





- 4 Letter from the Chairman
- Letter from the CEO
- Your Dollars at Work
- 12 Milk Life
- Milk It!
- Built with Chocolate Milk
- Looking Forward
- Financial Report

# Letter from the Chairman



Alan Bernon Chairman of the Board

After serving on the MilkPEP Board of Directors for several years, in August 2018 I was elected Chairman. I am honored to serve in my new role, and I take the position very seriously understanding the numerous challenges facing our industry. I am confident in the dairy community's ability to rally together and move forward with purpose and urgency.

In 2018 milk sales declined 2.0% and strong headwinds such as the proliferation of choices, growing anti-dairy sentiment, and many more continue to challenge the dairy industry and specifically the milk category. The retail landscape is dramatically evolving, and consumers themselves are rapidly changing – shifting their values, the way they shop, and even their expectations for brand communications. What does this mean for milk? Across the supply chain, we must be aggressive, work smarter, do more with less while meeting evolving consumer demands. Most importantly, farmers, processors and industry stakeholders, must unite and align against common objectives to generate synergies, build efficiencies and avoid redundancies.

With MilkPEP leading the charge, I am cautiously optimistic about the category's return to growth. Doing more with less is always hard. In the past few months, I have spent time with the MilkPEP team and established a close working relationship with CEO Julia Kadison. I am confident in her leadership, and the team's ability to drive the category forward with efficiency and effectiveness. MilkPEP is a true steward of processor dollars, and their primary responsibility is to ensure our money is spent wisely and makes a difference. I am happy to report that last year MilkPEP programs contributed 171M incremental gallons to total milk sales (compared to 147 from 2017), at an increased efficiency rate 16.5% higher than the year previously, driving 2.61 gallons per dollar spent compared to 2.24 in 2017. This was achieved through careful management of the programs, budgets, and working closely with other industry groups to allow fewer dollars to make a larger impact. MilkPEP recognizes there is always more work to be done and are continually measuring the impact their programs have on consumer and customer trust, relevance, and ultimately milk sales. Continuous tracking and measurement is critical and informs day-to-day decisions, allows for real-time optimization, and smarter planning for the future.

While MilkPEP will continue to contribute significantly to milk sales, our budget is finite, and ultimately MilkPEP marketing communications cannot achieve it alone. It is imperative that the brands work individually and collectively to push the category forward. I ask all our stakeholders to take advantage of MilkPEP as a business partner. Seek out the available resources to inspire ideas, find efficiencies for your brand and amplify the great work we're doing to ensure milk's message is heard by more people. MilkPEP is your resource to leverage, and only one phone call or email away.

Thank you to milk and the larger dairy community for your continued input, engagement and support of MilkPEP. As Chairman of the MilkPEP Board of Directors, and I am confident in MilkPEP's ability to lead and partner with the industry as we strive towards transformation.

Alan Bernon,

Chairman of the Board

alan Hernon

# Letter from the CEO



A symbol of strength, growth, and life itself, milk has always been a deeply engrained part of our diet and culture.

But today, milk's value is being reevaluated and reframed. Shifting attitudes towards food and health, changing family dynamics, an overabundance of conflicting nutrition information, and increasing alternatives mean a new generation of consumers is growing up in a world where "traditional" milk has something to prove. Against this backdrop, any approach to driving milk sales and consumption must also be reevaluated and reframed -- simply tweaking what we've been doing is not a winning proposition. The new reality necessitates a transformative approach, one that inspires people to see, think about and, most importantly, feel about milk differently.

Warren Buffet said, "Should you find yourself in a chronically leaking boat, energy devoted to changing vessels is likely to be more productive than energy devoted to patching leaks."

Inspired by this apt quote, MilkPEP set out to build a new vessel for milk in 2018. It takes skill, artistry, hard work, the right tools and time to build a sound vessel that will successfully get you to the desired destination. Step one was to ensure that we were working against a powerful brand promise for milk, one that is both timeless and timely – the strong intersection between what is fundamentally true about milk and what is highly relevant in culture today. What is fundamentally true, and unique, about milk is that people consume it both for purpose and for pleasure. What is highly relevant in culture today is that people crave 'realness' in a world where so much is 'fake', and milk fits there naturally and unequivocally. Milk's new brand promise is 'to inspire people to savor what's real and what really matters." The brand promise is emotional, distinctly salient to different audiences, competitive, and it is the North Star that guides all MilkPEP's communications, for all milk products, for all our targets and each of our campaigns.

