



2017

ANNUAL REPORT



DAIRY MANAGEMENT INC.™



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About This Report

The 2017 annual report, published by Dairy Management Inc., is intended to provide a summary of the year's accomplishments for stakeholders. If you are interested in additional information, please email us at talktothecheckoff@dairy.org.

The Checkoff Business Plan: Powerful Partnerships

The checkoff takes a portfolio approach to its business plan, using short-, medium- and long-term strategies aimed at driving consumer trust and sales. These strategies are enacted through different types of partnerships:

- Coalition, which are about building trust through science and research, health and wellness, and youth partners, aiming to optimize the nutritional benefits of dairy in the diet, and protect and promote dairy sales
- Targeted, which consist of direct partnerships with some of the world's top food brands to have immediate sales impact and catalytic effect
- Industrywide, category-level partnerships that benefit dairy as a whole, bringing together dairy farmers, cooperative leaders, companies and organizations to work on issues and opportunities no one entity or player in the value chain can address alone

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A Message from the CEO

Your dairy promotion checkoff, created in 1983 at the request of America's dairy farmers, exists to do one thing: find more markets for the milk you produce, as 40,000 dairy farms produce more milk more efficiently than ever.



We do that by increasing sales and reinforcing trust among consumers and those who consumers listen to. In this report, you'll find many examples of how we're doing this in service to you for your 15 cents/hundredweight investment.

Sales of cheese — especially in food service where we have focused our attention — are up, along with exports. Fluid milk sales are still down but showing encouraging signs of rebounding as we work with major processors to have them make product changes that meet consumers demand.

Has everything we've tried worked out perfectly? No. But the good news is that the checkoff's high-risk, high-reward strategies have been consistently paying off for dairy farm families.

Many of you have wondered where our ads have gone. At the direction of dairy farmers, we now use more effective strategies to reach and engage the people who matter. Today, partnerships, social media and events are used to start conversations that lead to relationships.

For example:

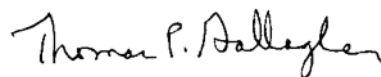
- *Long-term strategies such as increasing exports, which stand at 15 percent of production and can grow to 20 percent, which is very important to your market*

- *The checkoff-led Innovation Center for U.S Dairy, which brings together the dairy community around issues of common interest and helped launch the industry's Undeniably Dairy campaign*
- *Saving cheese on pizza, burgers and at breakfast through food service*
- *Making milkfat popular again through our research and outreach efforts*
- *Growing school breakfast and with it, milk sales*
- *Increasing dairy consumption among young people - your future consumers - in schools through Fuel Up to Play 60, the nation's leading health and wellness initiative*
- *Developing a Technology Catalog, through Newtrient LLC, to provide farmers with technology insights, case studies and credible evaluations to make more informed decisions regarding manure management and nutrient recovery opportunities*

Your state, regional, national and international dairy promotion staffs work to expand the market for your milk, which helps keep more dairy farm families working at the life they love.

Want to know more? Go to www.dairy.org, www.dairygood.org and www.usdairy.com.

Want to talk to us? We want to hear from you. Click on talktothecheckoff@dairy.org

A handwritten signature in black ink that reads "Thomas P. Gallagher". The signature is written in a cursive, slightly slanted style.

Thomas P. Gallagher
Chief Executive Officer
Dairy Management Inc.



A Message from the Chairs

The national dairy checkoff program aims to benefit America's 40,000-plus dairy farmers and other members of the dairy community by helping protect and grow trust and sales in dairy. In fact, since the checkoff was established in 1983, average per capita consumption has grown 4.2 pounds (milk equivalent) annually.

This growth happens in many ways, including through strategic partnerships with national restaurant chains and milk companies and steady growth in U.S. dairy exports. In 2017, results included:

- *Fluid milk partners continued to invest millions in new plants, facility upgrades and improvements to create, innovate, extend shelf life or offer shelf-stable milk options that people want*
- *Checkoff partner McDonald's expanded its McCafé beverage line, and today 90 percent of its specialty beverages feature dairy*
- *The nation's largest pizza chain, Pizza Hut, continued to use more cheese in more places, including its pan pizza, which included 25 percent more cheese*
- *Working through the U.S. Dairy Export Council, dairy exports in 2017 represented approximately 15 percent of total production, compared to 4 percent in 1995 when the Council was created*

In 2017, the Innovation Center for U.S. Dairy and national and local dairy checkoff organizations launched U.S. dairy's Undeniably Dairy initiative to bolster trust by unifying the dairy community and proudly reintroducing dairy to consumers and thought leaders alike. In its first six months, Undeniably Dairy rallied more than 103 dairy co-ops, organizations, brands and food service companies around the campaign. In fact, campaign content had the opportunity to reach people at least 10 times between June and December of 2017.

Whether it's these results...or the great work your checkoff teams are doing nationally and locally to advance youth wellness through Fuel Up to Play 60 and other programs...or the

checkoff's investment in nutrition, product and sustainability research to reaffirm and advance dairy's role to people's health and wellness and the environment, the dairy checkoff is making a difference for farmers and the U.S. dairy community today and in the future. You can find out more about these efforts in this report.

And as farmer promotion leaders representing the checkoff on behalf of the nation's dairy farmers, we want to hear from you. You can reach us at talktothecheckoff@dairy.org.



Marilyn Hershey
Pennsylvania dairy farmer and chair, Dairy Management Inc. (DMI)



Neil Hoff
Texas dairy farmer and chair, United Dairy Industry Association (UDIA)



Brad Scott
California dairy farmer and chair, National Dairy Promotion and Research Board (NDB)



Innovation Center for U.S. Dairy

The Innovation Center at work — 2017 highlights:

Established by dairy farmers through Dairy Management Inc., the Innovation Center is a forum that brings together leadership from across the dairy value chain to collaborate on strategic efforts that demonstrate our commitment to the health and well-being of people, the planet, our communities and the industry.

