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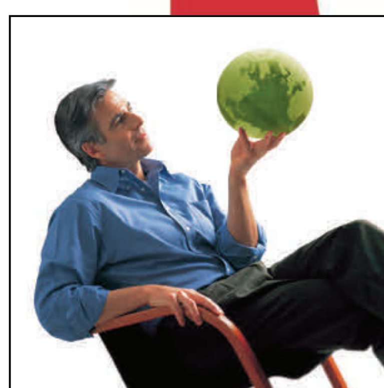
MARKET ANALYSIS REPORT | OCTOBER 2013

Food Intolerance Products in the United States

Lactose-free, Gluten-free and Diabetic Food

Source: Shutterstock



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EXECUTIVE SUMMARY

- The number of American consumers diagnosed with food intolerances is a growing issue. Intolerances can vary from mild discomfort to a total inability to process or digest certain types of foods. The most common intolerances are to lactose, gluten, and sugar (diabetes).
- While celiac disease (an allergic reaction to gluten) affects a relatively small number of Americans, the gluten-free diet has continued to grow in popularity, becoming the driving force for food intolerance products. Consumers are seeking higher levels of energy and comfort by avoiding gluten, even though they do not suffer from celiac disease, and athletes and celebrities adopting the diet have made it trendier.
- Lactose-free products have developed a presence in grocery stores over the years, leading to the maturity of this sub-category, although new products continue to be launched.
- Increasing numbers of people suffering from obesity has led to an increase in the diagnosis of type 2 diabetes. As a result, this sub-category continues to grow rapidly, with companies launching products to meet those who have been diagnosed and those in pre-diabetic conditions.
- Overall, the food intolerance category has seen significant growth over the past few years, and it is expected to continue to grow over the forecast period.

Source: *Mintel GNPD, 2013.*

Source: *Mintel GNPD, 2013.*

INSIDE THIS ISSUE

> "Combined, lactose-free and gluten-free foods represent 78% of the total food intolerance market, and both are popular even among consumers who want, rather than need, to avoid lactose and/or gluten."
>
> -Euromonitor, 2013

MARKET SIZES

The food intolerance category has been growing steadily since 2007 at a compound annual growth rate (CAGR) of 1.6%. Sales in 2012 totalled US$2.6 billion, and this category is expected to continue to grow over the next five years at a CAGR of 3.8%, reaching sales of US$3.2 billion in 2017 (constant 2012 prices) driven mostly by mass market sales of gluten-free food.

In 2012, the largest sub-category of the food intolerance category was lactose-free food, which accounted for 62% of retail value sales. Gluten-free food and special baby milk accounted for 15% and 12% of retail value sales, respectively. Gluten-free food was also the fastest growing sub-category over the reviewed period, growing at a CAGR of 16.7%. While this growth rate is not expected to continue over the forecast period, as the category becomes saturated and consumers move on to the next diet fad, gluten-free food sales are still expected to grow at a CAGR of 8% over the next five years.

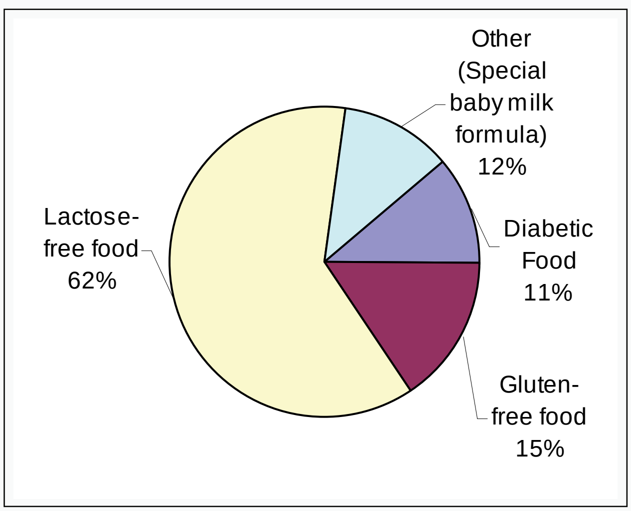
Food Intolerance Products, U.S. Market Size in Current Prices, US$ Millions

