Beyond Meat is going public: 5 things to know about the plant-based meat maker

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Beyond Meat has a surprising number of competitors and plans to expand around the globe

Beyond Meat

Beyond Meat, the company created by vegan Ethan Brown in 2009, is planning to go public to raise the money it needs to grow its line of plant-based meats.

The maker of the Beyond Burger, which is sold at Whole Foods and restaurant chain TGIF, set terms for the deal on Monday, saying in a regulatory filing that it plans to offer 8.75 million shares priced at $19 to $21 each. The company would raise $183.8 million at the top of that range and be valued at $1.21 billion. It has applied to list on Nasdaq under the ticker symbol “BYND”.

Goldman Sachs, JPMorgan and Credit Suisse are lead underwriters on the deal with BofA Merrill Lynch, Jefferies and William Blair acting as co-managers. The company, which also makes pork and poultry products, has not yet set a price range or specified how much it is aiming to raise, using the placeholder sum of $100 million in its **prospectus.**

Proceeds of the deal will be used to expand current manufacturing facilities and open new ones, to finance research and development and to boost sales and marketing, along with the catchall “general corporate purposes,” according to the prospectus.

“As a young adult, I enjoyed a career in clean energy but continued to wrestle with a question born of these early days: do we need animals to produce meat?,” asks Brown, who is chief executive as well as founder of Beyond Meat, in a letter included in the prospectus.

The letter explains how Brown set out to understand the history of human consumption of meat, acknowledging that it helped spur the increase in brain size that allowed our ancestors to become hunters, not scavengers, and led to the development of agriculture.

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But the toll taken on human health, the environment, natural resources and animal welfare is a high one, he says, listing as examples of unintended consequences such illnesses as cancer, heart disease and diabetes.

“Livestock emerged as a major contributor of greenhouse gas emissions, with related burdens on land, energy, and water,” says the letter.

Brown argues that humans do not need to fully abandon meat, but to change the definition to one that considers composition and structure-—amino acids, lipids, trace minerals, vitamins and water.

Those core elements are not exclusive to animals, but exist in the plant kingdom too, he says.

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“The animal serves as a bioreactor, consuming vegetation and water and using their digestive and muscular system to organize these inputs into what has traditionally been called meat,” he writes

“At Beyond Meat, we take these constituent parts directly from plants, and together with water, organize them following the basic architecture of animal-based meat. We bypass the animal, agriculture’s greatest bottleneck.”

Beyond Meat's **BYND, +0.00%** strategy is to place its products in the meat case at its grocery partners with the aim of persuading meat lovers to try it out. The company does not try to market to vegans and vegetarians, who account for less than 5% of the U.S. population. The Beyond Burger is now available at about 11,000 of its 17,000 grocery-store customers in the U.S., says the prospectus.

It is also available at Canadian fast-food restaurant chain A&W.

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Here are five things to know about Beyond Meat ahead of its IPO:

It has never made a profit

Beyond Meat has successfully grown its revenue over the years, but has yet to produce a profit. In the first nine months of 2018, the company generated revenue of $56.4 million, more than double the $21.1 million posted in the year-earlier period, and more than the $32.6 million posted for all of 2017.

But its net loss in the nine-month period came to $22.4 million, only slightly less than the $23.4 million loss posted in the year-earlier period. The company's loss for 2017 came to $30.4 million, wider than the $24.1 million loss posted in 2016.

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"We anticipate that our operating expenses and capital expenditures will increase substantially in the foreseeable future as we continue to invest to increase our customer base, supplier network and co-manufacturing partners, expand our marketing channels, invest in our distribution and manufacturing facilities, hire additional employees and enhance our technology and production capabilities," the prospectus cautions. "Our expansion efforts may prove more expensive than we anticipate, and we may not succeed in increasing our revenues and margins sufficiently to offset the anticipated higher expenses."

Investors should also note that like many companies when they first go public, Beyond Meat is not planning to pay a dividend in the foreseeable future. That means investors must rely on stock gains to generate returns.

