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About this Report

The 2016 annual report, published by Dairy Management Inc., is intended to provide a summary of the year’s accomplishments for stakeholders. It was a year of foundation building and incremental progress, a year of hard work and results that often exceeded expectations. Like every year, in 2016 we undertook expansive projects that were both driven by prior work and designed to guide what comes next. We are prepared for an even bigger 2017.

The report outlines how we met the following 2016 goals:

- Unify the dairy industry in preparation for 2017’s “Reintroduction to Dairy” campaign.
- Drive sales through Global Innovation Partnerships with new science developed in 2015.
- Solidify industrywide agreement and commitment to social responsibility.

While we are always looking ahead and working for tomorrow, this report is about how we got to where we are today.
A Message from the Chair

Today’s dairy checkoff focuses on one mission: to grow sales of and demand for dairy. To help accomplish this, the checkoff also advances strategies to protect and bolster consumer trust in dairy foods, dairy farmers and the dairy community.

While our mission remains constant, the way the checkoff works has changed in much the same way farmers have changed how we work over the years. Today the dairy checkoff works through a variety of partnerships, programs and companies designed by and accountable to dairy farmers and importers. This means working with and through the dairy and broader food industries to advance our priorities. The checkoff programs in the following pages take different approaches but all work toward the same goals of driving trust and sales.

In 2016, we made significant progress by:

- Continuing research showing dairy’s role in public health nutrition, including important work furthering the understanding of the role of full-fat dairy foods in a healthy diet.
- Establishing relationships with key health and wellness partners and thought leaders in the areas of child health, hunger and dietary guidance, as well as sustainable nutrition.
- Growing strategic partnerships through menu innovation and promotion at major national restaurant chains, which lead to more sales and trust that increase checkoff’s investment tenfold.
- Aligning dairy co-ops, brands and other dairy community leaders to address challenges and seize opportunities to grow long-term sales through the farmer-founded Innovation Center for U.S. Dairy.

Moving Ahead

As dairy farmers, we know that consumers want dairy foods that are safe and wholesome and produced in a manner that’s good for people, our cows and our planet. Although this has been our generations-long commitment, most consumers work outside of agriculture and may not know the good story behind the dairy products they enjoy - that they can trust dairy to be responsibly produced and locally driven, as well as delicious and nutrient-rich. That’s why it’s more important than ever that the dairy community come together to tell our story and speak with one voice.

We laid the groundwork in 2016 for an ambitious effort beginning in 2017 to reintroduce dairy to Americans with a common foundation of an industrywide strategic social responsibility plan. We look forward to sharing the results of that effort in the year ahead.

We are delighted to share with you the momentum built over the years that has brought great results in 2016 and laid a strong foundation for more to come. We appreciate your interest and look forward to hearing your feedback.

Paul Rovey
Board Chair
A Letter from the CEO

Dairy checkoff efforts are ongoing year to year, much like your work on the farm. Your checkoff investment yields results that benefit all dairy farmers and importers over the short and long term. An annual report like this offers a moment in time to present the work the checkoff has achieved during a 12-month period.

The underpinnings of the checkoff plan are about investing dairy farmers’ and importers’ hard-earned dollars to increase sales, demand and build trust. We do that through an aggressive business plan that identifies partners who bring significant financial resources and expertise to solve industrywide problems and seize category-growing opportunities aligned with farmer priorities.

This return on investment is important to you as farmers and importers and to us as stewards of your checkoff resources. We measure and are accountable for checkoff-funded initiatives against specific long-term and short-term goals, as you’ll read about in the following pages.

For example, partnerships with foodservice leaders such as McDonald’s and Domino’s have delivered 25 percent combined dairy growth since they were established several years ago. This is because our partners contribute much more than we could invest alone – in menu development, marketing and consumer research, among other areas. Your farmer checkoff leaders not only ask partners to contribute more than we do, but also to see investments increase over time.

