



Annual Report

2019



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MILKPEP'S 2019 STRATEGIC IMPERATIVES

WIN WITH KIDS

Over the past few years milk has seen the biggest declines stem from kids. MilkPEP is committed to reclaiming this winnable segment and solidifying the role of milk in the lives of our kids and future parents.

HELP BUILD BRANDS

The category won't grow unless the individual brands do. MilkPEP is committed to providing each paying processor with the pre-competitive resources they need to develop their own smart and forward-thinking strategies.

INVEST IN GROWTH

While Milk sales continue to decline, there are many bright spots in the category - whole milk, innovation, and flavored milk. It is important to support the various growth areas that are meeting the needs of the consumer.

LETTER FROM THE CHAIRMAN

Dear Processors and Industry Partners,

After many years of serving on the MilkPEP Board, I am honored to serve as Chairman, especially as our industry embarks on an evolution to meet the challenges of today's consumer and business landscape. I am also thrilled to welcome Yin Woon Rani into the dairy community, as she takes the seat as MilkPEP's CEO – there is no person better suited for the position! I have spent time with Yin, the MilkPEP staff, industry leaders, and my fellow Board Members and I am confident in the talented team we have in place. MilkPEP is a true industry partner, an advocate for the consumer, and determined to grow the fluid milk category. The upcoming year will be unique particularly as MilkPEP, the organization, and the industry embark on a journey of change, and ultimately growth.

MilkPEP is committed to driving growth through their strategic imperatives: Win with Kids, Invest in Growth, and Build Brands. Milk's biggest consumption decline over the years has stemmed from kids, and it is something I am personally passionate about reversing. The milk industry must advocate for children through all avenues available to us – MilkPEP being one of those. In the past year, MilkPEP has increased their investment

in kids, and built upon their powerful kid-centric brand "Milk it!". In the first half of 2019 the program drove 23% more incremental gallons with 11% increase in efficiency. * Kids will continue to be a focus for MilkPEP as we move into 2020 ensuring this critical segment, and America's future parents, remain milk-drinkers.

It is important to note that all MilkPEP activities are measured, ensuring processor dollars are spent wisely and making an impact. The MilkPEP team is constantly evaluating channels, content and more to ensure milk's message is reaching the right consumer, making an impact and efficiently. In 2019, MilkPEP contributed a total of 167MM incremental gallon sales into the milk category, on average returning 2 gallons per every marketing dollar spent.* MilkPEP is a true steward of processor dollars, and as national budgets continue to decline, I am impressed with how they continue to do more with less and drive more incremental gallons year over year.

While serving as Chairman, I have also been impressed with MilkPEP's industry collaboration – working with partners across the dairy value chain to collaborate on strategies, share resources, and drive change together. Declining milk sales is a category challenge and MilkPEP alone cannot reverse the trend. It is imperative that every stakeholder within dairy look inwards to make changes to better serve the consumer, the community, and the planet. Together as an industry, we can return the category to growth.

I have spent the past 40 years in the dairy industry and I can honestly say, I have never been more excited about the future of the dairy industry than I am now.

Sincerely,

Ed Mullins
Chairman of the Board

*IRI MilkPEP Marketing Mix 1H '19

*IRI MilkPEP Marketing Mix 2019



LETTER FROM THE CEO

Dear Processors and Industry Partners,

First and foremost, I'd like to thank the entire dairy community for providing me with such a warm welcome over this past year. My short tenure at MilkPEP has been a rollercoaster. But despite the numerous obstacles that have hit our category over the past few months, I am humbled by the farmers' work ethic, motivated by the processors' drive for change, and energized by the ideas and collaboration of industry partners. I am also thankful for the MilkPEP Team, the Board, and the strong foundation of work they have built over the years. We are all excited to tackle the challenges before us and look forward to the chapter ahead.

Milk is an incredible product. It is a powerhouse that delivers on both volume and value, and one that is still present in 9 out of 10 American households. The category's diverse portfolio – from conventional to value added – are critical to meeting consumer's demands for their various needs: taste, nutrition, benefits, size and flavors. In the early months of the COVID-19 crisis, 72% of mom's ranked milk as their most essential food item, and the sales in retail reflected those sentiments. We know milk is beloved by many, and together we must reclaim our milk story and equity.

