

2019 UCLA Law Silicon Beach and the Law Conference

Liquidity and Silicon Beach: IPOs, M&A and More!

November 8, 2019 at UCLA School of Law

Our Conference is built around a hypothetical company, NotRealMeat.

NotRealMeat

NotRealMeat (NRM) is a private company, incorporated in Delaware, and headquartered in Silicon Beach. It was founded in 2013 by John Jones and Anne Smith. John Jones serves as CEO and Anne Smith is the Chief Marketing Officer. Together, the co-founders **currently** own 20% of the company. NRM's main products are plant-based patties that taste and smell like meat when cooked. The product is sold in stores and restaurants and can be served instead of ground beef, either in the form of a "hamburger patty" or in stews, chili, sauces, braises, minces, meatballs, meat pies, etc. It can be cooked in the same way as ground beef including on a grill or a sauté pan.

NRM has been relatively successful in the marketplace and can be found in a wide variety of upscale grocery stores in large metropolitan areas on the west coast and the east coast (for example, in Southern California: Gelsons, Whole Foods, Bristol Farms, Ralphs, Pavilions and Trader Joes.) as well as specialty stores and even some butcher shops. In addition, NRM is sold in a limited number of restaurants in the same geographic areas. NRM has not yet had success in penetrating other geographic areas, although its efforts in marketing outside the coasts have heretofore been limited.

NRM has many competitors in the plant-based patty space. NRM is viewed as the second strongest participant in the space, behind Beyond Meat, which went public in May 2019. Beyond Meat is also based in Southern California, and it has been very successful in the marketplace. Its stock price as of October 15 was \$122.05; its IPO price was \$25. Beyond Meat's market cap is almost \$7.5 billion at the October 15 price. Some analysts have described Beyond Meat's current market value as "absurd" and "unsustainable." In late July 2019, Beyond Meat was trading at \$235.

NRM believes that its product is superior to the Beyond Meat product. NRM believes that its product is healthier, has less salt and tastes better than the Beyond Meat product. NRM points

to the fact that its product receives higher ratings in blind taste tests than Beyond Meat and that many chefs have stated that they prefer the NRM product for its taste and texture over the Beyond Meat product.

Other competitors include Hungry Planet, located in St. Louis, Missouri, and Next Level, located in Bend, Oregon. Both Hungry Planet and Next Level are much smaller. Neither generates more than 10% of the revenue generated by NRM. Both Hungry Planet and Next Level sell in the mid-west and the south. They have limited penetration in NRM's geographic region. NRM believes that Hungry Planet and Next Level's products are inferior to NRM's product although their products are acceptable.

In addition to ventures that are developing and selling plant-based patties, some of the larger and more traditional nutrition companies are experimenting with plant-based patties. Moreover, some of the traditional animal-protein (beef) sector considers the plant-based meat business to be a threat to their businesses. Some are lobbying legislatures to put restrictions on plant-based patties including so-called truth in advertising laws that require disclosures designed to dissuade the consumer from purchasing plant-based patties. However, other traditional companies think plant-based patties may be the future and are looking for ways to get into the sector.

NRM has had a series of capital raising rounds and has raised more than \$600 million in equity between 2013 and the present. The most recent round was in 2019 for \$300 million. Its valuation was \$2 billion. There have been recent reports and speculation that NRM's valuation is approaching \$3.5 billion. The major investors include five venture funds, each with between \$50 million and \$200 million invested. Representatives of each of the major investors hold board seats on the NRM board as does Mr. Jones, the co-founder and CEO and Ms. Smith, the co-founder and CMO. In addition to Mr. Jones and Ms. Smith and the core management team have been with NRM since its founding in 2013 and are very loyal to and enthusiastic about the company. The company employs about 300 employees.

NRM generated nearly \$88 million in revenues in 2018, and it expects to generate \$105 million in 2019. NRM's statement of operations for 2016, 2017 and 2018 is attached. It suffered a loss each year since its founding. Management expects that NRM will move to profitability and make a modest profit in 2022.