We know that sales can’t be built without trust – it is vital to our success and to dairy farmers’ freedom to operate. Building trust in the category is not for farmers to take on alone; it requires leadership from across the U.S. Dairy value chain to succeed. That’s where entities such as the farmer-founded Innovation Center for U.S. Dairy bring the dairy community together to lead change and address opportunities.

Through the Innovation Center, dairy leaders come together, speak with one voice and lay the groundwork for building trust over the long term.

We encourage you to review more updates and highlights in this report. Please know that leaders and staff, nationally and locally, are committed to bringing value to your investment.

If you have thoughts or would like to continue the conversation, drop us a note at talktothecheckoff@dairy.org.

Tom Gallagher
Chief Executive Officer,
Dairy Management Inc.
About the Checkoff Plan

Building something powerful, building something together.

What was once a generic advertising campaign has evolved over the years into a laser-focused business plan driven by relevant, mutually beneficial partnerships with a singular focus on transforming dairy categories and increasing sales.

To best communicate the checkoff framework, goals and scope, we created the “strategic triangle.” It provides a visualization of all the channels, partnerships and industrywide entities being used to promote dairy. It also represents the three types of strategic partnerships supporting today’s business model to extend farmers’ voice and influence beyond the farm gate.

The triangle is comprised of:
- Coalition partnerships
- Targeted partnerships
- Industrywide partnerships

The efforts and objectives of partnerships are interconnected and interdependent.

They build trust, which is at the heart of everything we do.
They build demand that leads to sales.
They build relationships that benefit farmers, importers and other related audiences.

Success in one drives and impacts success in the others. And that is how it should be. The plan encourages innovation and drives sales by empowering co-ops, processors and brands to act on opportunities to make dairy available when, where and how today’s consumers want it; it represents the collaboration and work of national and local staff across the country, all executing against a single unified marketing plan.
Coalition Partnerships
Coalition Partnerships: Building Trust

So much of what we do is about building trust. With you, our farmers and importers. With consumers. With health, wellness and other thought leaders. With our partners. And with any audience that cares about the foods they eat, how they are produced and how they improve people’s lives.

Coalition partnerships are one of the primary trust-building efforts. Partner expertise spans science and research, National Dairy Council (NDC) health and wellness and our GENYOUth and Fuel Up to Play 60 (FUTP 60) initiatives. These partnerships aim to optimize the nutritional benefits of dairy in a healthy diet and, in turn, promote and protect dairy sales. These partnerships also create a halo effect, meaning the positive results they generate also influence the impressions our audiences have of our work overall.

2016 Coalition Partners
- National Dairy Council
- National Football League
- Academy of Nutrition and Dietetics
- World Wildlife Fund
- GENYOUth
- Feeding America
- Fuel Up to Play 60
- School Nutrition Association
**Science & Research**

**Nutrition**

Understanding dairy’s role in advancing public health, its contribution to reducing risk for diseases and its positive impact on consumers in areas like sports nutrition is key to maintaining and deepening trust across our audiences.

- Efforts in this area provide long-term benefits:
  - Consumers can feel enjoying and eating dairy and its positive contribution to their health.
  - America’s farmers can rest assured we are constantly learning more about the overall benefits of consuming dairy and how to best communicate those benefits.

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**Catalyst for Good**

In February 2016, National Dairy Council co-hosted the Childhood and Nutrition Research Conference and Roundtable in partnership with USDA Arkansas Children’s Nutrition Center.

80+ professionals were in attendance to help guide NDC in future research and outreach, showing how dairy foods can play an integral role in childhood health and wellness.

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**Powerful Progress**

NDC research into the eating plan known as DASH (Dietary Approaches to Stop Hypertension), as part of the ongoing body of research, revealed that whole-fat dairy foods like milk, cheese and yogurt can be part of DASH, debunking historical food restrictions and furthering the important role dairy can play in a healthy diet.

With recent butter and whole milk sales on the rise, this is an excellent example of scientific research leading to an impact in the marketplace and a benefit to dairy farmers and importers.

