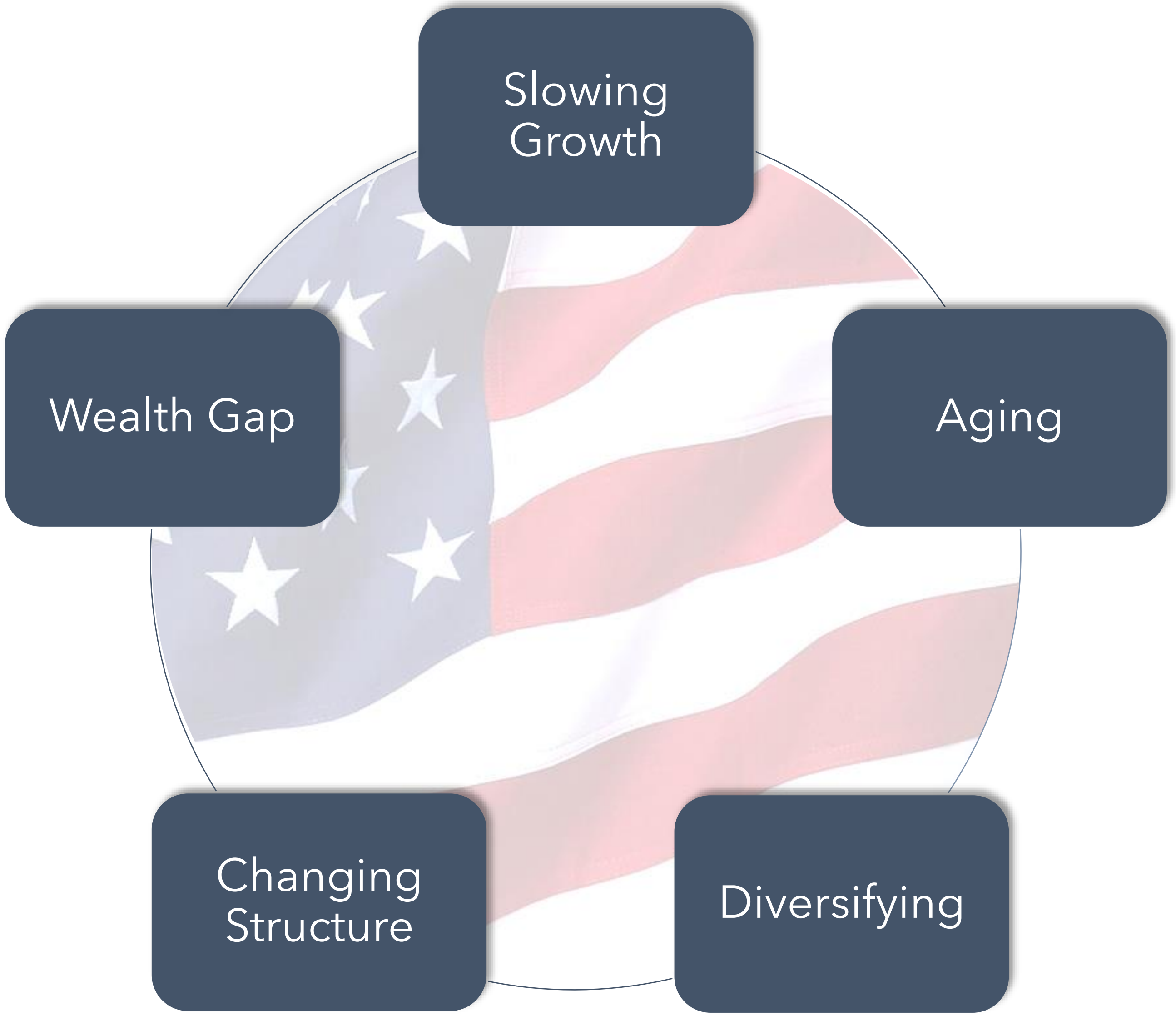
Fluid Milk For the Future

INTERNATIONAL ASSOCIATION OF MILK CONTROL AGENCIES

DAIRY MANAGEMENT INC.™

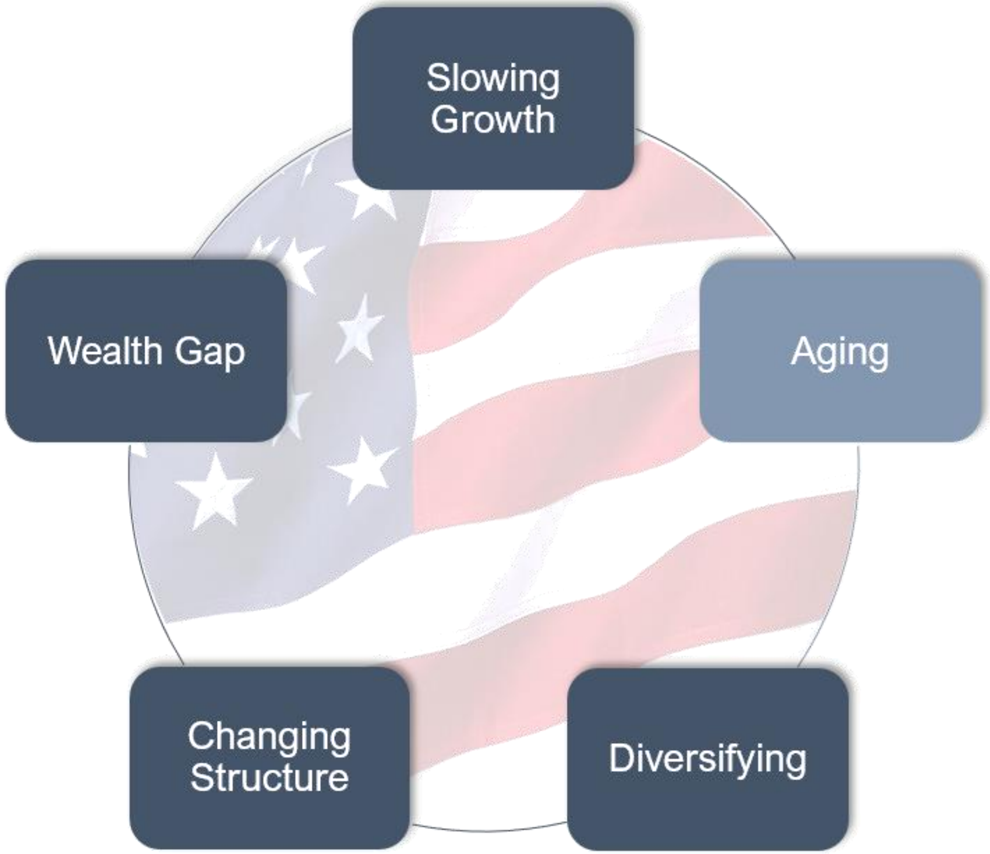
U.S. DAIRY CONSUMER DEMOGRAPHICS

Shifting U.S. Demographics



Source: US Census Data, The UN

Shifting U.S. Demographics

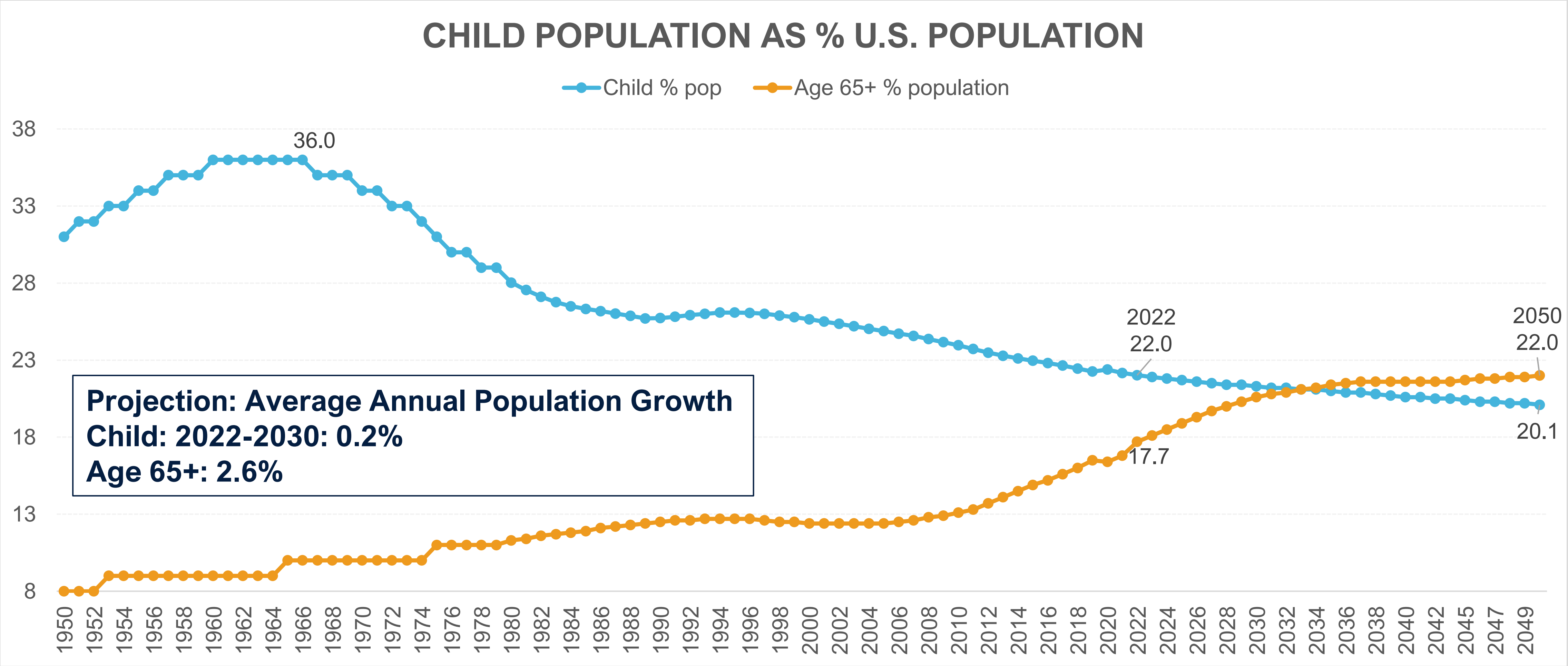


Aging

- Birthrate has fallen 20% since the 2007 Recession.
- The older population is growing at 13 times that of children.
- Crosses all race/ethnic groups with largest downturn in Hispanic.
- By 2030, Baby Boomers will all be over 65.