In the following pages you'll read about the MilkPEP programs and progress in 2018. We did a lot and we accomplished a lot all year, from showcasing milk's critical role in athlete's diets during the winter Olympics, to successfully encouraging moms to Pour More Milk so their kids get the nutrients they need, to adding tennis great Sloane Stevens to the illustrious roster of Built With Chocolate Milk elite athletes. We built a solid business case for fixing the fundamentals in the retail dairy case and we expanded the arsenal of tools and assets that milk companies can use to build their own brands. In 2018, the MilkPEP programs proved to be more efficient and more effective at driving incremental milk sales compared to prior years. But 2018 was also a building year for 2019 and beyond. The new brand promise inspired a new creative platform and all new programing that was ready to launch at the beginning of 2019. This new approach, along with MilkPEP's commitment, milk's unmatched value and Americans' love of the product, I believe, will work hard to move the category forward.

The world has changed; thus, how milk is presented to the world must change as well. MilkPEP is forging new territory in consumer communications that we believe will get people to think and feel differently about milk. But communications by itself is not enough to achieve transformation, and so I encourage all milk brands and other fluid milk stakeholders to think differently, take risks and pull those growth levers that are in your control. We are all in this new vessel together, and we should be rowing with all of our individual and combined strength... and all in the same direction.

Julia Kadison CEO, MilkPEP

Julia Kadisan



MilkPEP's objective is to drive people to buy, serve, and drink more milk. MilkPEP's charter and our commitment to all paying processors, and to the larger

milk category, is to maximize every dollar of the assessment toward this goal.

We are continuously evaluating the efficiency and effectiveness of the MilkPEP programs, measuring program impact on milk sales, consumer attitudes

### **MARKETING RESULTS**

MilkPEP Programs contributed 171M incremental gallons, compared to 147M incremental gallons in 2017

Drove 2.61 gallons per dollar spent in 2018 compared to 2.24 gallons per dollar spent in 2017\*\*

and consumption, and marketplace relevance. We continually optimize the programs and tactics throughout the year and year over year. Despite the

continued decline in overall fluid milk sales, MilkPEP programs performed well in 2018, driving 4.8% of total milk sales, up 16.2% from 2017, at an efficiency 16.5%

higher than 2017 (measured in gallons per marketing dollar spent).

MilkPEP remains strategically focused, and all programs are built to drive forward our imperatives: Win with Kids, Invest in Growth, and Help Build Brands.

The strategic imperatives come to life through the core campaigns, Milk Life, Milk It! and BUILT WITH CHOCOLATE MILK. Highlights from the

campaigns include the success of the 2018 Winter Olympics, the immense brand activation around Team USA, the launch of Pour More Milk, and the execution of the new shopper marketing program.

Through the core campaigns, MilkPEP's efforts reached Americans during their everyday activities — while watching TV with their families, e-grocery shopping, or even while listening to their workout playlist. MilkPEP is talking to consumers on a national level with breakthrough messages, providing all milk brands with constant marketing support. While we are talking to consumers daily, MilkPEP is also continually collecting data, and conducting research—helping us to understand shoppers, identify targets, trends, and much more. Our research informs every decision we make, and allows us to be smarter, more efficient, and maximize every dollar.

The past year was a challenging one for the dairy community; however, there were several bright spots, and ultimately a lot of learnings to build upon in the coming years. MilkPEP remains a dedicated partner to milk brands, the broader dairy community, and is focused on the task at hand – to drive fluid milk consumption, sales and build a stronger future together. The fluid milk category cannot grow unless the individual brands grow. Therefore, in addition to consumer messaging and nationwide marketing support, MilkPEP is partnering with brands to ensure their success.

#### **HELPING BUILD BRANDS**

The fluid milk landscape is vast, complex, evolving and each brand has its unique objectives and needs. Last year we introduced the Brand Activation Blueprint, which in 2018, rebranded to BrandFuel. This program delivers a customized approach to support individual processors with pre-competitive insights and tools.

In previous years, MilkPEP had consistently built upon an arsenal of tools available to the brands. While in 2018 we continued to add assets to the list, we also took a fundamentally different approach to building brands. Milk processors are at the core of everything we do at MilkPEP, and every consumer program or asset developed, is available for the milk companies to use – from a turnkey tweet to our national TV advertising. In all, 88 brands leveraged MilkPEP as a partner in 2018, a 17% increase over the year previously. We are excited that so many processors consider MilkPEP a partner, and we look to extend and deepen those relationships in the coming years.

The 2018 Winter Olympic Games and Team Milk drove unprecedented brand participation, and the individual brands saw many successes. Team Milk provided paying processors and industry partners with a local Olympic hopeful athlete, unique to their brand. This was a powerful asset that put milk brands at the center of the Olympics. In total, 75 brands leveraged

### MILKPEP STRATEGIC IMPERATIVES

Win with Kids

**Invest in Growth** 

Help Build Brands

the Olympics or Team Milk sponsorship. Brand efforts collectively made a difference. Alongside MilkPEP's national campaign efforts, the brands' work drove individual success and awareness during the Olympic timeframe, proving when the industry united with a shared message we can make a category difference. However, MilkPEP is always looking to contribute more to the brands. Following the success of Team Milk, we plan to launch Team Chef, a program that partners brands with a chef in their local area.

