

# Ag & Vet Weekly



Friday September 4, 2020

*All the news on ASX-listed agriculture and veterinary companies*

## Dr Boreham's Crucible: Wide Open Agriculture

**By TIM BOREHAM**

**ASX code:** WOA; **Börse Frankfurt:** 2WO

**Share price:** \$1.02

**Shares on issue:** 91,695,919

**Market cap:** \$93.5 million

**Chief executive officer:** Dr Ben Cole

**Board:** Anthony Maslin (chair and founder), Dr Cole, Elizabeth Brennan, Stuart McAlpine and Ronnie Duncan

**Financials (Year to June 2020):** revenue \$2.24 million, loss \$1.86 million, cash of \$6.7 million\*

\* After \$3m capital raising in June

**Major identifiable holders:** Fanja Pon and Hans Rave 18.0%, Commonland Foundation 13.4%, Anthony Maslin 8.56%, Ben Cole 8.29%

Okay - we've all been educated now about the evils of meat in terms of damage to both the environment and one's body.

Then there's the lecture from your teen kids about cruelty - which is hard to refute - and that means the sizzling T-bone on the grill doesn't look so juicy, after all.

Behind the numbers about methane emissions and water usage in the plant-versus-meat-based protein debate, one surprise stat is that 98 percent of US consumers of plant-based 'meats' consume the real animal flesh as well.

"If you haven't spoken to someone in the last week who is either reducing or eliminating meat from their diet, I would be surprised," says Wide Open chief Ben Cole.

"Plant-based markets are huge and open for disruption."

The company notes that plant-based shoppers spend 68 percent more, which hopefully doesn't imply that (a) the products are overpriced or (b) they're predominantly well-paid inner urban trendies.

What's clearer about the meat-versus-plant debate is the level of investor interest in the latter: in the March quarter \$US741 million (\$A1.03 billion) of funding poured into the sector, compared with \$US747 million for the whole of 2019 and \$US673 million in 2018.

Local investors eyeing an equivalent to, say, the Nasdaq-listed plant protein poster child Beyond Meat aren't exactly spoiled for choice.

It's therefore not surprising they've developed an appetite for Wide Open, which plays in the plant-based protein sector as well as the ethically-produced meat game.

Based in West Australia's wheat belt, Wide Open describes itself as a regenerative food and agriculture company.

"Products are chosen based on their market potential and the positive impact they deliver to farmers," Dr Cole says.

In essence, the company partners with farmers committed to rebuilding healthy soil, establishing biodiversity and restoring waterways.

Dr Cole says the company has a "for profit and for purpose" mission: "We take the best of Western Australia's regenerative produce and offer it to global markets."

## **Spawned from hope and tragedy**

Wide Open Agriculture listed on July 6, 2018, after raising \$5 million at 20 cents apiece.

Founder Anthony Maslin had an unusually poignant motivation for the project that formed the company. He was driven by a quest for "meaning and positive change" following the death of his three children Mo, Elvie and Otis on Malaysian Airlines flight MH17 (downed by a missile over the Ukraine in July 2014).

With a PhD in environmental engineering, Dr Cole was involved in sanitation programs for developing countries with the aid agency Unicef.

Convinced that grant-based programs tended to fail he founded a business in Vietnam, Karibon, to make anti-pollution face masks using the same carbon cloth used in chemical warfare suits.

Wow - this was an enterprise ahead of its time!

He returned home to Western Australia and was introduced to landscape regeneration by Mr Maslin, who had built a solar energy company.

## **Promoting healthier soil**

So far, Wide Open has signed up 12 farmers growing livestock, oats and lupin.

The regenerative principles underpinning Wide Open differ to organic farming, which bans man-made chemicals and has strict third-party accreditation.

Wide Open allows its participating farmers to use artificial fertilizers, but has other non-negotiable rules such as not using antibiotics in beef and lamb production. The oat and lupin seeds must also have no chemical residues.

“Regenerative allows the farmer and consumer to get the produce they are expecting but at a price every family can afford,” Dr Cole says.

“It’s a continuous improvement process around soil health, biodiversity and water usage.”

