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CONSUMER FEATURE

Beyond Meat Stock Could Burn Shareholders

By Al Root Updated June 3, 2019 5:45 a.m. ET

Photograph by Will Anderson|, styling by Jumee Park

Beyond Meat stock has been one of the best-performing initial public offerings of the year. Shares of the maker of plant-based burgers, sausages, and "crumbles" have shot up 310% from their May 1 issue price of $25, and about 125% from the stock's opening trade of $46—a sizzling debut that Uber Technologies , Lyft , and most other members of this year's IPO class can only envy.

Key to the stock's success—and Beyond Meat's now $6 billion market cap—has been the company's impressive growth. Sales rose 170% to $87.9 million in 2018, and are expected to jump 140% this year, to $209 million, and 60% in 2020, to $335 million.

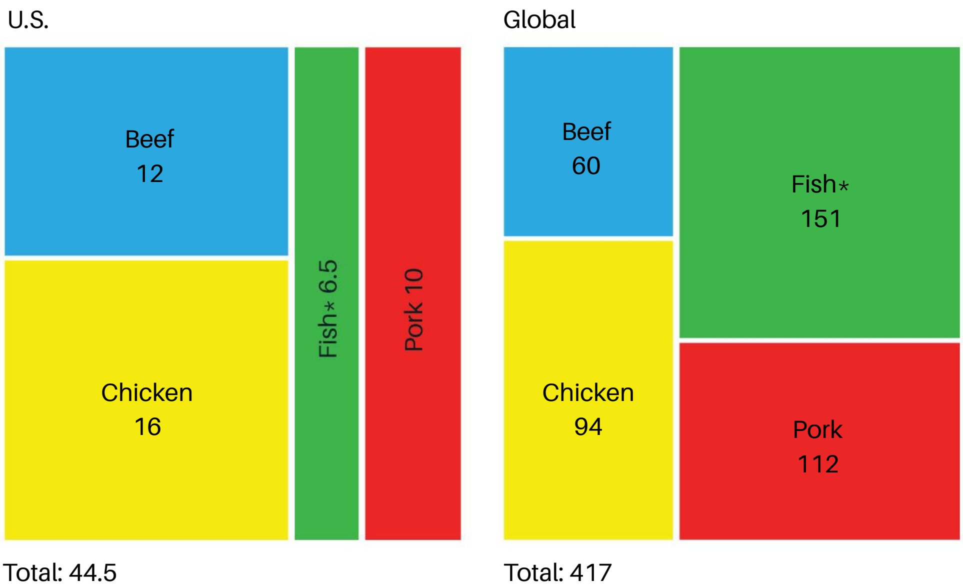
But here's the beef: Those growth forecasts, and much more, arguably are reflected in the stock. Beyond Meat trades for $102, or more than 27 times 2019 estimated sales, which seems, well, beyond excessive for a company that lost $30 million last year and might not turn a profit for a few more years. Packaged-foods stocks generally fetch about two times future sales—and no more than five times in corporate takeovers. Highflying software stocks command only about seven times sales.

Even if the market for alternative meat explodes and Beyond Meat outsells rivals, it is no sure thing that the company can maintain the growth required to justify today's valuation. Google was similarly valued at 16 times forward-year sales shortly after its IPO in 2004. Its sales growth averaged 35% a year over the next decade, and the stock returned 30% a year, handily beating the Dow Jones Industrial Average's 8% annual return in the same span. Then again, Google—now part of Alphabet (ticker: GOOGL)—had been generating profits since 2001, and became one of the dominant players in the biggest, fastest-growing sector of the global economy. Whatever its virtues, Beyond Meat is no Google, even if a recent *Barron's* taste test confirmed that its burgers pair nicely with pickles and a bun.

A Taste for Meat

Chicken and beef are U.S. favorites, while broader world favors fish and pork.

2018 protein consumption by animal type (in million metric tons)



Note: *2017 estimate

Sources: USDA; United Nations; Barron's calculations

Founded 10 years ago, Beyond Meat has hit a cultural sweet spot. The company's meat alternatives are based on pea protein and use no animal products, which ought to please animal-welfare activists, vegetarians, and vegans. Environmentalists worried about climate change also should cheer the growth of the plant-based meat industry, which could generate more than $100 billion of revenue in 15 years, according to J.P. Morgan. Global livestock populations contribute an estimated 14% of all greenhouse-gas emissions, and cows are notorious offenders.

Alt-meat, whether made from veggies or engineered in a lab, likewise could

EDITOR'S CHOICE

be a solution to the problem of feeding a growing, wealthier world. The United Nations estimates that there will be nearly 10 billion people on Earth by about 2050, and that global food production will need to double in the next 30 years.

"We are bringing technology to an industry that is starved for innovation," says David Lee, chief financial officer of Beyond competitor Impossible Foods. "We want to replace livestock."

Impossible Foods has raised more than $750 million in venture capital, including $300 million in its latest funding round, which included investments from institutions and celebrities such as Jay-Z, Trevor Noah, and Katy Perry.

Beyond Meat Key Data

Ticker	BYND
Recent price	$104.21
% Change from IPO price	317%
Market value	$5.5 bil
2019E Revenue	205 mil
2020E Revenue	335 mil
2020E EPS	-0.26

Source: Bloomberg

Lee says Impossible has no plans to go public in the near future, but its ambitions highlight a risk for Beyond Meat: ample and growing competition. Nor is it limited to start-ups: Whole Foods Market, the Amazon.com -owned (AMZN) grocery chain, sells a wide array of vegetable-protein meat substitutes, some designed to look like meat and some designed to taste like it. "We have been making vegetable-protein products for Whole Foods since 2012," says Danny Goodman of Don Lee Farms.

Goodman produced Beyond Meat's Beyond Burger from 2014 to 2017. Beyond Meat processes the pea protein used in its products, which are now made by co-manufacturers. A package of two four-ounce burgers retails for $5.99, more than twice the price of ground beef. The company also sells its products to restaurants and food-service outfits.

Food giants Nestlé (NESN.Switzerland) and Tyson Foods (TSN) are also planning to come to market with alternative-meat products soon. Tyson was an early investor in Beyond Meat and sold its stake before the IPO. Nestlé sells vegetarian and vegan products in the U.S. and Europe through its Sweet

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Earth and Garden Gourmet brands. “The Garden Gourmet Incredible Burger is available in McDonald’s restaurants in Germany,” a Nestlé spokesperson says, noting that the Sweet Earth Awesome Burger is coming to the U.S. this fall.

The trajectory of other packaged-foods pioneers might offer guidance to Beyond Meat’s future. WhiteWave Foods, the maker of Silk-branded soy milk, came public at $17 a share in 2012. The stock never sold for more than 2.5 times sales, and was taken over in 2017 by Danone (BN.Paris) for $56.25 a share. Other acquisitions in the industry, such as General Mills’ (GIS) 2014 purchase of Annie’s Homegrown, an organic-food company, have been done for about four times sales.

Still, Beyond Meat has its fans. J.P. Morgan analyst Ken Goldman initiated coverage of the stock this past week with an Outperform rating and a price target of $97, quickly exceeded. He speculated that at least one major quick-service restaurant chain, or QSR, could become a customer by the end of the year, which could lift the shares further.

That might be good news for vegans—and cows. But it is unlikely to save Beyond Meat shareholders from indigestion.

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