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**Product**

To continue to foster innovation and consumer trust in dairy foods and ingredients, we invest resources in product research via the National Dairy Foods Research Center program. This program provides research, education and training across the dairy industry to expand industry knowledge and enhance industry capability.

Dairy product innovation research in 2016 contributed to 82 peer-reviewed scientific papers, which brought new and compelling knowledge to a broad audience interested in food, technology, quality and safety.
National Dairy Council Health & Wellness

NDC focuses on a variety of areas, including dairy reintroduction, sustainable nutrition, schools and community, science and insights, and dietary guidelines.

2016 Honor the Harvest

NDC hosted the From Dairy Farm to Table summit with the goal of linking conversations around nutrition, health and wellness with agriculture and underscoring their natural connection.

- 200+ thought leaders from 45 states came to hear about animal care, on-farm practices, manure management, dairy nutrition science, health and wellness, and visual literacy training.
- Included a tour of Fair Oaks Farms in Fair Oaks, Ind., and presentations from its owner, Mike McCloskey, and former U.S. Secretary of Agriculture Tom Vilsack.

Honor the Harvest is about using food for its highest purpose and moving nutrients through the food system - from people to animals and back to the land - instead of going to waste in a landfill. This concept was brought to life for participants who were immersed in farming, dairy farm practices, agriculture and nutrition via content and hands-on activities.
Academy of Nutrition and Dietetics Foundation (ANDF) Partnership

A partnership with ANDF kicked off in 2016 with support from NDC as part of an initiative with Feeding America called the Future of Food.

- 2,000+ teens and adults participated in educational sessions called Tossed Treasures: How We Can All Waste Less Food.
- Presentations at 10 academy affiliate (state) annual meetings reached over 2,000 RDNs and dietetic students.
- Three Future of Food webinars reached over 1,500 academy members.
- NDC scientists held educational sessions for 40 media spokespeople.

USDA/Food & Nutrition Services (FNS)

As part of the Memorandum of Understanding with the National Dairy Council, National Football League, GENYOUth, U.S. Department of Agriculture, U.S. Department of Education and U.S. Department of Health & Human Services, we have developed a strong relationship with USDA/FNS. The 2016 results of the memorandum included a joint announcement of $30 million for school nutrition equipment grants.

Food Insecurity – Milk2MyPlate

A small pilot, Milk2MyPlate, launched by the Northern Illinois Food Bank (NIFB) to provide fresh milk to local food pantry clients, grew into an opportunity for the dairy community to provide more than 150,000 gallons of milk on an annual basis to 40 food pantries.

- Eight additional food banks purchased milk from the dairy community.
- Thirteen more are in the queue to start pilots in 2017.
Fuel Up to Play 60 (FUTP 60)

As a signature program, FUTP 60 continues to contribute to the health and wellness America’s youth. The program has reached a majority of the nation’s schools (73,000), with over 38 million students. Fuel Up to Play 60 provides a channel to reach, inform and engage entire school communities, while also cultivating lifelong dairy consumers and advocates.

Research led by external evaluators has demonstrated Fuel Up to Play 60’s positive impact on school health and wellness environments and as a platform for implementing other school-based, health-promoting programs, positively impacting students’ lives and healthy eating and physical activity behaviors.

In 2016, FUTP 60 continued to act as a building block to complementary initiatives that further expand impact and reach among additional audiences through partnerships with AdVenture Capital (high school student innovators) and Wellness Corps (college athletes).

Catalyst for Good

Internal program evaluation of FUTP 60 has demonstrated the program’s ability to:

- Change school food (13 million eating healthier) and physical activity environments (16 million more physically active).
- Deepen activation in enrolled schools.
- Empower youth to drive change.
- Improve the culture of wellness in schools.
- Increase participation in school breakfast.

Powerful Progress

Through Fuel Up to Play 60, we have created, tested and refined a number of business models in schools that are now generating retail, industry and thought leader partnerships. More than 120 business cases have generated $20.8 million in cash contributions and $33.1 million in in-kind contributions from non check-off partners.
Targeted Partnerships
Targeted Partnerships: Building Demand That Leads to Sales

Targeted partnerships ensure that farmers’ hard work – investments in time, resources and talent, and their determination to produce the highest-quality products and ingredients – results in ever-better and well-deserved sales.