Vision: People trust dairy as essential to their lives

Mission: Working together to ensure an economically viable and socially responsible U.S. dairy community from farm to table

The Innovation Center's social responsibility initiative has operating committees addressing seven priorities.

1. Animal Care
2. Unified Messaging & Communications
3. Environmental Stewardship
4. Food Safety
5. Global Insights & Innovation
6. People & Community
7. Sustainable Nutrition



2017 was a year dedicated to dairy community action.

Through the Innovation Center for U.S. Dairy, a primary collective partnership within the checkoff business plan, the dairy community joined together to support a proactive, industry-wide social responsibility initiative to align on next and best practices, speak with a unified voice and strengthen trust with consumers and stakeholders.

Dairy Farmer Leaders in the Innovation Center

Dairy farmer leadership and DMI staff convene the industry through various Innovation Center meetings, committees and large-scale forums. Dairy farmers participate in the work of the Innovation Center in many ways. DMI, NDB and UDIA chairs participate in all Innovation Center board meetings, and 40 farmers have specific roles as representatives on the Innovation Center board, committees and on the Dairy Sustainability Alliance.

Dairy Sustainability Alliance®

The Innovation Center's Dairy Sustainability Alliance is a multi-stakeholder group that includes dairy producers, processors, manufacturers and retailers, as well as representatives from nonprofits, trade organizations, government and academia. The Dairy Sustainability Alliance ensures the dairy value chain and other important stakeholders share knowledge, collaborate and build support for Innovation Center-led initiatives to ensure progress toward our common sustainability goals. In 2017, membership included more than 100 organizations.

Dairy Sustainability Awards

The annual U.S. Dairy Sustainability Awards recognize and promote dairy farms, businesses and partnerships for outstanding socially responsible, economically viable and environmentally sound practices. For more information and to learn more about the efforts of the 2017 U.S. Dairy Sustainability Award winners, visit dairygood.org.

Animal Care

Animal care is an important topic to consumers and the Innovation Center has helped to align the dairy community and customers to support the Farmers Assuring Responsible Management (FARM) Program, managed by National Milk Producers Federation (NMPF), as the industry's unified program. The program reflects the shared values between dairy farmers and consumers when it comes to quality animal care and safe, wholesome milk.

The Innovation Center demonstrates its commitment to animal care through the National Dairy FARM Program, which provides best practices in animal care and quality assurance in the dairy industry.

In January 2017, with the support of the Innovation Center's Animal Care committee, FARM launched version 3.0, which included new minimum guidelines addressing the care of every cow and calf on the farm.

On-farm evaluations and feedback ensure farmers have the support needed to provide quality animal care and safeguard the integrity of the program through third-party verification.

For more information on these and other FARM initiatives, see the FARM 2017 Year-In Review at www.nationaldairyfarm.com.



2017 Highlight Animal Care



At the end of 2017,

98%

of the U.S. milk
supply came from

123

dairy cooperatives and
processors that participate
in the FARM Animal Care
Program.

Environmental Stewardship

In February 2017, the FARM Program launched the Environmental Stewardship (ES) module. Its foundation is the Innovation Center's Farm Smart™ tool, which provides a comprehensive estimate of greenhouse gas emissions and energy use associated with dairy farming.

By tracking advances in dairy production efficiency, farmers can use FARM ES to assure dairy customers and consumers of their commitment to ongoing environmental stewardship. Producers can also use the results to identify opportunities for changes that could increase their farm's sustainability and reduce their cost of production.

Compared to 70 years ago, producing a gallon of milk uses

65%
LESS WATER

requires

90%
LESS LAND

and has a

63%
SMALLER
carbon footprint







Food Safety

To protect consumers and prevent food safety incidents, industry experts work together through the Innovation Center to develop and share best practices that improve and advance dairy processing and manufacturing procedures.

Artisan and farmstead cheesemakers represent a growing segment of cheese production, with more than 1,000 U.S. processors helping to meet consumer demand for artisan cheese across the country.

To more effectively reach and support the artisan cheese community, the Innovation Center partnered with the American Cheese Society, academics and retailers to establish comprehensive and easily accessible food safety resources.

An online course launched in June 2017 allows artisan and farmstead producers and their employees to access and complete the materials from their home or business and at their own pace. More than 200 participants completed the course, and an additional 500 people registered. Materials have also been translated to Spanish to further extend the reach and adoption of this program.

2017 Highlight

Food Safety



Because of the strength of the existing food safety program established under the Innovation Center for U.S. Dairy, in **2017**, a three-year, **\$400,000** National Institute of Food and Agriculture (NIFA) grant was awarded to the Innovation Center and its university partners to provide coaching sessions that help artisans and farmstead cheesemakers write their own food safety plans. These efforts will also help establish a network of local university and extension agents for ongoing support.



Customer Outreach

2017 was a year focused on building stronger relationships with food service, retailers and food companies to ensure understanding and alignment with our commitment to social responsibility.



In addition to one-on-one meetings and counsel:

- The Innovation Center hosted four dairy customer forums with NMPF to share the dairy community's focus on social responsibility with national and international dairy customers.
- Over 100 representatives from grocery stores, food manufacturers and restaurant chains attended the forums in Los Angeles, Minneapolis, Washington, D.C., and Jacksonville, Fla.
- In each market, a visit to a local dairy farm gave participants an up-close look at the FARM Program's animal care and environmental stewardship guidelines in action.
- This type of outreach helps customers see the value of U.S. dairy's own proactive efforts. It helps ensure that customers know farmers' perspective as they build their own social responsibility policies, and eliminates or pre-empts the need for these companies to develop their own programs.