Source: US Census Data

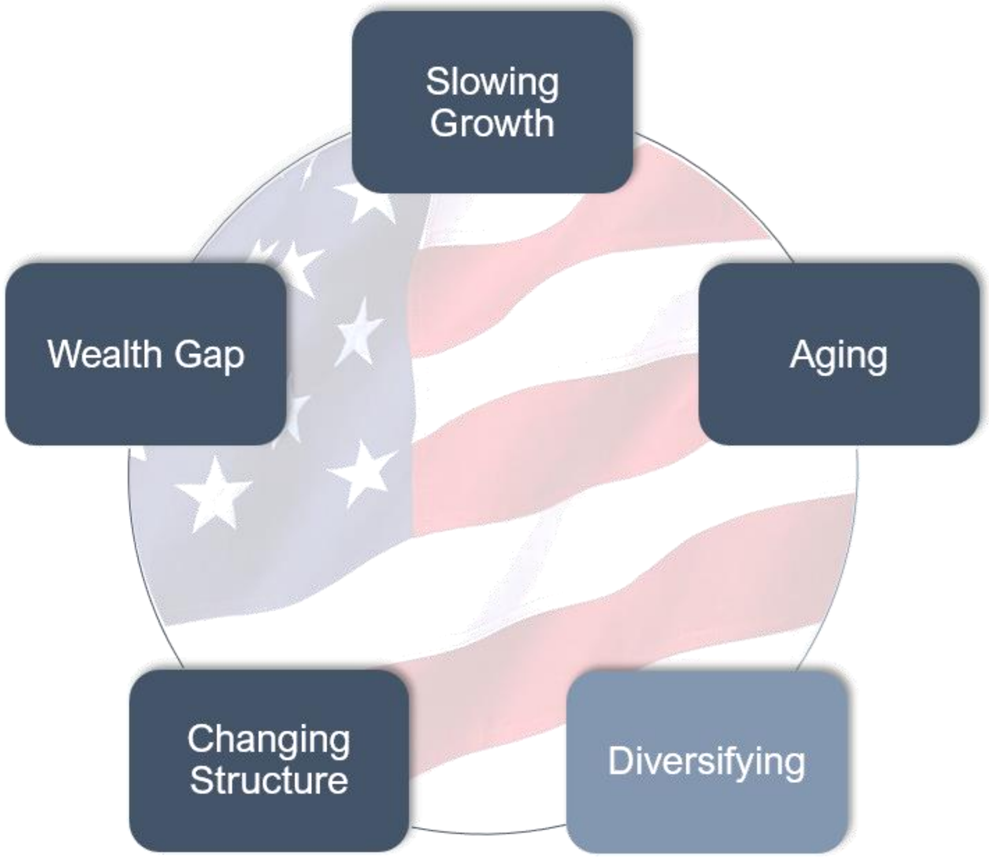
Aging Population, Slowing Child Population



Projection: Average Annual Population Growth
Child: 2022-2030: 0.2%
Age 65+: 2.6%

Source: www.childstats.gov

Shifting U.S. Demographics



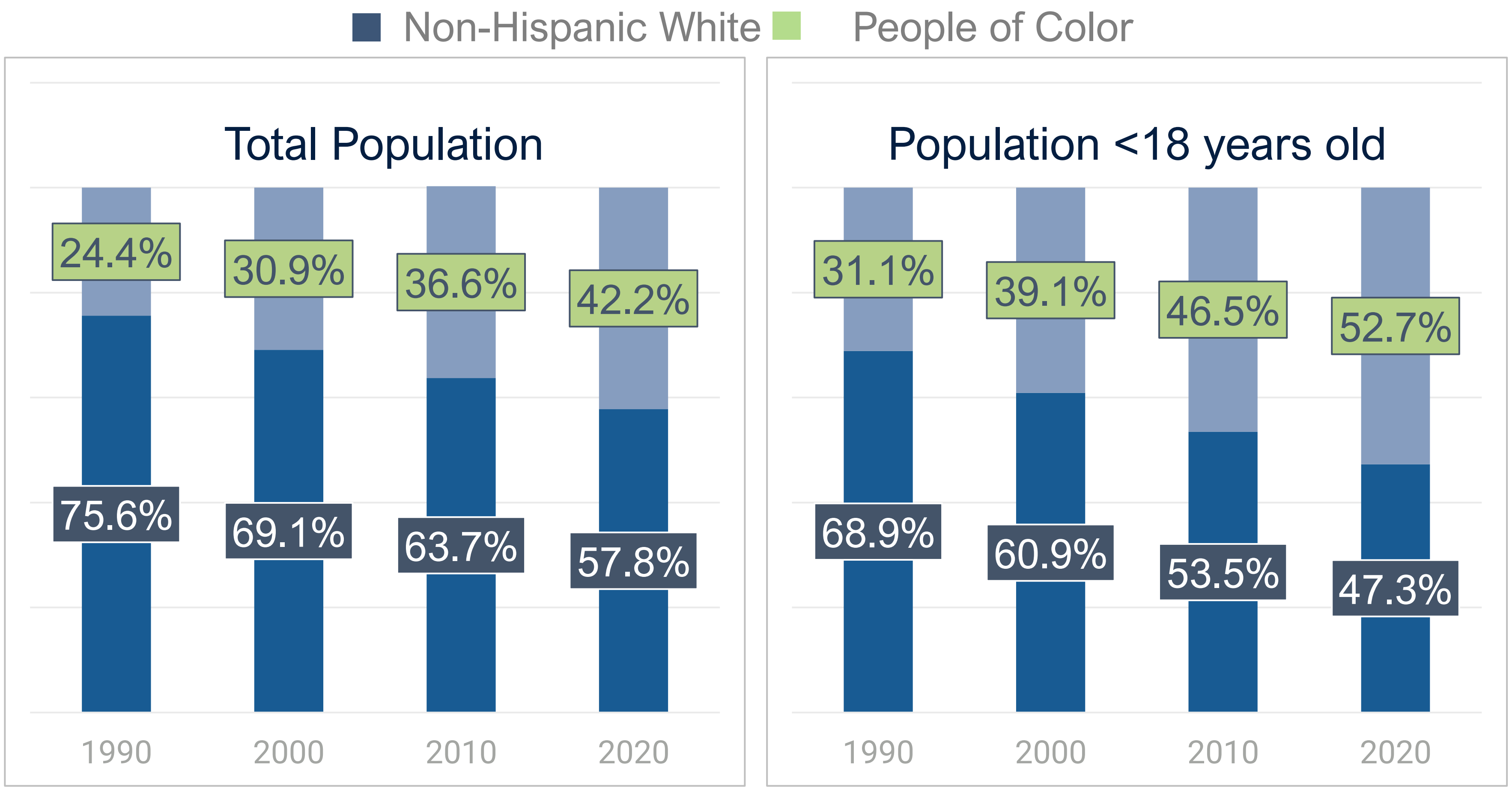
Diversifying

- +41% of U.S. population now identify as people of color.
- There is great variability in the racial and ethnic composition of the population by state. In TX, CA and NM, the Hispanic population is over 40% while in MD, GA, LA and MS, the Black population is over 30%.
- The white non-Hispanic population will drop to under 50% for Americans under age 40 by 2035.

Source: US Census Data, Brookings

Shifting U.S. Demographics

Non-Hispanic white population continues to drop, with over half of children under 18 years old identifying as people of color.