Furthermore, we are continually collecting learnings from MilkPEP.org data, the annual processor survey, and daily conversations with brands. Leveraging these insights, MilkPEP can optimize our programs, communications, website and more to ensure brands are getting the most benefit from MilkPEP. In 2018, MilkPEP drove brand participation and industry engagement like never before, and the individual brand's successes will continue to be our priority.

### **INDUSTRY ALIGNMENT**

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 works with dairy partners to share assets, insights, and programming. In 2018, 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.

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). Finally, MilkPEP continues to work in partnership with DMI on the Milk to My Plate program, and Fuel Up to Play 60, visit www.MilkPEP.org to learn more.

Industry partnership is imperative, and MilkPEP will continue to cultivate coalescence around shared insights, themes, and goals in 2019 and beyond.

Additionally, MilkPEP's CEO, Julia Kadison, sits on the Innovation Center for U.S. Dairy, and is part of Executive Communications Committee, providing MilkPEP's perspective on the IC's strategic plan and communication strategy. Julia's seat is a vital point of collaboration between the processor and farmer communities. Finally, MilkPEP also works closely with International Dairy Foods (IDFA). Milk Association National **Producers** Federation (NMPF), and National Dairy Council (NDC) in various work groups, understanding strengthened synergistic relationships are these critical to milk's future.

### THE MILK REVITALIZATION ALLIANCE

One of the most significant issues facing the category is milk is understocked and under-spaced at retail and lacks national category captaincy. These challenges result in lost store profit, a negative customer experience, and lost milk sales. MilkPEP and DMI have joined forces with others to form the Milk Revitalization Alliance (MRA) to focus on solving this problem. The MRA is communicating directly with retailers on behalf of the dairy industry as a united team to fix the fundamentals at retail. Informed by research and inmarket test results, the MRA is communicating directly with retailers and demonstrating how they can maximize the profit potential of milk through turn-key sales presentations, to innovation thoughts-starters. The

95% of households buy milk, but only 12% of stores are fully stocked

48% of shoppers have an out-of-stock experience with milk

MRA is also arming milk brands with the tools needed to educate their retail customers on the profit potential of milk. Fixing the fundamentals at retail is critical and working together as a dominant industry network we can take back the dairy aisle and reignite category growth.



# milk life®

Winning with kids is a primary strategic objective for MilkPEP, and to win with kids, milk must win with moms. In 2018 MilkPEP established Milk It! a program engaging kids directly (learn more on page 16), and the Milk Life program is focused on moms, encouraging them to buy and serve more milk for their families. Through MilkPEP's research, we know Mom is a barrier to increased milk consumption, and as her attitude towards milk continues to neutralize, and the beverage environment continues to clutter, it is imperative that milk's message breaks through to drive purchase. MilkPEP employed new, powerful, data-driven, emotional and functional tactics throughout the year to engage moms in the Milk Life campaign.

Despite the decreased budget, Milk Life's efforts drove \$93.4MM incremental milk gallon sales and 2.69 gallons for every marketing dollar spent vs. 2.20 gallons for every marketing dollar spent in 2017 – an improvement of 22% according to MilkPEP's IRI Marketing Mix Results. In addition to a heavy TV spend, MilkPEP took risks, employing new tactics and redeploying dollars into growth areas within the Milk Life campaign, including SEO, radio, social media hyper-targeting, and shopper media. Most notably, Digital Advertising drove 4.18 gallons for every marketing dollar spent, compared to 1.91 in 2017 – a 119% increase in efficiency.



### CELEBRATING THE 2018 WINTER OLYMPICS

The year began with a powerful Olympic momfocused campaign that strengthened and highlighted the natural connection between drinking milk and becoming an athlete. The alignment between milk, athletes, Team USA, and the Olympics is powerful and authentic – in fact, 9 out of 10 Olympians grew up drinking milk.\*



Following the success of the 2016 Summer Olympic Games, MilkPEP again partnered with high-profile Olympians to represent Team Milk. Most notably, MilkPEP developed two commercials with Olympic skier Maddie Bowman, one directed toward moms, and one talking directly to kids. All of milk's athletes were leveraged across all channels to reach families engaging with Team USA – whether it was through TV, online video, or in-store.

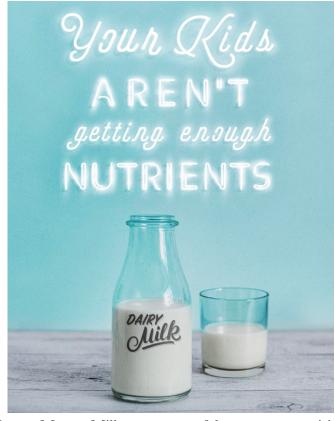
MilkPEP's 2018 Winter Olympic Games efforts drove results. All content out-performed our success during the 2016 Summer Olympics with a 60% increase in content likeability and 25% in message memorability. MilkPEP's digital efforts netted in 9.1 gallons sold per marketing dollar spent, and moms perceived extreme healthiness of milk after watching any of milk's Olympic content increased by 9%, and their willingness to serve increased 12%. Finally, all Olympic content out-performed non-Olympic content through the 1st half of the year, resulting in an incremental 53.6MM gallons for the category.