However, throughout the last few years Milk has seen accelerated volume declines with sales down 2.5% year over year for the past five years (USDA Reporting), and faced many structural marketplace challenges -- many of which were highlighted in the COVID-19 crisis. It is clear the category is still in a state of emergency and the need for revolution is apparent. We must question the status-quo and push for bolder solutions at a grander scale than ever before. Every part of the value chain has the opportunity and responsibility to contribute in its own unique way in a truly collaborative system. Thankfully there is tremendous appetite for change, and MilkPEP is energized by the passion of this industry. As a whole, our commitment, collaborative spirit, openness and smart thinking will be what drives milk forward towards a new future.

2020 has been unique too, a year that presented milk with both many challenges and opportunities. Americans turned to milk in their time of need, and it is

imperative that the industry maintain this momentum. When the Olympic Games were postponed to 2021, it forced MilkPEP to quickly pivot our plans for the year. Thankfully, this led us to the opportunity to relaunch "got milk?", a socially-driven campaign celebrating the many ways Americans turned to milk during the pandemic.

MilkPEP will continue to be a catalyst for change. Our goal is to keep the consumer, their needs and desires at the heart of everything we do, but with an increased focus on the commercial outcomes. Every dollar in the program has a unique responsibility to produce measurable and significant outcomes that drive the category forward. While the upcoming year will be one of transformation for the organization, we remain focused on the task at hand: to drive fluid milk sales through our powerful consumer campaigns that deliver on our strategic imperatives to Win with Kids, Invest in Growth, and Help Build Brands.

We encourage all processors and industry partners to join us as we embark on this new journey to reclaim milk's narrative in the hearts and minds of Americans. Every part of the dairy value chain needs to embrace the inevitable changes ahead in order to be a part of the solution. It's truly a privilege to contribute to this incredible industry with an amazing product at the center of it all.

As I continue to learn more about the industry, I would love to hear from you. Please do not hesitate to reach out, and happy reading!

Sincerely,


Yin Woon Rani,
CEO of MilkPEP
ywrani@milkep.org

PROGRAMS

To Savor What's Real and What Really Matters:

In 2019, MilkPEP launched Milk's new brand promise: To Savor What's Real, and What Really Matters. This commitment encompasses the unique nature of what milk offers to Americans – delivering both purpose, with its nutritional profile, and pleasure, such as enjoying a simple glass of milk with your family. The brand promise is the umbrella for MilkPEP's three powerhouse consumer campaigns: Milk. Love What's Real, Built with Chocolate Milk, and Milk It!, and its message is woven throughout MilkPEP's consumer communications.

While separate, the three campaigns target everyone within the household: parents, athletes and kids. This new brand promise allowed MilkPEP to take a more holistic approach to consumers – removing silos and increasing fluidity between the three campaigns to increase dollar efficiency, maximize household exposure, and overall drive the love of milk. This deliberate crossover yielded significant results, with all efforts driving 167,378 incremental gallons year over year, and nearly half of total adults having seen MilkPEP communications in 2019*.

Furthermore, MilkPEP evolved where and how we reach consumers in order to meet their ever-changing needs. Leveraging leading-edge technology and insight-based trends, MilkPEP identified winnable consumers and the best way to target them. This information allowed MilkPEP to deploy dollars to win with the highest opportunity targets, adapt our plans in real-time to make smarter media decisions and expand our hyper-targeting capabilities to ensure the right message reaches the right target in their preferred channel. Over 60% of MilkPEP dollars were spent in digital channels leveraging hyper-targeting capabilities.

OFFICIAL DRINK OF HALLOWEEN

In 2019, MilkPEP fully embraced Chocolate Milk as the Official Drink of Halloween with a robust shopper activation, including shopper media and in-store point-of-sale.

This mom and kid centric program is a perfect example of a total market and total household approach, breaking down silos to increase efficiency and embrace milk's portfolio range. Chocolate Milk Sales rose 1.8% YoY.

Finally, this program was fully embraced by the milk industry, with 17 brands and 8 industry partners celebrating chocolate milk as the official drink of Halloween.

