will it last? How many lives will be lost or irreversibly changed? What will be the economic impact?*

What we have learned in this uncertain time is that, now more than ever, purpose matters.

At Kroger, our purpose is To Feed the Human Spirit.

Purpose has been the guidepost for every decision we have made during this crisis. Our aim has been to focus on our most urgent priority, to provide a safe environment for associates and customers, with our responsibility and obligation to communities to provide open stores, comprehensive digital solutions and an efficiently-operating supply chain so that our customers always have access to fresh, affordable food and essentials.

Kroger has taken extensive measures across our businesses to safeguard associates and customers during the COVID-19 pandemic.

In addition to activating a coronavirus task force in February to prepare for the approaching pandemic, we have closely monitored the impact of the pandemic on food retail across global markets. I have been in regular contact with food retail CEOs in other countries, including Italy, Singapore, China and Australia – all of which are ahead of the U.S. in terms of the pandemic cycling through their countries.

I am grateful to this generous network of grocery leaders because our company has benefited from their earlier experiences, which helped us anticipate the steps we needed to take to provide a safe environment in our stores, distribution centers, food manufacturing plants and offices.

Of course, our associates are the true heroes of this story. In recognition of their incredible and selfless commitment to our customers while serving as essential personnel, we provided special bonuses, including \$2 premium pay for frontline associates; we established new paid emergency leave guidelines; and, as of early May, Kroger has hired more than 80,000 new associates to help share the load and serve our communities during the pandemic.

Safety is not only our priority in this crisis, it is one of our core values. We enhanced daily sanitation practices in all our facilities. In stores, this includes cleaning commonly used areas more often like cashier stations, self-checkouts, credit card terminals, food service counters, shelves and restrooms. We are providing protective masks and gloves, and we installed plexiglass partitions at check lanes, pharmacy and Starbucks registers across the enterprise. We added signs and floor decals to promote physical distancing at check lanes and other

counters, and adjusted store operating hours to allow more time for our associates to rest, clean and replenish inventory.

Because of these steps, Kroger has remained a constant for our associates, customers and communities when they needed us most. And, many of the investments we are making to address today's urgent needs are also strengthening our foundation for the future.

Our vision is to serve America through food inspiration and uplift, and we will continue to serve, inspire and uplift America.

As an essential business operating nearly 2,800 grocery stores, 35 manufacturing plants and 44 distribution centers across the country, we have learned an incredible amount from keeping our stores, supply chain and food production plants operating safely during the pandemic. We are sharing our best practices and procedures with other retailers, restaurants, manufacturers and logistics companies as they take steps to responsibly reopen and get our economy working again. You can find these open-source materials at [KrogerBlueprint.com](http://KrogerBlueprint.com).

Kroger's response to the COVID-19 pandemic demonstrates that when a company is clear on its purpose, values, and vision, we can navigate through any challenge together. I am confident we will emerge from this crisis even stronger.

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## **Year Two of *Restock Kroger* – 2019 in Review**

We embarked on the *Restock Kroger* journey in 2018. We have been making strategic investments to both deliver more value for our customers today and to build long-term loyalty. This includes investments in quality products and freshness, talent, pricing, and personalized rewards that will expand our competitive moats versus our competitors. Fueling these investments are significant cost savings of over \$1 billion in each of the past two years.

*Restock Kroger* is repositioning our business in four main areas – Redefine the Grocery Customer Experience, Partner for Customer Value, Develop Talent and Live our Purpose. I'll outline our progress in each of these areas below. The outcome of our focus on these drivers is Shareholder Value Creation.

At Kroger we have an aspiration to deliver consistently strong and attractive total shareholder return, or TSR, year over year.

"TSR" isn't language we've traditionally used. Our focus for the last two years, and in 2020, is on *Restock Kroger* and transforming our business model. Moving forward you will hear us increasingly talk about TSR – which is a combination of business growth, free cash flow and dividend. At the heart of Kroger's TSR is our strategic capital deployment.

