

agriVie

AFRICA AGRIBUSINESS INVESTMENT FUND



AGRIBUSINESS PERSPECTIVE # 5

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FOOD & AGRIBUSINESS PERSPECTIVE # 5: THE FUNCTIONAL FOODS AND NUTRACEUTICALS SECTOR

Among the 'non-traditional' areas of focus in Agri-Vie's investment programme are functional foods and nutraceuticals. This Food & Agribusiness Perspective takes a closer look at what is involved in this sector, what drives its growth and why it is of importance to both the advanced and emerging markets in Agri-Vie's investment geography.

Nutraceuticals and functional foods straddle a middle-ground between food and drugs due to the growing body of evidence that supports their role in maintaining health and contributing to treatment of disease.

Functional foods include any fresh or processed food that has a health-enhancing or disease preventing property, beyond just the basic function of supplying nutrients. Their ingredients may help prevent chronic conditions like heart disease, high blood pressure or cancer. The concept is "food as medicine". A typical example of a fresh functional food is tomato, which is rich in the antioxidant lycopene and helps to remove toxic compounds from our bodies, thereby preventing damage to essential organs. Other typical examples are soybeans, fish, oat meal, cereal brawn and tea. There are also functional foods produced through food processing – examples in developed markets would include calcium enriched fruit juice and certain makes of margarine. In developing markets, functional foods often form the core of food relief products distributed into emergency famine situations or as part of 'food by prescription products' forming part of HIV/Aids programmes.

A nutraceutical is a product isolated or purified from foods that is generally sold in medicinal or dosage forms not usually associated with foods. A nutraceutical is demonstrated to have a physiological benefit or provide protection against chronic disease. A good example is multivitamin pills or capsules. Another example is a group of compounds called isoflavones that are isolated from soybean seeds and packaged into pills as an alternative to synthetic compounds used by women during hormone replacement therapy. Other examples of nutraceutical products include fish oil capsules, herb extracts, glucosamine and chondroitin sulfate pills, lutein-containing multivitamin tablets and antihypertensive pills that contain fish protein-derived peptides.

Due to the loose definitions applying to this sector and a lack of collective representation, it is difficult to draw substantive conclusions about the size of the industry. However, in South Africa alone, sector companies recently surveyed, registered on average a 27% growth rate in turnover. Nutraceuticals and functional foods formed by far the largest component of the complementary medicine industry with a 48% share, followed by herbal products and homeopathy.

Certain discernable consumer trends are driving the rapid growth in the sector for functional foods and nutraceuticals. Among the trends prevalent in functional foods are:

- Healthier eating at home: Consumers are making more effort at eating healthier foods with less sugar and fat as well as fortified foods;
- Weight loss focus: The weight loss market appears to be undergoing a change with consumers shifting from dieting/weight loss programmes to managing weight via smaller portions, specific food restrictions and light/low fat super-satiating foods;
- Condition –specific foods: Older consumers are increasingly opting for food products which they believe are important when suffering from conditions such as heart disease, arthritis, cancer, high blood pressure, high cholesterol, diabetes and osteoporosis;
- Proactive lifestyles – Fortified food and beverages have become a way of life for consumers trying to live a preventive lifestyle. Vitamin C topped the list as the most important nutrient followed by calcium, B-vitamins, fibre, antioxidants, Vitamin E, fish oils, and others;
- Simpler, greener and cleaner: Consumers are increasingly looking for foods with only a few ingredients and as fresh and close to the farm as time and budget would allow. Organic foods are also growing in popularity. Hormones topped the list of ingredients consumers were least comfortable consuming. Products that are inherently better for the environment, as well as sustainable packaging, are experiencing growing demand;
- Smart treats: Lower calorie, healthier snacks are growing at a pace of three times higher than traditional indulgence snacks;
- Perceived sensitivity: A growing number of consumers believe that they are suffering from allergies, food intolerances or sensitivities, contrary to medical evidence. This perception creates demand for certain functional foods with characteristics like probiotic-containing, gluten-free, lactose-free, fibre low acid, etc.;
- Energy and vitality: Energy was one of the top reasons consumers made dietary changes. Of all new functional food concepts, consumers are most interested in new products that improved mental performance. Sleep inducing foods for those suffering from sleep problems are also growing in popularity.
- New distribution venues – Fast paced, busy life-styles and expensive fuel are prioritising convenience stores as distribution channels for functional foods. With an increasing number of people trying to eat healthier at restaurants, that is the another venue where opportunity awaits.

In the nutraceutical subsector, trends appear to be similar to those in functional foods:

- The top health categories for nutraceuticals are weight loss, heart problems, digestion, arthritis, seasonal allergies, vision and eye-health as well as diabetes;
- The top supplements being used by consumers are multivitamins, calcium, vitamin C, fish oil, vitamin E, antioxidants, vitamin B/B complex and omega 3's;

- The safety and quality of raw ingredients used in products are regarded as of utmost importance;
- There is a growing diversity of new, solid dosage forms with strong growth in orally disintegrating tablets, chewable tablets and liquid containing capsules;
- “High nutrient” content nutraceuticals are experiencing strong growth, as developments of these products look to pack over higher levels of actives into increasingly exotic formulas;
- One of the hottest trends in encapsulation is controlled-release and multi- release products, which entails putting multiple components in one convenient package.

The functional foods and nutraceutical sector is characterised by strong growth, spurred by changing consumer perceptions and demand. Demand for these products are not limited to middle and higher income consumer groups – cheaper fortified foodstuffs and basic nutraceuticals can be profitably offered to lower income consumer groups as well.

Agri-Vie is evaluating a number of companies in the functional food and nutraceutical sector. These include companies serving middle class markets with a range of retail products as well as companies in East Africa focusing on the food relief and food by prescription markets.

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Sources: ADSA (Association of Dietetics in South Africa), Agriculture and Agri-Food Canada, Cosgrove J 2009: Tablet and Capsule Trends – Nutraceuticals World, Institute of Food Technologists, 2008, Aluko, Rotimi: Functional Foods and Nutraceuticals, www.foodfacts.org.za, proprietary research.