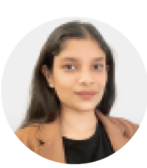
Private Briefing: Investors Dig Into Plant-Based Foods

UPDATED. The growing demand for plant-based alternatives has spurred record investments in the industry, drawing both venture capital as well as large consumer and packaged foods companies looking to acquire or invest in up-and-coming brands.



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Faux beef. Cashew milk. Cream cheese made from almonds. A growing variety of plant-based alternatives to traditional food and beverage products are finding their way to grocery aisles and restaurants in the U.S., driven by rising consumer interest in healthy eating and sustainable food supply chains.

A stronger emphasis on health during the pandemic has further accelerated growth in the industry over the past year, with retail sales reaching $7 billion in 2020, up 27% from $5.5 billion in 2019, according to the Good Food Institute, or GFI. The institute also notes that plant-based food sales grew 2.5 times faster than total food sales between 2018 and 2020.

“People are becoming much more attuned to what they're putting in their bodies, and that is the No. 1 reason why folks are shifting their diets toward plant-based items, followed by the impact on climate,” said Jared Stein, co-founder and managing partner at private equity firm Monogram Capital Partners LLC, an investor in Swedish oat milk maker Oatly AB.

This demand has spurred record investments in the industry, with the plant-based meat, eggs and dairy clocking $2.2 billion in funding in 2020, GFI data shows.

Last year saw several notable funding rounds, including for plant-based meat company Impossible Foods Inc., which raised $700 million in two back-to-back rounds in March and August from investors Coatue Management LLC, Mirae Asset Global Investments and Khosla Ventures, among others. Plant-based dairy company Califia Farms LP raised $225 million in Series D financing led by Qatar Investment Authority in January 2020.

Though venture capital makes up the lion's share of the investments, large consumer and packaged goods, or CPG, companies are increasingly investing in plant-based alternatives in a bid to align their portfolios with consumer demand and compete with the likes of Beyond Meat Inc. (BYND) and Impossible Foods.

“It's an exciting time because the food industry is like a giant that woke up to the promise of tech — that applying these technologies can help the business drive sustainability and profitability,” said Greg Horn, a managing director and head of the ingredients practice at consumer-focused investment bank William Hood & Co.

One of the largest meat producers in the world, Brazil-based JBS SA, acquired the third-largest European plant-based meat company, Vivera BV, for $410 million in April to boost the former’s meat alternatives platform. Unilever plc (UL) snapped up plant-based meat brand Vegetarian Butcher in 2018. Nestlé SA, meanwhile, acquired plant-based foods brand Sweet Earth Foods in 2017, which the buyer said at the time gave it immediate access to the fast-growing industry.

“Some of the large CPG companies that have realized they don't have the credibility with their legacy brand or are not able to create a plant-based brand internally to compete in the industry are making these acquisitions at really strong valuations,” said Andrew Dickow, a managing director at investment bank Greenwich Capital Group LLC.

While big food and consumer companies have certainly made outright acquisitions, many are choosing to acquire small stakes or invest in plant-based startups through their in-house venture arms and accelerators.

It’s a way for the buyers to “make smaller bets on plant-based companies with the opportunity to acquire the targets at a predetermined price later on,” Dickow said.

U.S.-based meat producer Tyson Foods Inc. (TSN), for instance, acquired a 5% stake in Beyond Meat in 2016 through its venture arm Tyson Ventures and increased its position to 6.5% by 2019, exiting right before the plant-based meat behemoth went public that year. Tyson also backs venture capital firm Big Idea Ventures, which invests in plant-based and cell-based food alternatives.

General Mills Inc. (GIS) also invested in Beyond Meat in 2013, then plant-based dairy company Lyrical Foods Inc., or Kite Hill, in 2018 and plant-based seafood brand SeaCo Foods International Inc. in 2020 through its incubator 301 Inc., while Kellogg Co.'s (K) venture capital fund Eighteen94 Capital LLC backed plant-based smoothie company Bright Greens Inc. and plant-based nutrition bar maker Kuli Kuli Inc. in 2017.

More recently, Post Holdings Inc. (POST) led a $25 million funding round in plant-based meat company Hungry Root Inc. in mid-April, with participation from Singapore-based renewable energy and clean tech investor Trirec Venture Capital Pte. Ltd.

A number of funds created specifically to capture this niche, such as at Big Idea Ventures, Lever VC Advisers LLC, Stray Dog Capital LLC, Clear Current Capital and Blue Horizon Ventures, are leading the charge to invest in up-and-coming brands.

Lever VC, for instance, has invested in companies such as plant-based meat producer Better Meat Co. and plant-based cheese company Good Planet Foods, while Stray Dog Capital backs plant-based barbecue brand Barvecue Inc. and plant-based bacon maker Hooray Foods Inc. Clear Current Capital's portfolio includes plant-based meat producers Alpha Foods Inc. and No Evil Foods LLC. Blue Horizon Ventures, meanwhile, counts Livekindly Co., which owns a collection of plant-based brands, and Heartbest Foods, a plant-based dairy company, among its investments.

Singapore and New York-based Big Idea Ventures, for its part, has invested in 44 companies so far, including plant-based shrimp maker New Wave Foods and plant-based seafood brand Hooked.

