GO WITH YOUR GUT

THE GROWING GUT-HEALTHY FOOD SECTOR SHOULD HAVE CPG PLAYERS AND PE INVESTORS RUMBLING

Everyone has been unlucky enough to experience a misbehaving stomach—but in many cases it’s caused by more long-term issues than that day-old sushi from lunch.
It almost goes without saying: These lingering gut issues are a big problem. Every year, 60 million to 70 million Americans are impacted by unhealthy gut issues.\(^1\)

And besides causing discomfort, gut issues can lead to larger health issues—approximately 70\% of the body’s immune system is connected with the digestive tract\(^2\) and gut health has a direct impact on mental health and the brain.\(^3\)

With stakes this high, it’s no wonder Americans are less and less willing to let gut issues lie and are instead searching for solutions. In fact, Google searches for digestive or gut health have grown 42\% over the past five years, as illustrated in Exhibit 1.

While age, genetics and exercise, as well as food, beverage and medication intake, can all influence gut health, millions of consumers looking to improve their gut health are turning to gut-healthy foods to get the job done.

Given this growing level of consumer awareness and alignment with macro health trends, the gut-healthy food sector may represent an
attractive investment opportunity for both CPG players and PE investors alike.

**Consumers Hungry for New Gut-Healthy Foods**
Consumers’ and nutritionists’ views on gut-healthy food have been steadily expanding, paving the way for new categories to experience meaningful growth through increased awareness and distribution.

Historically, nutritionists prescribed traditional high-fiber foods like grains, cereals, bran and prunes as gut enhancers, thanks to their ability to keep things moving. In more recent years, many consumers were also turned on to mainstream dairy-based probiotic foods like yogurt, kefir and soft cheeses, which help maintain a healthy balance of bacteria in the gut.

Now, nutritionists and consumers are starting to think more broadly about gut-healthy foods that are rich in fiber or probiotics. As a result, a variety of non-traditional gut-enhancing consumer packaged goods categories are growing rapidly. These new solutions are not your grandma’s prunes.

1. **Probiotic juices**
Probiotics help keep gut bacteria in line, and having healthy bacteria increases immune response. Aside from yogurts, probiotics have recently found their way into juices, which consumers find convenient and tasty and generally associate with being healthy.

The overall probiotics category is itself growing like bacteria. The global probiotic market is over $35 billion and is expected to grow to over $50 billion by 2022. Within this larger market opportunity, probiotic beverages have started to catch on with consumers.

**Companies to watch**
**GoodBelly.** This brand makes probiotic-enhanced juices and three-ounce shots to give consumers a quick, high-dose probiotic fix. Consumers love the product: Eighty-three percent reported feeling a benefit and 71% have continued to buy the brand a year later. The company, which had estimated sales of
$25 million to $50 million,\(^7\) saw high double-digit revenue growth in 2015. As a result of this impressive growth, GoodBelly is now the top-selling functional juice in the natural category.\(^8\) It’s currently owned by NextFoods and has distribution in 7,000 stores across the country, including natural and traditional grocers.

**KeVita.** This probiotic-infused sparkling juice, kombucha and tonic water brand was founded in 2009 and is targeting revenues of $100 million by 2019.\(^9\) Every drink is made with organic, non-GMO, sustainably sourced ingredients and comes loaded with 4 billion CFUs (colony-forming units) of probiotics. Its success is thanks in part to a trial distribution partnership with PepsiCo, letting KeVita use the larger brand’s refrigerated trucks to reach distribution points.\(^10\) KeVita is also sold at a host of natural and traditional grocers, as well as at drug and mass stores.

**2. Lacto-fermented vegetables**

Lacto-fermented vegetables like kimchi and sauerkraut pack a probiotics punch thanks to fermentation, while cabbage in any form helps promote the growth of healthy colon bacteria.\(^11\) These fermented foods can contain up to 100 times more probiotics than many supplements and are also outstanding sources of nutrients such as vitamin K2, which helps prevent heart disease.\(^12\) Consumers are taking notice of these benefits and have a keen interest in trying new foods. In fact, U.S. Google search volumes for sauerkraut and kimchi have increased at a compound annual growth rate of 6% and 8%, respectively, since 2011.