Furthermore, the industry rallied around the partnership like n ever before, primarily through Team Milk. The Team Milk program provided

brands and State and Regional organizations with a local Olympic hopeful, unique to their brand but allowed them to connect to MilkPEP's national Olympic campaign directly. In all, 24 brands and state and regional organizations partnered with over 33 athletes nationwide, creating a national buzz for the specific brands in their local markets. These immense efforts benefited both the brands, and the entire category. The brands were critical in driving outstanding awareness numbers - 4.3 billion Olympic impressions, and over 110 million Olympic engagements.

### **POUR MORE MILK**

MilkPEP knows moms are busy, and it is critical to bring their attention back to milk with a breakthrough message. In 2018 we launched



Pour More Milk, a powerful program raising the importance of milk in awareness around childhood nutrition. According to the Scientific Report of the 2015-2020 Dietary Guidelines Advisory Committee, 1 out 2 kids nutrients they falling short on grow strong, and the American Academy of encouragement Pediatrics' to have milk with meals water between in can help remedy this alarming deficit. Armed with this message, MilkPEP developed Annual Report 13 the mom-centric program under the Milk Life campaign to get moms to serve more milk so kids could get the nutrients they need. Pour More Milk was a robust, industry-backed, fully integrated program to reach moms in a practical and informational way. The efforts earned more than 127MM impressions and drove 2.09 gallons for every marketing dollar spent.

#### **HISPANIC**

The Hispanic population of the US is growing rapidly and will reach approximately 20% of total US population by 2020 according to Nielsen. MilkPEP recognizes the importance of this market and continues to develop the Hispanic program, striving for synchronization with the Milk Life general market campaign. Using consumer insights and practices, MilkPEP developed an efficient plan to drive Hispanic fluid milk consumption, primarily through a powerful network of Hispanic advocates. Similarly to the market efforts, the general Hispanic initiatives target mom for her kids, connecting with her on both the emotional and functional benefits of milk. These efforts saw an increase in Hispanic moms' milk consumption increased household milk penetration – the first time in years. Overall, Hispanic efforts drove 1.78 incremental gallons per marketing dollar spent, an increase of 25% over 2017.

### **HYPERTARGETING**

Not all moms are the same; therefore, MilkPEP leveraged consumer data to develop targeted tactics to ensure the right social media message reached the right mom and encouraged her to serve more milk. MilkPEP evolved our creative to align with different sub-mom targets to serve them different milk messages that resonated with their sub-target and drove them to purchase. Most of our efforts surrounded the Pour More Milk efforts, and yielded more social media impressions than ever before, up 273% year over year. While effective, MilkPEP's hyper-targeting efforts were also efficient, ensuring that milk's message was not wasted, and reached mom sub-targets that was winnable and moveable. Over the last year, MilkPEP has built a strong, and successful hyper-targeting model, and will continue to extend this data-driven tactic into 2019 and beyond.









#### **SHOPPER**

In 2018, MilkPEP built and launched a robust shopper marketing campaign that aligned with MilkPEP strategic imperatives: Win with Kids, Invest in Growth, and Help Build Brands. To begin, it was imperative that MilkPEP fully understands the shopper journey. Leveraging data technology, trends, and consumer segmentation research, we developed a strong shopper plan for 2018. Through these efforts, MilkPEP identified the right target shoppers based on volume and movability.

MilkPEP kicked-off the shopper campaign during the 2018 Winter Olympic Games with a News America partnership featuring legendary figure skater and mom, Kristi Yamaguchi. Additionally, MilkPEP launched robust shopper efforts around Back-to-School, Halloween, and the Holiday timeframes. All shopper programs incorporated hyper-targeting initiatives and surrounded the shopper journey - from pre, during and post shop. Throughout these pulses, MilkPEP partnered with various shopper media partners: ibotta, Chicory, and Cluep. These pilot initiatives netted valuable learnings that were shared with the milk brands to help them build their shopper marketing programs but also informed and strengthened MilkPEP's plan for 2019.

#### THE GREAT AMERICAN MILK DRIVE

Hunger continues to be an important platform for milk, especially as children are falling short on the nutrition they need to grow, and one in seven Americans rely on food banks for meals\*\*. The Great American Milk Drive is the first ever national program to deliver nutrient-rich milk to families across the country in partnership with Feeding America. In its fourth year, The Great American Milk Drive secured 381,000 gallons of milk donations and from consumer ten partnerships. To date, the program has donated over 31 million servings of milk to children and families in need – over 1.9 million gallons.