Targeted partnerships consist of direct partnerships with some of the world’s top food brands and “Global Innovation Partnerships” (GIP) that have immediate sales impact and catalytic effect. Some even include on-site dairy scientists to help develop dairy-centric menu items, which has proven to be an extremely successful effort. The priority is to activate strategic partnerships with marketplace leaders to drive change and innovation within key categories, specifically in fluid milk, that, in turn, cause other companies to make changes, too, at no additional cost to farmers.

There were increases in 2016 sales due to innovative efforts that are reaching audiences in fresh ways with new products and formulations.

2016 Partners
- Dairy Farmers of America (DFA)
- Darigold
- Domino’s
- fairlife
- Kroger
- Maryland & Virginia Milk Producers Cooperative
- McDonald’s
- Shamrock Farms
- Southeast Milk
- Yum! Brands (Pizza Hut, Taco Bell)
Domino’s
- Cheese use at Domino’s went up 58 percent since the partnership began.¹
- Smart Slice pizza, formulated to meet school meal guidelines, now available in 7,500 schools across more than 700 school districts.¹

¹ Source: Domino’s proprietary data

McDonald’s
- More than 14,000 restaurants switched from margarine to butter in 2016, a 700 million-pound increase in milk equivalent annually that contributed to an 8 percent uptick in McDonald’s dairy sales in 2016.
- The impact of this rippled across the industry: Burger King, Bob Evans and other chains also began using and/or promoting butter in 2016.
Yum! Brands, Inc. (Pizza Hut, Taco Bell)

- New dairy-friendly menu items including the popular Grilled Cheese Stuffed Crust Pizza at Pizza Hut delivered positive results.

- Taco Bell grew dairy sales by 10 percent this year with its Quesalupa as a key contributor.
  - A combination quesadilla and chalupa with five times more cheese than a traditional taco (a technically challenging product that resulted in an on-site dairy scientist receiving a Yum! award from Taco Bell CEO Greg Creed, an honor usually awarded only to Yum! Brands employees).

Fluid Milk

In 2016, we continued our strategy to fundamentally transform the fluid milk category through investment in innovation to build demand. Since its 2014 kickoff, the strategy has seen progress across categories:

- Infrastructure: Our partners have invested $700 million in new plants or upgraded facilities to produce new products.

- Advertising: In 2016, branded advertising featuring fluid milk was nearly twice the amount than in 2013, before our efforts began.

- Staffing: Partners are hiring staff with the necessary new dairy product expertise to build their “know how.”

Powerful Progress

Though milk declined 2.1 percent across all channels in 2013, the decline slowed to -0.7 percent in 2016.¹

Within retail, milk declined 3.1 percent in 2013, while in 2016 the rate of decline was 1.9 percent.² Part of the sales improvement was due to successful new products, such as fairlife. In fact, the brand achieved $160 million in sales. About 50 percent of consumers repeat their purchase of fairlife, a good indicator of the product’s ongoing success.³

¹ Source: USDA AMS based on 2016 leap year data
² Source: IRI DMI custom milk database
³ Source: fairlife proprietary data
Industrywide Partnerships
Industrywide Partnerships:
Building Relationships

Industrywide partnerships drive collective initiatives that contribute to our sustainability efforts; they accelerate innovation and sales, aligning industry around common priorities that ultimately drive trust and sales by working with and through the entire industry.

These category-level partnerships benefit dairy as a whole and bring together dairy farmers, dairy cooperative leaders, dairy companies and other organizations to work on issues and opportunities no one entity or player in the value chain can address alone.

