# milk pep ANNUAL REPORT



2021



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**2021 FINANCIAL REPORT** 



# LETTER FROM THE CHAIR OF THE BOARD

It's been an honor to serve as Chair of the MilkPEP Board for a second term, working closely with CEO Yin Woon Rani and team during these complicated times for the industry and for the world. As my Chair tenure comes to a close, I've reflected throughout the year how pleased I am with MilkPEP's programs given the many challenges facing the milk category today. I continue to be impressed with MilkPEP's innovative approach to doing more with less in light of declining assessments and resources and also continue to call upon the industry to step up and make the most of MilkPEP's efforts and make sure our dollars continue to be stewarded to deliver value to us.

MilkPEP launched a new campaign in 2021: You're Gonna Need Milk for That (YGNMFT). The new platform embodied a powerful new approach that boldly positioned milk as a modern beverage for modern families. Leveraging the new science around milk's "13 nutrients", YGNMFT amplified the performance benefits of milk and its unmatched nutrition. Over the last 12 months, MilkPEP has worked hard to integrate into culture, leveraging Team USA, professional football athletes, influencers, and more. Despite the many headwinds facing the program, MilkPEP drove an incremental 217MM class one fluid milk gallons for the category, representing a 30% increase in efficiency (vs. 2019) with each dollar delivering 3.8 gallons.

In addition to consumer communications, MilkPEP prioritized facilitating the growth of the individual brands with the understanding that the total category will only grow if the processors succeed. MilkPEP provides consumer and category insights, customizable marketing assets and other resources for the processors to leverage to strengthen their individual brands – while respecting the need for fair & equitable guidelines. MilkPEP continues to improve their offerings year over year providing the industry with significant value. Lastly, MilkPEP continues to collaborate with industry partners like DMI, CMPB and IDFA, eliminating duplication of efforts and driving dollars forward.

Despite MilkPEP's many contributions, their efforts alone won't stem the declines we face. MilkPEP's careful stewardship of processor dollars, their support of the industry and their passion for milk is impressive. It is imperative for the dairy community to rally together to collectively solve the core challenges facing the industry now and in the future.

MilkPEP will continue to be a resource for the industry to leverage, and I encourage all to do so.

Sincerely,

Kachel Kyllo

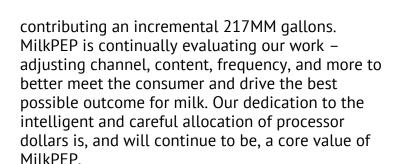


# LETTER FROM THE CEO

After tremendous sales and enthusiasm for milk in 2020 while more time was spent inside the home, in 2021 we began to see lost occasions as more consumers ventured outside resulting in a four percent decline in milk volume sales. Despite the many headwinds facing the industry today, MilkPEP remains resilient and committed to the task and reestablishing milk's rightful place in American diets. We are confident we can drive consumer reconsideration of milk through modern, innovative, and compelling communications. However, the consumer landscape demanded a fresh approach from MilkPEP that inspires people to see, think and feel about milk differently. In 2021, I think we made great progress towards that goal.

MilkPEP was proud to introduce a new consumer campaign – You're Gonna Need Milk for That - a powerful platform highlighting milk's performance benefits. You're Gonna Need Milk for That boldly reintroduced milk as a performance beverage to families in a digitally driven campaign coinciding with milk's final year as a Team USA sponsor - providing the perfect launchpad for milk as the original sports drink. MilkPEP elevated athletes – from Olympians to everyday athletes – MilkPEP's campaign underscored the benefits of drinking milk for strength and athletic performance on the biggest stage and every day.

We are pleased with the progress of the new campaign so far although the work is never done. The message resonated loudly with teens, the work maintained key consumer attitudes about milk, and new campaign awareness was high amongst families. Despite the headwinds, You're Gonna Need Milk for That worked hard - every marketing dollar spent netted out 3.8 gallons of milk (+30% vs. 2019),



But MilkPEP's work doesn't end with consumer campaigns. In 2021, we reaffirmed our commitment to the milk processors, working closely with them to extend You're Gonna Need Milk for That and drive the marketing programs of the individual brands. MilkPEP continues to share our insights and data—strengthening the industry's understanding of the consumer and the dairy category. And we are making some changes—we added new team members to strengthen MilkPEP's skillset and value to the industry, re-structured the organization to be more processor-oriented, and improved industry communications. A great start, and much more to come in the next 12 months.

I recognize 2021 was a difficult year for MilkPEP, and the broader industry across many different variables. However, I am optimistic about our team, our partners, and the road ahead. Throughout the report you will read much more about our programs and progress over the last year. We believe MilkPEP's commitment, our new campaign, and milk's unmatched nutritional value can move the category back to growth.

My door is always open, and I value your thoughts anytime.

