

September 2019
Investment Banking

**Plant-Based Foods: Sowing the
Seeds of Disruption and Growth**

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Food for Thought



Plant-Based Foods: Sowing the Seeds of Disruption and Growth

Beyond Meat's headline-grabbing IPO is just one example of how plant-based alternatives are poised to grab market share and reshape the food and beverage industry.

Plant-based options are transforming the food and beverage industry, with the potential to become one of the most significant trends for years to come. Several forces are driving the massive growth—and tremendous upside—of this burgeoning segment. In addition to recent improvements in the taste and texture of plant-based foods, an increasing number of consumers are drawn to plant-based options for health and dietary reasons, as well as environmental and animal welfare concerns.

Plant-based options are no longer a niche part of today's food and beverage industry. They are now a mainstream set of offerings, increasingly appealing to not just vegetarians or vegans, but also a growing number of flexitarians and traditional consumers. The U.S. plant-based food and beverage market is now valued at \$4.5 billion in retail sales, growing 11% in the past year compared to only 2% for all foods, according to SPINS. Plant-based leader Beyond Meat increased its sales 287% in its most recent quarter, according to public filings.

These trends are leading to intense interest from both public and private investors and high valuations across the plant-based food supply chain, especially for plant-based meat

producers. In this issue of Food For Thought, we examine how grocers, restaurant chains, consumer packaged goods (CPG) companies, and ingredient producers are thinking about how to position themselves within this industry-shaping segment.

Plant-Based Meat: Beyond Meat and Impossible Foods Show the Disruptive Potential

Soybean-based meat alternatives have been on the market for decades, and for much of that time failed to gain widespread traction with consumers. Recent innovations in taste, texture, and other sensory attributes, as well as new products that use other plant proteins, however, have led to a renaissance in demand for plant-based meats.

In addition, the production and consumption of plant-based meat has myriad benefits relative to rearing and processing livestock and eating traditional beef. These include reduced mortality risk from heart disease and cancer; reduced greenhouse gas emissions; conservation of global resources by using less land and water; and addressing animal welfare concerns.

Beyond Meat, whose burgers use yellow pea protein, exemplifies the disruptive growth potential for plant-based meats. The company now has 53,000 points of distribution worldwide, spread across approximately 27,000 retail and 26,000 foodservice locations. William Blair served as an underwriter of Beyond Meat's May 2 IPO, which

Dairy Alternatives as Analog: Compelling Opportunity for Plant-Based Meat

If plant-based meat is able to achieve the same level of market acceptance as plant-based, dairy alternative milk, this could represent an incremental sales opportunity of \$30 billion in the United States alone, according to William Blair equity research analyst Jon Andersen.

Dairy

\$15B

Dairy milk U.S. sales

13%

Non-dairy alternatives' relative penetration

Meat

\$270B

Meat U.S. sales

2%

Plant-based alternatives' relative penetration

\$30B

Incremental plant-based U.S. sales at 13% penetration

Source: Beyond Meat S-1 as filed with U.S. Securities and Exchange Commission, April 22, 2019; William Blair, Beyond Meat initiation report by Jon Andersen, May 28, 2019

gained 543% through June 30, making it the best-performing IPO of the second quarter. The 10-year-old company has announced plans to expand its products offerings to include plant-based bacon and is rolling out a sausage-alternative breakfast sandwich at Dunkin'. On July 31, William Blair served as an underwriter of Beyond Meat's follow-on offering at 6 times the IPO price; the company intends to use a portion of the primary proceeds to increase its production and supply capabilities. Longer-term, Beyond Meat remains focused on closing the perceived gap in some consumers' minds between its plant-based products and animal-based meats, as well as adding new plant-based product forms in beef, pork, and poultry.

Impossible Foods, founded in 2011, is another headline-grabbing producer of plant-based meats. In May, Impossible Foods announced that it had raised an additional \$300 million, bringing its total raised to \$750 million and valuing the private company at approximately \$2 billion. The Impossible Burger, sold at more than 8,000 restaurants in the United States, Hong Kong, and Macau, uses soy protein and the company's proprietary heme molecule to replicate the flavor and mouthfeel of conventional beef. Perhaps most notably, the Impossible Whopper is slated to be on the menu at all 7,300 Burger King locations nationwide by the end of 2019, on the heels of its highly successful test that drove significant incremental traffic to the quick-serve restaurant chain. Impossible Foods also intends to launch in grocery stores in September. The company has recently ramped up

production at its Oakland, California factory and partnered with OSI Group, one of the world's largest food producers, to expand production further.

