



Plant-Based Protein: More Than a Fad?

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Earlier this year, a major global food and agriculture company announced the launch of private-label plant-based meat products, which will help retail food and foodservice businesses more easily capture a share of the growing plant-based protein market.

That said, the company has also invested \$7 billion in animal protein over the past five years, which it says reflects the importance of keeping all protein options on the table.

This dichotomy illustrates the conundrum facing investors seeking to stay atop consumer trends on the food industry. In our opinion, plant-based protein is not a fad, but it likely won't materially change the food landscape, either—at least in the long term. COVID-19 closures of some meat packing plants is disrupting some meat supply, resulting in higher prices. This may at least temporarily accelerate demand for alternatives including plant-based meats.

How is the industry likely to develop? Who wins and who loses? In this first of a two-part series, we explain our thinking.

The Origins of Plant-Based Protein

Plant-based protein is a source of nutritional protein derived from plants. This can include pulses, tofu, soya, tempeh, seitan, nuts, seeds, grains, and peas.

One of the most common plant-based protein products—veggie burgers—have been around since the early 1980s, but didn't have much appeal to anyone but vegetarians. There was nothing meatlike about them, and their producers didn't brand them as meat.

Then, in 2019, we observed the eye-popping performance of a producer of plant-based meat substitutes. Around the same time, a U.K. coffee shop we were following showed a dramatic acceleration in same-store sales after introducing a vegan sausage roll. We became intrigued by this clear, rising interest in meat substitutes and began investigating.

Today, plant-based proteins are not just for vegetarians; they're consumed by what we call "flexitarians," people who consume both meat and vegetarian products.

They allegedly offer health benefits. They appeal to those concerned about animal welfare. And they're fashionable.

Then there are purported environmental benefits, such as a reduction in water use and fertilizer that come from not raising animals. We're even seeing rumblings about meat taxes as an environmental issue just like soda taxes were a health issue. In August 2019, for example, German lawmakers from across the political spectrum proposed raising the value-added tax (VAT) on meat from 7% to 19%.

But we wanted to know: What's a trend and what's sustainable? Here's what we observed.

Demand Exists

What we find most interesting about plant-based proteins is that they are becoming one of the many things people choose to eat instead of a separate food culture.

The chart below illustrates. Each dot represents a country's food culture. They're clustered based on how similar they are to one another.

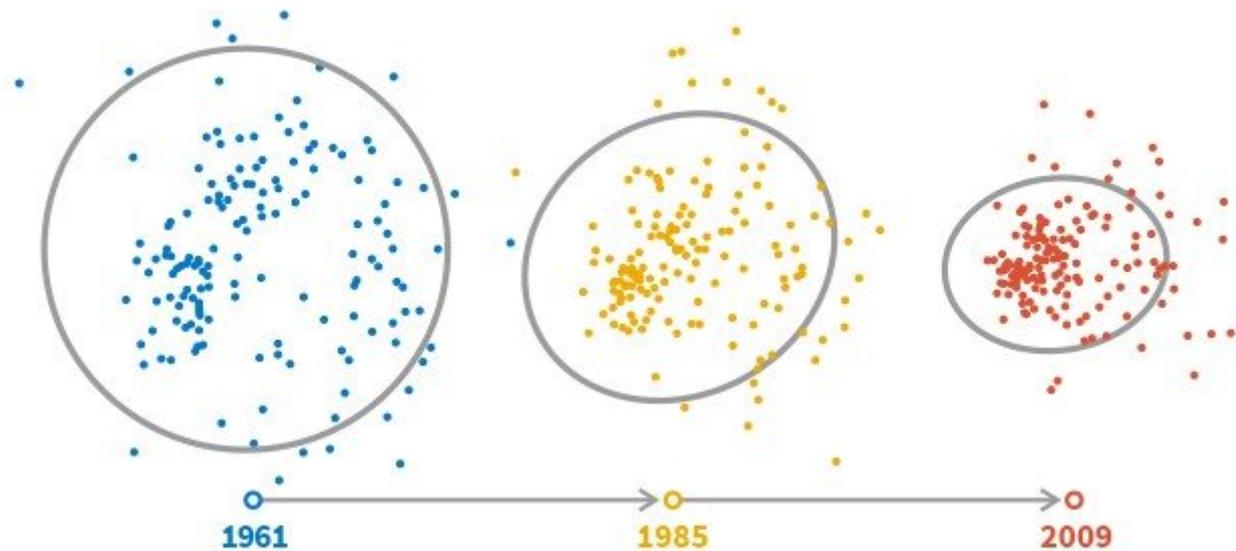
In 1961, the dots are dispersed. That means Japanese people ate Japanese food; Chinese people ate Chinese food; Americans ate meat and potatoes.

But in 2009, the dots are closer. That means diets around the world are becoming more homogeneous. Living in the United States, you might eat Thai food or Chinese food or Indian food. And living abroad, you likely have access to a McDonald's.

This dispersion is also influencing what companies offer. Today, you can walk into most fast-food chains and get plant-based meals, including some meat substitutes.

Globalization of Cuisine

Diets around the world have become more similar.



Source: International Center for Tropical Agriculture.

This also speaks to a convenience story. Convenience is a key trend in the food industry. Fast food is easy to get, so people eat it. Similarly, if plant-based protein is in every fast food restaurant, people will sample it more.

The Search for Market Share Is Driving Growth

In a mature industry with little growth, companies have a vested interest in creating something new to gain market share.

The big global food incumbents tend to buy up technologies or brands that can help them grow. As a result, billions of dollars are chasing alternative food products, such as plant-based proteins and laboratory-grown meat.

Grocery stores, which are also desperate for growth, can charge a premium for these products, because they're new and people want to try them.

Companies that can establish a new brand and then sell themselves to a large company that needs growth benefits could create value for the company. We've seen a number of acquisitions in the food industry that illustrate this.

That explains why we think plant-based protein is more than a fad. In our next post on this topic, we'll explain why we think it likely won't materially change the food landscape, either.

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