By 2035:

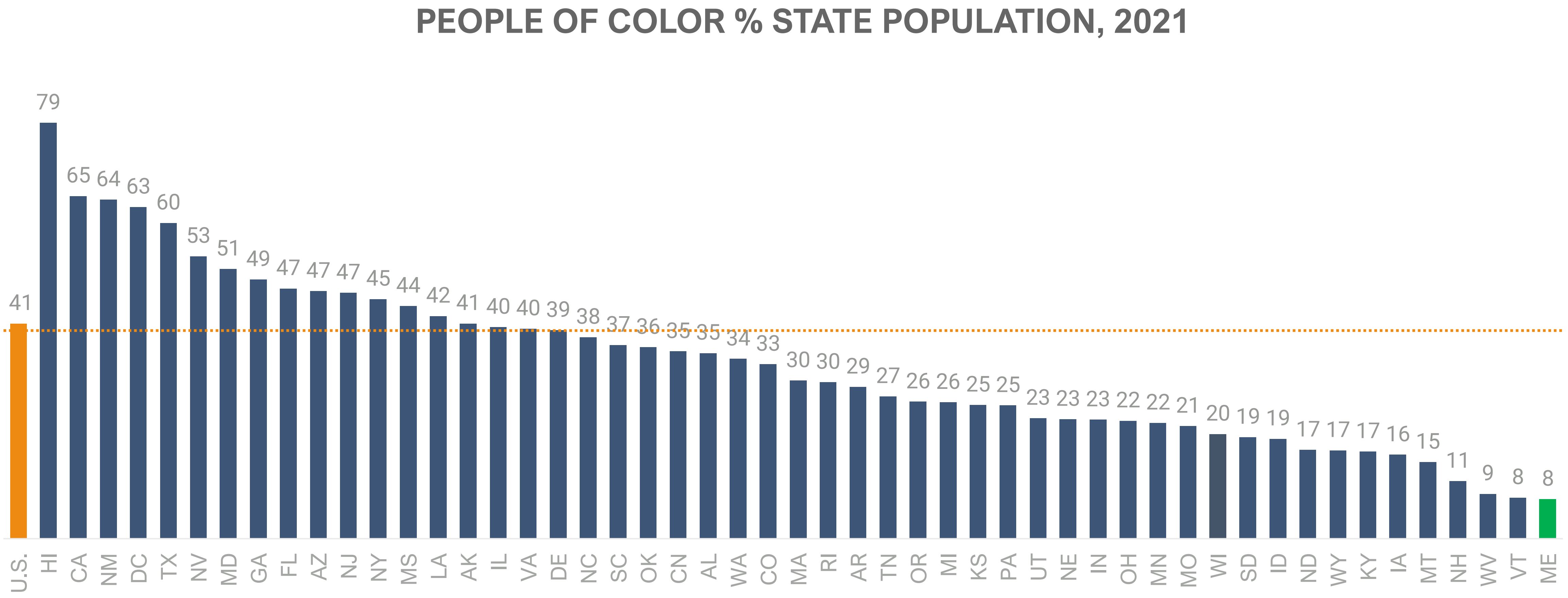
44% of age 0 - 9 will be white/non-Hispanic

(vs. 71% of those +70)

Source: Brookings (link)

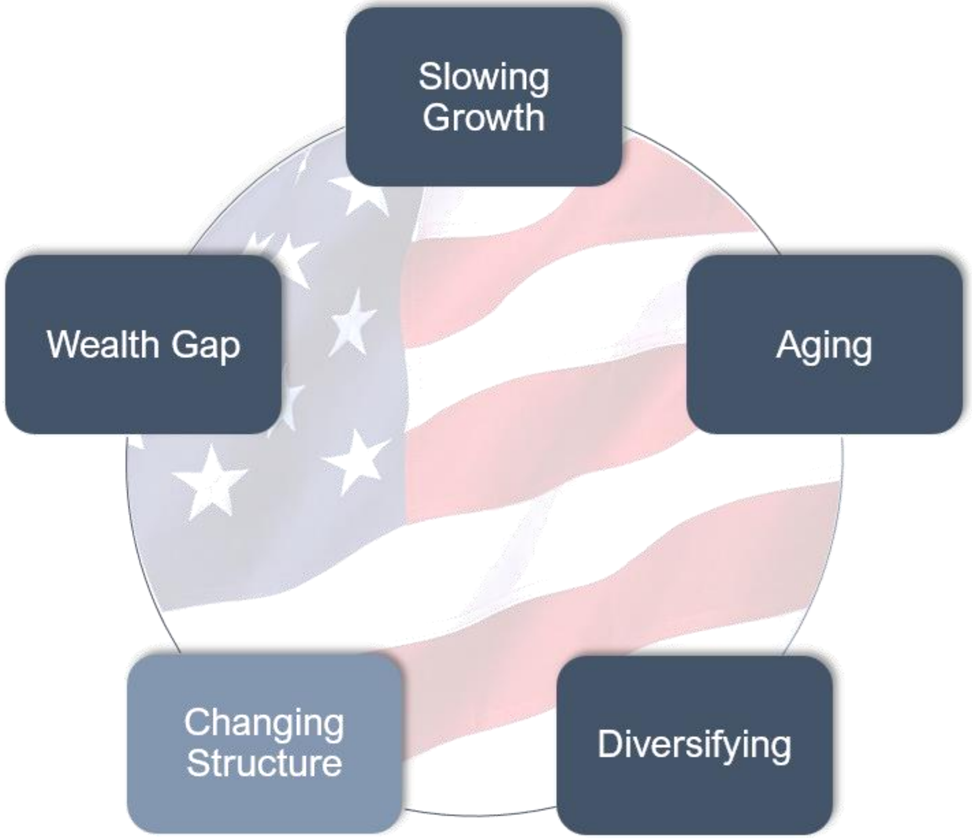
Shifting U.S. Demographics

People Of Color Represent At Least 40% Population In 18 States



Source: USAfacts.org

Shifting U.S. Demographics

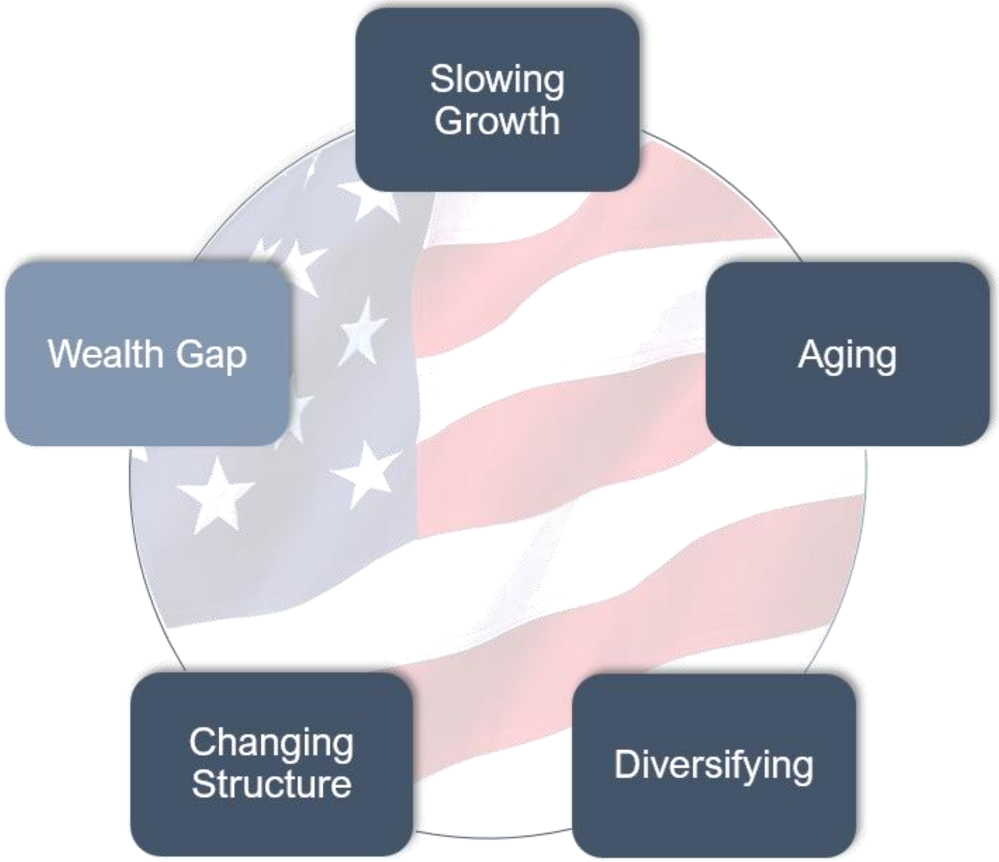


Changing Structure

- Average household size has dropped from 3.14 in 1970 to 2.5 in 2022.
- **71% of households do not have kids**. (up 19 pts from 1967)
- 28% of households are single-person. (up from 13% in 1960)
- 30% of children live in a single-parent household. (up from 15% in 1968)
- Average age of parenthood has risen to 30. (up from 21 in 1970)
- Multi-generational living grew to 18% in 2021. (4x that of 1971)

Source: US Census Data

Shifting U.S. Demographics



$$ Wealth Gap

- Economic Impacts: Lowest income feel severe pain from price increases and have exhausted pandemic savings. Middle class suffered market losses and are beginning to take on more debt. Wealthiest consumers are still spending at elevated levels and have significant savings.
- Highest 20% income bracket accounts for 39% of total consumption.
- SNAP emergency benefits have already ended in some states with remaining ones ending in March. This can amount to \$95-\$250/ household/month.

Source: Bureau of Labor Statistics

BEVERAGE LANDSCAPE

Cereal declines have represented ~25% of fluid milk consumption declines

THE WALL STREET JOURNAL.

