

Buy Beyond Meat

Tom King | April 23, 2020 | [Buy Recommendation](#)

CURRENT PRICE: [BYND](#) \$ 145.35 -\$ 6.03 (-4.0%) CwàG! Yí B~ÅÖG'ÀññAññ yñN ù

America — and indeed much of the world — is cooking at home more. As we struggle to cope with the COVID-19 pandemic and social distancing, we're leaning into comfortable favorites at the dinner table. And what could be simpler than a burger?

Well...maybe not just any old burger. Whether or not you've flirted with vegetarianism, there are strong arguments to be made for cutting back on meat — particularly red meat, which is resource intensive, bad for the environment, and an overall inefficient way to get calories. No, we're not here to guilt you about dietary choices. But just consider a few of the following facts:

Livestock accounts for about 18% of worldwide human-induced greenhouse gas emissions (which is about the same as the contribution of cars and trucks in the U.S.). Livestock takes up 78% of agricultural land if you add in the cropland dedicated solely to producing animal feed, and it uses up 29% of agricultural water. Then there's the 60 billion to 70 billion animals reared for food each year and the health implications of a diet rich in meat.

The good news is that becoming a vegetarian or vegan isn't the only way to counter these issues. Simply cutting back a little bit is a very positive step, too. And this month's recommendation, **Beyond Meat** ([NASDAQ: BYND](#)), takes the sense of sacrifice out of the process. This was the hottest IPO of 2019, but it has taken a big hit in recent months. As a result, we can now buy shares at only about half the price offered up in the company's August 2019 secondary offering and only about a third of its 52-week high.

Not Just a "Veggie Burger"

The company is best known for its Beyond Burger — patties made primarily from pea protein, using a proprietary combination of special ingredients, processing, and equipment to get a beef-like texture, taste, and mouth-feel. It was the first plant-based

BEYOND MEAT IN 1 MINUTE

WHAT IT DOES

Beyond Meat makes plant-based meat substitutes in the United States and internationally. It offers plant-based versions of beef, pork, and poultry in ready-to-cook and ready-to-heat formats.

WHY BUY

- The company's Beyond Burger has been a massive success and is the first plant-based burger sold in the meat case at grocery stores.
- Increasing numbers of restaurants are making Beyond Meat products, including the recent introduction of menu items in China by Starbucks.
- The company is rapidly scaling the business and has a large untapped opportunity in the U.S. and abroad.

BUYER'S GUIDE

- **Industry:** Food
- **Size:** Small cap
- **Region:** U.S.
- **April 22 Price:** \$88.46
- **Allocation:** Many Fools choose to fill out their positions incrementally, starting with a small amount — 2% of their portfolio's overall value, for instance — and adding a little at a time.

burger to be sold in the meat case of grocery stores across the U.S. From there, the company has expanded into other products, including its Beyond Beef (the same product as the Beyond Burger, but suitable for other ground beef recipes) and Beyond Sausage (a very well-reviewed pork sausage substitute).

And outside the grocery store, Beyond Meat products are available at a wide range of restaurants, from chains like TGI Fridays, Carl's Jr., and **Dunkin' Donuts** ([NASDAQ: DNKN](#)) to thousands of individual restaurants. A newer product, Beyond Chicken, is sold as an alternative to nuggets and boneless wings exclusively at **KFC** ([NYSE: YUM](#)) restaurants in the Southeast.

A Beyond Meat burger is similar to the real thing: about the same amount of protein and fat (although Beyond Meat burgers have no cholesterol). There's even a little bit of fiber. They are not meant to be health panaceas, just to come as close as possible to the real thing.

That has translated into remarkable success. It's not often that a company with triple-digit growth can actually accelerate demand, but Beyond Meat has managed it. Sales doubled in 2017, jumped 170% in 2018, and climbed 239% last year. The company has scaled its gross margin to around 35% last year — nearly triple that typical at a commodity meat processor like **Tyson Foods** ([NYSE: TSN](#)).

Although it's not yet profitable, that suggests that the company could be significantly more profitable than a meat processor and probably more in line with a brand-based food company like **Nestle** or even fellow Rule Breaker **Monster Beverage** ([NASDAQ: MNST](#)) — companies with strong, consistent double-digit profit margins. But beyond merely scaling the business, we think Beyond Meat will see a massive amount of sales growth in the years to come.

