



Rabobank

Talking Points: We Didn't See That Coming

The Biggest Surprise of 2019

RaboResearch

Food & Agribusiness
far.rabobank.com

Nicholas Fereday

Executive Director
+1 347 215 4158

Contents

1) The Hype-P-O of Beyond Meat	1	3) Not for me	3
2) "Burger King? WOW!"	2	4) "The advancing reality" of cultivated meat	4

In this edition we reveal the main surprise from our annual We didn't See That Coming readership survey (we'll cover the others next time), which can be summed up as the 'the rapid growth and consumer acceptance of alternative proteins':

1. **The Hype-P-O of Beyond Meat.** "Of course," wrote one, echoing the responses of many, "the big surprise was the IPO of Beyond Meat and the hype associated with this."
2. **"Burger King? WOW!"** Who could not be surprised that mainstream fast-food restaurants would be in the vanguard of the plant-forward trend?
3. **Not for me.** Many of the criticisms of this plant-forward movement struck a chord with a group of our readers.
4. **'The advancing reality' of cultivated meat.** As one reader noted, "start-ups are on the edge of success and moving forward."

We kick off our first note of the decade by sharing some of the main highlights from our annual 'We Didn't See That Coming' survey of food trends. At the end of every year, for the past five years, we have asked in confidence the simple but highly revealing question: "In the world of food, what surprised you the most over the last twelve months?" As always, we are very thankful for the time respondents found to contribute and eloquently engage with us in this informal survey.

We got some great responses on a plethora of subjects, ranging from Agtech to the demise of zero-based budgeting and all wrapped up in an assortment of sentiments. We heard from the optimistic and uplifting, who felt we were living through a golden era – "what a truly exciting time to be in food!" Others were more world-weary and cynical – "nothing much surprises me anymore" one wrote and another similarly felt she had been here before, saying "many of the identified trends have continued to manifest themselves." One reader lamented how the industry seems to find itself, "chasing every new fad every couple of years" making consumer trends "more and more unpredictable." Another took aim at the whole "foodisphere" and how "a cult of ignorance continues to prevail." Pity too the budding thespian transfixed by indecision, "to eat or not to eat something, that is the question." But before we all shuffle off this mortal coil, in this edition we focus on the main surprise (we'll cover the others next time), which can be summed up as the 'the rapid growth and consumer acceptance of alternative proteins.' For ease of digestion we have broken it into four sections:

1) The Hype-P-O of Beyond Meat

"Of course," wrote one, echoing the responses of many, "the big surprise was the IPO of Beyond Meat and the hype associated with this." To recap, the stock's IPO price in March 2019, was USD 25 per share and hit about USD 65 per share at the end of the first day of trading, making it the best performing first-day IPO since tofu-burgers were the only option on the menu. The stock shot up to USD 235 per share (9.4 times its IPO price) four months later and came down to USD

75 per share by year's end (by mid-January 2020 it was trading at about USD 110 per share, 4.4 times its IPO price.)

As I'm always proud to tell our clients, I'm not an equity analyst, so let's just say there was a lot of commentary on "all the noise around Beyond Meat's IPO." Suffice to say, we heard a lot of conflicting views, with some endlessly enthusiastic and others questioning their valuation – "I didn't expect Beyond Meat's market cap to climb, for a time, above Smucker's", a company established in 1897 with billions of dollars of sales. Many couldn't resist making a dig at Silicon Valley – "who knew we would have an internet-like stock in packaged food?" Some felt the attention, the biggest IPO debut in a generation, was well-deserved; a case of Food 1: Tech 0. As one put it, "the extent to which Beyond Meat had a much more successful IPO than most of the tech unicorns helps prove that food companies are becoming more appealing than tech companies." Another group were surprised that Impossible Foods didn't quickly follow suit with an IPO – "I feel like markets might not be kind next year, even if you are in a hot space". Others felt the reason was the company wanted to scale up first by expanding geographies. Others were left scratching their head at the "overly processed" Beyond Burger and concluding, "I just don't get it?" (more on this below).