Cynthia Poland ▾

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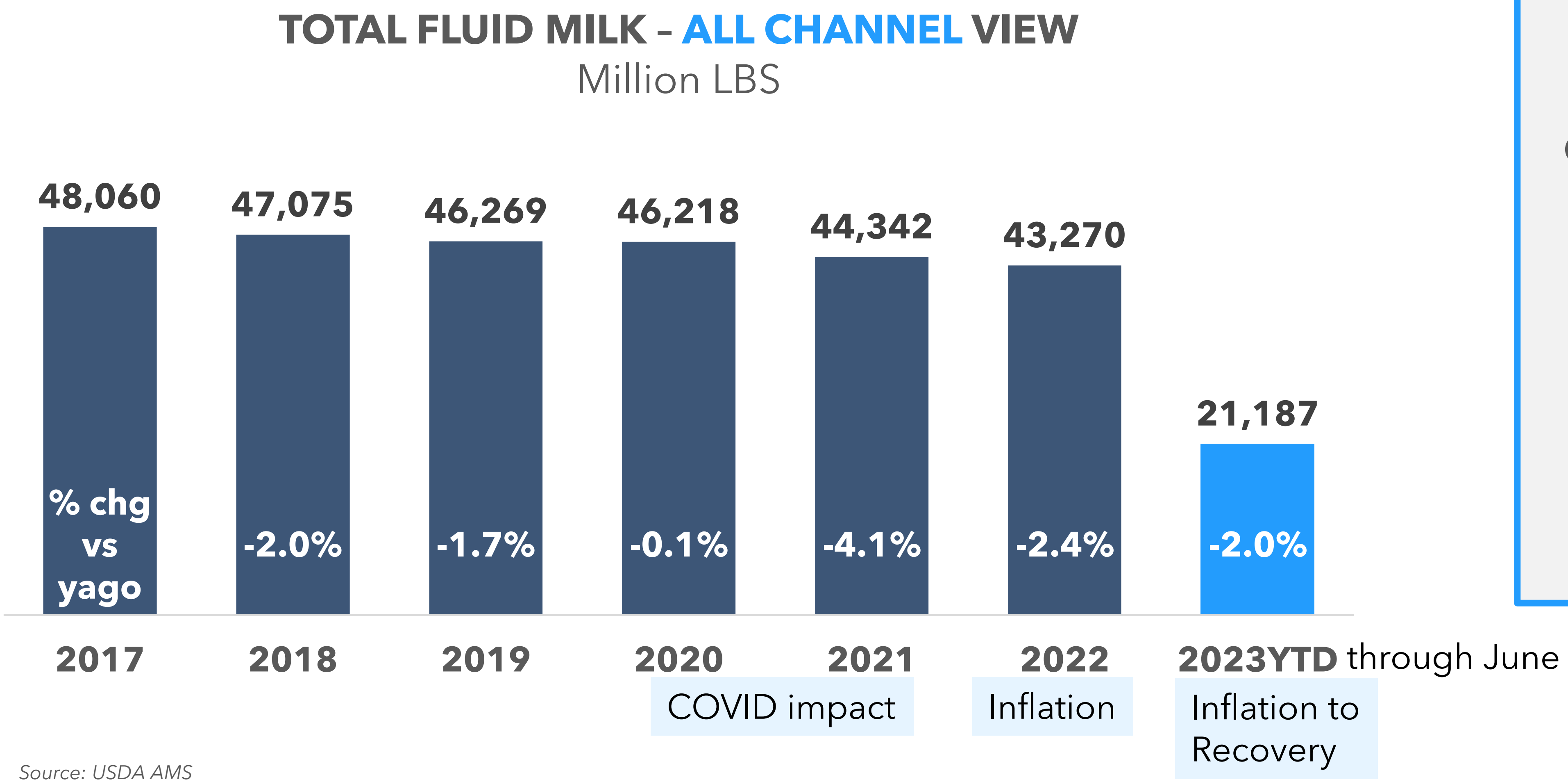
It's the Breakfast of Champions No More: Cereal Is in Long-Term Decline

Kellogg's plan to ditch its cereal business highlights the depressed outlook for what was once America's morning staple

A general shift to frozen foods has increased the popularity and availability of alternative, high-protein options like frozen breakfast sandwiches and burritos. Meanwhile, on-the-go lifestyles have fueled demand for portable options like bars and shakes. Fast-food companies have expanded their portable breakfast offerings too. Each of those alternatives is better suited for a morning spent on the run: Just try eating a bowl of Frosted Mini Wheats while driving to work.

Improving Trend in Total Fluid Milk Sales

Easing of Price Inflation Contributing to More Favorable Sales Picture



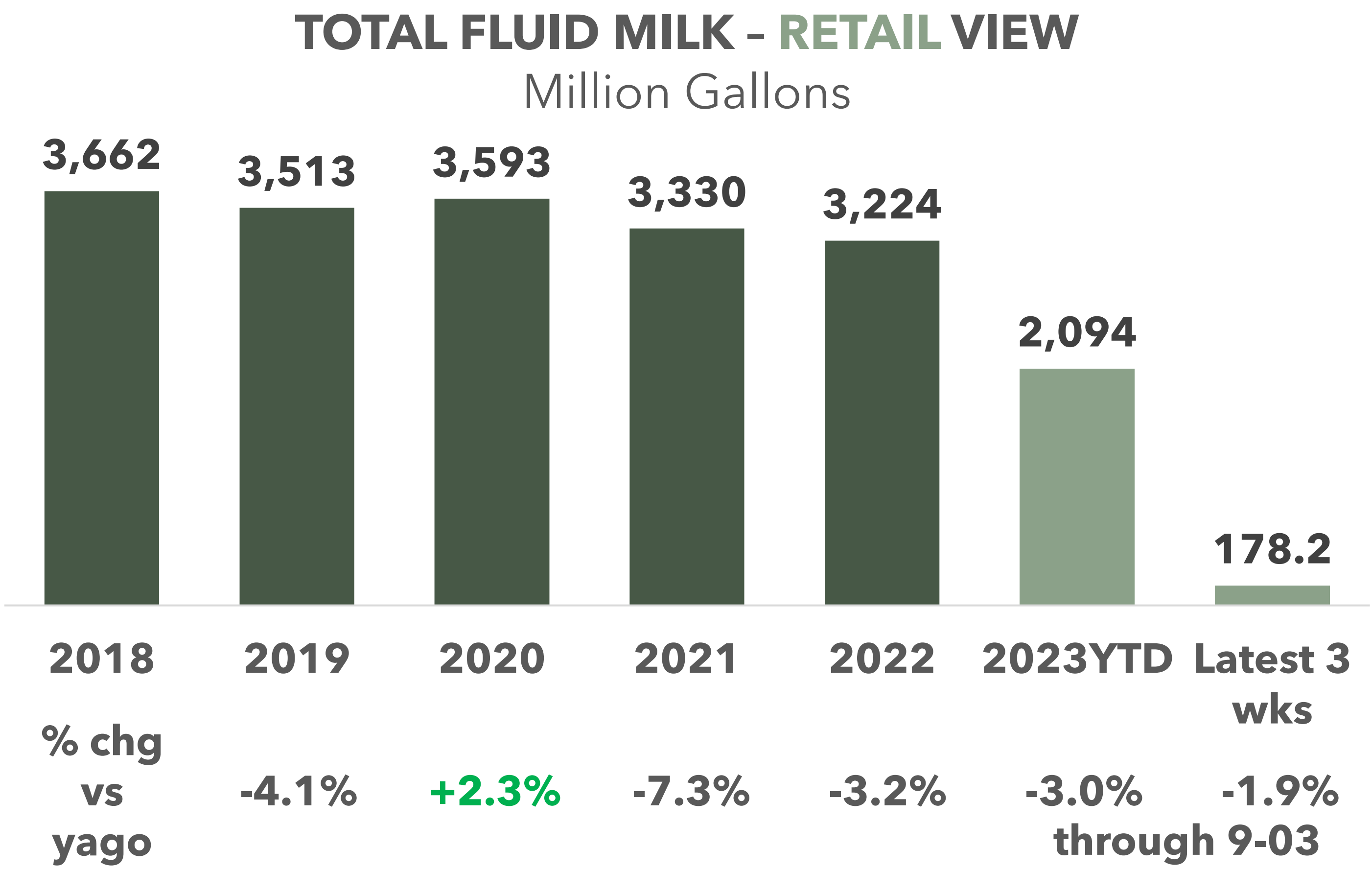
Consumer Price Index
2023 Jan-Jun:
+3.7% vs Yago

