



The Motley Fool.
To Educate, Amuse & Enrich™

Will Dunkin Brands Whitewash Investor Sentiment?

Rich Duprey | May 15, 2014

It's the whitest stuff on earth. Used in everything from toothpaste to paint, titanium dioxide whitens the milk you drink, the Oreos you eat, and provides a protective coating on planes, trains, and automobiles. But Dunkin' Brands (NASDAQ: DNKN) drew the attention of one shareholder activist organization because it was sprinkling TiO₂ nanoparticles on its powdered doughnuts, and that's just a horse of a different color.

TiO₂ is a white pigment, some 4 million tons of which are consumed annually worldwide, and it accounts for 70% of the total production volume of pigments globally. And while the Food and Drug Administration has approved its use as a food color additive as well as a "food contact substance" in food packaging, nanoparticles of titanium dioxide are a very different animal altogether, with a growing body of research that suggests they may be dangerous to human health. The agency says "nanomaterials can have different chemical, physical, or biological properties than their conventionally scaled counterpart materials," while the EU believes the risk of toxicity must be determined on "a case-by-case approach."



Source: Hostess.

Shareholder advocacy group **As You Sow** discovered last year that Dunkin' Donuts, Hostess, and several other industry manufacturers were using TiO₂ nanoparticles in their food. It wasn't necessarily opposed to nanoparticles being used, but stated companies could face "significant liability and reputational risk" by using nanomaterials in consumer products. It wanted Dunkin' to identify the products in which it used nanoparticles and to discuss what was being done to reduce or eliminate the risk to human health until they were deemed safe.

After raising its concerns with Dunkin', it introduced a shareholder resolution for the doughnut maker's investors to vote on because the company failed to acknowledge their presence. **As You Sow** said it's introduced resolutions at other companies before over the issue, but subsequently withdrew them because the companies engaged in "productive dialogues." Not so with Dunkin' Brands, so the resolution was the first of its kind to be put to a vote.

Dunkin', though, says the FDA hasn't issued final regulations about nanoparticle use, and that there's "no agreed upon method for analyzing a product" for their presence. While it conducted an investigation with its suppliers into the ingredients, the doughnut shop concluded they didn't meet the FDA's draft standards for nanoparticles and said that "the proposal represents the potential for a diversion of resources with no corresponding benefit to the Company, our customers or our shareholders at this time.."

Although the resolution failed in the sense that it didn't pass muster with a majority, over 18% voted in favor of it, or almost 1 in 5 shareholders supported the measure. That's still a substantial bloc of investors believing Dunkin' Brands ought to do more on this issue, enough that its board of directors should take notice.

As You Sow thinks it's risky for Dunkin' to continue to use these ingredients. It contends that they don't meet the FDA's

definition, draft though it may be. Yet, like the larger debate over labeling for genetically modified organisms, with such a big running start, there's a sense of inevitability that Dunkin' will need to voluntarily identify which products contain TiO₂ nanoparticles in the end -- better still, to avoid using them at all.

Since the measure did fail, Dunkin' Brands is within its rights to ignore the proposal. With nearly a fifth of its shareholders supporting the measure, however, management and the board whitewashes the importance of the vote at their peril.