The valuations being paid by public and private investors are based on the assumption that plant-based meats will continue to disrupt the global meat industry and that the actual total addressable market is light years beyond today's reality. William Blair equity research analyst Jon Andersen examined this potential in his May 2019 initiation report on Beyond Meat.

"The meat industry generated sales across retail and restaurant and foodservice channels of \$270 billion in the United States and \$1.4 trillion globally in 2017," Andersen wrote, citing data from Beyond Meat's prospectus and adding that plant-based meat represents just 2% of the U.S. meat industry. "Consider the success of nondairy alternatives in the milk category. Nondairy milk sales are now roughly 13% (and growing) of the size of the dairy milk category. ... The nondairy milk adoption rate implies the future market size of plant-based meat could be \$35 billion in the United States."

Many of the world's largest, most well-established CPG companies are also repositioning their portfolio of brands to capture the coming wave of demand for plant-based meats. Nestle is preparing to launch its Awesome Burger, sold under the Sweet Earth brand the company acquired in 2017. Tyson Foods, one of the world's largest meat producers and an early investor in Beyond Meat, recently

introduced the Raised & Rooted brand, a selection of plant-based meats and blended products geared toward consumers who want more protein options. Meanwhile, other players such as Maple Leaf and Morningstar, which is owned by Kellogg, are ramping up investments in the space. Maple Leaf plans to build a \$310 million plant-based protein food processing facility in Indiana, the largest of its kind in North America and a vital resource for building its Lightlife Plant-Based Burger made from pea protein, coconut oil, and beet powder.

Nondairy Alternatives: A Roadmap for Success

Nondairy alternatives are a compelling forerunner for what penetration rates and product innovation could look like across the plant-based food and beverage industry. The dairy alternatives market is projected to grow at a compound annual rate of 13.6% from 2016 to 2021, according to Technavio. As a result of flavor and texture improvements for oats, soy, almond, and other forms of nondairy milk, these products are gaining visibility on restaurant menus and shelf space in grocery stores next to traditional dairy products.

In 2016, Danone S.A. bolstered its portfolio with the \$12.5 billion acquisition of White Wave Foods, a leading player in the plant-based, organic dairy, and organic produce categories with key brands such as Silk and So Delicious. Ripple, the privately held maker of nondairy milk and other plant-based options, has raised \$105 million, and its products are now sold in more than 15,000

stores, including Target and Whole Foods. Other plant-based beverage leaders include Califia Farms and Oatly.

Private Label: A Conduit for Growth and Innovation

Across all grocery categories, private label has become an increasingly reliable source of growth and innovation. Store brands are no longer perceived as being an inferior alternative. This shift in thinking is especially prevalent among millennials, the same cohort that is also driving increased demand for healthier, more natural choices that are better for the environment. As the private label and plant-based trends converge, many grocers are looking to expand their offerings in this area. Examples include O Organics (Albertsons) in conventional grocery and 365 (Amazon/Whole Foods) in natural retail. William Blair equity research analyst Jon Andersen explores this topic further in his July 2019 report.

SunOpta, the Toronto-based producer of nondairy alternatives and ingredients for organic, non-GMO, and other specialty foods, is a major private label supplier in these categories. In February, SunOpta sold its specialty and organic corn and soy business to Pipeline Foods for \$66.5 million.

Supply Chain: Strong Ingredient Demand Spurs Increased Investment

The growing consumer demand for plant-based foods and beverages has also led to tremendous investment and interest upstream across all levels of the supply chain. Smaller, venture-

backed players are using crop innovation to revolutionize the inputs used to make plant-based options, and as demand grows for yellow peas and other plants that provide the highly specialized ingredients, larger, well-capitalized agricultural processors are showing an increasing interest in building their capacity in these areas.

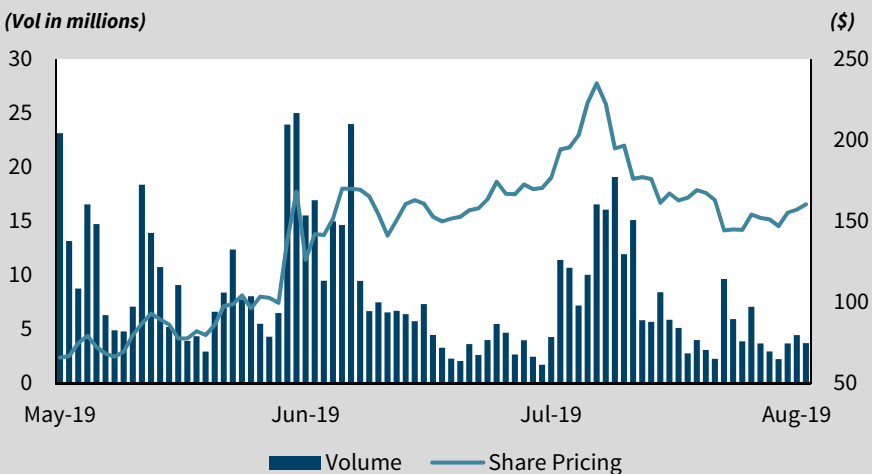
Benson Hill Biosystems is using crop engineering to bring greater biodiversity to the supply chain and give consumers more peace of mind that their foods are grown in a more sustainable fashion. Roquette and Puris, both key suppliers of pea protein to Beyond Meat, are benefiting greatly from the growing demand for plant-based meat; meanwhile Beyond Meat is rapidly scaling its supply chain to keep up with demand for its products.

