

CRAIN'S

CHICAGO BUSINESS.

February 23, 2018

Why everyone's rushing to make a nutritional bar



Phyter Foods of West Chicago was founded by Gloria Athanis, David Choi, center, and Jeff Adeszko.

RXBar's zero-to-\$600 million story has become the stuff of Chicago entrepreneurial legend. But though the four-year-old Chicago maker of snack bars, acquired in October by Kellogg, has the highest-profile story, a handful of other companies are also racing to innovate in a category buffeted by rapidly changing consumer tastes.

Players range from mom-and-pop operations like Phyter Foods to consumer packaged-goods stalwarts like PepsiCo. Pepsi's Naked Juice brand—which is run from both Monrovia, Calif., and Chicago, where Pepsi houses its "nutritional" businesses—is rolling out Naked Fruit, Nut & Veggie Bars that will be available for \$2.29 apiece in grocers' refrigerated produce sections. With flavors like

Green Machine (apple, kale and pistachios), the Naked bars have no preservatives and less-processed ingredients, according to a spokeswoman, but can last for a few hours in a purse or desk.

Big Food has a big reason to get on board: As Mondelez International CEO Dirk Van de Put explained during an investor conference on Feb. 20, Americans' longer workdays and commutes are spiking interest in convenient, healthy foods. "Time is compressed," he said. "As a result people snack more both in between meals and as a replacement of meals." And so the \$1.3 trillion snack category is where packaged-foods companies need to be.

Or as RXBar co-founder Peter Rahal puts it: Because the barriers to entry are low and **demand for "clean" snacks is high**, "every asshole can make a bar."

The largest—and perhaps lowest-profile—bar-centric company is Downers Grove-based Hearthside Food Solutions, a contract manufacturer of nutritional bars, cereal bars and other products. Co-founded in 2009 by Rich Scalise, a longtime Conagra executive with decades of experience in frozen and bakery foods, Hearthside has grown from \$145 million in sales its first year to more than \$1.45 billion in 2017 through a combination of organic growth and acquisitions.

During the company's early years, cereal bars still dominated the snack bar market and accounted for most of Hearthside's sales. But Scalise had a hunch: "Nutritional and energy bars had taken a pretty big hit in 2008, but we thought as the economy came back and clean labels became popular, bars with functional ingredients like protein and fiber were going to take off."

His bet proved prescient. Bars as a whole—the category includes meal replacement, "performance," and cereal and granola bars—saw the strongest absolute dollar growth in the U.S. snack market between 2013 and 2016, increasing \$633 million to more than \$5.6 billion, according to Nielsen. Nutritional bars now make up a third of Hearthside's business.

That growth attracted high-profile investors. Goldman Sachs and Vestar Capital Partners, a New York private-equity firm, purchased Hearthside from its previous investor owner, Chicago-based Wind Point Partners, for about \$1.1 billion in 2014. Today, its owners are **reportedly shopping the company** for more than twice that much.

These days, Scalise says, Hearthside's consumer packaged-goods clients are looking for simple-ingredient bars. The rising popularity of ready-to-eat food and increasing concern about added sugar and preservatives have sent "clean-label" nutritional bars through the roof. Mordor Intelligence projects the clean-label market to grow at a compounded annual rate of 6.8 percent, hitting \$47.5 billion in the U.S. by 2023.

Creating a bar with only a handful of ingredients that also tastes good requires a lot of research-and-development firepower. To boost Hearthside's R&D ability, the company acquired Standard Functional Foods of Nashville, Tenn., in December.

"(Powdered) protein on its own is not great-tasting," Scalise says. "The challenge is how to get a nice, clean label on a product that actually tastes good. We're also seeing more vegetable-based

protein, like pea protein, and nutraceutical bars like probiotic bars," which purport to provide medicinal benefit.

Smaller local players are also trying to break into the simple-ingredient bar world. At Phyter Foods in West Chicago, co-founders Gloria Athanis, Jeff Adeszko and David Choi are hoping to bring refrigerated fruit- and vegetable-based puree bars to the mainstream.

Launched in late 2016 at the Whole Foods in Englewood, the bars are the result of Choi's background growing up in a vegan Korean household and working at his family's restaurant for nearly a decade. He began making his own bars while a student at the University of Illinois at Chicago, when he wanted something vegan and tasty during 15-minute breaks between classes.

The company's four flavors of bars, including a sweet-potato-and-coconut option Choi says was inspired by carrot cake and a beet-and-cocoa take on a brownie, use nut butters and purees instead of shelf-stable dates to hold the concoction together. As a result, Phyter bars—which retail for \$2.69 apiece—live in the refrigerated section of groceries. (They can, however, live in one's bag for a few hours.)

Initially supported by a \$500,000 investment from Adeszko, who had previously sold a manufacturing business in the pharmaceutical industry, Phyter was picked up in all 50 Midwest Whole Foods locations last year. In November, the company received a \$1 million investment from Sustainable Local Investment Group, **a network of angel investors** that supports Chicago-area food companies, to go national.

"We certainly see more growth coming," says Athanis, who leads Phyter's marketing. "Unlike the bars that use dates and are very sticky, the texture of our bars is cake-like. The biggest single ingredient is pureed fruits and vegetables." The bars are also organic, kosher and vegan, without gluten, soy, dairy or preservatives, she says. That makes Phyter an appealing option for health-conscious shoppers who avoid the inner aisles of the grocery store, where traditional processed foods and most shelf-stable nutrition bars are.

Meanwhile, RXBar's Rahal says his company is preparing to expand to the U.K. and will roll out a line of products beyond bars this spring. He's keeping mum about details but says it will be an entirely new offering. "We view RXBar as a platform for clean-label nutrition, not just bars," he says. His company, which employs 120 people, is moving to new River North headquarters in April and will grow to nearly 200 people by year-end, he says. "Consumers want these products, retailers want these products, and it's our job to identify and deliver what they want."