How investors can participate in plant-based profits

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Concerns about health, the planet and animal welfare are putting more plant-based protein on the menu

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Green shoots of opportunity are sprouting from the growing plant-based protein market. Financial advisors best pay attention to its potential, say those tracking the budding sector.

“We’ve seen significant investor interest from family offices and institutions,” says Cary Pinkowski, portfolio manager with the Pinkowski Group at Canaccord Genuity Wealth Management in Vancouver.

Consider the recent success of Beyond Meat Inc. (BYND-Q), which soared from an initial public offering (IPO) share price of US$25 in June to about US$239 in a few weeks.

The stock has since fallen by about two-thirds to about US$75 a share, illustrating the volatility of this early-stage sector. Still, Beyond Meat recently reported its first profitable quarter.

Mr. Pinkowski sees the beginning of significant, long-term opportunity. He points to a report by RethinkX, a technology-disruption think tank, titled Rethinking Food and Agriculture from 2020 to 2030. The report cites three tailwinds behind plant-based proteins' growth: concerns about animal-protein production's impact on the environment, human health and animal welfare.

RethinkX forecasts that the plant-protein based industry will not just expand rapidly, but will eventually rival – if not surpass – the US$1-trillion animal-protein industry in the next 15 years.

The report predicts that plant-based and cultured (lab-grown) protein will be five times cheaper than animal protein by 2030. And by 2035, demand for cow products might shrink by as much as 90 per cent, with other livestock following a similar path.

Compared to producing food from animal sources, the reports says that new alternatives will be 100 times more land-efficient and 10 times more water-efficient.

Mr. Pinkowski says technology to cultivate meat and dairy without animals is already proven. There are still cost and scaling challenges, but he says they will likely be resolved in the next three to five years.

The rising demand for plant protein is one many investors want to sink their teeth into, says Lisa Kramer, a professor of finance at the University of Toronto.

"The advent of the latest-generation meat simulants has changed the playing field, where someone can walk into A&W or Burger King and have that same experience as eating real meat," she says.

Ms. Kramer notes the size of the market today is estimated at about US$4.5 billion, "and it's growing quickly."

A report by Allied Market Research recently forecast the global meat-substitutes market will be worth US$8.1 billion by 2026 – a compounded annual growth rate of 7.8 per cent.

Plant-based alternatives beyond just meat are already taking a bite out of animal-based markets.

"About a third of all U.S. household now have plant-based milk," Ms. Kramer says, pointing to report by the Good Food Institute.

That report also shows a 14 per cent sales growth for plant-based milk in the past two years. In contrast, dairy-milk consumption has fallen steadily. In fact, consumption has been trending down since 1975 in the U.S., which is the world's largest dairy market, U.S. Department of Agriculture data show.

Joshua Levine, senior vice-president and financial advisor with RBC Wealth Management in San Jose, Calif., says plant-based proteins are not only a growth story. Concerns about animal agriculture will soon become an environmental, social and governance (ESG) issue.

Mr. Levine focuses on animal welfare, environmental and socially conscious investments. He notes that many investors use ESG screening to divest carbon-intensive industries and notes that "the same argument can be made factory farms and meat producers fall into the ESG screen."

The challenge today is that no ESG mutual funds focus on screening out animal protein producers, nor do they typically invest in companies engaged in plant-protein production, he says.

To date, private-equity funds have done most of the marketplace development, investing in early stage companies such as Impossible Foods Inc., the maker of the Impossible Burger, a patty used in Burger King's Impossible Whopper.

"About five years ago, there were one or two [venture capital firms] operating in this space; now there's almost a dozen of them," Mr. Levine says.

Besides individual stocks, advisors and investors can look to a new exchange-traded fund (ETF) – the U.S. Vegan Climate ETF (VEGN-A), managed by Beyond Investing. The Europe-based firm is also behind the ETF's benchmark, the U.S. Vegan Climate Index.

"It's the only currently traded investment product that provides a cruelty-free alternative to a U.S. large-cap benchmark and takes into account vegan and environmental principles," says Claire Smith, Beyond Investing's chief executive officer.

Yet, the ETF is not a pure play on plant-protein growth. Microsoft Corporation (MSFT-Q) and Apple Inc. (AAPL-Q) are its top holdings. (Beyond Meat is not listed among the fund's top 10 holdings.)

Advisors and investors seeking direct exposure must select individual companies, Ms. Smith says. Beyond Investing also has a venture capital fund as well as actively managed small- and mid-cap stock funds in the space. The obvious pick is Beyond Meat, she says. But another is Ingredion Inc. (INGR-N), a U.S.-based multinational food manufacturer.

"It invests heavily in serving the needs of companies making new vegan products," she says.

Other options include traditional animal protein companies such as Maple Leaf Food Inc. (MFI-T), which purchased plant-protein meat maker Lightlife Foods in 2017, and Tyson Foods Inc. (TSN-N), an early investor in Beyond Meat that recently launched its own plant-based product line.

"These companies see the future for animal-based proteins is dimming," Ms. Kramer says.

Expect more IPOs of plant-based and cultivated meat and dairy companies in 2020, Mr. Pinkowski says.

Is the current growth of companies like Beyond Meat enough to validate their share prices? Even if the answer is no, Mr. Levine says that market drivers like climate change will continue to accelerate, likely rewarding patient investors.

"We're very early on in the evolution of this space, and it will take decades to fully play out," he says