Jul 23:
-3.0% vs Yago

Source: USDA AMS

Retail Milk Sales Decline Softening

Improvement Noted Across Traditional and Value-added Segments

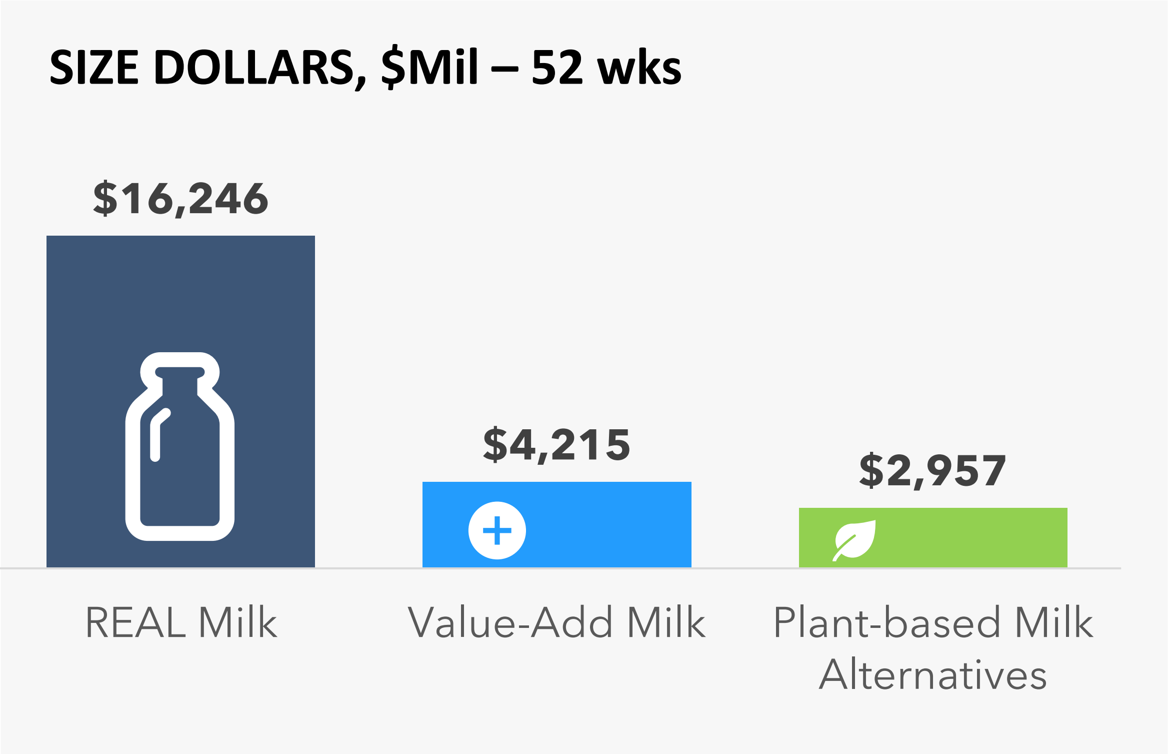


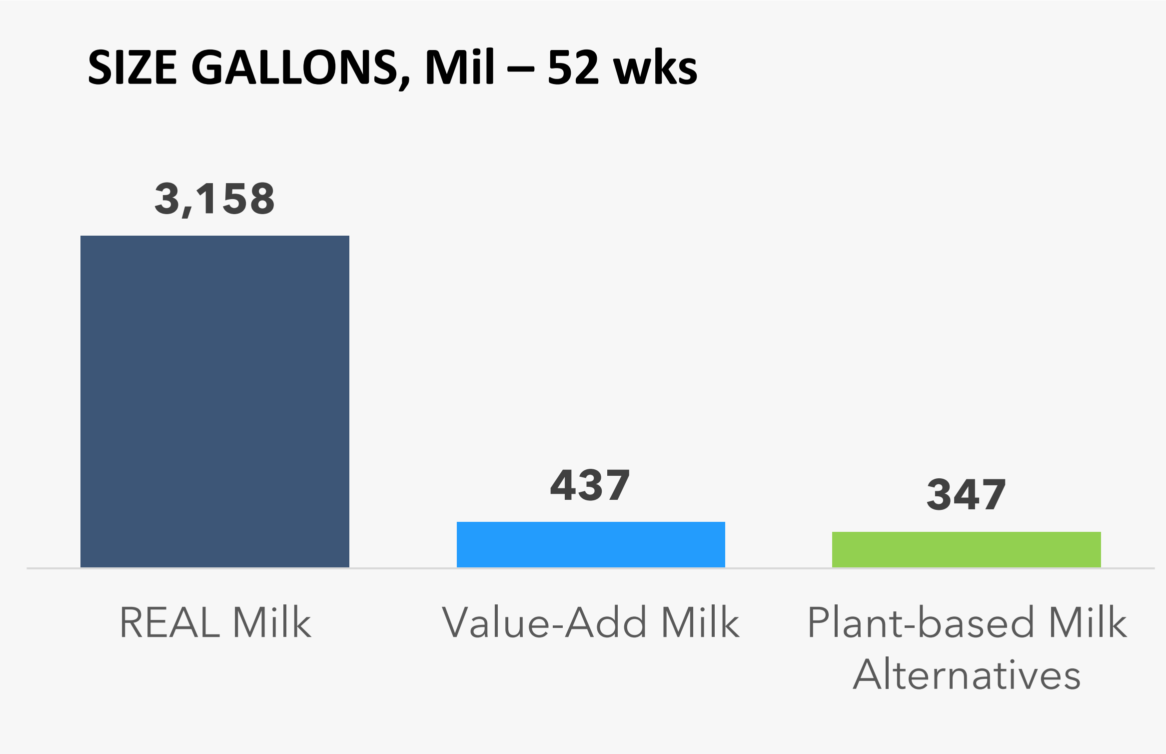
	2023YTD	3 wks
Trad'l White 80.2% volume	-3.2%	-2.1%
Value-add White 13.0% volume	+0.5%	+0.0%
Trad'l Flavored 5.1% volume	-6.7%	-2.1%
Value-add Flavored 1.1% volume	-10.2%	-7.8%

Source: Circana Group, L.P.

Value-added Milks are Larger than Plant-based Milk Alternatives, Both in Dollars and Volume

TOTAL MILK, VALUE-ADDED and MILK ALTERNATIVES

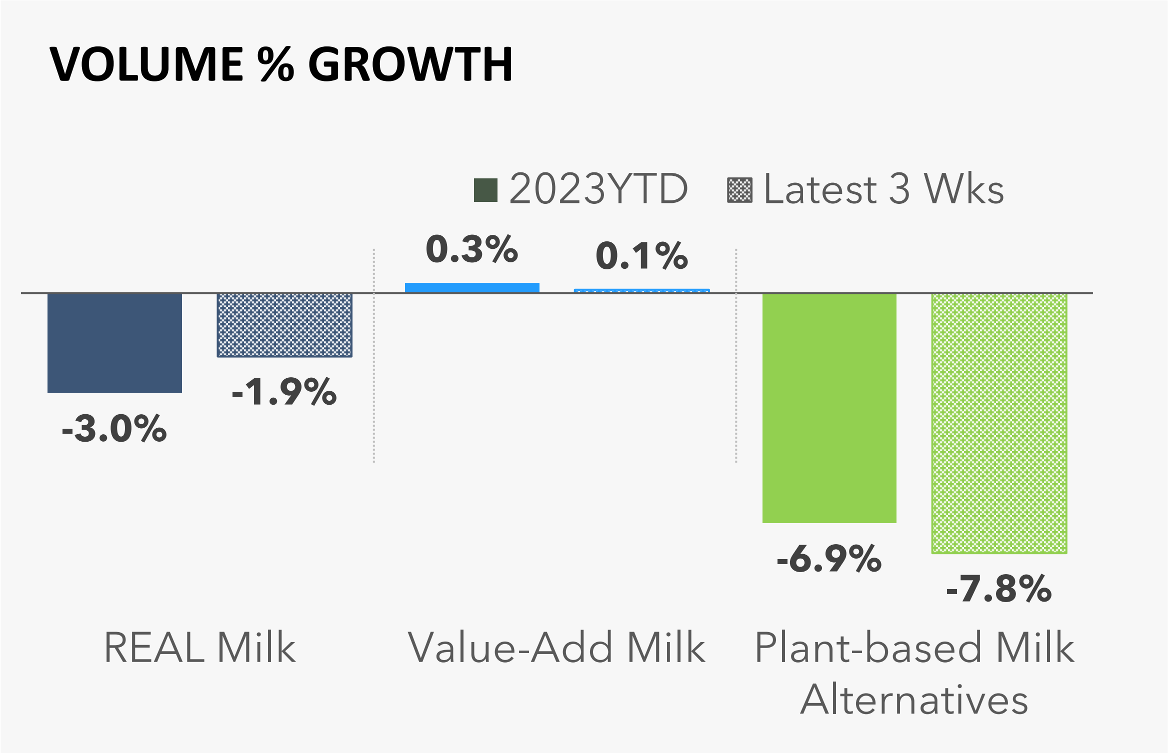


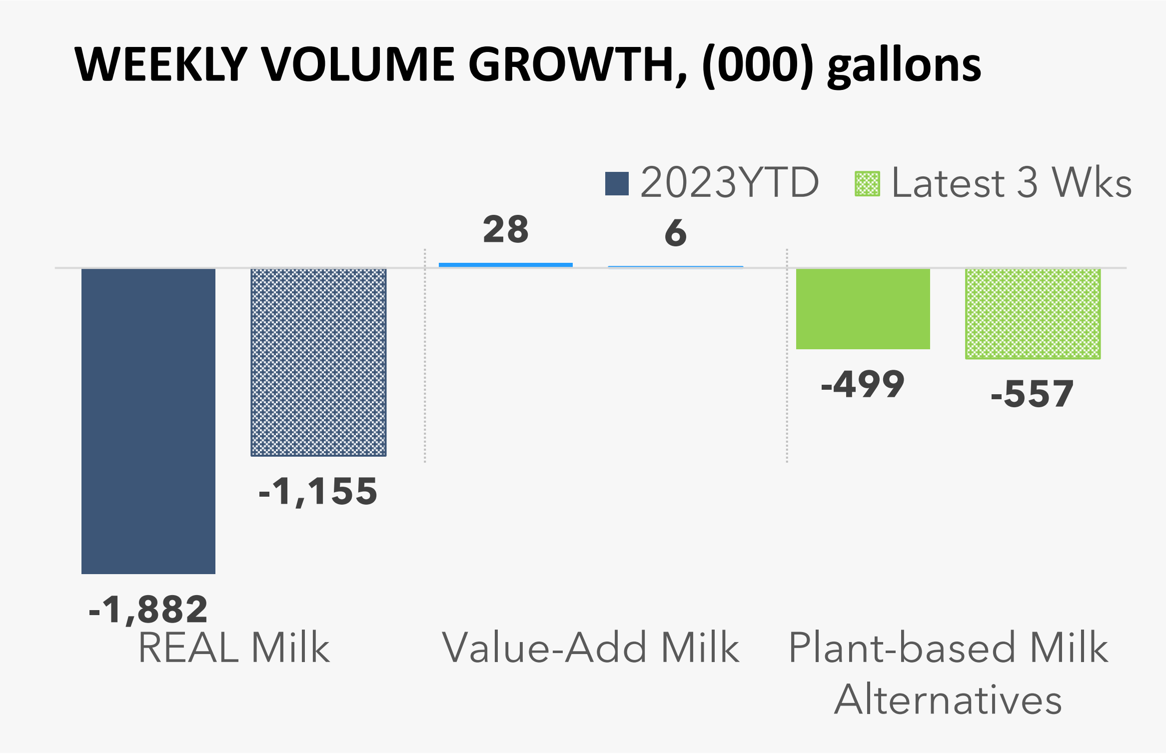


Source: Circana/Custom Unify Milk Database, Total US Multi Outlet + Convenience; 52 wks through 9-03-2023