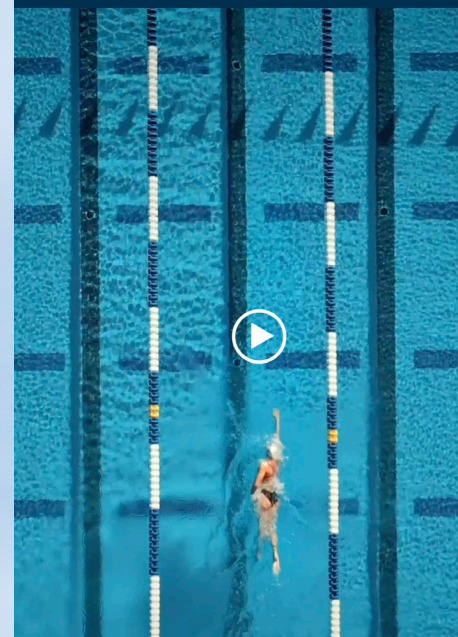


2019 was a notable year for MilkPEP's shopper marketing program, which anchored on our brand promise and spanned across both Milk. Love What's Real and Built with Chocolate Milk campaigns. Leveraging data trends, we implemented hypertargeting, embraced an omnichannel approach, and surrounded shoppers pre, during, and post shop. Furthermore, e-Commerce continues to be a growing channel for milk, and MilkPEP partnered with retailers such as Amazon and Walmart throughout the year to drive the purchase of milk online. The most notable shopper program was Chocolate Milk, the Official Drink of Halloween.

* EOY Q4 2019 Radius Ad Tracker Awareness Report

MILK.
LOVE WHAT'S REAL.

SWIPE UP
TO BRING MILK YOUR TABLE



MILK. LOVE WHAT'S REAL.

During the stressors and fast pace of everyday life, it is important to cherish, savor and share the real moments in between. MilkPEP's new parent-centric campaign aims to do just that. Milk. Love What's Real reminds consumers that milk is often a part of the real moments in life – grabbing a latte with a friend, an ice-cold chocolate milk to celebrate the finish of a race, or simply a glass of milk enjoyed with a cookie. Real Milk is wholesome, healthy, and affordable; it delivers on both purpose and pleasure for all Americans.

The new and fully integrated campaign launched in Q1, 2019. Most notably, the new TV commercial yielded 3.05 gallons per dollar spent and could be seen on all major networks throughout most of the year. While there was no dedicated Hispanic campaign in 2019 as MilkPEP took a total market approach – this successful integration led to improved healthiness perceptions among Hispanic moms.

Learn More about Milk. Love What's Real on www.milklife.com

BUILT WITH CHOCOLATE MILK

The Built with Chocolate Milk campaign continues to showcase what elite athletes have known for years: drinking low-fat chocolate milk after strenuous exercise helps athletes recover and rebuild their bodies faster for their next workout, practice or competition. This campaign continues to yield strong gains in awareness and increased Mom consumption up three points to 8% vs. 5% in 2018. In addition to the existing partnership with Al Horford, this year the Built with Chocolate Milk partnered with the most decorated swimmer of all time, Katie Ledecky – the holder of three world records, 15 world championship medals, and 5 Olympic medals. The new partnership naturally overlaps with MilkPEP's existing USA Swimming relationship, and allows chocolate milk to be a part of the Olympic story, timeframe and excitement without the cost of being an official Olympic sponsor. In 2019, MilkPEP invested more dollars into the Built with Chocolate Milk campaign – the 36% increase in spending yielded in a 38% increase of gallon contribution YoY, and a 1% increase in efficiency YoY.

Learn More about this Program on www.builtwithchocolatemilk.com

MILK IT!

MilkPEP's kid program Milk It! continues to be an impactful program, driving 28.9 gallons per dollar spent. This year alone, the program saw a stunning 70% in kids' agreement with milk healthiness, increasing to the highest point since 2009. This year MilkPEP launched new kid TV commercials that reinforced milk's great taste, kids' love of milk, and how it can help them be their best every day. The kids campaign tied very closely to the new Milk. Love What's Real content to ensure continuity of milk messaging to moms while co-viewing with their children. The new TV spot performed well and drove 20.5 gallons per dollar spent. Authenticity is still at the heart of the campaign, and the program continues to leverage kid influencers as the primary way to connect with kids – driving milk through people kids trust. In all, the Milk It! kid influencer partnership drove 39,476,844 total impressions.

