The Kroger Co. Overview

- #23 on Fortune 500
- $96.8 Billion Fiscal 2012 sales
- 2,419 supermarkets and multi-department stores
- 1,195 fuel centers and 783 convenience stores
- 1,950 pharmacies
- 326 fine jewelry stores
- 37 manufacturing plants

Kroger employs 343,000 associates nationally and has created more than 33,000 jobs since 2007.

Partnering with Communities
In partnership with our customers, associates and suppliers, Kroger donates more than $260 million annually to food banks, schools and other community organizations.
Healthcare Objectives . . . Keep it Simple

**Improve Health**
- Engaged Associates
- Health Improvement Resources
- Right Treatment

**Reduce Costs**
- Right Place
- High Quality/Cost Effective
- Programs to create cost awareness

Strategy . . . Steer to Value

**Reference Based Pricing (Target Pricing)**
Educate associates on health care price variation by setting a maximum reimbursement amount for certain medications and imaging services which have high price variation and low quality variation (Statins, PPIs, Glucose Test Strips, ARBs, and select High Tech Imaging Tests)

**Centers of Excellence (COEs)**
Improve the quality of care and clinical outcomes for certain high cost, high impact elective non-emergent surgical procedures by using plan design to encourage members to use Top Tier COE facilities (hip and knee replacements and spinal fusion surgeries)
Target Pricing Overview – Medical

- **AIM**
  - Pre-Auth
  - Physician Education

- **High Tech Imaging**

- **Cost & Quality Program**
  - Member Call
  - Redirection

- **“Shopper”**

- **Target Price**
  - 5 Tests in 2012
  - 6 Tests in 2013

2012 Five tests: CT Abdomen, CT Pelvis, CT Chest, CT Head, MRI Spine
2013 Added Abdomen/Pelvis Combo

2012 Shopper and Target Price rolled out to 10 states
2013 Expanded Shopper and Target Price to 36 additional states

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Target Pricing Results – Medical

**Total 2012 Program Savings = $3,000,000**

**3Q 2013 YTD Program Savings = $5,700,000**

<table>
<thead>
<tr>
<th>Clinical Review Operational Activity</th>
<th>“Shopper” Cost &amp; Quality Program</th>
<th>Target Pricing</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012 Savings: $1,400,000</td>
<td>2012 Savings: $200,000</td>
<td>2012 Savings: $1,400,000</td>
</tr>
<tr>
<td>3Q 2013 YTD Savings: $1,700,000</td>
<td>3Q 2013 YTD Savings: $400,000</td>
<td>3Q 2013 YTD: $3,600,000</td>
</tr>
</tbody>
</table>
The shopper, target pricing, and communication strategy together had a positive impact where implemented without any changes in covered services or clinical effectiveness.

### 10 Target Price States Unit Cost

<table>
<thead>
<tr>
<th>Imaging Test</th>
<th>Variance in Unit Cost from 2011 to 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>All CT Scans</td>
<td>-11.9</td>
</tr>
<tr>
<td>All MRI Scans</td>
<td>-11.7</td>
</tr>
</tbody>
</table>

### All Other States Unit Cost

<table>
<thead>
<tr>
<th>Imaging Test</th>
<th>Variance in Unit Cost from 2011 to 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>All CT Scans</td>
<td>+14.2</td>
</tr>
<tr>
<td>All MRI Scans</td>
<td>+2.6</td>
</tr>
</tbody>
</table>

When looking at just those imaging tests subject to a target price, the unit cost analysis proves target pricing motivates the member to change behavior.

### 10 Target Price States Unit Cost

<table>
<thead>
<tr>
<th>Target Price Imaging Test</th>
<th>Variance in Unit Cost 2011 to 2013</th>
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</thead>
<tbody>
<tr>
<td>Chest CT</td>
<td>-24.4</td>
</tr>
<tr>
<td>Head CT</td>
<td>-17.3</td>
</tr>
<tr>
<td>Abdomen CT</td>
<td>-32.1</td>
</tr>
<tr>
<td>Pelvis CT</td>
<td>-8.6</td>
</tr>
<tr>
<td>Spine MRI</td>
<td>-21.0</td>
</tr>
</tbody>
</table>

### All Other States Unit Cost

<table>
<thead>
<tr>
<th>Imaging Test</th>
<th>Variance in Unit Cost 2011 and 2012</th>
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<tbody>
<tr>
<td>Chest CT</td>
<td>-5.6</td>
</tr>
<tr>
<td>Head CT</td>
<td>-24.0</td>
</tr>
<tr>
<td>Abdomen CT</td>
<td>+13.7</td>
</tr>
<tr>
<td>Pelvis CT</td>
<td>+1.6</td>
</tr>
<tr>
<td>Spine MRI</td>
<td>-6.7</td>
</tr>
</tbody>
</table>
Target Price Program – RX

Kroger Prescription Plans (PBM)
• Clinical expertise
• Comprehensive Services: Retail, Mail Order, & Specialty Medication

Target Price Medications
• Statins
• Proton Pump Inhibitors (PPIs)
• Blood Glucose Test Strips
• Angiotensin II Receptor Blockers (ARBs) (added 2013)

Pharmacist education and messaging
• Educate to cost effective alternatives

Target Pricing Results -- RX

Savings (Company and Associates):
• 2012: $4,300,000
• 2013 Q1 – Q3: $1,700,000

<table>
<thead>
<tr>
<th></th>
<th>Cost Impact</th>
<th>Utilization Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>PPIs</td>
<td>-60%</td>
<td>-4%</td>
</tr>
<tr>
<td>Statins</td>
<td>-57%</td>
<td>+5.7%</td>
</tr>
<tr>
<td>Test Strips</td>
<td>-50%</td>
<td>-7%</td>
</tr>
</tbody>
</table>

Note: ARBs added 2013. Data not included above.
Centers of Excellence
High Quality & Cost Efficient

Tier 1 Utilization

- 2012 result = 8%
- 3Q13 result = 14%
- Member Outreach by Nurse Team
  - 3638 Triage Calls
  - 470 Educated
  - 264 Surgeries
- 5% Engagement with Best Doctors

Claim Performance

- Paid less for Tier 1 surgeries
  - 2012 = 28.6%
  - 2013 = 34.1%

- Paid less for Tier 1 surgeries inclusive of fees/travel exp.
  - 2012 = 25.5%
  - 2013 = 33.4%

Tier 1 Quality Metrics

- No PACs during surgical event
- PACs 90 days post surgery were lower for Tier 1 thus driving lower cost of surgical episode
- No readmissions for revision surgery for Tier 1 year one

Knee Replacement, Hip Replacement, and Spinal Fusion Surgeries

Transparency is Essential for Success: Reduce Costs and Improve Health

- Tools and Resources are the key to behavior change
- Empowers associates to make more informed health care decisions as they shop health care services
- Transparency encourages competitive pricing