Category	2007	2008	2009	2010	2011	2012
Food intolerance	2,463.7	2,528.2	2,537.1	2,542.1	2,635.3	2,662.7
Diabetic food	234.5	258.3	281.2	293.8	298.9	301.9
Gluten-free food	187.4	225.5	262.7	307.9	349.6	405.1
Lactose-free food	1,764.7	1,755.4	1,686.7	1,645.5	1,681.2	1,645.7
Other (special baby milk formula)	277.2	289.0	306.5	294.8	305.7	310.1

Food Intolerance Products, Forecast U.S. Market Size in Current Prices, US$ Millions

Category	2013	2014	2015	2016	2017	CAGR % 2013-17
Food intolerance	2,781.7	2,888.3	2,978.2	3,099.4	3,224.7	3.8
Diabetic food	314.2	325.8	335.0	345.1	355.7	3.2
Gluten-free food	461.3	508.1	550.3	590.7	628.7	8.0
Lactose-free food	1,778.2	1,824.6	1,861.6	1,926.3	1,995.8	2.9
Other (special baby milk formula)	228.0	229.8	231.4	237.3	244.5	1.8

Food Intolerance, Category Distribution by Retail Value Sales in the U.S., 2012



Source for all: *Euromonitor, 2013.*

MARKET SIZES (continued)

According to Euromonitor International, in 2012, food intolerance products were purchased in supermarkets or hypermarkets 96.8% of the time.

Mead Johnson Nutrition Co. claimed 20.5% of all food intolerance retail value sales, followed closely by Abbott Laboratories Inc., which had 18.3% of sales. Mead Johnson Nutrition Co. has benefitted from the lactose-free baby milk formula and other special baby formula items to increase its total value share. These products are located under “other” (specialty baby milk formula).

Amongst the most popular brands in the food intolerance category are Enfamil (Mead Johnson Nutrition Co.) and Lactaid (Johnson and Johnson Inc.), both products for lactose intolerance. Three brands belonging to Abbott Laboratories Inc. are found in the top ten brand shares: Isomil, Similac and Alimentum. All three brands have products for infants and toddlers, illustrating this company’s presence in the baby food sector.

Shares of the U.S. Food Intolerance Market by Company
Historic Retail Value, % Breakdown

Company	2007	2008	2009	2010	2011	2012
Mead Johnson Nutrition Co.	-	-	23.6	21.1	20.7	20.5
Abbott Laboratories Inc.	22.0	21.1	20.1	19.3	18.5	18.3
Johnson & Johnson Inc.	13.5	13.8	13.9	13.5	13.1	13.0
Fifty50 Foods	6.9	7.5	8.0	8.4	8.3	8.3
Smart Balance Inc.	-	-	-	-	1.2	5.0

Top 10 Brand Shares (by Global Brand Name) in the U.S. Food Intolerance Market
Historic Retail Value, % Breakdown

Brand	Company name	2007	2008	2009	2010	2011	2012
Enfamil	Mead Johnson Nutrition Co.	-	-	23.6	21.1	20.7	20.5
Lactaid	Johnson & Johnson Inc.	13.5	13.8	13.9	13.5	13.1	12.9
Fifty 50	Fifty50 Foods	6.9	7.5	8.0	8.4	8.3	8.3
Isomil	Abbott Laboratories Inc.	12.3	11.2	9.6	8.7	7.8	7.4
Similac	Abbott Laboratories Inc.	4.5	4.6	5.1	5.4	5.6	5.8
Alimentum	Abbott Laboratories Inc.	5.2	5.4	5.4	5.2	5.1	5.2
Udi's	Smart Balance Inc.	-	-	-	-	-	3.6
Gerber	Nestlé SA	-	-	-	4.5	3.8	3.4
Land O'Lakes	Land O' Lakes Inc.	3.1	3.2	3.5	3.7	3.5	3.4
Dean's	Dean Foods Co.	2.7	3.0	3.0	3.1	2.9	2.8

Source for both: *Euromonitor, 2013.*

It is worth noting that gluten-free products can be classified in a number of ways by companies. Some consider them to be health and wellness* products, while others consider them to be better-for-you products. Due to the lack of a consistent definition for this sub-category, some companies with gluten-free products may not have been included in the above chart.