Communications

In 2017, the dairy community, led by checkoff through the Innovation Center, set out to create a “loud and proud” consumer-centric, multi-stakeholder and multi-year campaign that demonstrates the relevance and responsibility of the industry and draws from the values and practices of the dairy community.

As consumers have become further removed from the farm, there is an increasing desire to find out more about where their food comes from. While we know there's a lot that's great about dairy, misinformation is everywhere. That's why this campaign seized the opportunity to communicate and engage with consumers at every point in the value chain, to share dairy stories and spark an emotional connection. Reintroduction to Dairy was created to grow trust and relevance among consumers over time and to provide a platform through which the whole dairy community can engage and speak with one voice.

Checkoff brought Reintroduction to Dairy to life with an approachable, accessible campaign, ultimately allowing it to break through the cluttered media landscape, drive consumer awareness and remind people why they love dairy.

The campaign is called Undeniably Dairy.

Undeniably Dairy is a platform through which the dairy community can tell stories in an engaging, relevant and share-able way. It inspires conversation based on four story pillars:



Responsibly Produced

Through the use of innovative and safe technology, the dairy industry delivers exceptional animal care, sustainable nutrition and a better, fresher product.



Locally Driven

The dairy industry works hard to ensure that our products are fresh, real and locally sourced. Our practices exemplify the farm-to-table movement and have a positive impact on thousands of local communities.



Nutrient-Rich

Packed with protein, dairy is the nutrient-rich powerhouse that fuels the body and nourishes the mind. Fresh, wholesome products aren't hard to find — they're right down the dairy aisle.



Real Enjoyment

Dairy is the milk in your cereal, the cheese on your pizza, the yogurt in your morning smoothie. We are part of all the things you love to eat and are present at some of the most special moments in your life.

Undeniably Dairy is about bringing the industry together to reintroduce dairy to consumers and rekindle their love and trust for the category.

Undeniably Dairy

The audience

“Undeniably Dairy” focuses on “conflicted health seekers” — adult consumers who rank taste and well-being as equally important when it comes to their food decisions; admit to sometimes sacrificing health for great taste but are increasingly disconnected from the farm; and, don’t necessarily trust the dairy industry or its products.

The insight

The campaign leaned into a core insight — our “conflicted health seeker” loves lattes, ice cream cones and anything with a side of cheese, yet they don’t associate those memorable taste experiences with the word dairy. In fact, people are getting confused about what dairy even is. They want the facts. But they also want to experience what they’ve always loved about dairy.

The strategy

We knew what we had to do: reignite consumers’ love for dairy by reintroducing the joy of dairy and what the dairy industry is doing to win them back. We need to remind “conflicted health seekers” how much they love dairy by demonstrating how it plays a role in all their favorite moments. And share the story of how we are responsibly producing safe, nutrient-rich foods — all in a relatable way.



The Work Begins

Between unifying a dairy voice, clearing up confusion and bringing context to consumers’ best dairy-filled moments, the campaign had a lot of work to do. To drive a consistent message, we created a wide variety of compelling resources, including:

- **Unifying mark:** The campaign’s proclaimed identity throughout the dairy supply chain. It connected the dots for consumers by showing them that dairy was a bold part of their best moments and favorite foods.
- **Campaign hub:** New campaign webpage hosted content from the campaign and aggregated third-party content to spread the fun and feature the “dairy best.”
- **Hero videos:** A memorable video that was edited into small content pieces, called “Dairy, Dairy, Dairy”, to remind consumers of the vital, positive role dairy plays in their favorite moments.

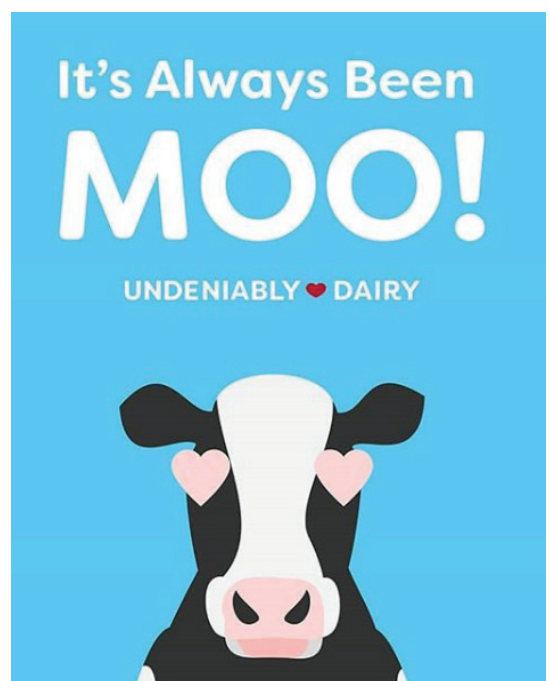
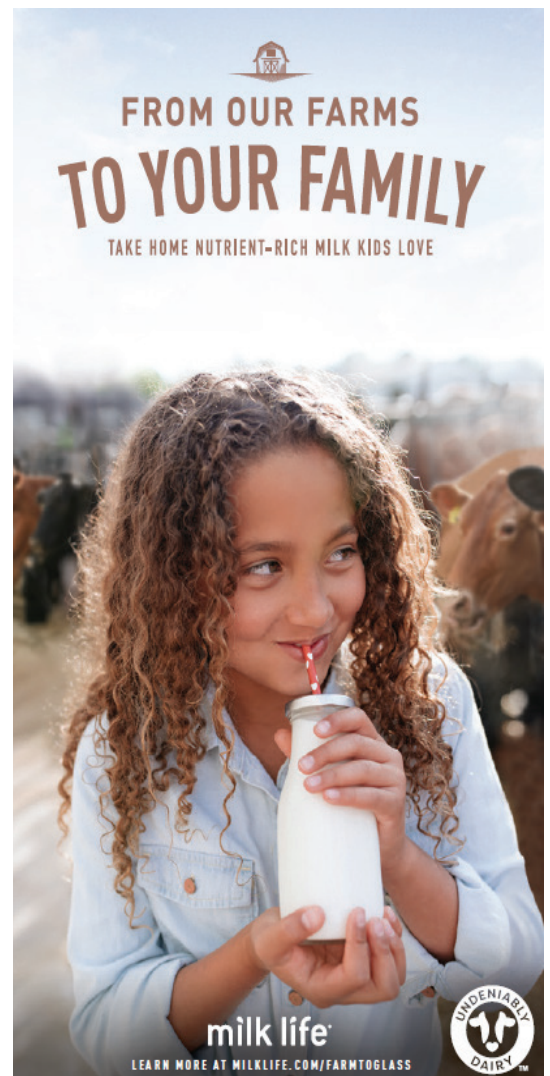
These and other pieces of content helped drive awareness and engagement and reminded people why they love dairy in the first place.