The evolution of plant-based food has already led to a surge in innovation and investment across the supply chain, but there have not yet been any blockbuster acquisitions by strategic acquirers. The growth of the segment, however, has undoubtedly earned the attention of major grocers, restaurant chains, CPG companies, and ingredients producers. Players in all of these categories are actively thinking about how to capitalize on a trend that has the potential to reshape the way consumers think about what they eat and where it comes from.

To learn more about these and other trends that are shaping investment and dealmaking activity in the food and beverage industry, please don't hesitate to contact us.

Beyond Meat IPO: Disruptive Expectations for Plant-Based Meat












William Blair served as underwriter on Beyond Meat's May 2 IPO, which was the best-performing public debut of the second quarter. The company's valuation and market capitalization reflect investors' expectations that the total addressable market for plant-based meat far exceeds its current market penetration. Beyond Meat had a follow-on offering on July 31.



Source: Capital IQ, data as of August 28, 2019

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Select William Blair Food & Beverage Recent Transactions include:

<p>Not Disclosed</p>  <p>has been acquired by</p>  <p>August 2019</p>	<p>\$874,718,750</p>  <p>BEYOND MEAT</p> <p>Initial Public Offering and Follow-on Offering</p> <p>May 2019, August 2019</p>	<p>Not Disclosed</p>  <p>has been acquired by</p>  <p>November 2018</p>
<p>Not Disclosed</p>  <p>has been acquired by</p>  <p>October 2018</p>	<p>\$74,752,300</p>  <p>PRIMO WATER</p> <p>Follow-on Offering</p> <p>May 2018</p>	<p>PLN 780,579,707</p>  <p>has been acquired by</p>  <p>January 2018</p>
<p>\$1,200,000,000</p>  <p>has been acquired by</p>  <p>December 2017</p>	<p>Not Disclosed</p>  <p>ATLANTIC AQUA FARMS PREMIUM SHELLFISH</p> <p>has been acquired by</p>  <p>November 2017</p>	<p>Not Disclosed</p>  <p>has been acquired by</p>  <p>November 2017</p>

**William Blair
By the Numbers**

400+

bankers globally with local cultural knowledge

1,070+

completed transactions

\$315 billion+

in advisory and financing transactions

In the past five years as of June 30, 2019

Selected Upcoming Industry Events

September 2019

- 11-14 Natural Products Expo East, Baltimore, MD
- 12-14 All Things Organic - BioFach America, Baltimore, MD
- 15-18 FMI Annual Business Conference, Chicago, IL
- 17-18 Food Evolution Summit, Indian Wells, CA
- 23-24 IFE Americas Food & Beverage Show, Miami Beach, FL

October 2019

- 01-04 NACS Show, Atlanta, GA
- 14-16 MUFSO Conference, Denver, CO
- 12-15 National Frozen & Refrigerated Foods Convention, Orlando, FL
- 22-24 PLMA Executive Education Program, Nyenrode, NL

November 2019

- 17-19 PLMA's Private Label Trade Show, Chicago, IL
- 12-13 Kosherfest, Secaucus, NJ

December 2019

- 05-08 SOHO Expo (Natural Products Industry Trade Show and Convention), Kissimmee, FL

Access to Industry Leaders

William Blair is committed to providing the consumer and retail community with access to leading industry investors and corporations around the globe. To learn more about attending our upcoming conferences, please contact James Bertram at jbertram@williamblair.com.

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Drawing on the collective intellectual capital and deep sector expertise of a global team that reaches 20 cities on four continents, the investment banking group brings a rigorous and innovative approach to corporate board advisory projects, mergers and acquisitions, and equity and debt financing. From 2014 to 2018, the team advised on more than \$300 billion in completed transaction volume.