More unanimous was the praise for the execution of both Beyond Meat and its nemesis, Impossible Foods, especially in food service (i.e. restaurants). One incumbent wrote, "I work for a grass-fed beef business so we offer an alternative to the dismal industrial meat landscape, but I'll be totally honest: we're d*mn jealous of Impossible Burger's marketing reach, prowess and success." The competition between Beyond and Impossible generated a few comments on who would be the winner, though there is probably room for both of them to take larger slices in the growing veggie pie.

2) "Burger King? WOW!"

The whole meat substitute market remained a source of bewilderment to the readership. Even when readers racked their brains about other surprises, people kept coming back to 'the meat substitution movement' as the top choice. This is a trend that is hanging around thought one, "this time last year there were still so many critics, or people in total denial. I believe most have now accepted it is not a fad." Our global readership reported back that this is fast becoming an international phenomenon. Over in Europe, "Germany and the UK continue to lead in this, but even hold-outs like the Netherlands are catching up, as major producers (and even local butchers!) also include alternatives in their assortments."

And who could not be surprised that mainstream fast-food restaurants would be in the vanguard of this trend? Over the past five years, readers have expressed surprise at meatless meats, alternative proteins, the 'plantification' of food and the rise of flexitarian diets but no one foresaw that their local drive-thru would become the conduit for mainstreaming plant-based foods in the US. Many readers used words like "amazing", "explosive", "meteoric" and "proliferation" to describe "what feels like the universal acceptance of" plant-based meat alternatives in fast-food restaurants. As one put it, "Burger King? WOW!" Others marveled about "the take-up of plant-based diets with people I didn't think were into that." More broadly, "although not a new category, many of us grew up in the "days of soy burgers", the new plant-based choices have "burst onto the scene and are gaining traction." There was surprise too that these new menu additions took center stage in the restaurant's marketing. As one commented, "The extent to which impossible built distribution via Burger King and others, and was featured in their advertising caught me by surprise."

Despite Beyond Meat and Impossible Foods being the darling divas, grabbing most of the headlines, these two companies were not the only plant-based shows in town. A survey respondent described the sheer volume of new entrants as a "tidal wave" and for another, "it feels like a new start-up launches every week." Looking beyond the burger joints, it seemed everyone

was getting on board – “how fast both private label and Big Meat have gotten into the game.” “Even Sysco,” the world’s largest foodservice distributor is rolling out its own vegan burger nationally. The “blend-trend” (meat and plant-based blends) was also noted by some. “Major players like Perdue, Tyson and Compass and Sodexo in food service have introduced blended options and smaller players are doing the same.” At the same time, gaps were emerging. Given the sustainability issues, “where”, one asked “is the action in the plant-based seafood space?”

3) Not for me

It will not come as a surprise that not everyone was a fan. We know that rising stars and runaway successes always attract their fair share of naysayers and critics but many of the criticisms levelled at this plant-forward movement struck a chord with a group of our readers surprised at what was going on. We had quite a few variations on observations such as, “the absurdity of White Castle’s Impossible Slider. A plant burger with real cheese and a nutritional profile that’s inferior to meat. Why bother?” Generally, the critics felt the following issues “plagued the category” some of which were covered in an earlier note ([“To Infinity and BYND”, July 2019](#)):

- **It is a fad.** Despite protestations to the contrary from many readers, others maintained that it was all a fad and over-hyped. One voiced, “it has been ridiculous and there is an assumption that after the hype wears off, plant-based meat alternatives will ride a steep sales trajectory as the category takes share from conventional meat.” Similarly, some felt the amount of hype (relative to the size and arguably the true potential) of the alternative burger category is indicative of an industry focused on “shiny new objects.”

- **But is it healthy?** As well as taste issues, “a lot of the products being offered aren’t very good,” health concerns were often voiced. There was also alarm as consumers switched from dairy to plant-based beverages “with such little regard for their poor comparative nutritional value.” The degree of processing was a worry to some – “people thinking that meat substitutes are better for you and not realizing just how processed this food’ is!” Quite a few readers flagged the potentially negative health impacts of some of these products compared to the real thing.

