

## BEYOND MEAT (BYND) STOCK UP 8% TODAY to \$80, DOWN FROM A HIGH OF \$230 – WHAT TO DO ?

Date : January 7, 2020

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On June 4, 2019, with meatless products all over the news, BYND was at \$100, *a day later it was \$130* on its way to \$230, and was recently trading at \$74. Our article, from June 4<sup>th</sup>, is below:

<https://www.liptonfinancialservices.com/2019/06/the-impossible-burger-how-will-it-impact-the-restaurant-industry-and-the-consumere/>

The CONCLUSION on June 4<sup>th</sup> was:

“The unanswered question is: how large is the demand, at restaurants, for a product that costs more, has the same calorie count and fat content, has a lot more sodium (which creates high blood pressure), but has no cholesterol and contains useful elements such as Thiamin (which helps with nerve, muscle and heart function), B12 (helps with fatigue) and Zinc (for prostate health)?

We do not expect the introduction of meatless products to restaurant menus to improve sales in any meaningful way. The new meatless products taste fine, by all reports, but we haven't heard anyone say that they taste “better”, and help to justify a higher price. The long term health benefits as described just above are too subtle for most restaurant customers to care much about. Just look at the size, and the nutritional values, of the portions at Cheesecake Factory, Cracker Barrel, and almost everyone else. This, too, in terms of stock market excitement and restaurant industry focus, shall pass.

**TODAY: JANUARY 7, 2020:** The excitement today, again all over the news, is that Impossible Foods is introducing “meatless” pork and chicken, and working on bacon.

Developments over the last seven months include:

- Introduction of meatless burger and chicken products at a great many restaurant chains. Heavy marketing focus has typically been the case, most prominently at Burger King. While a sales increase, in test, at Burger King in St. Louis was indicated as high as 18%, it seems as if the sales increase is no more than 2-3 basis points at Burger King after the systemwide rollout. In a much smaller example, Del Taco sales have seemed to grow by 3-4% with a marketing focus on meatless products. There have been many other introductions, including breakfast sausage at Dunkin' but specific sales results have not

been provided, and that is likely indicative of less than spectacular results.

- There has been a serious amount of negative publicity, including a Sixty Minutes piece talking about the fact that meatless products are far from a healthful option. As we described in our article, consumers of the new products are replacing cholesterol, as well as some calories and fat content, with five times as much sodium.
- An anti-anti-meat (that means pro-meat) lobbying effort has emerged which, among other things, is advertising the healthful aspects of balanced nutrition, including meat products.

## UPDATING OUR CONCLUSION:

Meatless products will have the greatest impact in the burger business, because that's what the consuming public, especially at lunch, orders the most frequently, and beef has more cholesterol and fat, depending on the cut, than pork, chicken, or fish. Still, no chain will have an edge, because an entry will be everywhere. The producers, Beyond Meat, Impossible Burgers, and the rest, will sell quite a bit of product but at lower margins than they now predict because they, too, will be competing for market share.

We think the quantity of product converted from "natural" to "processed" will be far less with the pork, chicken or fish versions. The presumed health benefits of switching will not be as pronounced as with beef. Maybe we are not sufficiently enlightened, but we don't believe that environmental concerns relative to production of beef, pork, chicken, or fish, are broad enough to be material to this equation.

We are particularly struck by the talk of a "meatless" sausage product. The lyrics from the Broadway show "Hamilton" come to mind (and you *must* see the show, if you haven't) :

I could sing it for you ? but it goes:

**"No one really knows how the game is played, the art of the trade, how the sausage gets made."** We just assume that it happens, but no one else is in the room where it happens."

I didn't want to know how the "natural" sausage gets made, and I want to know even less about the "processed" version.

We continue to think that, over perhaps a couple of years, the excitement will abate. Those restaurants and food markets that have sufficient customers that care will have some meatless offerings. No particular company will have a serious edge, however, so sales will not be materially higher than they would have otherwise been, nor will profit margins. The producers of the meatless products will also be in a competitive situation, competing for market share, and with profit margins lower than they, or their investors, would have hoped. The equity in Beyond Meats (publicly held), Impossible Foods (privately held) and others will reflect much more conservative valuations than is currently the case.



Roger Lipton