The Campaign

Undeniably Dairy is multidimensional, multi-year and multi-stakeholder in order to reach our audience where they already are and when and how they want to engage with and experience our content.

- **Experiential:** We partnered with dairy farmers nationwide to open their doors to consumers and show them where their favorite foods come from.
- **Paid partnerships:** Partnerships with Food Network, Cooking Channel and Upworthy featured our campaign videos, dairy food favorites and informative, upbeat articles. We also amplified our campaign assets with paid advertising across Facebook, Instagram and Twitter and supported them with ads on YouTube.
- **Point of sale:** We teamed up with Domino's to feature our logo on their pizza boxes. We also engaged with MilkPEP to roll out Undeniably Dairy-branded shelf talkers in over 16,000 grocery stores nationwide. Additionally, Undeniably Dairy-branded milk caps for Kroger brand milk gallons were designed in Arizona with Arizona dairy farmers.
- **Influencers:** We partnered with a range of online influencers, including food bloggers and well-known chefs, to spotlight dairy's role in the memorable recipes they shared throughout the year and arranged for visits to local farms so they could recount their first-hand experiences.
- **Earned:** We developed a fun, light-hearted survey for June Dairy Month and pitched the results to outlets our audience visits. The story went viral and got people talking about dairy online like they never have before.





America's Dairyland @WIDairyland · 7h
 Cheers to #WorldMilkDay from America's Dairyland! #UndeniablyDairy @DairyGood



Success!

While it's still early, initial results show Undeniably Dairy is grabbing attention and dairy's story is resonating with consumers. To date:

- **Media:** Garnered 3.2 billion impressions, reaching the average consumer 10 times.
- **Industry partners:** We rallied the dairy community to impact consumers through 103 dairy organizations. In addition, thanks to Domino's, more than 7 million people a week see Undeniably Dairy and farmer-friendly messaging on their pizza boxes and napkin holders nationwide.
- **Video ads:** 1 in 2 people who were shown our video ads on Facebook and Twitter watched them, exceeding our target of 15-18 percent. On Facebook, nearly a third (33 percent) of people watched our hallmark "Dairy, Dairy, Dairy" campaign videos to completion (the Facebook average is 12 percent).
- **Media partnerships:** Our paid partnership with Food Network alone garnered 59 million impressions with The Kitchen, Cooking Channel and Upworthy partnerships following closely behind.
- **Influencers:** Our cultural influencer partners (chefs and food bloggers) reached 28 million people and are projected to reach 70 million by the end of 2018.



National Dairy Council

National Dairy Council (NDC) is committed to exploring and explaining how dairy contributes to responsible and sustainable food systems. In 2017, NDC's scientific teams and nutrition affairs teams rallied around the common theme of sustainable nutrition.

Sustainable nutrition is the intersection of agriculture, food production, nutrition and health. It involves how foods nourish people, as well as contribute to a healthy economy and environment.

On behalf of dairy farmers and the dairy community, NDC spearheads research in nutrition, product innovation and environmental science to create knowledge to be shared through education and outreach initiatives to generate action across

the dairy value chain, especially among thought leaders.

NDC's research, insights and third-party partnerships help guide the future of how the dairy community will address challenges and opportunities across the value chain to ensure dairy continues to contribute to health and sustainable food systems. Collaboration within and beyond the dairy community is crucial to a viable dairy sector — domestically and globally.

Feeding America and its network of food banks across the country value milk as a powerhouse of nutrients, especially protein. Despite the strong need for milk, it is one of the least donated items to food banks, which led to a partnership with NDC.

Food Insecurity

An economic and social condition, limited or uncertain access to adequate food is a major concern for 41.2 million Americans, including 6.5 million children. Despite the strong need for milk, it remains one of the least donated items to food banks, primarily due to its perishability and the need to refrigerate it during transport and storage.

Based on insights gleaned through a five year partnership with the dairy checkoff, Feeding America set a bold goal of increasing the amount of milk in its network by 25 million additional pounds, which would equal an additional 2.9 million gallons.

Together, we have successfully developed and implemented strategies to get more milk and dairy foods to the food insecure. In 2017, for example:

- More than 600,000 pounds of milk was delivered to food banks through Milk2MyPlate, a program in which food banks contract with dairy processors to purchase a specified amount of milk and have it delivered directly to them.
- The Great American Milk Drive, an initiative launched in 2014 by the Milk Processor Education Program (MilkPEP), through which consumers, companies, retailers and others have donated funds, resulted in 380,000 pounds of donated milk in 2017.

Feeding America

set a bold goal of increasing the amount of milk in its network by

25
million lbs.

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2.9
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in its network.