Finally, 2019 saw the launch of the Mess with Your Milk kit, an interactive way for kids to do milk experiments at home or in class and share the fun with their friends and family on social media. This program also drove milk brand activations, with 42 brands and industry partners ordering kits for their own brand to leverage at fairs, schools, competitions, and social media.

WORKING WITH THE INDUSTRY

Help Build Brands is one of MilkPEP's core strategic imperatives, and each year we continue to improve on our offerings and optimize our channels to ensure our processor community gets value in our program. Consumer marketing is important, but the value chain must also be strong to support these efforts. In the past year, we have offered 1:1 consultancy, customized consumer research, marketing assets and much more to individual brands to help them build their businesses.

MilkPEP has built an arsenal of tools, assets and research for the brands to use, and we continue to build upon it year over year. In 2019, we launched the Team Milk Chef influencer program, a partnership in which milk brands are partnered with a chef unique to their brand. A total of 14 brands were partnered with a chef and leveraged them in a variety of ways including custom recipes, cooking demonstrations, and more. After fantastic success in 2018, we extended the Team Milk Athlete program where we partnered individual brands and State and Regional groups with their own Olympic hopeful to be used for local activation and promotions. Additionally, MilkPEP continued to strengthen our shopper marketing efforts and provided brands with stronger assets. Focused on key shopping periods, such as Back to School and Halloween, we offered brands turnkey POP, imagery and more to build upon MilkPEP's national efforts with their own branded campaigns in store. Finally, consumer, industry and research analysis continue to be at the foundation of MilkPEP's consumer campaigns, and we continued to share any and all data, insights and trend documents with our processors so they too can build strong foundations for their individual strategies and efforts.

INDUSTRY PARTNER COLLABORATION

As we continue to do more with less, it is imperative that MilkPEP aligns with other dairy groups to increase efficiency and allow collective industry efforts to make a more significant impact. MilkPEP constantly works with dairy partners to share assets, insights, and programming. In 2019, we worked with DMI on the idea of "realness" as the central foundation for a shared consumer platform - for MilkPEP, Milk. Love What's Real, and for DMI, Dairy. Share What's Real under Undeniably Dairy. This joint theme is central to dairy - working for both fluid milk and the full dairy portfolio. Sharing a common theme with DMI allows for broader and efficient audience reach, increased message recall, and lets the separate but connected campaigns work harder both individually and collectively. MilkPEP also continued to work closely with the individual State and Regional organizations across various areas including consumer messaging, consumer and industry insights, and crisis management.

Additionally, we partnered with the California Milk Processor Board (CMPB) on shared consumer communications, and on joint research that benefitted both parties, and informed much of the Milk Revitalization Alliance (learn more on below). Industry partnership is imperative, and MilkPEP will continue to cultivate coalescence around shared insights, themes, and goals in 2019 and beyond. Additionally, MilkPEP's CEOs, Julia Kadison and, now, Yin Rani, sit on the Innovation Center for U.S. Dairy, and is part of the Executive Communications Committee, providing MilkPEP's perspective on the IC's strategic plan and communication strategy. This seat is a vital point of collaboration between the milk processor and farmer communities. Finally, MilkPEP also works closely with International Dairy Foods Association (IDFA), National Milk Producers Federation (NMPF), and National Dairy Council (NDC) in the Dairy Crisis Management Team, working a united voice to address crises along the value chain.

MILK REVITALIZATION ALLIANCE

Tackling the challenges of milk at retail remains a priority for MilkPEP - milk is understocked and under-spaced at retail and lacks national category captancy. These challenges result in lost store profit, a negative customer experience, and lost milk sales. The Milk Revitalization Alliance (MRA), a partnership between Dairy Management Inc. (DMI) and MilkPEP, is focused on solving this problem. The MRA is working directly with retailers on behalf of the dairy industry as a united team to fix their milk shelf fundamentals and maximize their milk sales. Shelf spacing, assortment, product innovation, marketing and more are all key to fixing the milk shelf fundamentals and revitalizing milk at retail. The MRA is also arming the milk brands with the turn-key presentations, data, and other tools needed to educate their retail customers on the full profit potential of milk. In 2019 we hosted our Annual MRA Summit in partnership with DMI, with 6 brand participants, we also piloted 3 MRA retail programs with select brands and retail partners.