Our model for a strong and durable retail supermarket business begins with the customer and our obsession with increasing customer loyalty. We continue to generate strong and durable free cash flow as reflected by the fact that the company reduced debt by \$1.1 billion in fiscal 2019 and continued to increase the dividend to create value for shareholders. In total, we returned \$951 million to shareholders in 2019. Our confidence that we can deliver even stronger TSR in the future is guided by our strong free cash flow as well as sustainable net earnings growth.

## ***Redefine the Grocery Customer Experience***

Our disciplined focus on execution and continued improvements in the value and experience we deliver for customers will drive identical sales growth across our store and digital ecosystem.

We are enhancing the customer connection by making investments to widen and deepen our competitive moats of today – which are product freshness and quality, *Our Brands*, and personalized rewards – and our competitive moat of tomorrow, the seamless ecosystem we are building.

### *Competitive Moats – Fresh*

Fresh is a sales driver for Kroger. Our Fresh departments drive trips, loyalty and gross margin. Our product standards, selection criteria and supply chain are core strengths and are built to deliver first to market and best of the season fresh products across the United States. We want to be known by our customers for providing fresh, affordable food that tastes amazing.

We debuted Kroger's brand transformation campaign, Fresh for Everyone, celebrating our food-first culture and exciting history as America's favorite grocer. The campaign has been well received and is driving significant improvements in marketing effectiveness. It is also driving more trips to our seamless ecosystem in-store and online.

### *Our Brands*

One of many ways we demonstrate our passion for food is through Kroger's best in class *Our Brands* portfolio. While many grocers offer private-label products, *Our Brands* is a real differentiator for Kroger. Customers tell us through blind taste tests that *Our Brands* quality is better than not only competitor private label products, but many leading national brands as well. 2019 was *Our Brands*' best year ever, exceeding \$23.1 billion in sales. We also introduced 758 new *Our Brands* items in 2019, which helped drive strong year-over-year sales lift across our portfolio of brands. Since its launch in 2013, Simple Truth has become the leading natural and organic brand in the country, with annual sales exceeding \$2.5 billion in 2019.

The Private Selection brand eclipsed \$2 billion in sales for the first time. The Kroger brand exceeded \$13.7 billion in sales, capitalizing on product development around key consumer trends like global and regional flavors.

### *Personalization*

Data and personalization are competitive moats for Kroger. Many retailers have transactional data, but none have the customer data and the insights to make meaningful suggestions to their customers, like Kroger.

Data has long been a differentiator for The Kroger Co., through our loyalty proposition, which covers over 90% of all transactions. We have rich customer data, and knowledge of their aggregated shopping history allows us to improve the efficiency and effectiveness of how we operate our stores. It also ensures that the experience is as local and personal as possible. Data and personalization permeate all aspects of the business, from ensuring we carry the most relevant products in stores, to personalizing 'start my cart' through the seamless digital experience, to powering our alternative profit businesses.

## *Seamless Ecosystem*

Kroger continues to invest in digital as we build a seamless ecosystem that combines the best of the physical store experience with the digital customer experience for our customers. We know our customers value the greater convenience and personalization this provides, and our data shows it is an essential component of growing overall loyalty as customers continue to turn to Kroger's seamless experience to meet their needs. Seamless has been a huge help in the current environment, enabling customers to shop in the way they prefer and feel most comfortable.

We will continue to invest to make a world-class seamless experience available to our customers. We are well-positioned because several of our grocery competitors are not taking these steps today.

## ***Partner for Customer Value***

We continue to collaborate with icons like Microsoft and Walgreens, and innovators like Ocado, in order to enhance the customer experience and do things together that neither of us can do alone.

We continued to roll out Ocado facilities in the U.S., designing a flexible distribution network that combines store locations with both medium- and large-sized facilities. We know Ocado's value is not just its current capabilities, but also in how quickly they innovate to serve a rapidly developing online consumer market. What is really exciting about Ocado is that their model to deliver to customers is significantly less costly than our existing model. Not only will facilities accelerate our ability to provide customers with a seamless, more convenient experience, they will also help us do it in a much more cost-effective way.