For example, General Mills has over 200 products that are certified gluten-free and, while many products are already gluten-free, they are now labelled as gluten-free products to add value and to differentiate these products for consumers.

** Please see page 12 for definitions on health and wellness and better-for-you categories.*

LACTOSE-FREE FOOD PRODUCTS

The lactose-free food category is characterized by products designed for people who are lactose intolerant. The inability to digest lactose, a sugar found in milk and milk products, is experienced by over 60% of the population worldwide. In the United States, it is estimated that there are 33 million people suffering from this intolerance.

Lactose-free food producers have been in the American market for a number of years now, and as a result, top brands and companies in the overall food intolerance sector have a presence in the lactose-free food category.

According to Euromonitor, retail value sales for lactose-free food reached US$1.6 billion in 2012, making up the largest food intolerance category. Lactose-free dairy and lactose-free baby food represented the largest segments of this category, accounting together for 95% of the lactose-free food retail value sales. This category is expected to continue to grow at a CAGR of 3% between 2013 and 2017.

Lactose-free Food Products, U.S. Market Size in Current Prices, US$ Millions

Category	2007	2008	2009	2010	2011	2012
Lactose-free food	1,764.7	1,755.4	1,686.7	1,645.5	1,681.2	1,645.7
Lactose-free dairy	586.0	620.3	646.4	679.5	733.5	701.5
Lactose-free ice cream	51.1	55.6	57.6	60.0	62.0	69.0
Lactose-free baby food	1,127.6	1,079.5	982.7	906.0	885.7	875.2

Lactose-free Food Products, Forecast U.S. Market Size in Current Prices, US$ Millions

Category	2013	2014	2015	2016	2017
Lactose-free food	1,778.2	1,824.6	1,861.6	1,926.3	1,995.8
Lactose-free dairy	744.5	780.0	807.7	844.4	881.1
Lactose-free ice cream	74.1	77.5	80.2	83.2	85.9
Lactose-free baby food	959.6	967.2	973.7	998.6	1,028.8

Source for both: *Euromonitor, 2013.*

Product Example

Source: *Mintel GNPD, 2013.*

Lactose-Free Chocolate Low Fat Milk

Company: Wal-Mart

Brand: Great Value

Product description: This is a lactose-free, chocolate, low-fat, milk product. It is ultra-pasteurized and contains vitamins A & D. It is a Grade A, and kosher-certified drink, which also contains calcium and 1% milk fat. It is packaged in a 1.9-litre carton.

Claims: Economy, kosher, low/no/reduced allergen, low/no/reduced fat, low/no reduced lactose

