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## Low-carb deals seen jumpstarting food industry profits

Reuters, 01.25.04, 2:55 PM ET

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By Deborah Cohen

CHICAGO (Reuters) - The current low-carbohydrate dieting craze has produced a high-growth niche market that major U.S. food makers like Kraft are expected to cash in on, according to industry experts.

That flurry of activity in the otherwise slow-growing food sector could lead to a host of small-scale buyouts within about a year, the experts said.

"Their antennas are up," said Ken Harris, a partner with food industry consulting group Cannondale Associates Inc. "This is the current version of low-fat," he added, referring to the last big dieting trend to sweep the food industry.

Digestion pains from big deals like Kraft Foods Inc.'s 2000 buyout of cookie maker Nabisco and General Mills Inc.'s 2001 purchase of frozen foods concern Pillsbury have largely subsided. Having wrenched cost savings from those mergers, big companies are now tuning into products that adherents to the Atkins and South Beach diets are scarfing up like gangbusters.

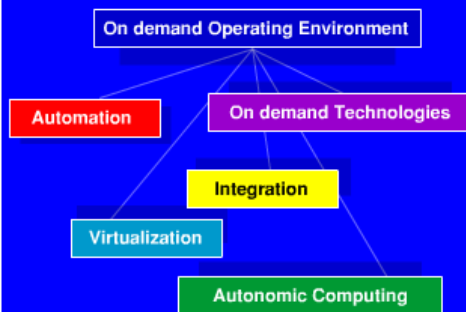
Those diets eschew carbohydrates like bread, sugar and pasta in favor high-protein foods and those made with sugar alternatives such as Splenda. While criticism from the traditional medical community abounds, consumers seem undeterred, motivated to fend off rising obesity rates and other unhealthy trends.

In fact, sales of low-carb products, including food, books and other items, could double to nearly \$30 billion in 2004 from about \$15 billion last year, according to research from The Valen Group, a Cincinnati, Ohio, consulting firm. Valen estimates that nearly 20 percent of all U.S. adults will consider a low-carb diet in the next year.

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**BIG FOODIES SEEN HUNTING FOR IDEAS**

Big multinationals decline to discuss their acquisition strategies, but the attendance list at a low-carb conference in Denver, Colorado, last week seemed to indicate that interest in the category is high.

The meeting, coordinated by the start-up trade publication LowCarbiz, included representatives from Kraft, PepsiCo Inc.'s Frito-Lay division, Hershey Foods Corp., General Mills Inc., Tyson Foods Inc. and Hormel Foods Corp., among others.

More than 400 attendees sampled offerings from little-known food makers like La Tortilla Factory, Low Carb Creations, Mr. Cookie Face and Baja Bob's.

Large public food companies such as Unilever Plc. and Hain Celestial Group Inc. have already jumped into the market with their own low-carb lines. But experts said others are to likely buy into the category, getting a jump-start on research, manufacturing and brand development.

Acquisitions were in fact a chief strategy when the craze for so-called functional foods such as soy protein took off in the late 1990s, resulting in a host of small buyouts. Among them were Kraft's purchase of veggie burger maker Boca, Kellogg Co.'s addition of meat alternative manufacturer Worthington Foods, and Dean Foods Co.'s acquisition of soy milk producer White Wave.

"I'm getting calls from M&A guys asking who I might recommend," said Dean Rotbart, LowCarbiz's executive editor. "And at the (Denver) meeting, I've been approached by two companies saying they want to get sold."

One motivation from the manufacturing side is that demand for low-carb products in some cases currently outstrips supply by more than 30 times, according to producers.

Even the largest of the niche players like Keto Foods & Snacks and Carbolite Foods Inc., could have a hard time meeting large-scale orders for big retailers jumping into the category, including Wal-Mart Stores Inc. and Kroger Co.

**WAL-MART MUSCLES IN**

Each of Wal-Mart's Supercenter stores now has a large fixture in the middle of its main aisle piled high with low-carb foods. Individual stores determine which products to stock, a company spokeswoman said.

The world's largest retailer is close to introducing a store-brand version of low-carb offerings, industry sources said, a move that would surely overshadow attempts by smaller players to

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carve out space on Wal-Mart's shelves. Wal-Mart spokeswoman Danette Thomson would not discuss details, but said such a plan represents an "opportunity for us."

That could help close the price gap on low-carb products, whose higher ingredient costs make them two to five times more expensive than mainstream foods. For example, an 8-ounce box of Keto spaghetti costs \$4.99, compared to 99 cents for some store brands.

At the Colorado meeting, several private equity firms were snooping about the product samples, which included a new line of chips and cookies from sandwich maker Blimpie International Inc., and candy bars from Russell Stover.

"We're talking to several companies right now," said Todd Sanders, chief executive of Sunset Holdings International Ltd., a Los Angeles private equity firm. He is pursuing a "rollup" plan to bring together several small, low-carb manufacturers under a larger umbrella that could eventually draw the attention of a large bidder.

Atkins Nutritionals, the company started by the late Dr. Robert Atkins, founder of the diet that bears his name, has already caught the attention of investment bank Goldman Sachs, which recently purchased a stake. Analysts speculate that an IPO may be in the offing.

(With reporting by Emily Kaiser in Chicago)

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