2016 Industrywide Partners

▶ Dairy Communications Management Team
▶ Global Dairy Platform
▶ Innovation Center for U.S. Dairy
▶ MilkPEP
▶ Newtrient
▶ National Milk Producers Federation
▶ U.S. Dairy Export Council
The Innovation Center for U.S. Dairy

Dairy Management Inc. established the Innovation Center for U.S. Dairy in 2008 as a forum for dairy farmers, cooperatives and companies to collaborate pre-competitively on industrywide efforts that help promote the health of people, communities, the planet and the industry. The Innovation Center is the only organization that brings chairs and CEOs from across the industry together to build trust and be at the table with farmers.

2016 Highlights

- Twenty-seven board companies and more than 200 companies and organizations engaged with the Innovation Center through various committees, task forces and work groups.
- Formalized strategic plan that aligned industry around a unified approach to social responsibility.
- Laid foundation for national communications program to reintroduce dairy and increase consumer trust and dairy relevance.
- Updated Stewardship and Sustainability Framework that outlines appropriate measures for dairy sustainability.
- Published the Processor Handbook which provides guidance to processor sustainability measurement.
- Evolved the Sustainability Council into the Dairy Sustainability Alliance to reflect all priorities of the new strategic plan. The alliance brings stakeholders from across the industry, academia, customers, NGOs and other third parties to support and promote dairy’s sustainability story.

Powerful Progress

In January 2016, the Innovation Center board adopted the organization’s first-ever social responsibility plan with seven focus areas to benefit the entire dairy community, its customers and consumers, as well as the greater good:

- Food Safety
- Animal Care
- Environmental Stewardship
- Sustainable Nutrition
- People and Community
- Global Insights and Innovation
- Communications

Catalyst for Good

In 2016, nine award winners and honorable mentions were recognized at the 5th annual U.S. Dairy Sustainability Awards. This program highlights innovative and replicable approaches to sustainable practices and recognizes dairy farms, companies and partnerships that make improvements benefiting the environment, their businesses and the communities in which they work and live.
**Food Safety**

Continued food safety trainings and traceability commitments in 2016:

- Leveraged dairy industry resources to train 300 plant professionals to ensure best food safety practices.
- Launched an Artisan Advisory Team with small processors, key academics, and the American Cheese Society.
- Raised processor funding and initiated research to protect consumer and dairy’s reputation by identifying new ways to combat listeria risks.
- More than 80 percent of milk supply is covered by the dairy community’s traceability guidelines.

**Animal Care**

In 2016, the Innovation Center helped to align the industry around the National Dairy Farmers Assuring Responsible Management (FARM) program, which represents 98 percent of milk supply; this widespread adoption provides important proof points to build trust among dairy’s key customers.
Consumer Confidence

Building upon the industry’s collaboration through the Innovation Center, the Consumer Confidence initiative in 2016 furthered our understanding of the consumer, reaching thought leaders while honing the systems and ways in which we build trust and relevance with customers and consumers.

2016 Highlights

► Expanded our reach with a robust presence at the 2016 SXSW music and technology festival, which allowed us to gather insights and test dairy messaging further with multistakeholder audiences at a panel on responsible marketing.

► Developed Acres + Avenues, a compelling video content series that connected urban millennials with dairy farmers – to hear where their dairy comes from – in a unique and effective cultural exchange that captured audience attention and brought insights into how dairy can reach consumers through the platforms and places they visit.

► Conducted an audience segmentation study to further hone our understanding and targeting of consumers to reach our core constituents most effectively.

  • The information gleaned will contribute to a shared, industrywide, multiyear, multistakeholder campaign in 2017 aimed at increasing consumer trust and dairy’s relevance over time.

Catalyst for Good

In 2016, the Innovation Center continued to connect the dairy community with thought leaders from business, technology, science and media through a partnership with The Atlantic, which began to educate and seed messages around dairy’s story and values. We were able to test messages at the Washington Ideas Forum around responsible production and marketing, transparency and consumer choice in three ways:

► Onstage: Sponsored a well-attended talk by a dairy farmer to more than 1,500 of the forum’s most influential attendees, focusing on how misinformation is affecting consumer choice and why responsible marketing practices are critical to consumer trust.

► On-site: An on-site booth allowed dairy farmers to interact directly with attendees to develop and deepen relationships.