Price in local currency: US$2.90

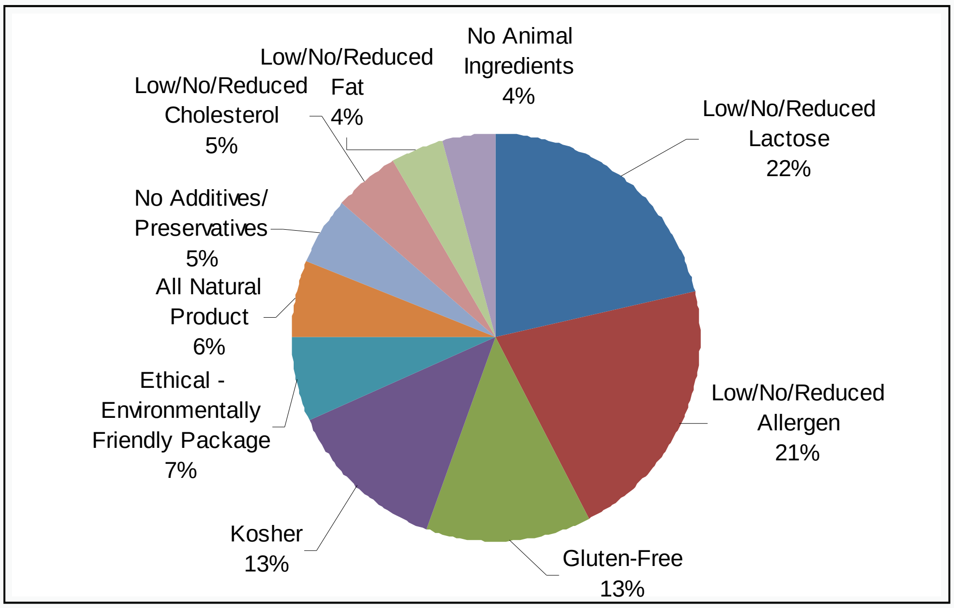
▶ LACTOSE-FREE FOOD PRODUCTS (continued)

According to Mintel's Global New Product Database (GNPD), 279 new products were launched in 2012 that displayed the claim "low/no/reduced lactose", almost double the number launched in 2007. Over 40% of products launched in 2012 were new products, 35% were new varieties and 19% had new packaging.

Dairy was the most popular category, accounting for 39% of all product launches, followed by bakery (12%) and snacks (8%). Among the most popular sub-categories were creamers, rice/nut/grain and seed-based drinks, as well as hard cheeses and semi-hard cheeses.

Aldi, Wegmans and White Wave foods were the top three companies leading the launches of new products. Among their most popular brands were Manischewitz, Wegmans and International Delight.

Other Claims Displayed on Lactose-Free Food Product Launches in the U.S., 2012



Source: *Mintel GNPD, 2013.*

Top Five Brands of New Product Launches in the U.S. Displaying Lactose-Related Claims, 2012

Brand	Number of Products
Manischewitz	12
Jennies Gluten-free Bakery	8
Nestlé Coffee-Mate	8
Wegmans	8
International Delight	6

Source: *Mintel GNPD, 2013.*

Top Five Sub-Categories of New Product Launches in the U.S. Displaying Lactose-Related Claims, 2012

Sub-Category	Number of Products
Creamers	27
Rice/Nut/Grain & Seed Based Drinks	27
Cakes, Pastries & Sweet Goods	11
Hard Cheese & Semi-Hard Cheese	10
Snack/Cereal/Energy Bars	10

Source: *Mintel GNPD, 2013.*

GLUTEN-FREE FOOD PRODUCTS

It is estimated that there are 30 million Americans living with an intolerance or sensitivity to gluten. Furthermore, according to the Mayo Clinic, there are an estimated 1.8 million Americans who have celiac disease. Those suffering from this food intolerance/sensitivity experience abdominal pain, discomfort, fatigue and diarrhea. There is no agreed upon scientific reason as to what creates gluten intolerance, nor an agreed upon definition. The number of people stating they have a gluten intolerance/ sensitivity has risen significantly over the past few years, while other American consumers without this intolerance/sensitivity have begun to adopt this diet as well, with the hopes of feeling more energized and losing weight. The influence of celebrities and athletes adopting this diet has raised its profile. In 2012, the retail value sales of gluten-free foods totalled US$405.1 million, more than double the value in 2007.

Gluten-free bakery products, the largest segment, accounted for 57% of the gluten-free food sub-category. The second-largest segment was gluten-free ready meals (35%).

Having grown from US$187.4 million in 2007 to US$405.1 million in 2012, the gluten-free food sub-category is expected to continue to be the fastest-growing food intolerance sub-category. Euromonitor International estimates this sub-category will grow at a CAGR of 8% over the next five years, reaching US$628.7 million by 2017.