Small Uptick in Value-added Milks in 2023. Plant-based Decline Steepening

TOTAL MILK, VALUE-ADDED and MILK ALTERNATIVES





Source: Circana/Custom Unify Milk Database, Total US Multi Outlet + Convenience; 52 wks, 2023YTD and latest 3 weeks through 9-03-2023

While Milk Largely Private Label, Many Top Brands Posting Growth

Source: Circana Group, L.P; Fairlife includes Yup product, Organic Valley includes Grassmilk product; Horizon includes Growing Years product

Focus on Value-added Milk

Lactose-free Driving Growth

52 Wks End 9-03-23

TOTAL VALUE-ADDED
$4.2B
438M Gal

2023YTD Vol Share: 100%
2023YTD: -0.3% vs yago
3 wks: -0.7% vs yago

Lactose-free*	Organic	A2 Milks*	Other Enhanced*
$2.2B	$1.8B	$122M	$104M
229M Gal	190M Gal	10.5M Gal	8.2M Gal
Vol Share: 53.0%	Vol Share: 43.0%	Vol Share: 2.4%	Vol Share: 1.7%
2023YTD: +7.2%	2023YTD: -6.0%	2023YTD: -8.6%	2023YTD: -36.3%
3 wks: +6.7%	3 wks: -6.1%	3 wks: -15.6%	3 wks: -34.5%

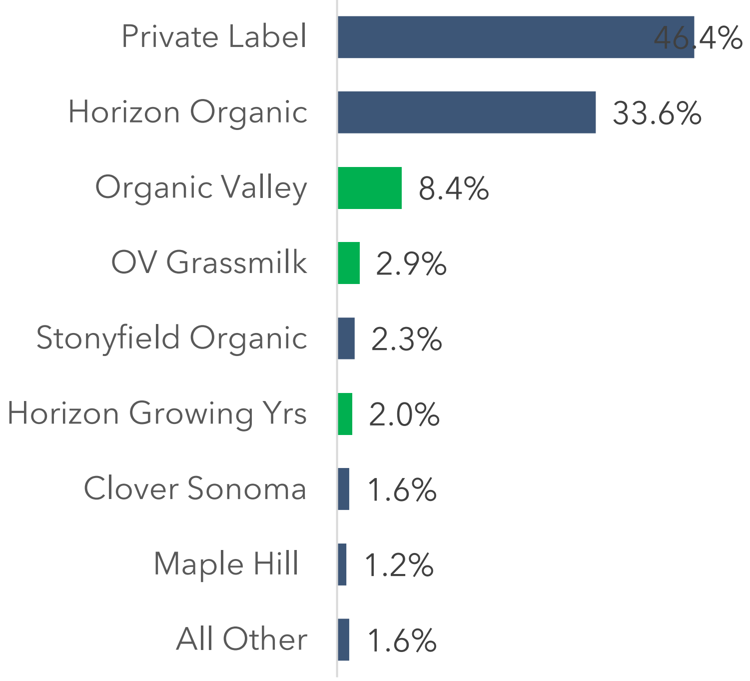
*Source: Circana Group, L.P; value-added includes white + flavored; * non-organic; 2023YTD and latest 3 weeks through 9-03*

Value-Added Brands

2023 Volume Share of Segment

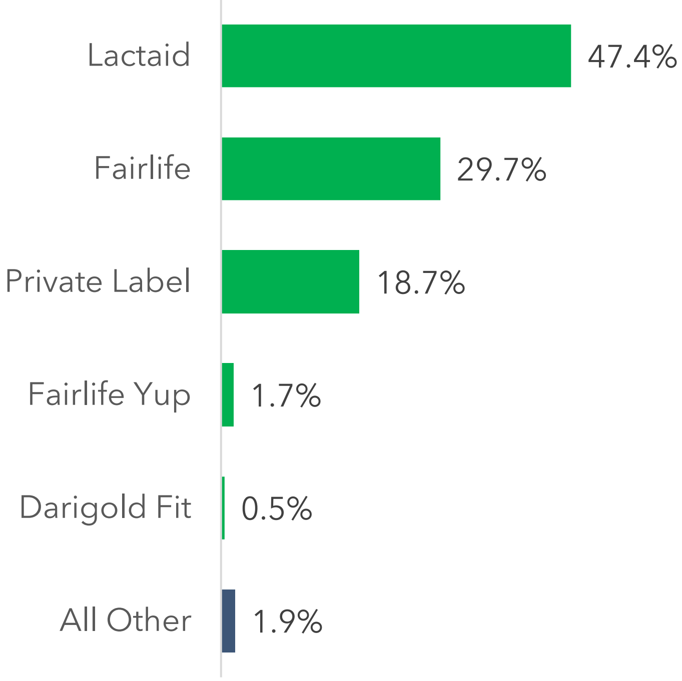
ORGANIC

Smaller growing brands not large enough to compensate decline of larger brands



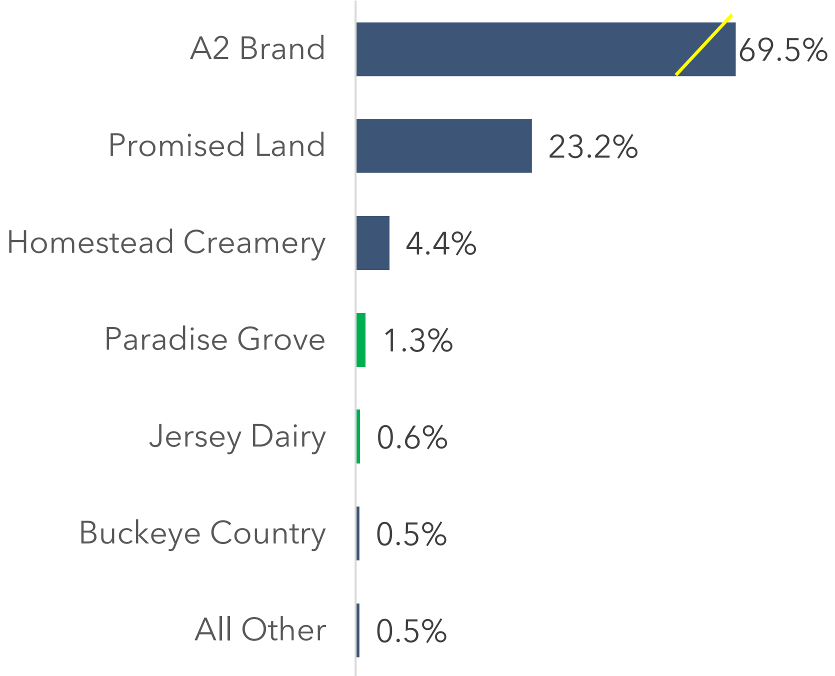
LACTOSE-FREE

All larger brands growing longer-term and in 2023YTD



A2 MILKS

The original A2 dominates segment. A2 posted strong growth 2019-22 but struggling in 2023



Source: Circana Group, L.P; green shading indicates growth in 2023YTD through 9-03

Exponential Growth in Beverage Choices

1970s

- ✓ Milk
- ✓ Soft Drinks
- ✓ Coffee
- ✓ Juice

1980s

- ✓ Milk
- ✓ Soft Drinks
- ✓ Coffee
- ✓ Juice
- ✓ Bottled Water
- ✓ RTD Juice
- ✓ Teas

1990s

- ✓ Milk
- ✓ Soft Drinks
- ✓ Coffee
- ✓ Juice
- ✓ Bottled Water
- ✓ RTD Juice
- ✓ Teas
- ✓ Wellness
- ✓ Sports Drinks
- ✓ Flavored Teas