The Great American Milk Drive will continue to do more with less and is focused on a more efficient model while maintaining a critical role in getting milk to kids and families in need. This success would not be possible without the support of America's Dairy Brands, Dairy Farmers, and generous donors around the country.

## MILKPEP SHOPPER STRATEGIC IMPERATIVES

### Win with Kids

by winning with key consumer segments and elevating Mom's shopper experience

### **Help Build Brands**

by investing in priority channels and providing tools and assets to processors

### **Invest in Growth**

by focusing on eCommerce and chocolate milk



2018 was the Milk It! campaign's first full year in existence after launching in June 2017. The campaign continued to speak directly to kids and focused on reaching them where they are – online. 2018 was all about driving more kid connections and engagement via the influencers kids trust, which generated extremely high impressions and engagement levels throughout the year. Fifteen high-profile influencers, including Disney kid influencers, showcased how milk helps them do awesome things and asked their fans to do the same. The 40+ pieces of influencer content drove strong reach with 30.3MM impressions and 14MM engagements. A particularly authentic partnership arose with kid influencer Jacob Sartorius, 8.9MM Instagram followers, whose fans

recognize as a true chocolate milk lover. Jacob created and posted a chocolate milk themed video and hosted an online contest calling for fans to post photos of milk in their fridge for a chance to win a FaceTime call with the young star. Influencers proved to be a strong tactic in the highly influenceable kid audience.

MilkPEP created and leveraged strong partnerships in the kid space throughout the course of the year. Milk It! partnered with Fresh Films to run a contest that encouraged kids to create videos showcasing their passion and how real milk helps them reach their potential. The contest got kids thinking about how milk fuels their awesome and resulted in user generated



content that was leveraged by the campaign and posted on the Milk It! YouTube channel. In order to break into the online gaming space, Milk It! partnered with Playwire to redesign three of their top performing games in Milk It! theme. Playwire's gaming site hosts educational games that kids are often allowed to play in school which allowed MilkPEP to reach kids online at school. During the three-month activation, the games saw over 2MM plays with 1.7MM unique users.

To leverage the campaign's objective of fueling kids' awesome, Milk It! activated around Nickelodeon's Kids Choice Sports Awards and the 2018 Winter Olympics. Milk It! sponsored Nickelodeon's Kids Choice Sports

Awards, which 2MM kids tuned-in to watch. The sponsorship included commercials, billboards, and a custom vignette. To activate around the 2018 Winter Olympics, Milk It! created a TV spot featuring Olympic Gold-Medalist Maddie Bowman. The spot garnered 659MM TV impressions and ran on relevant kid programming including a first-in-market Hulu Kids sponsorship, accumulating over 16MM views. In addition to TV spots, the Milk It! campaign focused on showcasing milk's role in the Olympic journey with content created for kids, by kids and leveraged YouTube in a brand safe manner via Super Awesome. This content drove over 500,000 impressions on YouTube.

# CHOCOLATE MILK

MilkPEP's BUILT WITH CHOCOLATE MILK campaign has repositioned chocolate milk from a kid's treat to a serious recovery beverage for adult exercisers. The campaign's strong foundation allowed for the introduction of new activations and tactics in 2018, integrated with reliable partnerships. The 2018 BUILT WITH CHOCOLATE MILK campaign strategy centered around three key program areas: Athletes, Digital Activations, and Strategic Partnerships. These three pillars allowed the BUILT WITH CHOCOLATE MILK campaign to efficiently activate in the sports, grassroots, and digital spaces to reach adult exercisers where they are.

### **ATHLETES**

New to the roster in 2018, Sloane Stephens is a Professional Tennis Player and the 2017 US Open Champion. With Sloane on the team, BUILT WITH CHOCOLATE MILK ran TV spots on Tennis Channel for the first time to activate around the French Open, Wimbledon, and the US Open. Additional US Open activations included an ESPN homepage takeover yielding 29MM impressions and Instagram activations garnering 764,000 impressions. Supplemental Sloane support included increased TV spend around key Tennis events, engagement in social conversations during tournaments, print creative running in ESPN magazine, Women's Health, and much more.

A new tactic for the BUILT WITH CHOCOLATE MILK campaign was an influencer engagement event featuring Sloane. Ahead of the US Open, MilkPEP leveraged Sloane's 2018 Best Female Tennis Player ESPY nomination to entice media and influencers to attend a private spin class and recovery event with Sloane. The activation resulted in five media interviews and countless influencer posts about the campaign and chocolate milk for recovery.



SLOANE STEPHENS





In his second and final year with BUILT WITH CHOCOLATE MILK, Golden State Warrior's shooting guard Klay Thompson was leveraged to access the millions of basketball fans in the US. Executions included increased TV spend during key basketball time periods, engagement in social conversations on game days, posts on Klay's personal social media accounts, and more.