Gluten-free Food Products, U.S. Market Size in Current Prices, US$ Millions

Category	2007	2008	2009	2010	2011	2012
Gluten-free food	187.4	225.5	262.7	307.9	349.6	405.1
Gluten-free bakery products	91.2	109.4	130.4	165.0	191.3	232.4
Gluten-free baby food	-	-	-	-	-	-
Gluten-free pasta	17.2	21.1	23.3	24.9	26.3	27.7
Gluten-free ready meals	79.0	95.0	109.0	118.0	132.0	145.0

Gluten-free Food Products, Forecast U.S. Market Size in Current Prices, US$ Millions

Category	2013	2014	2015	2016	2017
Gluten-free food	461.3	508.1	550.3	590.7	628.7
Gluten-free bakery products	271.2	300.4	325.5	348.9	371.2
Gluten-free baby food	-	-	-	-	-
Gluten-free pasta	29.6	31.3	33.0	34.0	35.4
Gluten-free ready meals	160.5	176.3	191.8	207.8	222.1

***Source for both:** Euromonitor, 2013.*

Product Example

***Source:** Mintel GNPD, 2013.*

Gluten-free Corn Bread Stuffing

Company: SB Glutino

Brand: Glutino

Product description: Glutino's Corn Bread Stuffing is a kosher-certified product, retailing in an 8-oz. pack featuring Facebook and Twitter logos.

Claims: Gluten-free, kosher, low/no/reduced allergen, social media

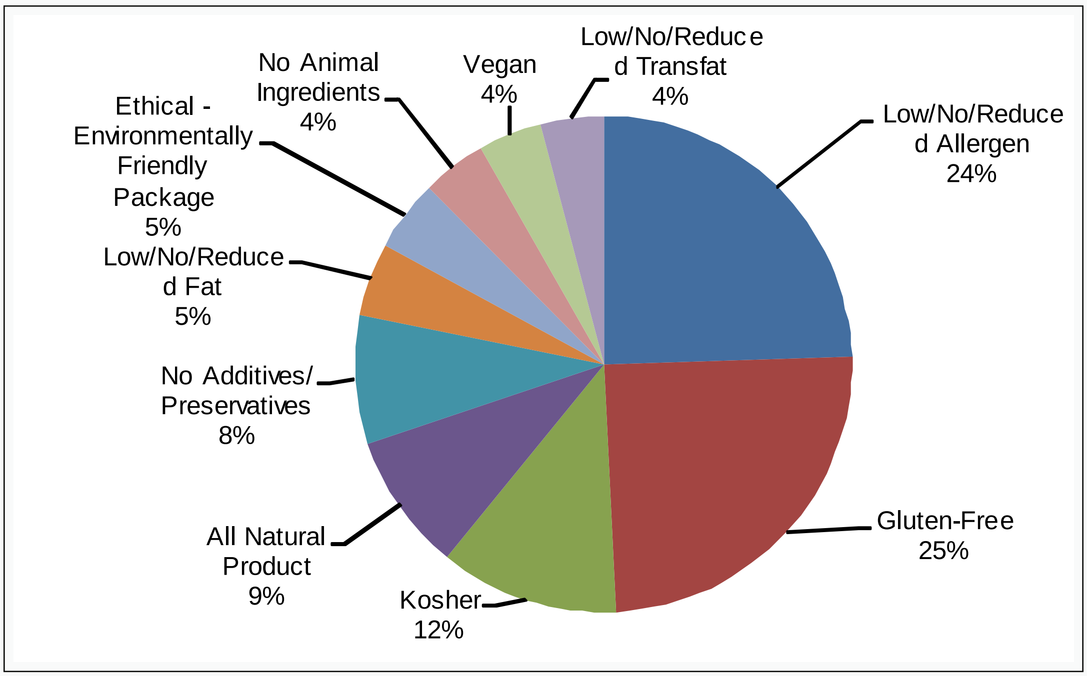
Price in local currency: US$4.99

GLUTEN-FREE FOOD PRODUCTS (continued)

Mintel's Global New Product Database showed a total of 1720 new product launches between January and December 2012 with the claim "gluten-free". The total number of new launches in 2012 was 2.8 times higher than it was in 2007. Over 40% of launches were new products, 30% were new varieties or range extensions, and 22% were new formulations. The variety of launches demonstrates the popularity and increased growth this category has experienced over the last few years.