USDA'S PURCHASE OF FLUID MILK

In 2019, MilkPEP worked closely with the USDA and IDFA to navigate the first-ever purchase of fluid milk from the U.S. Department of Agriculture (USDA) to distribute to national food banks - many of which could only supply less than one gallon of milk per person, per year. Thanks to the support from milk brands across the industry, the USDA has continued to purchase milk - including over \$65 million in 2019 and an anticipated \$50 million in 2020 - to continue to help people in need access nutritious milk and drive volume growth for the category. MilkPEP's experience and deep understanding of the USDA milk purchasing program has been critical as we help brands navigate the many COVID-19 related food assistance programs.

STEWARDSHIP OF PROCESSOR DOLLARS

MilkPEP's objective is clear: drive people to buy, serve and drink more milk. Our commitment to the processors is to maximize every assessment dollar to drive forward our objective. MilkPEP's programs performed well in 2019, driving 167, 378 incremental gallons (a 4.87% contribution to total milk sales), in all driving 2.54 gallons per dollar spent. We continue to measure every consumer tactic, to ensure MilkPEP's work is driving gallons, and is both effective and efficient. Furthermore, MilkPEP is leveraging data and technology to make smarter and quicker decisions on how we deploy dollars. The use of technology also allows MilkPEP to optimize content, channels and more in real-time to maximize efficiency and impact.

Not only does MilkPEP measure our effectiveness in consumer channels, but also in our industry ones. In 2019, we worked with 68 brands, and 98% of our annual survey respondents stated they would recommend MilkPEP as resource to a colleague. We continue to collect learnings from MilkPEP.org data, the annual processor survey, and daily conversations with brands to optimize our programs, communications, website and more to ensure the brands are getting the most benefit from MilkPEP. Helping brands will continue to be at the core of what we do at MilkPEP, and we strive to provide better assets, thought leadership and more year over year.

Transparency is of the utmost importance to the MilkPEP team, which is why we ensure our results are shared with the MilkPEP Board and the broader processor community on a regular basis. You can learn more about how your dollars are spent in MilkPEP's financial report on page 16. If you have any additional questions about program dollars please do not hesitate to reach out.

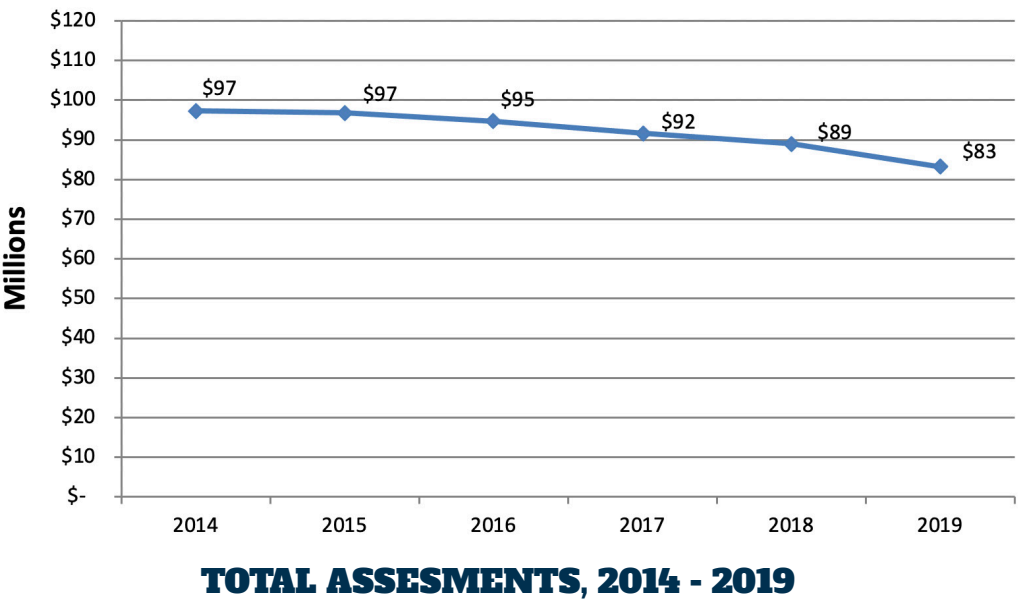
MilkPEP's programs performed well in 2019, driving 167, 378 incremental gallons (a 4.87% contribution to total milk sales), in all driving 2.54 gallons per dollar spent.

