

# MATERIALITY OF **NUTRITION**

ARE FINANCIAL MARKETS MISSING  
THE VALUE OF HEALTHY FOOD?



June 2024

## EXECUTIVE SUMMARY

This report analyses 20 global food manufacturers<sup>1</sup> with total revenues worth USD 6.63 trillion in 2022, representing 10% of the global food and beverage market, and compares the healthiness of their food product portfolios with their profits and market valuations. This analysis seeks to identify if investors are missing economic opportunities by not investing intentionally in companies with healthier food portfolios. For example, if companies with healthier food portfolios have higher earnings before taxable income (EBIT) compared to companies with unhealthy food portfolios then this would be a clear signal to investors that “health is wealth”.

Considering the data limitations of the report listed below, the results to date are tantalising. First, they suggest that there is significant variability within the food companies on Health Star Rating (HSR) scores and EBIT correlations and that stratification is key to identifying investments that generate health and wealth. Second, they suggest that there is not a strong association between unhealthy food (low HSR) and high EBIT, which is reassuring, even considering the small sample sizes. Third, smaller companies with broad food portfolios appear to have the greatest chances of producing a positive association between healthy food (higher HSR) and EBIT. Finally, the results suggest that with the right approach, health-wealth wins can be achieved that benefit society, companies and investors.

Improved company disclosures and additional analysis will be required to more fully answer this question, however, the key points from our analysis are as follows:

- **The foods routinely eaten across the world continue to fall short of the minimum standards for healthy and sustainable diets.**<sup>2</sup> Today, unhealthy diet is the leading global cause of disease, disability and premature death, and one of the top two risk factors for non-communicable diseases (NCDs). Further, unhealthy food products cost employers, through reduced productivity and increased costs, and place a significant burden on society (estimated to reduce GDP by an average of 3.3%, and average life expectancy by three years by 2050).
- **Food companies are failing to disclose sufficient information to enable investors to properly price in the impacts of nutrition.** This is a missed opportunity for companies with a positive story to tell. The threat of regulation is growing and companies producing unhealthy food products are likely to be most impacted. This also creates a risk for investors attempting to assess those companies. Any reduction in long-term growth forecasts as a result could materially affect valuations<sup>3</sup>.
- **There is an opportunity for investors and society to mitigate risk and realise gains by encouraging companies to regard nutrition as material and switch to healthier food product portfolios.** We examine a scenario where companies with broader, unhealthy, food product portfolios switch to healthier alternatives.

<sup>1</sup> All are included in the Access to Nutrition Initiative's (ATNI) 2018 and 2021 Global Index reports.

<sup>2</sup> Global Nutrition Report 2022: The state of global nutrition. Bristol, UK: Development Initiatives. Available at [link](#).

<sup>3</sup> Discounted cash flow valuations will be particularly impacted since the long-term growth estimate is a key determinant of the terminal value which often accounts for over 80% of the overall estimated company value. By way of illustration: cutting forecast long-term growth by 1% could reduce the terminal value by a third (assuming 8% growth reduced to 7% and a discount rate of 10%).

Not only would the costs to society related to the consumption of unhealthy food products decrease, but if one assumes these companies generated higher margins as a result (in line with their healthier peers), then the companies could generate nearly USD 350 million of extra profits (EBIT<sup>4</sup>) and add value to the tune of USD 60 billion if EV<sup>5</sup>/EBIT<sup>4</sup> multiples are considered.

- **Thirteen companies see nutrition as a strategic opportunity** and many are keen to ensure the issue of nutrition is flagged to analysts during earnings calls. However, **only seven regard nutrition as a sufficiently material issue** to warrant raising in the context of their earnings calls discussions with analysts.
- **Six companies<sup>6</sup> with broader, healthier food portfolios have a higher average profit (EBIT) margin (15.2%) than the average for their peers<sup>7</sup> with broader, unhealthy food product portfolios (13.4%).**
- However, **five companies<sup>8</sup> with narrower, unhealthy, food product portfolios have a higher average margin (16.7%) compared to their peers with narrower, healthier food product portfolios<sup>9</sup> (10.4%).** The higher average profit margin of this group is particularly influenced by two companies (Coca Cola and Keurig Dr Pepper) that have very strong brands and generate significant revenues (and profits) from selling soft drinks while controlling costs by outsourcing a portion of their bottling operations. However, there is significant overlap between the two groups in terms of their individual EBIT margins and the range of EBIT margins is wide.
- **The six companies with broader, healthier food portfolios have a higher average EV/EBIT valuation ratio than their unhealthy peers.**
- When other valuation metrics are used the picture is more mixed and there is less evidence that the market is favouring companies with healthier food product portfolios.
- **Analysis of a sample of the Annual Reports of the 20 companies showed that only two (Coca Cola and Grupo Bimbo) disclose targets relating to nutrition and only two (Danone and Grupo Bimbo) acknowledge their Health Star Rating.<sup>10</sup>**
- **Analysis of transcripts and Annual Reports of a sample of the 20 companies showed that nutrition is rarely mentioned as a risk despite the growing threat of regulation** but frequently mentioned (albeit often briefly) as a strategic opportunity responding to consumer demand.