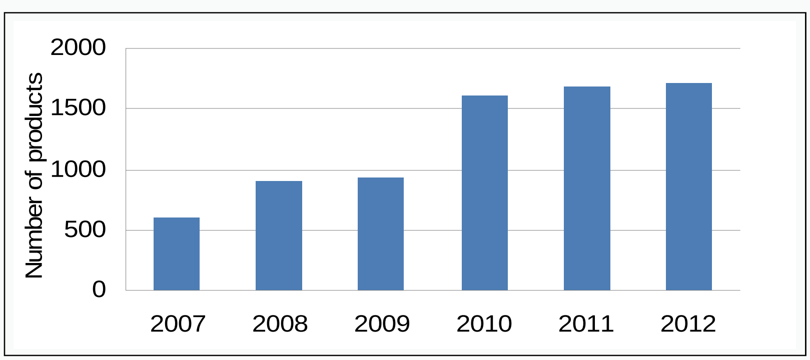
Snacks were the most popular category, accounting for 24% of new product launches. Dairy was the second-most popular category, accounting for 13% of new launches, followed by sauces and seasonings (12%). Among the most popular sub-categories were snack/cereal/energy bars, meat products and fruit snacks.

Other Claims Displayed on Gluten-Free Food Product Launches in the U.S., 2012



Source: *Mintel GNPD, 2013.*

New Product Launches in the U.S. Displaying "Gluten-Free" Claims , 2007-2012



Source: *Mintel GNPD, 2013.*

Top 10 Companies of New Product Launches in the U.S. Displaying "Gluten-Free" Claims, 2012

Company	Number of Products
1. Aldi	91
2. General Mills	26
3. Wegmans	25
4. Supervalu	24
5. Yoplait	23
6. Trader Joe's	21
7. H-E-B	20
8. Nestlé	18
9. Kroger	18
10. Hormel Foods	17

Source: *Mintel GNPD, 2013.*

DIABETIC FOOD PRODUCTS

The United Sates Centers for Disease Control (CDC) reported that in 2012, 26 million Americans suffered from diabetes. It also stated that 79 million Americans have pre-diabetes, with blood sugar levels lower than can be diagnosed as diabetes but above average. The CDC forecasts that by 2050, 30% of the American population will be diabetic.

In 2012, sales of diabetic food totalled US$301.9 million, growing at a CAGR of 5% since 2007. The diabetic food sub-category was mostly comprised of diabetic bakery products, with 94% of all products belonging to this segment.

In the forecast period, diabetic bakery products will continue to dominate this sub-category, with a CAGR of 3% over the next four years.

Diabetic Food Products, U.S. Market Size in Current Prices, US$ Millions

Category	2007	2008	2009	2010	2011	2012
Diabetic food	234.5	258.3	281.2	293.8	298.9	301.9
Diabetic bakery products	218.9	242.5	264.1	276.0	280.6	283.3
Diabetic confectionery	11.9	12.1	13.1	13.6	13.9	14.2
Diabetic spreads (excl. honey)	3.6	3.8	4.0	4.3	4.4	4.4

Diabetic Food Products, Forecast U.S. Market Size in Current Prices, US$ Millions

Category	2013	2014	2015	2016	2017
Diabetic food	314.2	325.8	335.0	345.1	355.7
Diabetic bakery products	294.9	306.0	314.7	324.3	334.4
Diabetic confectionery	14.6	15.0	15.4	15.7	16.0
Diabetic spreads (excl. honey)	4.6	4.8	5.0	5.1	5.2