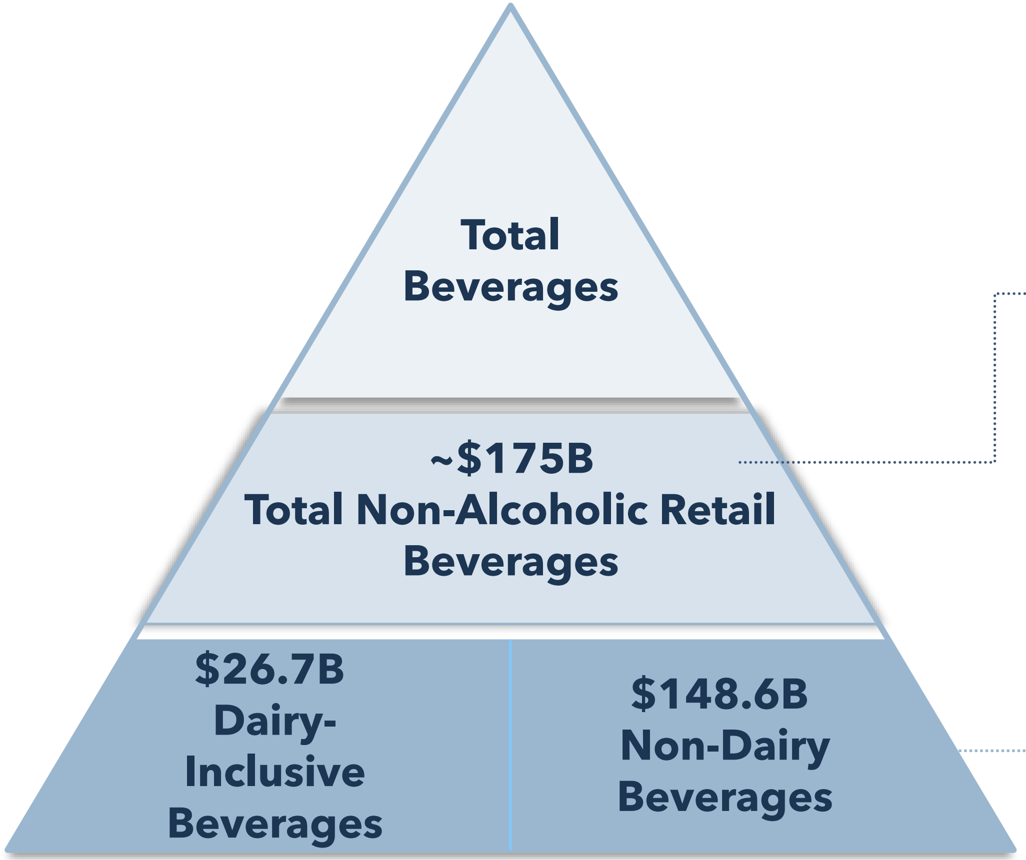
2000s

- ✓ Milk
- ✓ Soft Drinks
- ✓ Coffee
- ✓ Juice
- ✓ Bottled Water
- ✓ RTD Juice
- ✓ Teas
- ✓ Wellness
- ✓ Sports Drinks
- ✓ Flavored Teas
- ✓ Functional Bevs
- ✓ Energy Drinks
- ✓ Enhanced Water
- ✓ RTD Coffee
- ✓ Almond Drink
- ✓ Coconut Bevs
- ✓ RTD Smoothies
- ✓ K-Cups

Today

- ✓ Milk
- ✓ Soft Drinks
- ✓ Coffee
- ✓ Juice
- ✓ Bottled Water
- ✓ RTD Juice
- ✓ Teas
- ✓ Wellness
- ✓ Sports Drinks
- ✓ Flavored Teas
- ✓ Functional Bevs
- ✓ Energy Drinks
- ✓ Enhanced Water
- ✓ RTD Coffee
- ✓ Almond Drink
- ✓ Coconut Bevs
- ✓ RTD Smoothies
- ✓ K-Cups
- ✓ Vegetable/Fruit Blend
- ✓ Sparkling Juice
- ✓ Fusion Drinks
- ✓ Coconut Water
- ✓ Drinkable Yogurt
- ✓ Pea Protein Drinks
- ✓ Kombucha
- ✓ Other Fermented
- ✓ Cold Brew Coffee
- ✓ Cold Pressed Juices
- ✓ Alkaline Water
- ✓ Maple Water
- ✓ And many more…

Dairy Comprises 15% of Total $175B Beverage Landscape



Top non-dairy categories	$ Size
Carbonated soft drinks	$38.0B
Energy drinks	$18.5B
Juice	$18.3B
Unflavored still water	$15.6B
Flavored sparkling water	$10.9B
Sports drinks	$10.3B

Top dairy-inclusive categories	$ Size
Dairy milk	$16.5B
Whitened/RTD Coffee	$8.3B
Yogurt drinks	$1.2B
Smoothies	$0.9B

Note: Non-dairy beverages also includes tea (7.4B), unflavored sparkling water (5.8B), protein shakes (5.7B), flavored still water (4.4B), weight loss/nutrition shakes (4.4B), dairy alternatives (2.3B), and functional wellness drinks (0.1B); dairy-inclusive categories also include milkshakes
Source: TCG Beverage Demand Landscape (2023)

Beverages Driven by Dramatic Innovation and Branded Investment

Water

Technology	Premiumization	Health-Focused	Flavors/Carbonation	Food Service

Coffee

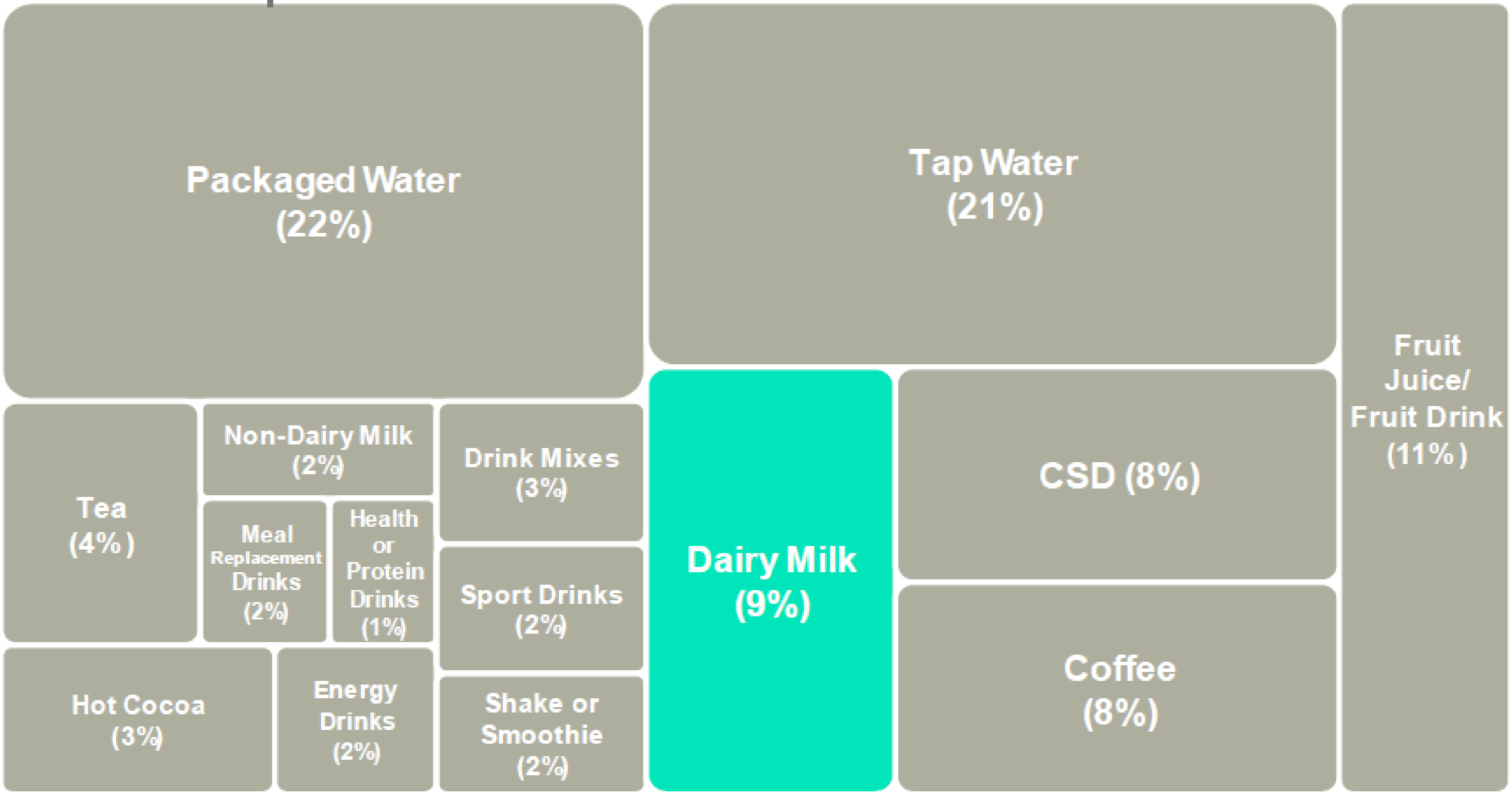
Source: Innova Market Insights; Pathwater, QSR Magazine; Keurig; McDonalds

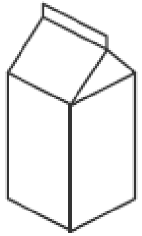
An Inconvenient Truth

A small sampling of Gen Z beverages

Dairy Milk accounts for almost 1 in 10 daily beverage occasions among kids ages 0-17, totaling over 50 million occasions.

By the age of 10, kids contribute to 75% of beverage decisions for themselves, whether purchased by them or their parents.