National Dairy Council Highlights

Nutrition Research

The Nutrition Research program focuses on **public health** and **consumer-focused benefits**. For public health, primary areas of interest are cardiovascular disease, metabolic health, bone health, childhood nutrition and sustainable nutrition. For consumer benefits, areas of exploration are dairy protein to help maintain muscle mass with aging, protein quality and the role of dairy on cognitive function.

Nutrition Research Highlights

28

ongoing research projects

8

new research projects
funded, and
6 co-funded with dairy
community partners

43

NDC abstract
presentations
at scientific meetings

18

published
scientific papers,
11 co-authored by NDC scientists

57

NDC research papers
cited in peer review journals

USDA Research Collaboration

A recent research collaboration planning meeting brought together NDC scientists with USDA agencies including National Institute of Food and Agriculture (NIFA) and Agricultural Research Service (ARS) for the purposes of aligning research priorities in the areas of nutrition, product innovation, food safety and sustainability. In 2017, this resulted in the publication of conference proceedings in the *Journal of Food Science* and *Journal of Dairy Science*. The collaboration was recognized by the journal *Nutrition Reviews*.



Product Research

The Product Research program helps dairy, food and beverage companies bring new, innovative dairy products and dairy ingredients to the U.S and export markets. Research drives product innovation and product innovation drives sales and consumption.

Areas of focus include:

- **Dairy Ingredients Research** generates new product formulations, such as whey protein concentrates in fortified foods.
- **Cheese and Cultured Products Research** focuses on technologies and applications that deliver new and improved flavors, textures and procedures to meet global needs.
- **Fluid Milk and Dairy Beverage Research** explores creative ways to maintain dairy demand, while ensuring delivery of great tasting milk in different formats.
- **Food Safety Research** helps build trust in dairy by mitigating the risk of food safety incidents.



Product Research Highlights

55

ongoing research projects,
10 co-funded with dairy
community partners

24

new research projects,
7 co-funded with
dairy community partners

24

published scientific papers

25

NDC abstracts
presented at scientific meetings

2

patents

132

NDC product
research papers
cited in peer review journals

4

technical reports
for product and process
improvements

3,000+

professionals
trained and educated through
Dairy Center programs

Sustainable Food Systems

The Sustainability Research program builds scientific evidence to support socially responsible, economically viable and environmentally sound dairy production and consumption. This work helps increase consumer trust through sharing transparent information and insights on how the dairy community works—from farm to table—to continuously improve as good stewards of the natural resources we depend on to survive and thrive.

Areas of focus include:

- **Life cycle assessment (LCA) and environmental footprint** explores the environmental impact of dairy production, identifies areas of greatest impact, and informs the development of reporting strategies and tools for continuous improvement.
- **Cow of the Future®** investigates technologies to improve dairy cow feeding and management and considers environmental and economic impact, safety and consumer acceptance.
- **Nutrient Management and Stewardship** research-driven advances in dairy manure management practices and technologies to minimize impact on the environment and maximize valuable nutrients in dairy manure to improve soil health.

Sustainable Food Systems Research Highlights

5

published scientific papers,
4 co-authored by NDC scientists

10

abstracts
presented at scientific meetings,
5 co-authored by NDC scientists

3

reports
co-authored by NDC scientists

1416

views
on ResearchGate.net

26

research papers
cited in peer review journals



Nutrition, Scientific and Regulatory Affairs

Nutrition Affairs

Nutrition Affairs leverages the research and insights to collaborate with health and wellness third party partners who share similar goals in improving public health. These collaborations help advance NDC's work through broader acknowledgement of dairy as an important food group contributing to people's health and well-being.

Nutrition Affairs leads reputational thought leadership to raise awareness and increase engagement for specific strategic priorities (including Undeniably Dairy), and maintains relationships with respected experts in nutrition, health and wellness. Examples include NDC's collaborations with the Academy of Nutrition & Dietetics, School Nutrition Association, Feeding America, American Academy of Pediatrics and USDA Food and Nutrition Services.

Scientific and Regulatory Affairs

Scientific and Regulatory Affairs serves the dairy community by helping maintain and strengthen NDC's reputation as the leading authority on dairy foods in health and wellness. This is done by translating science about the role of dairy foods and ingredients in health and sustainable food systems to ensure the scientific accuracy of NDC's food and nutrition outreach. The food, nutrition and regulatory environments are monitored to keep the dairy community informed about dairy priorities and implications and educate stakeholders and experts in science, policy and regulatory about dairy's contributions to healthy eating patterns.

This group also provides science-based public comments in response to requests from government agencies, such as the Food and Drug Administration and U.S. Department of Agriculture, and authoritative organizations such as the National Academies of Science, Engineering and Medicine. These public comments give decision makers the most current scientific evidence related to dairy in nutrition, health and regulatory topics.

Global Leadership

Nutrition has a central role in the global agenda for sustainable development. The United Nations' Sustainable Development Goals are a set of 17 goals to help transform the world. They prioritize food and agriculture as key levers of action to help support people, planet, prosperity, partnerships and peace. With the growing world population, the ability to nourish people is a universal challenge.

To further enhance global leadership and collaboration, Dr. Gregory Miller serves as the nutrition security sector lead for the Global Dairy Platform, which is focused on global dairy sector efforts to advance the development of dairy globally. In 2017, The United Nations' Committee on World Food Security requested that a High-Level Panel of Experts prepare a report on Nutrition and Food Systems. Dr. Miller is a member of the High Level Panel of Experts who authored that report — one of eight chosen from 139 candidates and the only one from the food and agriculture private sector.



Global Innovation Partnerships

Driving immediate sales impact through menu, product, packaging and marketing innovation is what our partnerships are all about. That's why they are some of the world's top food brands.

Immediate incremental sales of dairy products and ingredients are crucial, of course, but our partnerships drive additional sales as well, through what we call their “catalytic effect.”