Sincerely,

Yin Woon Rani

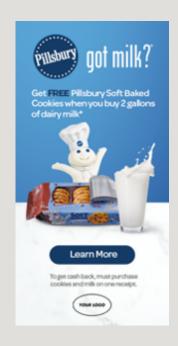


#### BUILD A BETTER BREAKFAST SHOPPER PROGRAM

MilkPEP kicked off 2021 with an integrated shopper marketing campaign, touting the breakfast occasion in partnership with General Mills. Throughout January, the iconic 'got milk?' lockup was prominently displayed on more than five million of their most popular cereal boxes, including Cheerios, Lucky Charms, Cinnamon Toast Crunch and others. The successful 'But First Milk' campaign drove traffic and excitement in-store with signage in the cereal and milk aisles in over 5,000 retail stores. General Mills provided an estimated \$2M of added value with PR outreach that generated 53MM+ impressions across 450+ placements. The industry was thrilled to get behind the program, leveraging the tools MilkPEP provided to amplify the campaign and promote the volume driving coupon offer across their digital and social media channels. General Mills was so pleased with the results that they approached MilkPEP to partner again with their Pillsbury brand on a Back-to-School program.

#### PILLSBURY PARTNERSHIP

Building on a successful Q1 partnership, MilkPEP teamed up again with General Mills on a national Back-to-School program to drive incremental milk sales. This Pillsbury partnership promoted the snacking occasion and offered a free pack of soft baked cookies to shoppers who bought two gallons of dairy milk. Signage appeared in cookie and milk aisles in +3K stores across the country, generating 36+ million impressions. Special pack displays in secondary locations created additional awareness of the promotion and drove traffic to the dairy aisle in +6K stores. Finally, brands were able to drive purchase of their own product by customizing marketing materials that featured the iconic Pillsbury doughboy.



# YOU'RE GONNA NEED MILK FOR THAT.

## MILK, THE ORIGINAL SPORTS DRINK.

## FUELING CHAMPIONS SINCE 776 BC.

It's a simple idea that packs multiple meanings, across the campaign and for different audiences. You're Gonna Need Milk For That (YGNMFT) is a challenge and means nothing else will do. Only the natural, nutrient-rich milk we've trusted for thousands of years. Milk isn't just a companion to cookies, it's performance fuel at its best. YOU'RE GONNA NEED MILK FOR THAT (YGNMFT) ignites reconsideration of milk and its status as the original sports drink. Backed by science and updated nutritional claims, a glass of real dairy milk offers 13 nutrients proven to help with hydration, replenishment, and recovery—all without a complicated list of ingredients.

#### TEAM MILK OLYMPICS, THE WALL, THE FRIDGE

Some of the most elite athletes in the world joined Team Milk to help introduce the new YGNMFT campaign, from Olympic hopefuls to NFL greats. During the lead up to the 2021 Tokyo Games, milk's powerhouse standing in

epic fashion was teased with a series of announcements of Team Milk Olympic Hopefuls on Good Morning America. Skateboarding, softball, karate, and BMX freestyle were all new sports making their debut at the Tokyo Olympics. MilkPEP found and partnered with the best athletes in all four areas to tell their milk stories. This included street skateboarder Maurio McCoy, softball legend Cat Osterman, karate champ Ariel Torres, and Hannah Roberts, the BMX freestyler who knows no limits. The segments covered the athletes' road-to-Olympics stories and underscored the vital nutritional role milk played in their athletic preparation. The series culminated with Team Milk showcasing the epic sports that debuted in Tokyo. GonnaNeedMilk.com served as content hub further elevating milk's superior benefits with a fresh look and feel.

The launch of YGNMFT reached new heights in April. MilkPEP partnered with Oscar-winning filmmaker and professional climber Jimmy Chin to film rock climber and future Olympic hopeful, Kai Lightner, in an attempt to scale an epic Gonna Need Milk billboard on top of a 30-story

building in downtown Kansas City. As cameras rolled, Kai approached the building, looked up and saw the campaign theme: 'YOU'RE GONNA NEED MILK FOR THAT' just below the clouds. He took off his backpack, slurped some milk, and set out on his extraordinary mission while showcasing milk's role in performance. The liveaction OOH installation turned stunt celebrated YGNMFT in unprecedented fashion. Additionally, milk executed its first-ever OOH billboard campaign in Dallas, New York, and Los Angeles to showcase the OG Sports Drink in high impact style.



Together, these tactics worked to improve consumer perceptions of milk with increased purchase and consumption as the ultimate goal. To accomplish that, the dairy aisle experience needed a change. So, MilkPEP created a real-life training gym behind a supermarket dairy aisle for Olympians Kristin Armstrong and Ariel Torres. As shoppers reached for milk, their reactions were caught on hidden camera and shared across milk's owned channels.