- **Glaringly inconsistent.** Following on the from the processing critique, one reader noted that many of the products did not, to put it mildly, fit with consumer trends around being clean label or “natural.” “Once the shiny new thing status wears off, these issues are going to bring the category back to reality.” “How,” one asked, “did the 20-year trend around increased transparency and simplicity in food ingredients evaporate with the advent of fake meat.” Another felt it was all going to be a flash in the vegan pan - “This year’s headline ‘speed of fake meat uptake by foodservice’ followed by next year’s headline, ‘What happened to fake meat?’”

- **Carnivorous consumption.** Meat consumption is still [on the rise](#). As one put it, “with all the excitement over Impossible, Beyond, etc., would you believe that beef and other real meat consumption in the US has risen steadily since 2014?” “The US public is eating real meat and the “animal protein market continues to be strong,” suggesting the protein trend is bigger than the plant-based one. “The growth in meat consumption across many developed markets despite the narrative about the demise of natural animal proteins” was a surprise to another notwithstanding the rising concern about climate change and the environment attributing this to our “selfish interests when making food choices.” Some felt that this was in part because plant-based alternatives were not “price competitive with conventional products” and consumers will eventually wise up to “being sold less for more dollars.”

- **Missing the burger picture?** Or are veggie burgers the best route to saving the planet? One asked, “how much money is going to fund the alternative meat sector just because it seems to be a good financial opportunity, without considering whether this will be the most impactful way to solve the related sustainability issues?”

4) “The advancing reality” of cultivated meat

We could go on and on about this market but let’s wrap up with a few quotes on the lab-based (aka, cell-cultured or cultivated meat and animal products). One reader wrote to express surprise at the “the advanced development of cell-cultured milk” and warning that, “if this proliferates it will certainly affect family dairy farms and have an economic impact on rural America.” Similarly, others commented on the “the explosion of investment in cultivated meat and the purported USD 1bn valuation that is being floated for Memphis Meats.” In Israel, Aleph Farms has announced it is breaking ground on the world’s first cell-cultured meat pilot plant. One explained the implications – “people talk a lot about scaling-up as the biggest barrier for cultured meat getting to the market. Well, this shows that these start-ups are on the edge of success and moving forward.”

Imprint

RaboResearch

Food & Agribusiness

far.rabobank.com

Nicholas Fereday

Executive Director

nicholas.fereday@rabobank.com

+1 347 215 4158

© 2020 – All rights reserved

This document is meant exclusively for you and does not carry any right of publication or disclosure other than to Coöperatieve Rabobank U.A. ("Rabobank"), registered in Amsterdam. Neither this document nor any of its contents may be distributed, reproduced, or used for any other purpose without the prior written consent of Rabobank. The information in this document reflects prevailing market conditions and our judgement as of this date, all of which may be subject to change. This document is based on public information. The information and opinions contained in this document have been compiled or derived from sources believed to be reliable; however, Rabobank does not guarantee the correctness or completeness of this document, and does not accept any liability in this respect. The information and opinions contained in this document are indicative and for discussion purposes only. No rights may be derived from any potential offers, transactions, commercial ideas, et cetera contained in this document. This document does not constitute an offer, invitation, or recommendation. This document shall not form the basis of, or cannot be relied upon in connection with, any contract or commitment whatsoever. The information in this document is not intended, and may not be understood, as an advice (including, without limitation, an advice within the meaning of article 1:1 and article 4:23 of the Dutch Financial Supervision Act). This document is governed by Dutch law. The competent court in Amsterdam, the Netherlands has exclusive jurisdiction to settle any dispute which may arise out of, or in connection with, this document and/or any discussions or negotiations based on it. This report has been published in line with Rabobank's long-term commitment to international food and agribusiness. It is one of a series of publications undertaken by the global department of RaboResearch Food & Agribusiness.