Additionally, Kroger's asset light, margin rich alternative profit streams are delivering as expected and have ample runway ahead. Our diversified portfolio of alternative profit stream businesses contributed an incremental operating profit of more than \$100 million in 2019. Kroger Precision Marketing (KPM) and Kroger Personal Finance continue to be the primary drivers of growth. Brands continue to invest in KPM because we close the loop between media exposure and store and digital sales to make brand advertising more addressable, actionable, and accountable.

## ***Develop Talent***

Associates expect more from companies today than ever before and we support them in a variety of ways, including investments in wages, training and development.

Investments in associate wages increased Kroger's average hourly wage to \$15 an hour in 2019, putting more money in their pockets. When comprehensive benefits are factored in, the average associate hourly rate is over \$20, with benefits that many of our competitors don't offer.

Feed Your Future, our industry-leading education assistance program, continues to build momentum. Among all the participants, more than 87 percent are hourly store associates. Since inception of the program last year, we've distributed over 5,000 awards – that means 5,000 more associates have taken steps to secure a more prosperous future for themselves, their families and their communities through continued education.

We are working hard to ensure we have the right talent, teams, and structure in the right focus areas in our core supermarket business and our alternative profit businesses. Our focus is on developing, training and promoting internal talent, while simultaneously hiring seasoned food industry executives to drive our retail supermarket business.

### ***Live Our Purpose***

Increasingly, customers, associates and investors are choosing to shop with, work for, and invest in companies that are purpose driven and are actively making the world a better place.

As I noted at the start of this letter, purpose matters now more than ever – but this was true before the COVID-19 pandemic. We applauded the Business Roundtable’s announcement last year acknowledging that businesses have a responsibility to be a positive influence on society. Kroger has always strived to be a trusted partner in our communities while delivering growth for our shareholders.

During the initial weeks of the pandemic, The Kroger Co. Zero Hunger | Zero Waste Foundation deployed more than \$7 million in hunger-relief resources to communities disproportionately impacted by the coronavirus pandemic. This included support to nonprofit partners Feeding America and No Kid Hungry. The funding not only supported local food banks nationwide, but also funded initiatives that ensure children, whose schools were closed, still had access to nutritious meals.

Over the last three years, we have provided over 1 billion meals, exceeding our goal. Last year alone, we donated nearly 500 million meals for food insecure families in our communities. We are grateful for the role shareholders played last year as we donated a meal for every vote, and we will do the same this year.

We are also making it easy for customers to support The Kroger Co. Zero Hunger | Zero Waste Foundation's mission to create communities free of hunger and waste by providing options to roundup their purchases to the nearest dollar at every self-checkout lane in America or donate online at [ZeroHungerZeroWasteFoundation.org](https://ZeroHungerZeroWasteFoundation.org).

We are animated by purpose, and our customers want to know it and see it. For example, we’ve found that when customers are aware of our Zero Hunger | Zero Waste social impact platform, they rank our reputation among the best in the world.

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For 137 years, Kroger has risen to meet many challenges. We've always held strong through the hard times and emerged stronger, better, and with renewed resolve.

We have challenges ahead, but we're in this together – and I have never been more confident in our future.

Sincerely,

A handwritten signature in black ink that reads "Rodney". The signature is written in a cursive, flowing style.

Rodney McMullen  
Chairman and CEO

*Kroger Safe Harbor Statement*

This letter contains “forward-looking statements” within the meaning of the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995 about future performance of Kroger, including with respect to Kroger’s ability to achieve sustainable net earnings growth, strategic capital deployment, strong and attractive total shareholder return, strong free cash flow and ability to increase the dividend, among other statements. These statements are based on management’s assumptions and beliefs in light of the information currently available to it. These statements are indicated by words such as “aspiration,” “model,” and “confidence,” as well as similar words or phrases. These statements are subject to known and unknown risks, uncertainties and other important factors that could cause actual results and outcomes to differ materially from those contained in the forward-looking statements. These include the specific risk factors identified in “Risk Factors” in Kroger’s Annual Report on Form 10-K and any subsequent filings with the Securities and Exchange Commission.