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This is nut loaf, will Beyond Meat crash?

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By: **Jamie Powell**

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US stock markets lurched on Monday on fears that the Sino-US trade war was going nuclear.

Amid the carnage, a host of recent IPOs suffered serious share price declines: a newborn Uber closed the day down just under 11 per cent, Lyft fell 5.8 per cent, and video conference business Zoom ended at $72.15, over 6 per cent below its opening mark.

But one IPO stock sailed through these troubled waters serenely, the tsunami of macro-noise barely touching its bows. That company was Beyond Meat, the $4.8bn maker of plant-based meat substitutes, including its flagship product, The Beyond Burger, which raised $240.6m (https://www.ft.com/content/afe0e4e6-6c5b-11e9-

80c7-60ee53e6681d) when it listed on the Nasdaq two weeks ago.

Its shares finished the day up 6.2 per cent to $69.50, and, following another 14.7 per cent run on Tuesday, it is now up an eye-popping 219 per cent since it priced at $25 on May 2.

So why the euphoria?

Pull up the financials, and the most striking thing is how ludicrously small the business is relative to its colossal $4.8bn valuation. In 2018, it recorded just $87.9m of revenues, and made an operating loss of $30m. That's a trailing price to sales ratio of 48 times.

Investors aren't paying for the present, however. They're after Beyond Meat's share in an imagined future where the $1.4tn global meat-market has been replaced by a smorgasbord of engineered products that satisfy even the most ardent of carnivores. Products which, crucially, don't contribute anywhere near the same level of damage to either vaguely Instagrammable animals, or the environment.

And make no mistake, the latter point is fundamental to Beyond Meat's valuation, and its rival Impossible Foods' recent $300m funding round (https://www.ft.com/content/85cc077e-757c-11e9-be7d-6d846537acab) (featuring storied investors such as Jaden Smith, Questlove and Trevor Noah).

It's not hard to see why. According to a report (http://www.fao.org/3/a-i3437e.pdf) by the Food and Agriculture Organization of the

United Nations, livestock accounts for 14.5 per cent of all human-induced greenhouse gas emissions. This figure takes into account carbon output from the entire supply chain, from farm energy consumption to the transport shuffling flesh across the globe. Cattle, both through milk and beef, is the biggest contributor, at around two-thirds of total livestock emissions.

Extend meat production's negative externalities further than carbon output, and the numbers are equally as eye-opening. Animal production accounts for 29 per cent of water use in global agriculture, according to a 2013 study (https://www.sciencedirect.com/science/article/pii/S2212371713000024) by Gerbens-Leenes, Mekonnen and Hoekstra, but uses up to 80 per cent of agricultural land. That's 26 per cent of Mother Earth's ice-free surface, according to (http://www.fao.org/animal-production/en/) the FAO. Cattle again is the biggest culprit, using 60 per cent of agricultural land, but only contributing around 2 per cent of calories consumed, per a 2012 report on deforestation (https://www.ucsusa.org/sites/default/files/legacy/assets/documents/global_warming/Solutions-for-Deforestation-Free-Meat.pdf). An efficient use of space and resources, it is not.

(One secondary effect that is not discussed is how the scarcity of land generated by livestock farming has propped up land values elsewhere, and therefore home prices, across the developed world, and what might happen if livestock farming stops being a viable business. But that's another thought for another day.)

This is a boon to Beyond Meat and its

competitors because whether you believe in climate change or not, the political forces pushing for environmentally driven economic reform are in the ascendancy. For instance, 11 of 2020's Democrat (https://www.atr.org/here-s-every-democrat-who-supports-ocasio-cortez-s-crazy-green-new-deal?amp) hopefuls, including Bernie Sanders, Kamala Harris and Pete Buttigieg, have thrown their weight behind the "Green New Deal" — a radical set of reforms (https://www.vox.com/energy-and-environment/2018/12/21/18144138/green-new-deal-alexandria-ocasio-cortez) designed to ensure America does its part to stave off environmental disaster, while also kick-starting the economy via various demand-side policies. Similar measures have been proposed (https://www.theguardian.com/politics/2019/mar/22/labour-members-launch-green-new-deal-inspired-by-us-activists) by sections of the UK's Labour Party.

Meat has not been explicitly mentioned in the discussion, likely due to the political clout farmers have in swing states. But it's not hard to imagine red meat becoming a battleground in the near future on both environmental and health grounds. Indeed, in some quarters, the culture war over meat consumption has already begun.

