



MORNING NEWS & VIEWS 15.04.2004

FOOD SECTOR NEWS: The Atkins low-carb diet's popularity will be its own downfall

FACTS: Atkins Nutritionals has said it is concerned about the recent boom in low-carbohydrate food products and restaurant menu options. Dr. Stuart Trager, medical director of Atkins Nutritionals, said the company thinks it is "terrific" that consumers are embracing controlled-carbohydrate diets, but warned that people need to change their lifestyle rather than simply eating ready-made low-carb products. "If you're just lowering your carbs with many of the new food products that are now hitting the market without correctly following a healthy low-carb lifestyle, you could easily get in trouble," Trager said. Atkins Nutritionals said estimates suggest that over 1,000 low-carbohydrate products were launched in 2003 and hundreds more will be launched this year with offerings coming from nearly every major food manufacturer. "The meaning of the words 'low-carb' on a food label is highly inconsistent," said Trager. "In fact, in many cases the words are meaningless from a scientific standpoint. The FDA has not yet defined low carb for the consumer, so just about any food and beverage producer can use the term without qualification." (Source: Just Food)

OPINION: We believe that 2004 will see the peak of the 'Atkins Diet'. We explain why below, but first a few words of explanation for generalist investors. The Atkins Diet is the latest craze in the US, the land of obesity, which focuses upon losing weight by lowering carbohydrate intake. Various celebrities and the media have helped increase high awareness of this diet. So far, it has had only a limited impact in the UK and virtually no impact elsewhere. For example, sales of US bakery manufacturers have been badly hit, but also traditional slimming products have seen sharp declines as consumers have switched diets. Unilever's problems with its Slim.Fast brand demonstrate this.

At the CAGNY conference in February, virtually all (mainly US) food companies had launched or planned to launch 'low carb' products, yet they typically also indicated that, in their opinion, the Atkins Diet would be a fad and that 'low carb' per se does not represent a healthy lifestyle. In their minds, therefore, these launches represent a tactical, short-term solution: i.e. giving the consumer what it wants, not necessarily what it needs, in order to satisfy a (mainly US) investor base focused upon quarterly results. This explains why these companies are apparently not too concerned about adhering to Atkins' guidelines and are simply aiming to offer 'lower carb' alternatives in order to ride the wave. US consumer culture typically seeks the 'quick fix' and is easily fixated. What we are now seeing is the repeat of what we have seen in the past. Does anyone remember the F-Plan Diet? It, too, was once the philosopher's stone of weight loss. By the time the food manufacturing industry jumps on any such bandwagon, you know the end is near. Basically, popularity of a complex concept requires simplification, simplification breeds confusion, confusion creates poor results, poor results turn the consumer off. We have had low fat, low sugar, high fibre and now low carb. (Anyone heard of the 'low quantity' diet?) Will 2005 be the year of the balanced diet and active lifestyle? Probably not, it's too complex. But we would certainly start buying now the (mainly US quoted) food stocks currently suffering from the Atkins effect, ready for the recovery. What about our European large cap universe?

We do not include **Unilever** (NEUTRAL) as a recovery candidate as we continue to be sceptical of the longer-term potential of Slim.Fast. Slimming per se is not healthy, slimming fast can be dangerous and the brand is positioned in the 'dietary food ghetto'. We prefer the mainstream approach of **Nestlé** (BUY), which incorporates branded active ingredients in its existing, known and trusted brands. **Danone** (NEUTRAL) has actually been a beneficiary in the US yoghurt market, growing in Q1 2004 by over +20% thanks to its low-carb 'Lite 'n' Fit' launch, returning the category to growth. Will this reverse with the Atkins effect? No, because yoghurt is anyway a healthy category: for Danone, it's a 'win-win'.

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