These strategic partnerships with marketplace leaders bring innovation to key categories like fluid milk and pizza. One company leads and others necessarily follow. McDonald’s, for example, switched from butter to margarine in 2016; soon after, Burger King, Bob Evans and others switched to using or promoting butter as well.

Some of our partnerships include on-site dairy scientists to help develop dairy-centric new menu items. Others benefit from dairy know-how provided by checkoff staff in the areas of consumer insights, marketing and nutrition science.

Our partnerships contributed to a successful 2017 across the food service and fluid milk sectors.

Food Service

From 2015 through 2017, domestic food service partners have driven more than 27 billion pounds of total dairy (milk equivalent), which has grown by more than 1.2 billion pounds during that time. At an average milk price of ~\$16/cwt, that represents nearly a 4:1 return on checkoff investment.

2017 Partners

Fluid Milk Revitalization

- Dairy Farmers of America (DFA)
- Darigold
- fairlife
- Kroger
- Maryland & Virginia Milk Producers Cooperative
- Shamrock Farms
- Southeast Milk

Innovation at Foodservice

- Domino’s
- McDonald’s
- Yum! brands
(Pizza Hut, Taco Bell, KFC)





McDonald's

After switching to butter in the overall menu in 2016, McDonald's Big Mac promotion helped build relevance with younger consumers and included two new items: the Grand Mac with two slices of cheese and the Mac Jr. with one slice of cheese. McDonald's also launched a premium sandwich platform, Signature Crafted Recipes, which features premium toppings, including white cheddar. This platform is creating a new behavior, —encouraging consumers to add cheese to chicken sandwiches.

Checkoff dairy scientists also reformulated McDonald's ice cream mix, removing artificial flavors and colors, which drove increased sales. Finally, in September 2017, McDonald's relaunched its McCafé beverage line, offering premium coffeehouse beverages (more than 90% of which include dairy) to its 26 million consumers every day.

Over
90%
of McDonald's relaunched
McCafé beverage line
includes dairy



Domino's

Over the last nine years, the Domino's partnership has broadened beyond product innovation to include technology, in-store experiences and messaging. Since our partnership started in 2008, Domino's has increased its overall cheese use by 72 percent, an average annual growth rate of approximately 8 percent. Domino's also increased awareness of the Undeniably Dairy campaign by including farmer messaging on 7 million+ boxes per week, in-store napkin holders and social media updates.

Due in large part to its partnership with the dairy checkoff, Domino's has introduced new ways to order pizza, including texting, tweeting, via smart TV and Amazon Echo voice ordering. With the help of the dairy checkoff, Domino's Smart Slice pizza is now in more than 10,500 schools in 800+ districts and has branched into college and professional sports teams.

Domino's increased awareness of
the Undeniably Dairy campaign by
including farmer messaging on
7 million+
boxes per week, in-store napkin
holders and social media updates



Yum! Brands

The checkoff's partnership with Yum! brands (Pizza Hut, Taco Bell and KFC), with nearly 44,000 restaurants in over 135 countries and territories, has brought about new dairy-friendly menu items and opportunities.

- Pizza Hut's Ultimate Cheesy Crust Pizza, for instance, is a large pizza surrounded by 16 pockets overflowing with cheese – nearly a pound of cheese, in fact.
- The checkoff has helped elevate dairy from a garnish to “hero” status on Taco Bell's menu as well. In fact, in 2017, Taco Bell grew their dairy sales by seven percent after delivering 10 percent growth in 2016. Driving this growth are new items, the Breakfast Quesadilla and the Crispy Chicken Quesadilla, both of which include 2 ounces of Cheddar, jack and mozzarella cheese blend. These menu items contain eight times as much cheese as a regular taco.

Based on the successful U.S. partnership, in 2017, the Yum! brands partnership expanded to international markets with the goal of increasing U.S. dairy exports.

- Through a pilot partnership with Pizza Hut's Asia Pacific business unit, the checkoff increased U.S. cheese usage in its stores in Asian Pacific region by 29 percent.
- Through a partnership with KFC's Latin America and Caribbean business unit, the checkoff placed an on-site dairy scientist to help identify innovation opportunities that combine U.S. cheese with KFC's international chicken offerings.

Taco Bell grew their dairy sales by

7%

in 2017 after delivering 10% growth in 2016

U.S. cheese usage increased

29%

in Pizza Hut stores that participated in a pilot partnership in its Asia Pacific region

Fluid Milk

In 2017, efforts to fundamentally transform the fluid milk category through innovation continued. Partners invested in infrastructure, advertising and staffing necessary to launch new products.

Though milk sales declined 1.9 percent across all channels in 2017, that decline has slowed from -3.0 percent in 2014, when revitalization efforts began. At retail, there are strong growth segments, including flavored milk, which grew 3.8 percent; lactose-free milk, which grew 11.5 percent; and whole milk, which grew 2.9 percent.



And fairlife continues to be a break-out success, driving sustainable growth. The brand launched nationally in 2015, reaching nearly \$100 million in sales, a feat that fewer than 1 percent of all new products achieve. In 2017, the brand reached \$250 million in annual sales, or roughly 388 million pounds of fluid milk. About 50 percent of consumers repeat their purchase of fairlife, a good predictor of its success moving forward.

fairlife continues to shake up the fluid milk industry by expanding the value-added milk category and by incentivizing other processors to invest as well, resulting in roughly

\$700
million

in infrastructure investment to support new products.

Other partners launched new items that featured milk as an ingredient, tapping into the ready-to-drink coffee category trend, which grew 8.4 percent. And ready-to-drink tea grew 0.6 percent.



For example, Shamrock Farms launched new Cold Brew Coffee & Milk in convenient single-serve bottles. The company also announced it will invest more than \$40 million to expand its facilities in Virginia, which will significantly increase filling capacity and expand product offerings.