#### WINNING WITH TWEENS AND TEENS #HOLDMYMILK, ROBLOX, WHISTLE SPORTS

The follow up to the 2020 #GotMilkChallenge continued to build teen engagement on TikTok by introducing a performance-based challenge.

#HoldMyMilk utilized Olympic athletes, Influencers, and Milk followers to seed a challenge encouraging teens to grab a friend and showcase their epic athletic abilities with the hashtag #Holdmymilk. The TikTok challenge resulted in 13.9 BN views. To get tweens in on the action, MilkPEP created short videos for CTV designed to trigger reconsideration through the storytelling device of misdirection - an everyday scene of a cookie dunked in milk intercut with a crazy basketball dunk from a popular TikTok influencer - showing that milk isn't just for cookies.

It's no secret the gaming space has seen tremendous growth over the past few years, with innovative companies like Roblox taking up increased time in teens' lives. To push milk's relevancy in this area and to this key audience, MilkPEP teamed up with trusted partner SuperAwesome to create an epic sports competition game on Roblox, fueled by milk. The Tokyo-inspired game featured street sports in action. Gamers played the newest Olympics sports – karate, skateboarding, BMX racing and rock climbing. The game released in July with added influencer and social support.

Teens found even more ways to engage with milk via a "Facelympics" Snapchat filter and an augmented reality skateboard experience both sharable and interactive.

Whistle Sports created a hilarious series called I Could Do That and published one of the short episodes each morning during the Games. The concept put social star Spice Adams through the ringer as he tried (and failed) to recreate the most viral moments from the evening prior in Tokyo.







# TEAM MILK

Meet the athletes.





#### **TEAM MILK NFL**

No better way to continue the celebration of milk as the original sports drink than evolving Team Milk from inspiring Olympic competitors to A-list football players: Justin Herbert, Terry Mclaurin, Derrick Henry, and Juju Smith-Schuster. Back-to-Football took on a new meaning in Fall of '21 following a season disrupted by the arrival of Covid-19 and milk was at the ready with epic content created in partnership with these milk-loving NFL players.

MilkPEP teamed up with DMI's FUTP60 and GenYOUth to create 'got milk?' branded flag football kits for FUTP60 schools. This movement to get the next generation engaged with physical activity through flag football was a natural fit for milk's nutrient package and allowed for the opportunity to get milk posters in schools for the first time in several years.

MilkPEP believes that representation matters in consumer communications and importance of helping drive this conversation. A great example of this can be seen in milk's #DoTheJuJu TikTok dance challenge. It was a fun, engaging piece but more importantly we used this platform to give credit where it's not often given. MilkPEP highlighted a Black artist, Phil Wright, for producing the stellar choreography behind the dance that became a craze.



#### WORKING GROUPS

In addition to the Board of Directors' Committees, MilkPEP created two new groups to invite new perspectives and feedback on how MilkPEP can better serve the processor community.

Comprised of senior executives from a variety of milk brands, the Marketing and Sales Working Groups provide valuable and timely feedback on program development and research activity while strengthening relationships across the industry. These engaged marketing and sales professionals met regularly with their respective group to discuss, debate and provide candid feedback.

The Marketing Working Group continues to be a powerful forum for candid and productive feedback, brainstorming and planning for the future. Insights from the Sales Working Group provided beneficial to the new Category Leadership story.

A natural outcome of these newly formed groups was the networking opportunities provided to group members and the realization of the shared desire to strive for category growth.

# CATEGORY LEADERSHIP WORK

MilkPEP's 2021 reconsideration mandate extended beyond consumers as we also set a goal to get retailers to reconsider dairy milk. We engaged with Kantar to conduct primary shopper research, creating a refreshed customer-facing story to inspire retailers to partner with the industry to drive category growth. With the input of our newly formed Sales Working Group, we launched our new retailer-facing presentation to the industry and developed a roadmap of category management resources to deliver in 2022.

# INDUSTRY/PROCESSOR ACTIVATIONS

Despite the continuation of COVID-19 and a new variant to manage as 2021 kicked off, milk processors found ways to embrace MilkPEP's industry offerings from campaign assets to research and thought leadership.

Elevating its webinar programming, platform and process, MilkPEP kept the industry informed throughout the year with 18 webinars and streamlined email communications. New marketing update webinars helped processors see the **You're Gonna Need Milk For That** campaign come to life and inspired many to embrace the category-level consumer program.

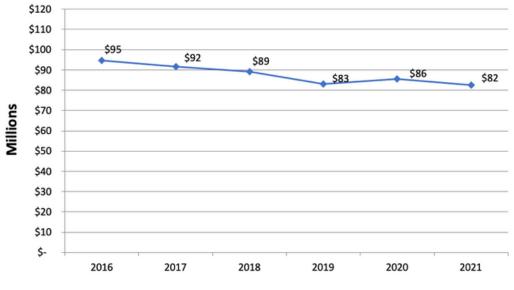
Updated communications helped drive more processors to milkpep.org and led to a 16x increase in toolkit downloads from 2020 (YGNMFT Toolkit was #1). Brands amplified YGNMFT messaging on retail packaging, trucks, social media, stadium signage and school milk cartons.