It has some big ambitions

Beyond Meat is expecting the alternative meat category to become a multibillion-dollar market over time and to take significant share from the $1.4 trillion global market for meat. The company is planning to mimic the strategy used by the plant-based dairy industry, which currently is the same size as about 13% of the dairy milk industry at about $2 billion in 2017.

"The success of the plant-based dairy industry was based on a strategy of creating plant-based dairy products that tasted better than previous non-dairy substitutes, packaged and merchandised adjacent to their dairy equivalents," says the prospectus.

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Using that same strategy could boost the plant-based meat category to the same proportion of the roughly $270 billion meat category in the U.S. — or $35 billion in the U.S. alone.

The company has launched in Europe via contracts with three distributors and reports strong interest from European grocery and restaurant chains. It is planning to open manufacturing facilities in Europe in 2020. It also has a local distributor in Hong Kong and expects to expand in Asia over time.

It has a surprising number of competitors

Plant-based meat may sound like a niche market, but Beyond Meat says it is operating in a highly competitive environment. The company is competing with other plant-based protein makers, including Boca Foods, Field Roast Grain Meat Co., Gardein, Impossible Foods, Lightlife, Morningstar Farms and Tofurky. But it also views traditional meat companies as rivals, including such giants as Cargill, Hormel Foods Corp., JBS , , Tyson Foods Inc. and WH Group , the owner of Smithfield.

Those companies have far more money and resources and their products are already widely accepted by consumers.

"They may also have lower operational costs, and as a result may be able to offer conventional animal meat to customers at lower costs than plant-based meat," the prospectus says. "This could cause us to lower our prices, resulting in lower profitability or, in the alternative, cause us to lose market share if we fail to lower prices."

Alternatively, traditional food companies may decide to acquire makers of plant-based foods and launch their own alternative protein products, using their size and scale to gain market share.

It needs a lot of one special ingredient

The main ingredient in Beyond Meat's products is pea protein, an extract of yellow peas, which it currently sources from Canada and France. However, it has one single supplier of the protein, which represented 79% of net revenue in the first nine months of 2018. The company has already suffered supply interruptions from this supplier that caused delays in delivery.

The price of pea protein is vulnerable to a range of factors, from poor harvests caused by bad weather to natural disasters and pestilence, as well as changes in economic conditions and the number of farms that grow them.

Beyond Meat says it is working to diversify its supply chain and lock in prices through long-term contracts.

It does not have fixed contracts with co-manufacturers

A significant amount of Beyond Meat's revenue stems from products that are made at facilities owned by co-manufacturers, including CLW Foods LLC and FLP Food LLC. CLW Foods is a California-based producer of ground beef, while FPL is a Georgia-based beef company.

But the company does not have written contracts with either company, meaning they could end or change the relationship at any time.

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“We believe there are a limited number of competent, high-quality co-manufacturers in the industry that meet our strict quality and control standards, and as we seek to obtain additional or alternative co-manufacturing arrangements in the future, there can be no assurance that we would be able to do so on satisfactory terms, in a timely manner, or at all,” says the prospectus.

In the meantime, it is embroiled in litigation with a former co-manufacturer, Don Lee Farms. That company filed a suit against Beyond Meat in California in 2017, claiming its contract was wrongfully terminated and that the company shared trade secrets with subsequent co-manufacturers.

Beyond Meat filed a cross-complaint alleging that Don Lee Farms breached its contract when product was contaminated with salmonella and it failed to take actions to address that issue.

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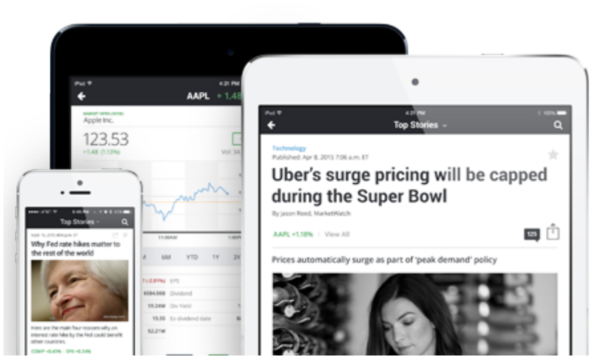
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