In addition, Kroger launched a Tea Latte with milk in three varieties, creating a catalytic effect with other national brands, including Coca-Cola's Gold Peak Tea.





Youth Wellness

Dairy's Youth Wellness programs and initiatives inform and engage students, educators and entire school communities to increase dairy consumption and cultivate lifelong dairy advocates.

Launched in 2009, Fuel Up to Play 60 (FUTP 60) is dairy's primary youth wellness program.

73,000 schools have enrolled in FUTP 60, reaching 38 million students and helping to increase access to nutritious foods and physical activity. More than a third of enrolled schools are in urban settings with predominately minority and lower-income students.

73,000
schools enrolled

38 million
students reached

Dairy Optimization Impact



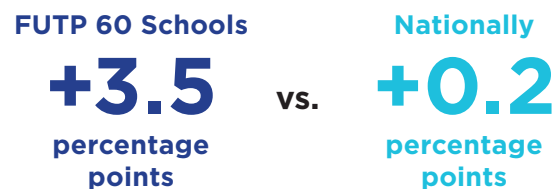
Dairy Optimization efforts in schools generated an incremental 4 million+ in pounds of milk sold, and grants helped to drive recipe development for new reimbursable meals, along with smoothie, coffee and hot chocolate dairy-based drink programs. Sports team nutrition opportunities, weekend backpack programs and new vending options were also added.

Since the launch of FUTP 60, the program has helped increase breakfast participation in schools, resulting in more than 1 billion incremental pounds of fluid milk sold cumulatively.

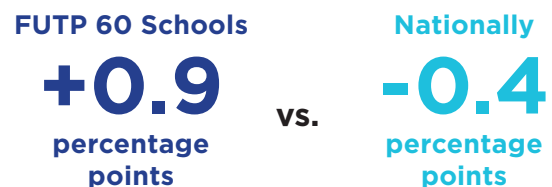
Since FUTP 60 was implemented, more than \$39 million in program grants have gone to schools. More than three in five funded schools reported increased access to and consumption of milk and yogurt and nearly half of the schools reported an increase in access to and consumption of cheese.

Schools Receiving FUTP 60 Grants

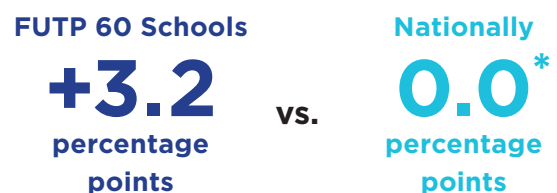
Average daily breakfast participation



Average daily lunch participation



Milk sales (average units per school)



* since 2009



Fuel Up to Play 60 Impact

Educators estimate that 14 million students have been eating healthier due to participation in FUTP 60.

Results include:

- Fruits and vegetables at school (69 percent)
- Dairy products at school (63 percent)
- Whole grains at school (58 percent)

Additionally, involvement in FUTP 60 has helped more than 18 million students get more physical activity before, during and after school.

Perceptions of Dairy Farmers and Farming

Students participating in FUTP 60 rate dairy more highly on producing a great-tasting, safe and healthy product, on animal care, and on taking care of the land and environment. Dairy's new partnership with Discovery Education further helped to increase positive student perception of dairy farmers and farming by providing teachers with educational, interactive classroom programs featuring dairy farming. Participating classrooms showed an increased interest in technology, sustainable practices and milk's journey from farm to table.

Peer-Reviewed Research

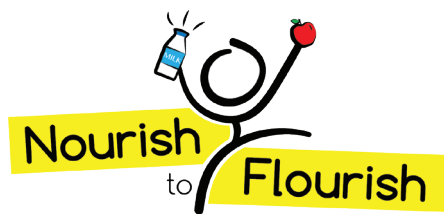
The effectiveness of FUTP 60 continues to be reflected in peer-reviewed articles. Among the findings:

- The low-intensity, flexible program design can lead to small but significant improvements in students' healthy eating and physical activity behaviors in various school settings and with diverse student populations.
- Students' aerobic capacity and Body Mass Index improve in FUTP 60 schools.
- The student-centric approach and adaptability are major strengths and help schools meet their wellness policy goals.
- Providing students with the tools to create change can lead to progressive reforms—and may help the changes stick because of student buy-in.



The School Meals Summit

In partnership with the Urban School Food Alliance (which includes 11 of the nation's largest school districts, 5,600 schools, 3.7 million students and 631 million meals annually), FUTP 60 gathered partners, students and parents for the 2017 Nourish to Flourish School Meals Summit, one of the year's most significant gatherings for schools.



Featuring former USDA Secretary and new CEO of U.S. Dairy Export Council Tom Vilsack as a keynote speaker, the summit brought together over 250 individuals from 175 organizations across the school ecosystem with the singular purpose of "Elevating School Meals." The resulting 12 workstreams, co-managed by this cross-section of school advocates, has laid the groundwork for future change and improvement in school meals.

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U.S. Dairy Export Council (USDEC)

The U.S. dairy industry is expanding exports to the equivalent of 20 percent of the annual U.S. milk supply, while simultaneously increasing U.S. dairy export value.



Financial Report

Each year, national dairy checkoff plans and budgets are reviewed and approved by the DMI Board of Directors, which includes dairy farmers who are elected by their peers or appointed by the U.S. Secretary of Agriculture. Additionally, one board member serves on the National Dairy Promotion and Research Board which represents companies that import products into the U.S.

Board members — along with national and local checkoff staff who develop and implement programs on behalf of farmers and other members of the dairy community — help the checkoff realize its vision and accomplish its mission to grow sales and trust in dairy foods, dairy farmers and the dairy community.