# PROCESSORS USED THEIR CHEF-INFLUENCERS TO CREATE NEW RECIPES, PARTICIPATE IN CORPORATE GIVING AT FOOD BANKS, CONDUCT MEDIA DAYS AND UPDATE PACKAGING

MilkPEP extended its 2020 Team Milk Chef influencer program into 2021 and creativity shined. Processors used their chef-influencers to create new recipes, participate in corporate giving at food banks, conduct media days and update packaging. The excitement and learnings around this program are fueling a new processor-exclusive influencer program set to debut in 2022.



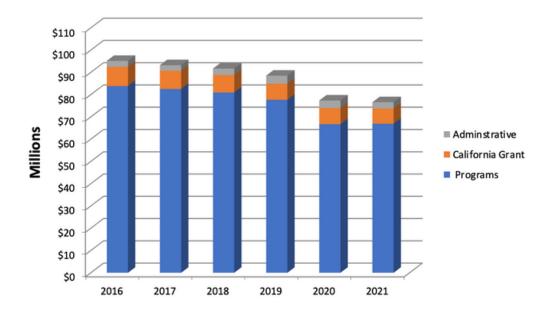
The Board's financial management firm, The Colony Group, LLC reports an estimated \$82.4 million, net of adjustments, was collected from processors through the 20 cent-per-hundredweight assessment during the fiscal year January 1, 2021 through December 31, 2021. The assessments represented a \$3.3 million decrease compared to the previous year.



TOTAL ASSESSMENTS, 2016 - 2021

Other revenue, including interest income and late fees assessed amounted to \$47,145 which was \$35,336 less than other revenue in 2020. This was due to a decrease in interest percentage on cash balances during 2021.

The total spending for 2021 on advertising, promotion and education for fluid milk products and other expenses totaled an estimated \$76.6 million which is a decrease of \$767K million from 2020. Cash flow remained positive throughout the year with the lowest average monthly balance in January of \$14.3 million.

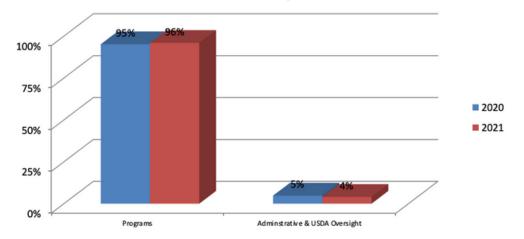


TOTAL SPENDING BY YEAR, 2016 - 2021

The 2021 California Grant represented \$6.9 million of the total expenses resulting in total net expenses toward estimated programs and administration of \$69.7 million. The California Grant decreased by \$384,941 from 2020. 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.

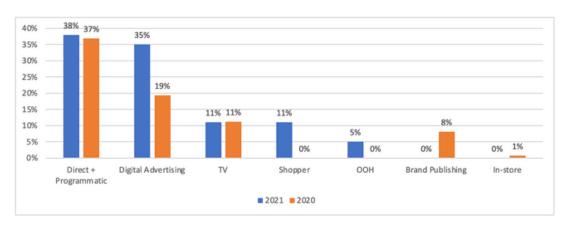
The percentage of spending devoted to program costs, net of the California grant, increased to 96.0%. MilkPEP adopted a new program planning approach in 2021, the budget for program costs focuses on Consumer and Industry. The total program spending in 2021 was \$325K less than 2020. 88% of the program costs, net of the California grant, went to Consumer and another 8% to Industry. Administrative expenses were down \$590K from 2020 due to staffing changes and other cost savings. USDA Oversight costs increased \$53K from previous year.

### PERCENTAGE OF SPENDING NET OF CALIFORNIA GRANT, 2020 - 2021



The Board's financial statements for the year ended December 31, 2021, were audited by the independent accounting firm Snyder Cohn, PC. They were presented to the MilkPEP Board for review and accepted at the May 2022 Board Meeting. The MilkPEP Board is confident that we continue to direct the program in the most effective and efficient manner possible.

#### OVERALL MARKETING SPEND MIX, 2021 VS. 2020



The marketing mix performed well with an efficiency of 3.80. While below 2020 efficiency, this is significantly higher than in 2019 indicating that marketing was more efficient. The largest shifts were away from TV to digital advertising, predominantly paid social. Within Direct and Programmatic there were increases in Display and CTV.

Milk volume sales decreased 7% in 2021 due to lower core, marketing and trade sales. Core represents the largest segment and declines in this space were due to post-COVID trends as households spent less time at home as well as increases in milk pricing.