► On target: Hosted a series of three cross-country roundtable discussions with stakeholders from all points of view.
Sustainability

"We are advancing research and dialogue on dairy’s role in sustainable food systems, which encompass not only our environmental footprint but also our nutritional, economic, social and public health contributions. A clear understanding of these interrelationships is critical as we work to fulfill our highest priority of ensuring dairy’s relevance and dairy’s responsibility for a successful future."

- 2016 U.S. Dairy Sustainability Report

With this in mind, our efforts around sustainability in 2016 spanned a wide range of areas, all of which are detailed in that report and available online. The year included many highlights:

- Environmental stewardship: Partnered with the National Dairy FARM Program to provide a consistent, unified platform for measuring environmental progress; this provides an alternative to the multitude of surveys and standards customers may develop related to sustainability metrics.

- Sustainability research: Provided scientific support for the Stewardship and Sustainability Framework for U.S. Dairy, which offers credible industrywide guidance for the voluntary measuring and communication of environmental stewardship, social responsibility and our commitment to continuous improvement with dairy customers and consumers.

Through the Innovation Center, the dairy community continues to demonstrate the power of working together to further strengthen dairy’s role in sustainable food systems. The strategic goal to build long-term trust in dairy will connect the work.

As we move forward to authentically and transparently let consumers know who we are, what we stand for and how we work, we will measure the impact of our efforts on building long-term trust with consumers.
2016 DMI Financial Information

Annual dairy checkoff plans and budgets are determined and approved by the DMI Board of Directors (https://www.dairy.org/about-dmi/dmi-leadership), which is composed of dairy farmers who are elected by their peers or appointed by the U.S. Secretary of Agriculture, and one National Dairy Promotion and Research Board (NDB) member who represents companies that import dairy products into the United States. These directors – along with national and local checkoff staff that work to develop and implement programs on behalf of farmers and the dairy community – are committed to helping accomplish the checkoff’s mission to help maintain and grow trust and sales in dairy foods, dairy farmers and the dairy community.

2016 Dairy Checkoff Unified Marketing Plan Program Revenues (in millions)

<table>
<thead>
<tr>
<th>Source</th>
<th>Revenues (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Dairy Promotion &amp; Research Board (NDB)</td>
<td>$116.6</td>
</tr>
<tr>
<td>United Dairy Industry Association (UDIA)</td>
<td>$111.6</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td><strong>$228.2</strong></td>
</tr>
</tbody>
</table>

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 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 farmers elected by the respective boards of their member organizations.

1 Reflects both national and local Unified Marketing Plan funding.
Program Expenses (in millions)\(^1\)

<table>
<thead>
<tr>
<th>Program</th>
<th>Expenses (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Confidence &amp; Integrated Communications(^2)</td>
<td>$64.9</td>
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<tr>
<td>Fuel Up to Play 60 &amp; Youth Wellness(^3)</td>
<td>45.8</td>
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<tr>
<td>Global Innovation Partners(^4)</td>
<td>45.2</td>
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<tr>
<td>Nutrition Affairs(^5)</td>
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<tr>
<td>Export Marketing(^6)</td>
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<tr>
<td>Research &amp; Sustainability(^7)</td>
<td>19.4</td>
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<tr>
<td>Knowledge &amp; Insights(^8)</td>
<td>6.1</td>
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<tr>
<td>General &amp; Administration(^9)</td>
<td>$3.7</td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td><strong>$228.2</strong></td>
</tr>
</tbody>
</table>

\(^1\) 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 development and implementation of Fuel Up to Play 60 and dairy optimization programs
\(^4\) Includes quick-service restaurant chain and fluid milk partnerships
\(^5\) Includes nutrition, health and wellness partner organization education and outreach
\(^6\) Includes export market development and promotion, excludes trade policy efforts
\(^7\) Includes dairy-focused nutrition, product, technical, and sustainability/stewardship research
\(^8\) Includes consumer market research and insights
\(^9\) G&A for DMI-related expenditures only