The firm is focused on companies that have the potential to impact global food systems, said Andrew Ive, founder and managing partner at Big Idea Ventures. The investor, through its $50 million New Protein Fund I closed in March 2020, is backing brands producing alternatives to foods local to different parts of the world as well as companies that are looking to improve the texture of plant-based foods or support the production of cell-based alternatives with plant-based ingredients.

“The ideal is that we take the foods that people love in different countries, and we don't force them to do something different,” Ive said. “What we do is we give them what they love already in a new way, in a far more sustainable way.”

Big Idea Ventures, which recently partnered with Grand Hyatt Singapore to bring Western and Asian dishes made using the products of its portfolio companies to influencers in the country, plans to increase its investments to 100 companies over the next two years, according to Ive.

In addition to Tyson, Big Idea Ventures is backed by Swiss food equipment maker Bühler AG; flavors, fragrances and ingredients company Givaudan SA; France-based cheese manufacturer Bel Group; and Japanese confectionery company Meiji Co. Ltd.

"We wanted corporates who were at different stages of the food value chain, so that they could support the portfolio companies that we invest in," Ive said.

Meanwhile, middle-market consumer and food and beverage private equity firms such as Monogram Capital too are betting on the growing industry. The firm made its first investment in the space with plant-based smoothie and coffee brand Koia LLC about four years ago. For Monogram, it was important to find a brand that balanced quality, which in this case is something that tastes very similar as a substitute to traditional food with minimal processing, with the right price for “what is often a premium ingredient deck,” Stein said.

Private equity, particularly later-stage consumer funds, has been a little less active in the space, Stein said. But institutional interest is growing, with firms traditionally viewed as hedge funds, such as Coatue, acquiring significant stakes in plant-based companies especially when there is a tech component, he said. Blackstone Group Inc. (BX), for example, led a $200 million fundraising round in Oatly in 2020, after which the oat milk maker revealed plans to go public at a $10 billion valuation.

The industry has its pain points however, particularly with replicating the exact texture of the foods plant-based companies are replacing, and with distribution access. The former is key to plant-based alternative brands retaining customers, experts say. While the industry is approaching the point where consumers don't know the difference between traditional and plant-based alternatives, there are still gaps, according to Ive.

If companies can't deliver "great-tasting foods which have the right, taste, smell, texture, cooking experience and price as the foods we want to replace," then consumers will eventually move past those brands or cut down on plant-based alternatives consumption, he said.

Big Idea Ventures is investing in companies such as Meat.The End, which is developing production techniques to improve the texture of plant-based meats, to "deliver the high standards consumers need to integrate plant based foods into their ongoing diets," Ive said.

Tapping into the existing logistics system and finding grocery stores and restaurants to partner with ahead of competitors is also a challenge for plant-based brands.

"I would see the most successful companies being the ones that, either through strategic investment or industry partnerships, are the most aggressive in getting distribution deals," said Horn at William Hood.

Still, enthusiasm for plant-based foods continues to grow among investors, with the industry going beyond just fake beef and oat or almond milk to innovate in cheese, eggs, seafood and more. Brands such as Qatar Investment Authority-backed legume-based eggs maker Eat Just Inc., for example, and Stray Dog Capital- and Big Idea Ventures-backed plant-based cheese company Grounded Foods Co. are gaining traction.

"In the upcoming year, I think you're going to see investors proliferate the other commodities," Greenwich Capital's Dickow said. "There are things that we enjoy every single day that we're looking for healthier alternatives [for], so I think that's where the real trend is going to be."

TAGS FEATURES AND COMMENTARY FOOD AND BEVERAGE M&A PRIVATE EQUITY VENTURE CAPITAL $ 1-10 BILLION UNITED STATES EUROPE ASIA EDITOR'S PICK

COMPANIES MENTIONED

Big Idea Productions Inc. | William Hood & Co. LLC | Humm Foods | 5358 East Greenwich LLC | Nestle SA | Sweet Earth Inc. | Blue Dog Capital LLC | Mirae Asset Global Investments (Taiwan) Co. Ltd. | Current Capital Partners LLC | Root Inc. | Good Food Inc. | Unilever Plc | Kite Hill PR LLC | Spice Venture Capital Pte. Ltd. | Bright | Hyatt Corp. | Vivera BV | Beyond Pricing Inc. | Sanders Farms LP | Khosla Ventures | Ja-Co Foods Inc. | Lyrical Partners LP | JBS SA | Kubi Software Inc. | Ives, Kirwan & Dibble LLP | Resolute.Vc | Coatue Management LLC | Tyson Foods Inc. | Tyson | Post Holdings Inc. | Horizon Ventures | Vegetarian Butcher | International Home Foods Inc. | Unibail-Rodamco SE | Qatar Investment Authority | General Mills Inc. | Atle AB

Bind Therapeutics Inc. | KORA LLC | Greenwich Energy Advisors | Just Eat Takeaway.Com NV | Gravitas Financial Inc. | 301 Inc. | Monogram Capital Partners LLC | Foods Inc. | Blackstone Group Inc. | Beyond Outdoor | Kellogg Co.

PEOPLE MENTIONED

Joel H. Horn | Greg Horn | Jason T. Andrew | Ilenna J. Stein | Daniel Dickinson | Jared Stein | Charlie Ives