That's just the supply side of the equation. On the demand side, vegetarianism and veganism are on the rise. The Economist, no less, ran a piece in December titled "The year of the vegan (https://worldin2019.economist.com/theyearofthevegan?utm_source=412&utm_medium=COM)", noting several trends in the US that suggested 2019 was going to be a pivotal year for the dietary choice. On this side of the pond, the magazine of posh-food peddler Waitrose found that (https://www.globalagriculture.org/fileadmin/files/weltagrarbericht/Weltagrarbericht/04Fleisch/WaitroseReport.pdf) 13 per cent of Brits are now vegetarians, with 21 per cent identifying as "flexiterian".

In short: the secular trends are there: a growing set of beliefs that meat is inefficient, bad for the environment, and bad for your health. Thanks to these factors, various shades of vegterianism are on the rise.

Beyond Meat answers this call. According to an independent study (http://css.umich.edu/publication/beyond-meats-beyond-burger-life-cycle-assessment-detailed-comparison-between-plant-based) by the University of Michigan commissioned by the company, its Beyond Burger:

> . . . generates 90% less greenhouse gas emissions, requires 46% less energy, has >99% less impact on water scarcity and 93% less impact on land use than a ¼ pound of US beef.

Although Alphaville is careful to quote commissioned research for obvious reasons, the statistics above do make intuitive sense. And even if the effects are less pronounced than this, it's still a marked improvement on the current economics.

However, none of this will matter if Beyond

Meat's products doesn't taste as good as the real thing. Convincing veggies to eat plant-based protein is easy; convincing a fanatical carnivore is another thing entirely. Fortunately for our readers, Alphaville has tried the Beyond Burger in all its glory at the local Honest Burger (https://www.honestburgers.co.uk/food/burgers/plant/). It was pretty damn good. Not quite there, but close enough with condiments for this Alphavillian not to care.

However Jemima, as a non-meat eater, wasn't as convinced by the product. She didn't find the patty as overwhelmingly and nauseatingly rich as the bits of burger she's involuntarily had in her mouth when her biennial trip to McDonald's has, inevitably, gone wrong. There's room for improvement then, but it's a marginal leap, rather than a quantum one. The $240.6m of IPO proceeds should help.

So the question for investors isn’t so much whether the tailwinds are in Beyond Meat’s favour but more what per cent of the $1.4tn market can Beyond Meat capture? Let's reverse engineer its $4.8bn valuation, via a competitor, to see what investors reckon is possible at the moment.

Find a trading company as a comparison is difficult, given Beyond Meat is the only pure-play plant-based protein company listed, but let’s go with $29bn Tyson Foods (https://www.tysonfoods.com/who-we-are), who produce 1 in 5 pounds of all chicken, beef and pork in the US.

Tyson, according to S&P Capital IQ data, trades at a price to sales multiple of 0.78 times, and, due to its low 8 per cent margins and GDP-esque growth, a price-to-earnings ratio of 7 times. Revenues and net income were $40bn and $3bn respectively.

Jump in the DeLorean and set the clock to 2023, and the sole analyst with estimates out for Beyond Meat reckons its top-line will be around $940m, with margins a touch above Tyson, at 9 per cent, producing $81m of profits. A revenue multiple of 4.5 times doesn't seem that crazy, if growth of 25 per cent is holding steady. But, at that rate, it will take another five years, through to 2028, to generate the revenues to justify its current valuation. However, that's ten years away and big boy competition is coming.

Tyson, who held a 5 per cent stake in Beyond Meat until just before the IPO, is developing their own line of products, with chief executive Noel White disclosing on a recent conference call they expect to launch a product this summer. While $294bn Nestlé have already launched a range of meat-simulating products (https://www.nestle.com/media/news/nestle-launch-plant-based-burgers) across some key markets. Then, of course, there's Impossible Foods, whose recent success with Burger King have seen its “Impossible Whopper” earmarked for a US roll-out by the end of the year (https://edition.cnn.com/2019/04/29/business/burger-king-impossible-rollout/index.html).

Really, like the pot stocks of last year's mania (https://www.ft.com/content/be81691a-40d2-3dba-a154-94fced8c6769), Beyond Meat's exuberant valuation boils down to execution: can management scale the business into the blue skies ahead of it? Take a view, but no one really knows. And that's ultimately the problem.

But hey, given Beyond Meat is a rare case of an early-stage growth company coming to the market, perhaps its current valuation will one day seem cheap.

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