Given these benefits, it’s no surprise that the $24 billion global market for fermented products is expected to grow 8% annually through 2020.\(^13\)

**Companies to watch**

**Wildbrine.** This Northern California–based raw fermented foods manufacturer makes sauerkrauts, kimchis, pickles and salsas. The company says the naturally occurring cultures in their products provide a probiotic boost that strengthens the immune system and helps to promote and maintain a healthy
digestive tract. After starting up in 2011, they expanded to a 10,000-square-foot production facility last year to accommodate growing national demand. That includes distribution in 48 states and Canada via natural grocery chains like Whole Foods, better-for-you traditional grocers like Wegmans and independents.

**Farmhouse Culture.** This West Coast–based brand, founded in 2008, offers five different organic krauts, as well as probiotic beverages. The brand positions itself as a crafter of organic probiotic-rich products that are “nutrient dense and offer insanely delicious taste experiences.” The krauts come in proprietary pouches with “ferment-o-vents” to let the living microorganisms inside breathe.

Farmhouse Culture is currently distributed mostly in better-for-you and specialty grocers like Whole Foods and Sprouts, but they’re also testing distribution at Costco.

Thanks to increasing distribution and growing same-store sales, the brand is experiencing double-digit growth under new CEO John Tucker, formerly of Dave’s Killer Bread and SO Delicious.

**3. Lentil-based snacks**

Lentils are high in fiber, which aside from promoting a healthy gut, can also help people lose weight, build muscle and stay energized while protecting their hearts. Lentil-based snacks are somewhat of a holy grail for health-conscious consumers, as high-fiber snacks have traditionally been few and far between.
The $148 billion U.S. snack market is appetizing as a whole—snacks represent 40% of all packaged foods sold, and they’re growing at twice the rate of staple packaged goods.\textsuperscript{15}

Within this already hot market, vegetable chips, including bean and lentil chips, are growing even faster: The category exploded to $200 million in sales in 2015 from essentially nothing a decade ago and is up 22% so far this year over 2015.\textsuperscript{16}

**Companies to watch**

**Beanitos.** These bean chips come in three varieties (black, pinto and white bean) across 10 SKUs. Each serving packs six grams of fiber—or 20% of the average daily recommended intake—vs. just one gram in Lay’s Classic Potato Chips. Beanitos was started by two brothers in 2009 and hit high double-digit growth in 2014 and triple-digit growth in 2015.\textsuperscript{17} This growth is courtesy of expanding distribution, including more than 20,000 U.S. and 30,000 global doors across traditional and national grocers, mass, c-stores and liquor stores.

**The Good Bean.** Not to be limited to just beans, The Good Bean makes fruit and no-nut bars in addition to all-natural bean chips and chickpea snacks. Instead of nuts, the bars contain chickpeas rich in fiber and protein and have 40% to 60% less fat than competing fruit and nut bars. Each serving of chickpea snacks also has as much fiber as two cups of broccoli, as much protein as an egg and as much folate as three cups of spinach. The Good Bean was launched in 2010 and grew at a 300% compound annual growth rate from 2010 to 2014\textsuperscript{18}—reaching $4 million in sales by the end of 2014\textsuperscript{19}—and was projected to hit $10 million in sales in 2015.\textsuperscript{20} Distribution is steadily growing along with sales: Good Bean products are sold in more than 1,000 stores nationwide, including...
natural and traditional grocery stores, and the brand is hoping to get into c-stores next. While eating gut-healthy foods may not be a panacea for all gut issues, the demand for a wide variety of functional foods that support digestive health is certainly on the rise. These products have stomachs rumbling across the country, so wise observers will go with their gut instincts and consider investing in this fast-growing foods category.

AUTHORS
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