[Read the full report](#)

4 EBIT: Earnings Before Interest and Tax – a measure of profitability designed to be more comparable across companies and regions because it excludes the impact of differing debt levels and different tax regimes.

5 Enterprise Value (EV) combines the market capitalisation of the company with its net debt to provide a proxy for the market value of operating assets.

6 Campbell Soup Co, Conagra Brands Inc, General Mills Inc, Kraft Heinz Co, Suntory Beverage & Food Ltd, Nestlé SA.

7 Ajinomoto Co Inc, Unilever PLC.

8 Keurig Dr Pepper Inc, Tingyi (Cayman Islands) Holding Corp, Coca-Cola Co, Mondelez International Inc, PepsiCo Inc.

9 China Mengniu Dairy Co Ltd, Danone SA, Grupo Bimbo SAB de CV, Inner Mongolia Yili Industrial Group Co Ltd, Kellanova, Meiji Holdings Co Ltd.

10 The 2021 ATNI Global Index report identifies more companies disclosing some form of nutritional target and/or discussing the nutritional profile of their food products but doing so outside their Annual Reports and not using externally verified systems such as HSR.

**Limitations of the report:**

There are two major caveats to this preliminary finding. First, our sample size (19) is small. This is because health star rating (HSR) scores are only available for a few public companies across their portfolios. Stratifying the sample reduces the sample sizes further. For example, when examining smaller companies with broader food portfolios, we are comparing the EBIT of five smaller companies that have a higher HSR with only one smaller company that has a lower HSR.

Second, demonstrating association between HSR and EBIT does not establish causation. Our analysis does not prove that healthier food portfolios are a driver of higher profits, merely that there appears to be an association between HSR and EBIT which could be driven by an unidentified third factor.

A next step towards uncovering the materiality of nutrition for company economic performance would be to increase the sample size (e.g. to at least 100 companies) and conduct additional multiple regression work that can ensure a more comprehensive approach to accounting for multiple firm characteristics and better address the correlation versus causation issue. This could provide a stronger guide to investors on the features that strengthen the positive relationship between HSR and EBIT.

The report warns investors that regulation will increasingly put companies which produce mostly unhealthy foods at risk. Further research may consider financial forecasting under various regulation scenarios, such as wider use of, salt reduction measures, marketing restrictions and mandatory reporting requirements for food and beverage companies to identify the potential impact in terms of reduced sales and profits from unhealthy foods which these regulations seek to achieve.

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Planet Tracker is an award-winning non-profit financial think tank aligning capital markets with planetary boundaries. Created with the vision of a financial system that is fully aligned with a net-zero, resilient, nature positive and just economy well before 2050, Planet Tracker generates break-through analytics that reveal both the role of capital markets in the degradation of our ecosystem and show the opportunities of transitioning to a zero-carbon, nature positive economy.

## ABOUT ACCESS TO NUTRITION INITIATIVE

The Access to Nutrition Initiative (ATNI) is a global nonprofit improving market performance by challenging key actors in the food system – starting with industry – to accelerate access to affordable, nutritious food for all, especially for society’s most vulnerable. ATNI’s vision is a world where markets contribute to providing access to nutritious and affordable diets for all, preventing deaths and illness from diet-related diseases. ATNI’s strategic goal is to transform markets so that at least half of companies’ food & beverage sales are derived from healthier products by 2030 and contribute to healthy, sustainable diets for all.

## FOOD & LAND USE PROGRAMME

Programme goal: to align capital markets with a sustainable global food system. Before 2050, Planet Tracker’s Food and Land Use Programme will highlight the investment risks and opportunities associated with the just and equitable transformation of the global food system that eliminates negative externalities with respect to climate, nature, and health so that it is fit to feed the world’s growing population within planetary boundaries. By highlighting these risks and opportunities, Planet Tracker’s Food and Land Use programme will influence financial markets actors to actively support and fund this transformation.

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