Kroger CEO McMullen gets 21% pay hike

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Rodney McMullen is CEO of Kroger Co.

Kroger Co. boosted the compensation of CEO Rodney McMullen by 21% last year, driven by a boost in stock awards tied to performance incentives.

Downtown Cincinnati-based Kroger (NYSE: KR), the nation’s largest operator of traditional supermarkets, paid McMullen $14.3 million in total compensation last year, according to its proxy statement filed Tuesday with the U.S. Securities and Exchange Commission. That’s a big bump from the $11.8 million he received last year, when he ranked as the sixth highest-paid locally based public company CEO, according to Courier research.

McMullen is likely to move up on this year’s chart when the Courier compiles the list next month. Only one current local CEO – Procter & Gamble’s David Taylor, at $17.4 million – received higher pay in 2018 than McMullen’s 2019 pay.

McMullen’s pay soared even more if the change in value of his pension plan is included. His pension rose $6.8 million, the filing shows. When that’s included, McMullen’s pay skyrocketed 76% to $21.1 million.

Public companies are required to report that to the SEC as compensation, but the Courier doesn’t include that category when tallying executive compensation. That change in value derivies mainly from the way companies account for pension value and include assumptions based on stock market performance and time remaining until retirement rather than actual compensation.

Even when excluding that category, McMullen got a $2.5 million pay hike in a year when Kroger shareholders received an 8% total return from stock price gain and dividends. McMullen’s pay increase came from a $3.4 million boost to his stock awards to $8.4 million.

That pay is based on three-year performance metrics. Kroger’s cost-savings and benefits from its Restock Kroger long-term shareholder value improvement plan in 2017 and 2018 topped its target for a full bonus payment. Its free cash flow was near the target. Its 2017 metrics missed the mark in other categories that are no longer used. So Kroger executives received 61% of the available payout tied to long-term results.

That’s significantly higher than the prior year. Kroger executives received only about one-third of their long-term bonus potential in 2018.

Kroger also changed its long-term incentive pay structure to eliminate cash and pay only in equity, contributing to part of McMullen's stock award increase.

McMullen’s cash bonus fell to $2 million from $2.7 million in 2018. He and most Kroger executives received about half of their bonus potential, based on company performance. That pay is tied to same-store sales growth and operating profit as well as improvements related to the company’s Restock Kroger long-term shareholder value improvement plan.

Kroger improved its same-store sales and operating profit performance but came in below target. The Restock Kroger results came in about in the middle of the targeted performance range.

McMullen’s salary held steady at $1.3 million. The other income Kroger provided him rose $20,000 to $349,000. Those were primarily dividends paid on unvested restricted stock.

Stock awards rose for most of Kroger’s other highly paid executives whose pay is disclosed in the proxy statement. COO Michael Donnelly was the highest-paid of those other executives at $6.2 million in 2019.