



# Tailwinds for Nutritional Quality

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*Nutrition or more specifically malnutrition is a major global challenge. Governments and consumers are increasingly demanding more healthy food products and require more accountability from the food and beverage manufacturers in terms of the nutritional content and the marketing of their products. The changing consumer behavior is visible in the sales numbers, as new and more healthy products are growing 4-8% annually, where the less healthy products are stalling, and products like cereals are actually falling. Thus, it is not just an ethical, but also a commercial advantage for companies to focus on products with high nutritional value. This new paradigm will create new winners and many companies might not succeed in transforming.*

## A new index for nutritional value

An independent foundation supported by the Bill and Melinda Gates Foundation developed in 2013 the Global Access to Nutrition Index (ATNI). This index assesses and ranks the world's largest food and beverage companies on their commitment and practices to address the global nutritional crisis. The foundation sees the industry as an important partner for improving the overall global public health and hopes to influence consumers' lifestyles and buying behavior by putting pressure on the industry to increase the nutritional value of the products and making them more accessible and cheaper for consumers. The foundation has just released data for 2018, which was the third year of publication. The data provides useful insights for among others the active equity investors to benchmark companies within the food and beverage industry.

## Several factors create tailwinds for higher food quality

Broadly defined, malnutrition is either due to a lack of nutrients in the diet or by an excessive amount of primarily fat, salt and sugar in the diet – often leading to obesity and diabetes. Malnutrition, caused by the lack of nutritional content, is most common in the developing countries, but also prevalent in the western world driven by the proliferation of fast food and pre-prepared meals.

However, four important trends are reversing this development:

1. **Regulatory**, many governments are introducing policies, regulations and taxes aimed at reducing consumer exposure to less healthy food.
2. **Reputational**, consumer awareness of the need for good nutrition is increasing, and thus is becoming a brand and reputational issue for companies.
3. **Legally**, companies are starting to face lawsuits for making inappropriate health claims and inappropriate labelling.
4. **Demand-driven**, consumers are increasingly opting for healthier foods with "healthy" categories growing +5-10% annually, which is ahead of categories perceived to be less healthy (where some are experiencing negative growth).

## The multinationals have awakened

These changes create a huge opportunity for companies that understand and reposition their products portfolio to deliver a higher health value. Analysis based on ATNI data from

2018 shows that the food and beverage industry generally is moving in the right direction. However, there is a clear picture of the European companies being ahead of their US competitors with Unilever, Nestlé and Danone taking the top three spots. As an example, we have previously described how Nestlé successfully has removed the core of the sugar crystalline thereby removing 30-40% of the calories from sugar without affecting the taste. The company is now pursuing the same with salt.

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In the US, the two prominent beverage companies, Coca Cola and Pepsi Co understand these trends, and are investing in improving the nutritional profile of their products by reducing sugars, sodium and saturated fat, and building new portfolios of nutritious products in different beverage categories like juices and water. Another consumer trend is the shift from volume to value, where people still seem to snack and indulge, but yet in smaller amounts. This trend will not grow sales, because of the smaller amounts, but it will grow their margins, because the smaller quantities will be sold at higher prices.

The large multinational food and beverage companies have historically been challenged with a highly centralized new product development and marketing process. This has provided innovative start-up companies with a head start to

benefit from these new consumer trends at the expense of the multinationals. However, as the multinationals recognize the new consumer paradigm and the loss of market shares, they have responded by increasing R&D budgets and simplifying the products development procedures and allowing a more local-driven branding and marketing process. This provides them with a new opportunity to participate in the high growth health-related product categories. Also, we see the multinationals actively acquiring new products, thereby leveraging their scale production and distribution.

### **Winners and dinosaurs**

We live in a world of constant change, and we see the nutritional trend as a new paradigm, which is supported by structural tailwinds from changed consumer behavior and the current regulatory regime. The multinationals have been slow to adapt, but now they are awakening. This creates investment opportunities for those who get-it, where others risk becoming dinosaurs in a landscape they used to dominate.

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