In an effort to make a strong, final push behind our Klay Thompson partnership, MilkPEP activated in one of Reddit's most engaging communities, the NBA subreddit. Seven creative executions featuring Klay and tailored to key NBA moments yielded click-through-rates ranging from 0.26% - 0.49%, surpassing Reddit's benchmark of 0.15% - 0.20%. This was MilkPEP's first time partnering with Reddit.



### JIMMY NGUYEN

Also leverage around the 2018 Winter Olympics was Olympic Skeleton hopeful turned personal trainer, Jimmy Nguyen. When Jimmy failed to qualify for the Olympics, BUILT WITH CHOCOLATE MILK continued to leverage his standing as a skeleton athlete and ran spots featuring Jimmy during games time. This gave BUILT WITH CHOCOLATE MILK the opportunity to activate around the Olympics without an official and expensive Team USA Sponsorship. After the Olympics, Jimmy continued to be leveraged due to his newfound career of personal training.



### **ZACH PARISE**

MilkPEP continued its partnership with Zach Parise in order to leverage his standing as a professional hockey player during the 2018 Winter Olympics. Partnering with Zach proved to be extremely efficient as creative assets from 2014 were repurposed to use around the winter games. In early 2018, Zach was also utilized for a media tour and takeover of the BUILT WITH CHOCOLATE MILK Instagram.



### MIRINDA CARFRAE

The BUILT WITH CHOCOLATE MILK campaign continued its existing relationship with Mirinda (Rinny) Carfrae – the campaign's longest standing elite athlete partnership. An IRONMAN World Champion, Rinny's existing role as an elite athlete ambassador continued to expand in 2018 as she navigated the new territory of motherhood. MilkPEP leveraged Rinny's new position to speak to adult exercisers with kids and featured her in a Mother's Day video. Working with Rinny remains highly efficient as old content is recycled and refreshed each year, keeping production costs to a minimum.



### **TEAM CHOCOLATE MILK**

BUILT WITH CHOCOLATE MILK's collection of endurance athletes on Team Chocolate Milk continue to act as ambassadors at races, on social media, and by word of mouth. Just as passionate as the elite athletes on the roster, this group remains an important tactic for the campaign. From scrappy research initiatives to representing BUILT WITH CHOCOLATE MILK on race courses, Team Chocolate Milk is full of passionate chocolate milk drinkers who can be efficiently leveraged in a variety of ways.



### **DIGITAL ACTIVATIONS**

### **HEARST YEAR-LONG ACTIVATION**

In 2018, BUILT WITH CHOCOLATE MILK partnered with four of the top health and wellness brands in the Hearst portfolio to create a yearlong, video, article, and social media driven digital partnership designed to bring chocolate milk's benefits to life with strategically picked influencers. Men's Health featured crossfit champion and Fittest Man on Earth, Rich Froning. Running World featured working mom, IRONMAN, and former Army Captain, Michele Gonzalez. Bicycling featured Team Chocolate Milk athlete and brain injury surviving cyclist Allison Tetrick. Women's Health featured Muay Thai fighter, model, and body positivity activist Mia Kang.

The Hearst partnership was highly successful and yielded 1.5MM video views, 1MM+ social views, and average time spent on content pages ranging from 2 - 6 minutes, far exceeding Hearst's benchmark of 1 minute.

### **SPOTIFY**

For the first time, BUILT WITH CHOCOLATE MILK advertised on Spotify in 2018. Running spots on workout playlists allowed for relevant messaging to reach the target audience of adult exercisers. Spots were refreshed quarterly to provide time-relevant scripts, including New Year's Resolutions, and avoid burnout of messaging. The platform proved successful with click-through-rates throughout the year ranging from 0.16% - 0.47%, far above Spotify's benchmark of 0.08%.

### WEBSITE REDESIGN

2018 saw a complete overhaul of BuiltWithChocolateMilk.com to keep up with modern digital advances. A full content and SEM audit and the addition of search optimized articles and athlete biography pages ensured the site hosts only content relevant to the adult exerciser audience. The month after launching the new website, organic traffic increased 11% as opposed to anticipated drops in traffic that are typical following website relaunches.



### STRATEGIC PARTNERSHIPS

### **ROCK 'N' ROLL MARATHON SERIES**

2018 was BUILT WITH CHOCOLATE MILK's seventh year as the Official Recovery Beverage of the Rock 'n' Roll Marathon Series. Runners were met at the finish line with 153,547 samples of chocolate milk, and accompanying tents and signage, across the 18 Rock 'n' Roll races in 2018. 18 milk brands activated around Rock 'n' Roll races in 2018 by donating and sampling chocolate milk at the finish lines in their local markets. This continues to be a valuable partnership that allows MilkPEP and brands to reach adult exercisers at the point-of-sweat and spread awareness of this usage occasion to athletes who may be unaware of chocolate milk's recovery benefits.