**Questions about Processor Dollars:
Contact: Shepard Kramer
VP of Industry Relations at MilkPEP
skramer@milypep.org**



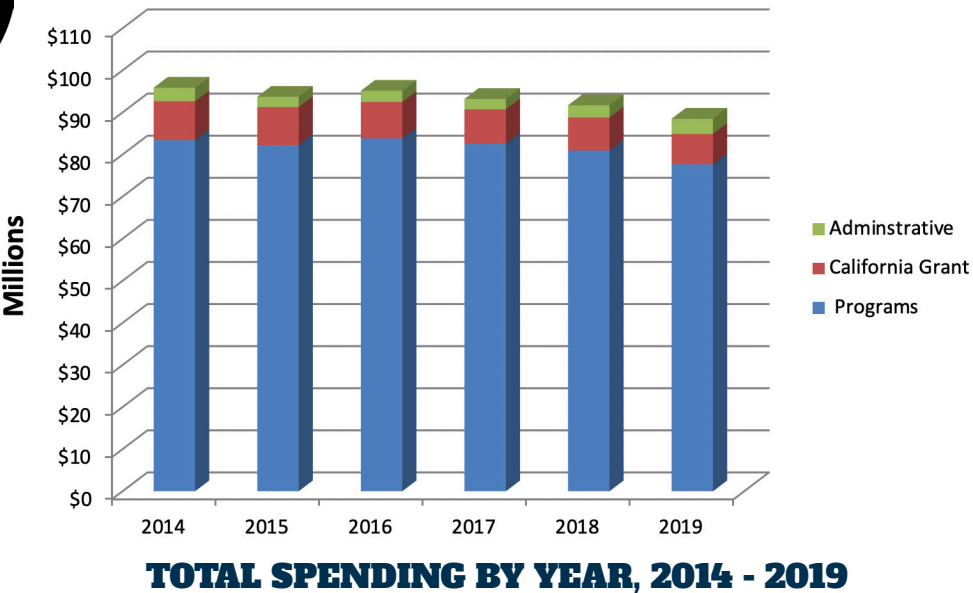
FINANCIAL REPORT

The Board’s financial management firm, The Colony Group, LLC reports an estimated \$83.2 million, net of adjustments, was collected from processors through the 20 cent-per-hundredweight assessment during the fiscal year January 1, 2019 through December 31, 2019. The assessments represented a \$5.8 million decline compared to the previous year. 2019 assessments included an allowance for bad debt of \$3.5 million related to bankruptcy filings of two processors.