Analysts have reported that Beyond Meat expects to grow its revenue to \$300 million in 2019 and \$425 million in 2020, an increase of slightly more than 40%. NRM expects revenues to increase from \$105 million in 2019 to \$125 million in 2020, just less than 20% increase. Management believes that its short-term growth in revenues is limited by its geographical penetration and the limitations on its manufacturers to deliver product in the short-term.

NRM management has advised the board of the following:

1. In order to expand throughout the U.S. and ultimately internationally, NRM needs to raise about \$250 million over the next two years.
2. Management is deeply committed to the company and the product and wants to remain in control of the day-to-day management of the company.
3. Management believes that if the company cannot compete head to head with Beyond Meat, it will likely end up a distant second (or even lower) in the space and continue to serve the two coasts. Management believes that if that happens, the company will likely be an acquisition target.
4. Management believes that if it is to succeed in the mid-term, it will need sufficient resources to fight the large animal-protein companies in the courts and in state legislatures.
5. Management believes the total market for plant-based patties and related products has not been adequately analyzed and may be much smaller than some believe and NRM hopes.
6. Management believes that if animal-protein (beef) companies become involved in the industry, consumers may become suspicious about the product generally but that an independent plant-based only company may be able to retain a loyal and large consumer base.
7. Nestlé, a major food conglomerate, has reached out to NRM's CEO to explore purchasing the company. A purchase price of \$2.2 billion was discussed. No formal offer has been made, but the CEO of Nestlé has indicated the company's interest in holding talks.
8. Management has briefed the board on its significant concerns about producing its product to meet current and increasing demand. The third-party manufacturing plants have not been able to gear up production to meet NRM's demands.
9. Management has also briefed the board on the likelihood of press reports describing studies that challenge the claims that plant-based patties are healthier than beef patties. In particular, the studies are likely to claim that plant-based patties have the same, or in some instances more, calories and saturated fats as meat patties and are higher in carbs and sodium. In addition, although NRM and other makers of plant-based patties can claim that their products have more fiber, the fiber is added through processing, rather than occurring naturally, and some people have significant concerns about the healthiness of processed foods. Management has briefed the board that it believes that there will several years if not decades in which the health benefits of plant-based patties will be the subject of scrutiny from both legitimate and less than legitimate sources of health news.
10. Management has explored a plan to acquire many of the smaller competitors such as Hungry Planet and Next Level and others as a platform to extend quickly NRM's geographical penetration and supplement the manufacturing/production limitations.

11. The co-founders are committed to the idea that a large part of NRM's value is that its product, unlike meat, is environmentally sound and sustainable. The CEO has made numerous comments about the moral bankruptcy of the cattle industry and companies that sell meat.

Some additional information about NRM.

**Year Ended December 31,
in thousands**

	2016	2017	2018	2019
Cash and Cash Equivalents	\$20,375	\$39,035	\$54,271	~\$65,000
Capital Expenditures	\$4,955	\$8,108	\$23,228	~\$17,000

Net cash used in investing activities primarily relates to capital expenditures to support our growth and investment in property, plant and equipment.

In 2016, net cash used in investing activities was \$5.0 million and consisted of cash outflows for the purchases of property, plant and equipment, principally to support the development and production of NRM patty.

In 2017, net cash used in investing activities was \$8.1 million and consisted of cash outflows for the purchases of property, plant and equipment, principally for the build-out and equipping of our Innovation Center.

In 2018, net cash used in investing activities was \$23.2 million and consisted of cash outflows for the purchase of property, plant and equipment, primarily for manufacturing facility improvements and manufacturing equipment.

In 2019, we anticipate spending approximately \$17.0 million in capital expenditures as we scale our production capacity, including expenditures for additional machinery and equipment, as well as investment facilities and expenditures to replace normal wear and tear of machinery and equipment.

Investments in NRM

July 14, 2011	Series A	\$9 million
July 17, 2013	Series B	\$25 million
June 27, 2014	Series C	\$40 million
September 30, 2015	Series D	\$108 million Valuation \$850 million
May 25, 2016	Debt Financing	\$16.5 million
August 1, 2017	Convertible Note	\$75 million
April 3, 2018	Convertible Note	\$114 million
May 28, 2019	Series E	\$300 million Valuation \$2 billion