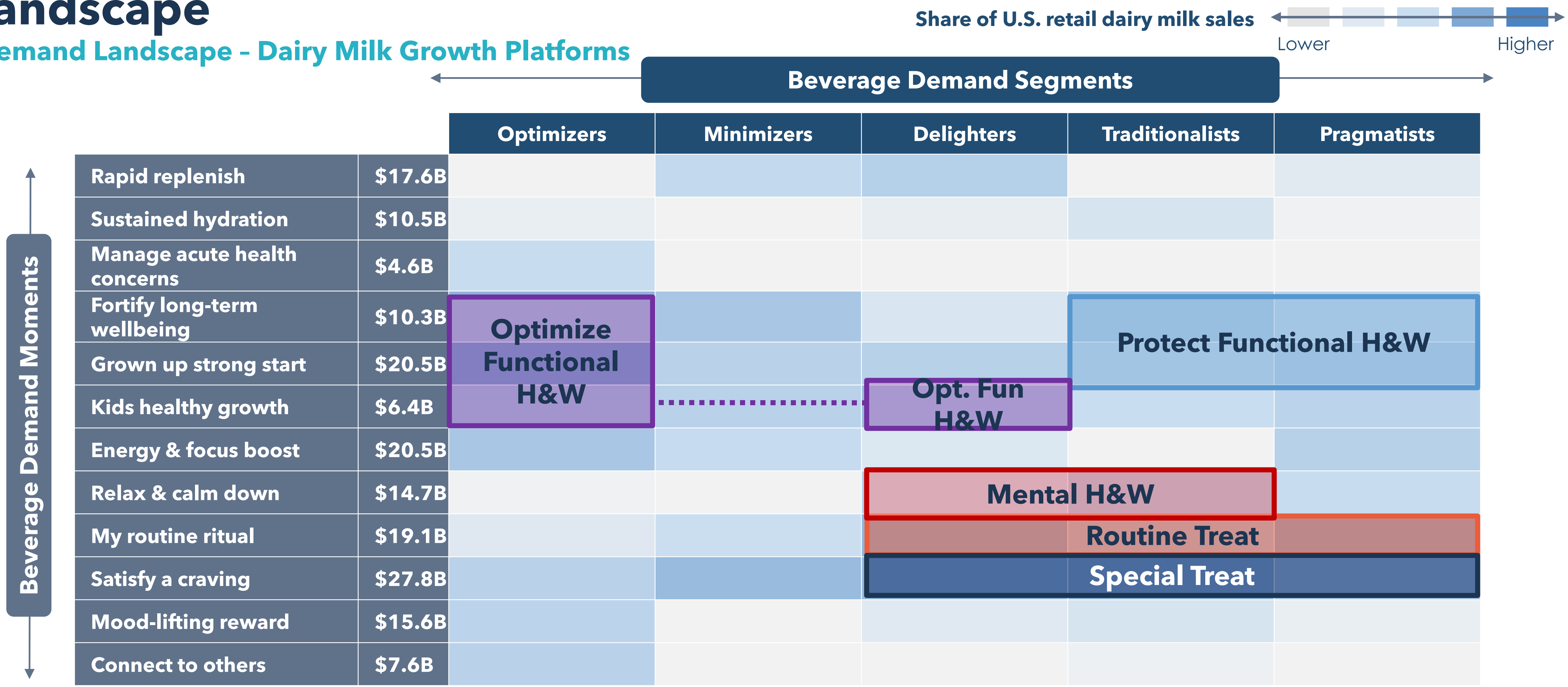
Kids Milk Drinking by the Numbers

Daily Penetration	36%
Drinkers	26M
Occasions	52M

We've identified and prioritized five growth platforms to revitalize dairy milk across the Beverage Demand Landscape

Dairy Milk Only

Demand Landscape – Dairy Milk Growth Platforms



Note: Based on claimed spend across beverages; Moment spend represents total retail beverage spend within that moment (not just dairy milk which is represented by the blue shading)
Source: TCG Beverage Demand Landscape (2023)

Consumer segments helps us understand how consumers think about beverages in their broader lifestyles. Two consumer segments will be important for growth, and two segments are important to protect volume

Growth segments

Protect segments

Beverage Demand Segments (Consumers ages 13 – 65)

	Optimizers *(Wellness Optimizers)*	Minimizers *(Healthy Curators)*	Delighters *(Flavor Seekers)*	Traditionalists	Pragmatists *(Pragmatic Hydrators)*
					
	Wellness maximizers who seek added benefits from their beverages. Highly engaged, choosy curators with wide repertoires	Health-conscious individuals who put a lot of thought into selecting beverages and mindfully avoid 'unhealthy' options	Flavor seekers that prioritize taste and rely on beverages to enhance their day. Loves many types and tries new ones often	Routine drinkers who are dedicated to their favorites and prefer to stick with the familiar, delicious flavors they love	Practical hydrators that stick to basic beverages the body needs, with no frills or extra thought
% of beverage consumers 13-65	23%	21%	21%	17%	19%
Milk consumption	Moderate	**Low**	Moderate	**High**	**High**
Demographic skews	Younger, large HH	Older, smaller HH	Younger, large HH	Lower HH income	Older, smaller HH

We also identified 12 demand moments that help contextualize the wide range of consumer needs e.g., benefits sought and situational details:

Dairy Milk Only

Beverage Demand Moments - % of occasions

More physical ← → *More mental*

Hydration (15%)		Functional Wellness (27%)				Mental Wellness (18%)		Emotion (40%)			
Rapid replenish	**Sustained hydration**	**Manage acute health concerns**	**Fortify long-term well-being**	**Grown up strong start**	**Kids healthy growth**	**Energy & focus boost**	**Relax & calm down**	**My routine ritual**	**Satisfy a craving**	**Mood-lifting reward**	**Connect to others**
A quick thirst quench to replenish nutrients with a cold, refreshing drink	Using beverages to sustain a comfortable level of hydration throughout the day	A drink to manage an acute health concern & achieve a desired outcome	A drink that helps you invest in your long-term wellbeing by fortifying the body	An adult-driven beverage occasion intended to start the day off right	A kid-driven occasion to support development and forge healthy habits	Choosing a beverage that boosts energy and focus throughout the day	Winding down and relaxing with a beverage that helps calm you down	Having a drink as part of a daily ritual that provides that kick-start or pick-me-up you need	Satisfying a craving or sweet tooth with a drink that can deliver that "just right" taste	A drink that improves your mood and acts as a special reward for yourself or others	Using tasty beverages as a medium to connect and share an enjoyable experience with others

Health & Wellness Moments

Source: TCG Beverage Demand Landscape (2023)

Fortify Wellbeing/Start Strong for Traditionalists and Pragmatists


Traditionalists


Pragmatists

Description

Deliver a nutrient-rich beverage to practical and routine-oriented consumers

$0.6B Growth Potential

$7.8B Retail Beverage Sales

$1.6B (21%) Dairy Milk Sales

49%	29%	22%
Adults 25+	*Gen Z*	*Gen A*

Beverage consideration set

1. Dairy milk	**39%**	**170**
2. Juice	28%	98

Rationale

- Dairy milk has **strong equity alignment and current consideration**
- Opportunity to promote a **nutrient rich product** to **routine and practically minded consumers**

Benefits demanded

- Deliver key **functional benefits**
  - Enhance my **immunity**
  - **Age better**
  - Keep my **muscles & bones** healthy
- **Minimal "negatives"** (calories & sugar)
- Keep me **hydrated & refreshed**
- **Drives lasting impact to power day**
- **No prep** needed, and can be consumed **at any point in the day**

Activation thought starters

Comms & marketing

- Capitalize on dairy milk's unrivaled combination of **nutritional value** in an **easy, no-prep beverage**
- Highlight conventional dairy's **cost-effectiveness** at delivering health benefits

Innovation

- Develop a wider set of **shelf-stable products** that do not require refrigeration
- Consider **single-serve packaging options** that can easily be taken on-the-go
- Explore **ultra-light milk types**, low in calories and sugar

Note: % of $; Segment spend within opportunity: Traditionalists $3.4B, Pragmatists $4.4B
Source: TCG Beverage Demand Landscape (2023)

Starter Ideas

Milk &

Complete protein & calcium from milk and fiber from oats & barley to increase calcium absorption deliver the nutrients you need to improve your physical performance

Bee calm

Milk with delicious natural ingredients like **honey and orange blossom** and **infused with tryptophan** to help calm you in this stressful world

Chocolate+

Made with lactose-free chocolate milk and **enhanced with electrolytes, complete protein, and nutrients** your body needs for muscle repair and recovery after physical activity

Grow Happy Milk

Milk naturally flavored with fruit and **fortified with DHA Omega-3, 25 vitamins & minerals, protein, lactoferrin, and probiotic cultures** to support healthy growing bodies

Starter Ideas

Elevate

Milk is **infused with high-antioxidant fruits** like blueberries and strawberries and **choline and magnesium** are added to help with your focus and memory

Healthy Culture

Fermented milk that contains **billions of probiotics and lactoferrin**. All the benefits of kombucha in a delicious, creamy milk

Farm Sweet

Chocolate milk made with **heart-healthy & satiating CLA** and **naturally sweetened with fruit to reduce calories**

THANK YOU!

Paul Ziemnisky

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MAKING EVERY DROP COUNT

your DAIRY CHECKOFF
Dairy Management Inc.