Source for both: *Euromonitor, 2013.*

Product Example

Source: *Mintel GNPD, 2013.*

Lower Sugar Maple & Brown Sugar Instant Oatmeal

Company: Supervalu

Brand: Essential Everyday

Product description: This product claims to contain 66% less sugar than the standard Maple & Brown Sugar Instant Oatmeal. It is kosher certified, microwaveable and made with 100% wholegrain, retailing in a 12-oz. eco-friendly pack with 10 x 1.2-oz. packets.

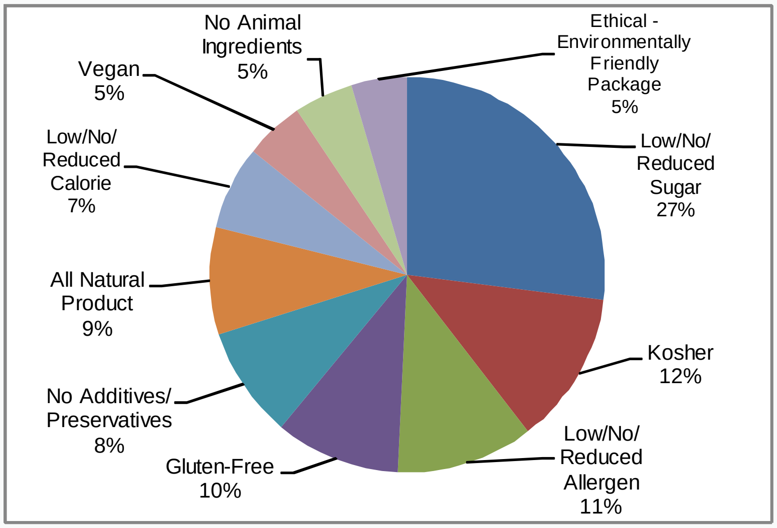
Claims: Cardiovascular (functional), economy, ethical - environmentally friendly package, kosher, low/no/reduced sugar, microwaveable, time/speed, wholegrain

Price in local currency: US$2.14

DIABETIC FOOD PRODUCTS (continued)

A search of Mintel's Global New Products Database found a total of 27 new products launched between January and December 2012 displaying a "diabetic" claim. Over 45% of launches were new products, 33% were new packaging and 11% were new varieties or range extensions. Many American consumers are living with pre-diabetes, and therefore new products may not necessarily be classified as diabetic, but as products containing low or reduced sugar. An expanded search of the claims "diabetic" and "low/no/reduced sugar" yielded 453 products. A total of 43% were new product launches, while 27% were new varieties or range extensions, and 23% were newly packaged. These 453 new products also used other claims, such as "kosher," "low/no/reduced allergen" and "gluten-free." Snacks and sugar and gum confectionary were the two most popular categories, accounting for 23% and 20% of new launched products. Gum, fruit snacks and snack/cereal/energy bars were the three most popular sub-categories.

Other Claims Displayed on Diabetic Food Product Launches in the U.S. , 2012



Source: *Mintel GNPD, 2013.*

Top Five Sub-Categories of New Product Launches in the U.S. Displaying Diabetic Claims, 2012

Sub-Category	Number of Products
Gum	64
Fruit Snacks	45
Snack/Cereal/Energy Bars	40
Pasta Sauces	14
Other Natural Sweeteners	13

Source: *Mintel GNPD, 2013.*

Top Five Brands of New Product Launches in the U.S. Displaying Diabetic Claims, 2012

Company	Number of Products
Wrigley	29
Kraft Foods	23
Kroger	11
Atkin's Nutritionals	10
Whole Foods Market	9

