

## Is “Unicorn” IPO Beyond Meat’s valuation “Impossible?”

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INVESTING

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There is no better indicator of sentiment or “animal spirits” than the state of the market for initial public offerings (“IPOs”) and, except for a couple high-profile stumbles (Lyft and Uber), investors are partying like it’s 1999. Indeed, this year is on pace to be the largest for IPOs (dollars raised) since 1999.

This is important because 1999 was the last hurrah for the “dot-com” bubble that would burst in 2000. Back then, companies with little more than a business plan (who can forget the Pets.com sock monkey?) were able to raise millions from investors stricken with “IPO Fever.”

According to The Wall Street Journal, 547 companies had IPOs in the U.S. that year, raising \$107.9 billion. It didn’t end well, as 272 of 856 IPOs tracked from 1999 and 2000 lost more than 90% of their value after five years.

The good news is, 20- years later companies going public have both more operating experience (12 years vs. 4-5 years then) and higher median sales (\$173.6 million vs. \$12 million). This week’s Chewy IPO is no Pets.com fiasco. Venture capital/private equity funds are awash in cash, which has enabled companies to stay private and nurture/grow their businesses longer, without the quarterly pressure from public investors and far from the prying eyes of competitors.

The bad news is the vast majority of this year’s IPO class is losing copious amounts of money. Further, because there is too much money chasing too few good private company deals (and no short-sellers to cast negative votes), valuations are set for each round of financing by the most enthusiastic/hungriest investor.

This has created a large and growing class of “unicorns,” private companies valued in excess of \$1 billion waiting to go public.

The **1973** film classic “Soylent Green” (starring Charlton Heston—rent it on Amazon Prime for \$2.99!) scarily portrayed New York City in **2022** as suffering from massive overpopulation and global warming due to the Greenhouse Effect. As a result, crops/livestock are virtually nonexistent and most of the world’s population survives on wafers concocted by the Soylent Corporation, whose flagship “Soylent Green” was touted as being produced from “high-energy plankton” (spoiler alert—it’s not!).

Fast forward to May 2, 2019, when Beyond Meat, Inc. (BYND) launched an IPO of 9,625,000 shares at \$25/share, raising \$241 million and valuing the company at \$1.5 billion. According to the Prospectus <https://investors.beyondmeat.com/static-files/715c5ac3-f00b-4eec-9e0b-e298e1173a7c>, Beyond’s motto is “Eat What You Love” and its plant-based “meat” products are **created** using “proprietary scientific processes that determine the architecture of the animal-based meat we are seeking to replicate and then we assemble it using plant-derived amino acids, lipids, trace minerals and water.” Yummy!

Beyond targets consumers who demand better “human health, climate change, resource conservation and animal welfare,” not just the 3% of Americans identifying as vegan/vegetarian. Its flagship “Beyond Burger’s” primary protein source is yellow peas, with beet juice added to simulate blood. You can buy it for \$11.98/pound in the meat case at Whole Foods and Kroger and also find it on menus at Carl’s Jr., TGI Friday’s and Del Taco.

Competition is intense and increasing. Beyond's primary direct competitor is privately-held **Impossible Foods**, which creates *its* meat using genetically engineered, soy-based heme protein. Burger King will soon sell its Impossible Whopper at all of its U.S. stores. White Castle and Red Robin also offer Impossible's product. Food behemoth **Tyson Foods** (a former investor in Beyond) has also entered the market with its new "Raised & Rooted" line of plant-based products.

BYND closed at \$65.75 on May 2 (its 163% first-day pop the biggest for an IPO since 2000) and is now around \$170, up 600% in six weeks and with a valuation of \$10 billion (more than **100 times** 2018 sales of \$88 million). Just like Clara Peller in the 1984 Wendy's commercial, investors should be asking "Where's the beef?" about Beyond.

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