### **USA SWIMMING**

BUILT WITH CHOCOLATE MILK continued its partnership with USA Swimming in 2018, as the Official Recovery Beverage of USA Swimming. In addition to meeting swimmers at the point-of-sweat with chocolate milk samples at swim meets, MilkPEP activated around USA Swimming in new capacities. Chocolate milk product-focused print advertisements ran in 1MM+distributions of Splash Magazine in 2018. TV spots ran within USA Swimming programming during key swimming events throughout the year. Qualitative research was conducted utilizing USAS Masters adult swimmers that resulted in insights that optimized key chocolate milk messaging used in campaign creative. This valuable long-term partnership will continue through the 2020 Summer Olympics.





## Looking Forward

MilkPEP is optimistic about the future of milk and energized by the positive trends in specific category segments, and the growing unity of our industry. However, it is vital to recognize the normalizing headwinds against milk – growing anti-dairy sentiment, the proliferation of beverage choices, changing shopper dynamics and much more. Our world has changed, and milk needs to change with it.

In response to the fast-paced and ever-changing marketplace, in 2018 MilkPEP took time to re-evaluate our strategies, targets, tactics, and overall approach to consumer and industry communications. We leveraged data, technology, trends to unearth a message that will

resonate with Americans, but to also understand other industry challenges that milk brands are facing. In the upcoming year, you will see a new transformational and holistic approach to growth – one that provides balanced weight to solving consumer communication, and industry challenges.

### A NEW BRAND PROMISE & A NEW APPROACH

Milk plays a unique role in people's lives; it is both pleasurable and purposeful - it helps your body recover after a tough workout and brings a moment of joy



when paired with a cookie. Most importantly, milk is a 'real' product, and in a world where people crave authenticity, milk has a unique right to lean into 'realness.' These factors led to a new brand promise for milk: "To Inspire People to Savor What's Real and What Really Matters." Milk's new brand promise is foundational, and the north star for all MilkPEP programs and communications moving forward. From there, MilkPEP built the new mom-centric consumer campaign, Milk. Love What's Real. to replace Milk Life which will launch in early 2019.

## To Inspire People to Savor What's Real and What Really Matters

The new brand promise is at the core of all communications and is woven throughout our campaigns: Milk. Love What's Real., Built with Chocolate Milk, and Milk It!. Many people make up family households: moms, dads, kids, and adult exercisers, so MilkPEP is working across the household with deliberate crossover and integration. There is a milk and a milk purpose for everyone and MilkPEP is working to personalize milk, drive salience, trial, new occasions throughout total households.

Furthermore, MilkPEP is evolving how and where we reach consumers – adapting to the ever-changing consumer, and consumer landscape. Using leading-edge technology and insight-based trends, MilkPEP is identifying winnable consumers, and where to reach them. This information allows us to redeploy dollars to win with the highest opportunity targets, adapt our plans to make smarter media decisions and expand our hyper-targeting capabilities to ensure the right message reaches the right target in their preferred channel. Finally, MilkPEP is investing in growth areas, such as ecommerce, to better understand its evolving role in American households, and to determine how milk brands can be successful in this rapidly growing space.

### **INDUSTRY ALIGNMENT**

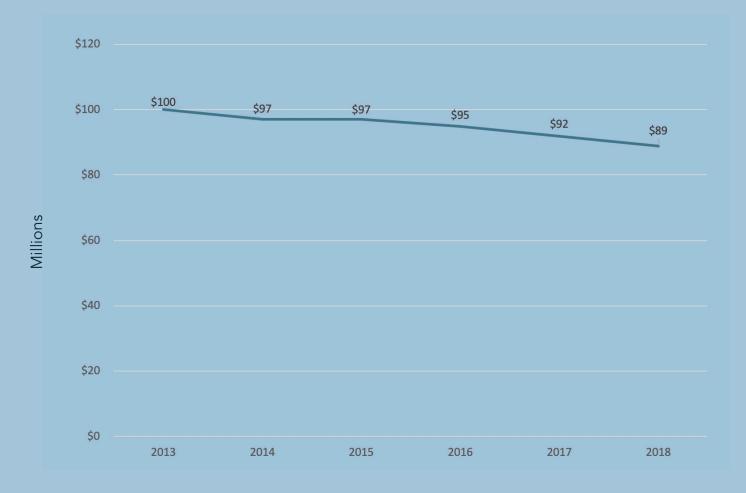
In the increasingly challenging milk category climate it's critical to work as a unified industry to turn around the sales decline and ensure a viable and healthy future for stakeholders along the supply chain. MilkPEP continues to drive and encourage coalescence across the various industry groups, notably the California Milk Processor Board (CMPB) and Dairy Management Inc (DMI) and its affiliated state and regional organizations (SRs). We'll continue combining and coordinating forces and resources with all these groups to strengthen the Milk Revitalization Alliance, to help fix the fundamentals in the dairy aisle and to inspire innovation. We are working together to build partnerships in the e-commerce space and enhance the school milk experience. MilkPEP and DMI joined forces to co-create consumer communications for adult and targets - with synergistic and creative outcomes that advanced the priorities of both the processors and the dairy farmers.