Source: *Mintel GNPD, 2013.*

CONCLUSION

- The food intolerance category will continue to grow at a forecast CAGR of 3.8% over the next five years.
- The gluten-free trend will slow over the forecast period. However, it will continue to be the driving force of the food intolerance category. As younger adults (25-44 year olds) are more willing to say they are gluten intolerant/sensitive, they will be more demanding and expect to see more products tailored to their dietary requirements.
- As the numbers of Americans with overweight and obesity problems continue to rise, so will the number of people needing specialized products related to diabetic and pre-diabetic conditions. New products addressing sugar-related issues will be well received by this segment of the population.
- Overall, as consumers continue to seek better-for-you products, and to consume healthier foods, food intolerance products will be well received, particularly from a large segment of the population that does not necessarily need, but perceives, a health benefit from consuming these products.

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DEFINITIONS

Please note the following definitions from Euromonitor regarding the categories and sub-categories for this report:

Food intolerance: This category includes gluten-free, lactose-free and diabetic food. Typically these foods can be characterized as products made to look and taste like a food that normally contains a product that can cause a food intolerance or allergy. Examples include gluten-free bread, or lactose-free milk. This excludes foods that are certified 'free' of a specific product when this is based on use of sterilized equipment. Distinction should be made between the terms food allergy and food intolerance. Food intolerance is an adverse food-induced reaction that does not involve the immune system. Lactose intolerance is one example of food intolerance. A food allergy occurs when the immune system reacts to a certain food. Avoidance is the only way to prevent an allergic reaction.

Diabetic food: With Type 1 diabetes (once known as insulin dependent diabetes mellitus [IDDM]) the body destroys the cells in the pancreas that make insulin. Type 1 diabetics produce little or no insulin themselves and are dependent upon insulin medication. With type 2 (most common) diabetes, the pancreas still makes insulin, but not enough to meet the body's needs. In some cases, enough insulin is made, but the body is unable to use it. Type 2 diabetes is often affected by obesity and can sometimes be controlled by maintaining a proper body weight, eating right, and exercising. It has been referred to as non-insulin dependent diabetes mellitus (NIDDM). Some type 2 diabetics will need medications or insulin injections to help control their diabetes. Although diabetics can control symptoms through diet alone, there tends to be a range of 'diabetic' products available. Only products positioned as 'diabetic' are included. Standard sugar-free or reduced-sugar products are excluded.

Gluten-free food: These products are designed for people with an intolerance to wheat, and specifically for people with Celiac disease who suffer from a life long inflammatory condition of the intestinal tract caused by gluten, a protein found in wheat, rye, oats and barley. Damage from gluten reduces the body's ability to absorb nutrients from food. The only treatment is a strict gluten-free diet. Specially manufactured gluten-free foods that are labelled as such are often available to replace flour, bread, biscuits and pasta. Products that are naturally free from gluten are excluded.

Lactose-free food: Lactose intolerance is the inability to digest significant amounts of lactose, the predominant sugar of milk. Common symptoms include nausea, cramps, bloating, gas, and diarrhea. Certain ethnic and racial populations are more widely affected than others. Lactose-free milk and other products are available at many supermarkets. The milk contains all of the nutrients found in regular milk and remains fresh for about the same length of time or longer if it is super-pasteurised. Food products that may contain lactose include: baked goods, cereals, instant potatoes, soups, margarine, lunch meats, salad dressings and products labelled 'non-dairy' such as coffee creamer. Products that are naturally free from lactose are excluded, with the exception of soy-based ice cream positioned as lactose free.

Health and wellness: Health and wellness is the aggregation of organic food and beverages, fortified/ functional food and beverages, naturally healthy food and beverages, better for you food and beverages and food intolerance products.

Better-for-you: This category includes packaged food and beverages products where the amount of a substance considered to be less healthy (fat, sugar, salt, carbohydrates) has been actively reduced during production. To qualify for inclusion in this category, the "less healthy" element of the food stuff needs to have been actively removed or substituted during the processing. This should form part of the positioning/marketing of the product. Products which are naturally fat/sugar/carbohydrate -free are not included.

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