The Best Alternative

Just how big is this opportunity? One gauge is the success of plant-based milk products (almond milk, soy milk, etc.) versus traditional dairy milk. In 2017, these alternatives had achieved about 13% share of a U.S. market that totals a little more than \$18 billion. Apply that percentage to the U.S. meat market, and it suggests a \$35 billion domestic opportunity for Beyond Meat. Look out to the \$1.4 trillion global meat market, and the opportunity plumps like a sausage on the grill.

And the company is looking beyond the U.S. market. It already has a strong presence in Canada and many European markets, as well as Australia. International revenue (not counting Canada) was 16% of overall sales last year.

That figure should continue to grow. Just this week, the company announced that Beyond Beef will be made available in China for the first time through a partnership with **Starbucks** ([NASDAQ: SBUX](#)). The plant-based menu will include Beyond Meat lasagna and a Beyond Beef Spicy & Sour Wrap, as well as some products using its pork alternative.

KEY DATA

- **Headquarters:** El Segundo, Calif.
- **Website:** [Beyond Meat investor relations](#)
- **Market Cap:** \$5.43 billion
- **Cash/Debt:** \$276.0 million / \$30.9 million
- **Revenue (2017/'18/'19):** \$32.6 million / \$87.9 million / \$297.9 million
- **Earnings (2017/'18/'19):** (\$30.4 million) / (\$29.9 million) / (\$12.4 million)

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[See why Beyond Meat scores a 15 on our unique 25-point Risk Rating.](#)

[See how you can tell if this investment is going right — or wrong.](#)

Indeed, in the wake of the coronavirus, the company has added another benefit to its product: It is inherently safer to make. Multiple meat-processing facilities have been shut down due to the spread of COVID-19, and there is a lot more attention on the animal-to-human origin of many infectious disease outbreaks. The company's plant-based products bypass all that.

Risks and When We'd Sell

Beyond Meat certainly isn't the first company to make a meatless burger, even if its technology makes it among the best. Yet even there, it isn't alone. The Impossible Burger from privately held Impossible Foods is perhaps even higher tech; it uses genetically engineered yeast to produce a naturally occurring plant-based version of hemoglobin, giving its burgers a 100% plant-based yet "bloody" taste. And there's nothing to stop further competitors from entering the market, perhaps with better-received products.

As it is, the company is priced for strong growth, and that assumes not only that it maintains its leading market share in plant-based burgers but also taps into more of the meat market. Nearly 40% of U.S. beef sales are for ground beef, so the company has a great foot in the door with its ground beef alternative. Sausages and chicken nuggets are a great addition. But to keep growing, the company will need to keep improving its products and possibly make alternatives to megapopular cuts like chicken breast.

The company might also experience pricing pressure. Beyond Beef, at around \$10 a pound, is much pricier than even lean organic ground beef. The improvement in gross margin the company has experienced suggests that it could eventually lower prices if that becomes necessary, although so far, there's no sign of slackening demand. Still, reaching a larger market probably requires more competitive pricing.

The Foolish Bottom Line

Remember how we said at the top that we weren't trying to make anyone feel guilty about their food choices? It's true. Being a vegetarian or a vegan has its virtues, certainly, but the success of Beyond Meat isn't about appealing exclusively to this audience. In fact, 95% of the people who order vegan burgers when dining out aren't vegetarians at all — they're just enjoying an alternative. We think that Beyond Meat is doing something positive for the world, but what is making it successful has to do with what's on the plate. We think it's a healthy, no-compromise alternative for your portfolio, too.

Karl Thiel contributed to this report.

DAVID CALLED IT: Do you agree that Beyond Meat will beat the market over the next 3-5 years?
(After voting, buy shares to invest right away or add BYND to your Favorites for alerts later.)

David Gardner owns shares of Starbucks. **Tom Gardner** owns shares of Starbucks. The Motley Fool owns shares of Monster Beverage and Starbucks. The Motley Fool has a [disclosure policy](#).

See the Trends

The Motley Fool thinks buying and holding for at least 3-5 years sets you up for success.



From the Company Page

Last updated June 25, 4:30 p.m.

Current Price	\$145.35	Today's Change	-\$6.03 (-4.0%)
Exchange / Symbol	NASDAQ: BYND	Market Cap	\$9B
Earnings Per Share (Trailing 12 Months)	-\$0.07		



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Market data provided by FactSet and Web Financial Group.