2017 Dairy Checkoff Unified Marketing Plan Program Revenues (in millions)¹

National Dairy Promotion & Research Board (NDB).....	\$114.9
United Dairy Industry Association (UDIA)	112.3
Total Revenues.....	\$227.2

NDB was established by the U.S. Department of Agriculture under the Dairy Production Stabilization Act of 1983. The 37-member board carries out coordinated promotion, research and nutrition education programs to help build demand for and expand domestic and international markets for dairy. NDB funds, in part, Dairy Management Inc., which manages the national dairy checkoff program.

UDIA is a federation of state and regional dairy farmer-funded promotion organizations that provides marketing programs developed and implemented in coordination with its members. UDIA is overseen by a board comprised of 44 dairy farmers elected by the respective boards of their member organizations.

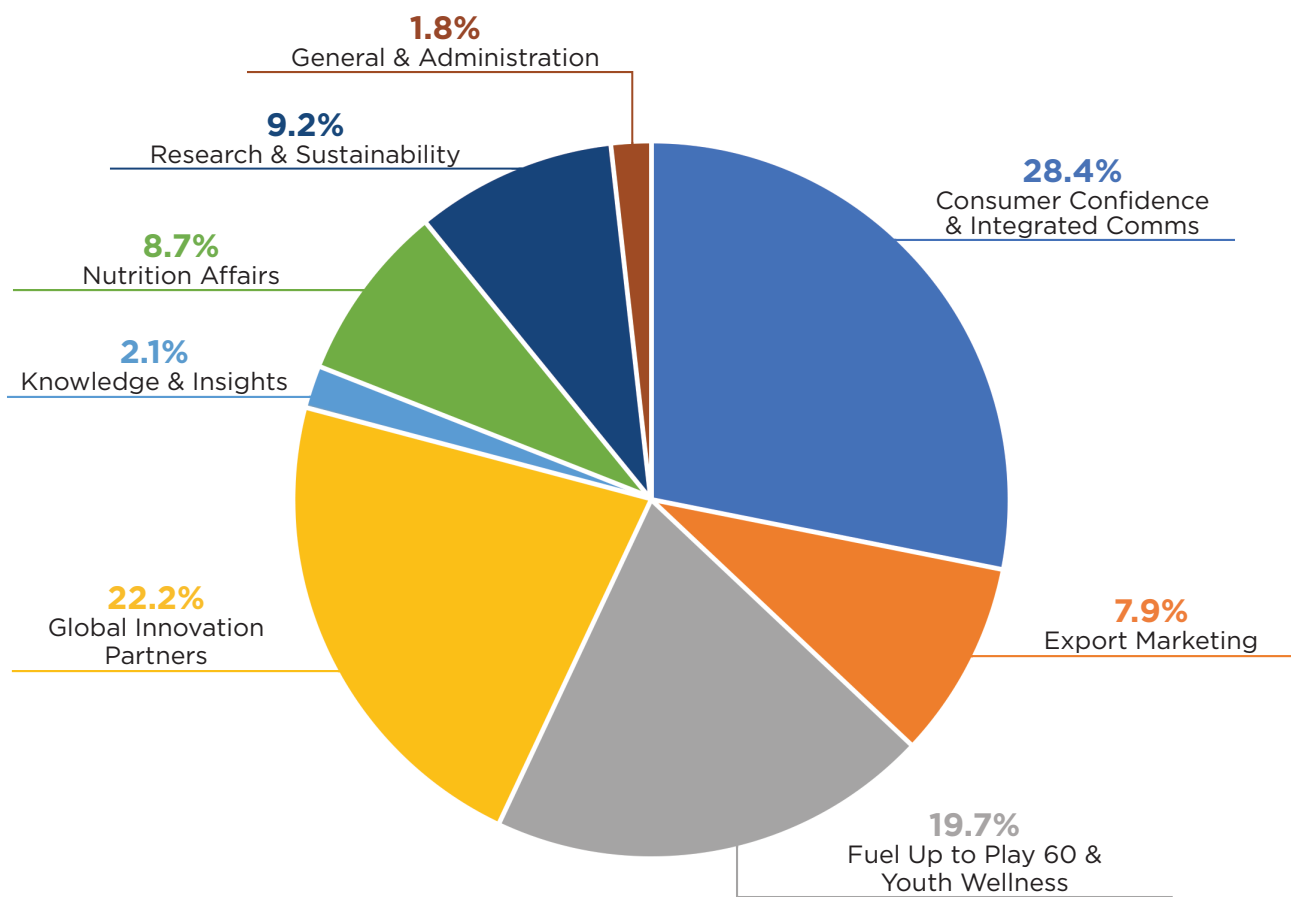
¹ Reflects both national and local Unified Marketing Plan funding

Program Expenses (in millions)¹

Consumer Confidence & Integrated Communications ²	\$64.5
Global Innovation Partners ³	50.4
Fuel Up to Play 60 & Youth Wellness ⁴	44.7
Research & Sustainability ⁵	21.1
Nutrition Affairs ⁶	19.7
Export Marketing ⁷	17.9
Knowledge & Insights ⁸	4.8
General & Administration ⁹	4.1

Total Expenditures **\$227.2**

2017 Expenses (Percentage of Total)



¹ Includes national program and allocated core costs as well as local program spend

² Includes issues management, crisis preparedness, business-to-business, farmer image and thought leader communications

³ Includes quick-service restaurant chain and fluid milk partnerships

⁴ Includes development and implementation of Fuel Up to Play 60 and dairy optimization programs

⁵ Includes dairy-focused nutrition, product, technical and sustainability/stewardship research

⁶ Includes nutrition, health and wellness partner organization education and outreach

⁷ Includes export market development and promotion, excludes trade policy efforts

⁸ Includes consumer market research and insights

⁹ G&A for DMI-related expenditures only



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