MilkPEPs assets, like creative content, research and planning and marketing tools are continually being updated and optimized and are available for use across these groups as well as milk brands and retailers. And we've recently embarked on a plan to more formally combine, integrate and communicate all of the valuable research and insights generated by the industry groups to ensure brands and other stakeholders have what they need to plan and enhance their own growth efforts.

These initiatives will help avoid redundancy or conflict of effort and spending, and ensure processor dollars go farther with even better outcomes.

# Financial Report

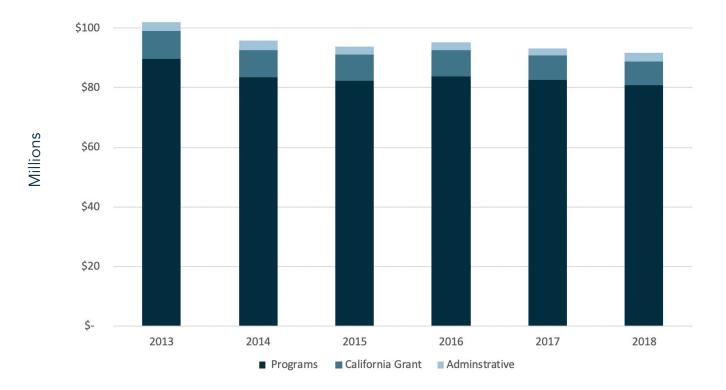
The Board's financial management firm, The Colony Group, LLC reports an estimated \$89.0 million, net of adjustments, was collected from processors through the 20 cent-per-hundredweight assessment during the fiscal year January 1, 2018 through December 31, 2018. The assessments represented a \$2.7 million decline compared to the previous year.



Total Assessments, 2013 – 2018

Other revenue, including interest income, late fees assessed, and a co-fund retail partnership amounted to \$84,794 which was \$223,167 less than other revenue in 2017. This was primarily due to the retail partnership with the Egg & Avocado Boards in 2017.

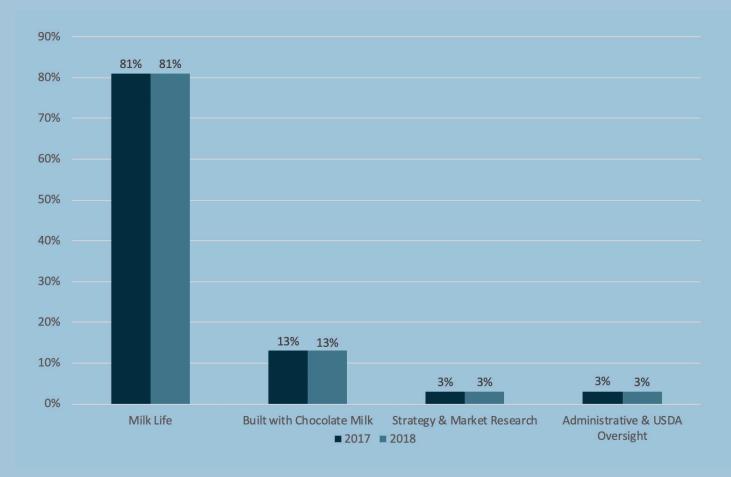
The total spending for 2018 on advertising, promotion and education for fluid milk products and other expenses totaled an estimated \$91.7 million which is a decrease of \$1.6 million from 2017. Cash flow remained solid throughout the year with the lowest average monthly balance in December of \$9.4 million.



Total Spending by Year, 2013 – 2018

The 2018 California Grant represented \$7.8 million of the total expenses resulting in total net expenses toward estimated programs and administration of \$83.8 million. The California Grant was down \$358,252 from 2017 which is a greater decline in assessments than on a national level. 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, remained at 97%. 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 2018 was \$1.2 million less than 2017. 94% of the 2018 total spending net of the California Grant was for Milk Life and Built with Chocolate Milk. Milk Life spending decreased \$1.3 million to \$67.6 million. \$11.1 million was spent on Built with Chocolate Milk which is down \$183,000 from 2017. Administrative expenses were up \$344k from 2017 due to increased staffing costs, consulting services, and a reduction in the program management allocation. USDA Oversight costs were in line with previous year.



Percentage of Spending Net of California Grant, 2017 - 2018

The Board's financial statements for the year ended December 31, 2018 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 2019 Board Meeting. The MilkPEP Board is confident that we continue to direct the program in the most effective and efficient manner possible.