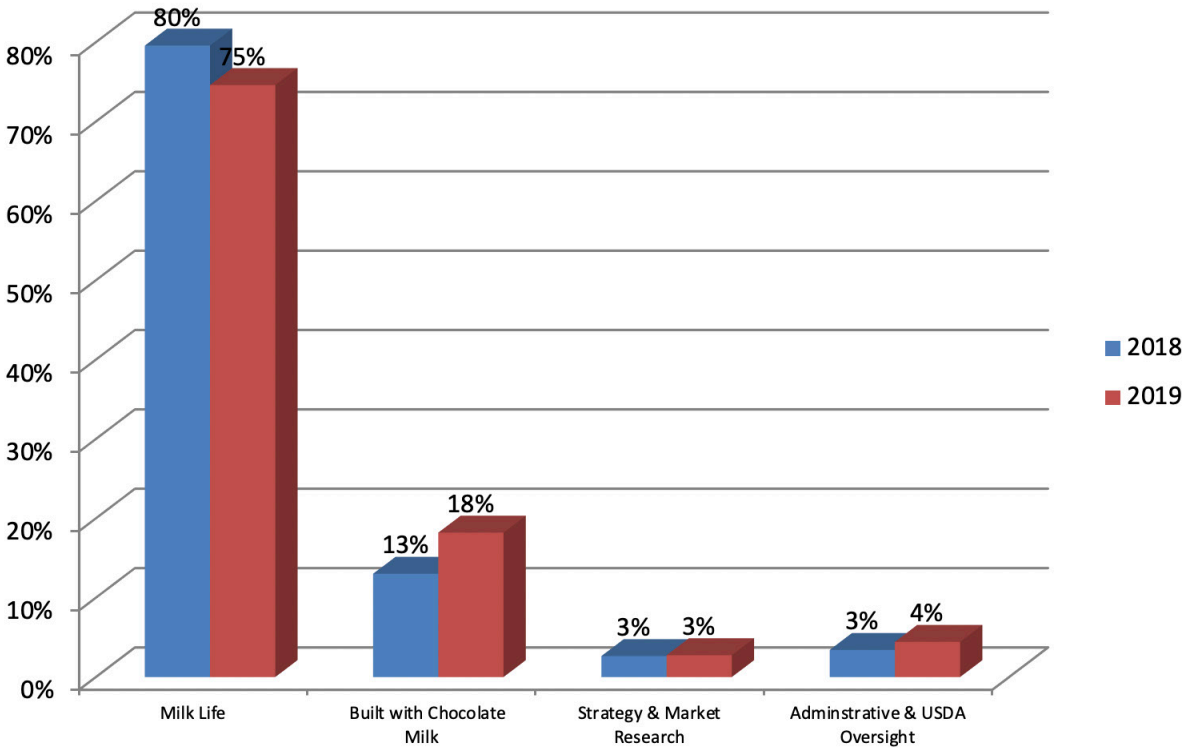
Other revenue, including interest income and late fees assessed amounted to \$173,223 which was \$88,429 more than other revenue in 2018. This was due to an increase in interest percentage on cash balances during 2019.

The total spending for 2019 on advertising, promotion and education for fluid milk products and other expenses totaled an estimated \$88.5 million which is a decrease of \$3.2 million from 2018. Cash flow remained solid throughout the year with the lowest average monthly balance in November of \$5.5 million. The low balance in November was due to a bankruptcy filing of a large processor that decreased incoming during the month of November.



The 2019 California Grant represented \$7.2 million of the total expenses resulting in total net expenses toward estimated programs and administration of \$81.3 million*. The California Grant was down \$637,720 from 2018 which is a greater decline in assessments than on a national level. The California Grant was also greatly impacted by the bankruptcy filing of a large processor. Under the Fluid Milk Promotion Order (Section 1160.210), the Board provides 80% of collections to California processors in Regions 14 and 15 as a grant to the California Milk Processors Board (CMPB) to coordinate and conduct an advertising program in the California market. As part of Federal regulations, MilkPEP evaluates the measurement and effectiveness of the program dollars being spent by the CMPB.

The percentage of spending devoted to program costs, net of the California grant, decreased to 96%. Continuing with the program planning approach MilkPEP adopted in 2012, the budget for program costs focuses on Milk Life and Built with Chocolate Milk. The total program spending in 2019 was \$3.7 million less than 2018. 93% of the 2019 total spending net of the California Grant was for Milk Life and Built with Chocolate Milk. Milk Life spending decreased \$7.0 million to \$60.6 million. \$14.8 million was spent on Built with Chocolate Milk which is up \$3.7 million from 2018. Administrative expenses were up \$702k from 2018 due to overlap of CEO salaries and increased legal fees. USDA Oversight costs increased \$62k from previous year.



PERCENTAGE OF SPENDING NET OF CALIFORNIA GRANT, 2018 - 2019

The Board’s financial statements for the year ended December 31, 2019 are being audited by the independent accounting firm Snyder Cohn, PC. They will be presented to the MilkPEP Board for review and acceptance at the May 2020 Board Meeting. The MilkPEP Board is confident that we continue to direct the program in the most effective and efficient manner possible.

* Total expenses (all-in) for 2019 were \$88.5M. Of this amount \$7.2M went to the California grant, which left \$81.3M in costs related to program & administrative (net of CA Grant).