Wide Open’s own products are sold under the banner of Dirty Clean Foods, which was dreamt up with the help of Perth’s best marketing brains.

“The name is targeted to a millennial and baby boomer market,” Dr Cole says. “The term ‘dirty’ is really about clean nutritious vibrant soil. Everyone wants to know the story that backs their food and that’s what Dirty Clean Foods is offering.”

The products are stocked by about 30 independent Western Australia supermarkets, notably IGA, Farmer Jacks and The Good Grocer.

Management intends to engage the bigger grocers over time.

## **Animal flesh: we’ll meat you in the middle**

To date, the company has derived most of its revenue from Dirty Clean Foods-branded meats, but over time the company expects the flesh of the beast to contract to about 10 percent to 15 percent of its portfolio.

These numbers are not arbitrary, but align with the views of a panel of health and agriculture experts assembled by the Lancet magazine.

The cognoscenti concluded that the optimum portion of meat in a diet for health and ecological reasons was ...drum roll ... 10 percent to 15 percent.

Philosophically, the diet debate should be all about moderation, says the “flexitarian” Dr Cole. “People will continue to eat animal protein but it should be making the world a better place, not degrading it. But when they do, our meat is the only meat they should eat.”

## **Soy sorry, you’ve been replaced ... by Angus**

Soy is the current key sources of plant-based proteins, with supporting roles played by lentils, peas, hemp and chia.

But the eco-conscious souls munching their faux burgers should be conscious that soy is usually genetically-modified and intensively produced.

Pea protein is widely used, but produces a lot of starchy by-product. Other plant protein sources have their problems, such as lack of scale.

Wide Open is eyeing Australia sweet lupin (*Lupinus angustifolius* or narrow-leafed lupin), a WA wheat belt speciality, as a viable and more acceptable alternative.

Currently, Western Australia cockies grow about one million tonnes of the protein-rich legume annually, accounting for 60 percent of supply in a \$200 million a year market.

The trouble is, almost all of the stuff is fed to livestock. “We feed it to the sheep on our family farm and it is an amazing source of protein,” Dr Cole says. “But for the last 20 years people have been trying to understand how to get it into a human diet.”

The key problem is that lupin is insoluble and doesn’t blend well with other ingredients.

“It’s like pouring sand into a glass; it drops to the bottom and doesn’t mix with other food ingredients.”

The company has licenced a process from Curtin University that allows the proteins in the lupins to be “unfolded” into a 3-D molecule and attached to the sugars, fats and carbohydrates.

“Once we demonstrate this works, we can go to the Beyond Meats, Impossible Foods and Nestles of the world and say we have an environmentally-credentialed, plant-based protein.”

The company has supplied 200 kilograms to the CSIRO Food Innovation Centre, in view of developing a protein isolate product. Curtin University has started laboratory work to optimize the process, while food processing plant specialist Process Partners is scoping other commercialization aspects.

## **Sowing success in oats**

Wide Open also plans an assault on the rapidly growing market for soy and almond milk using the fat oats grown by Western Australia farmers.

“We have the best oats in the world, over here,” Dr Cole says. “They’re plump and sweet, triple the size of European oats.”

Apart from the cereal’s high eco and health credentials, baristas love oat milk. “It foams so well and it has a nice neutral flavor, rather than the rich distinct flavor of soy or almond.”

Oat milk already has taken off, especially in Europe and is a \$300 million a year market.

The company, by the way, is also partnered with CBH Group, the country’s biggest grain exporter, to explore the prospect of marketing and delivering carbon-neutral grain.

## **Finances and performance**

Wide Open is in its early stages having chalked up just over half a million bucks in June quarter sales, up 49 percent over the March quarter. Full year revenue was \$2.23 million.

Derived from the Dirty Clean Foods lamb and beef brands, sales to date have been Western Australia-focused.

But June quarter online revenue grew 175 percent to \$232,033 and now accounts for 40 percent of sales.

The company is also toying with an Amazon Markets style model, by which like-minded food companies can use its on-line platform (takers to date include Runnymede Farm eggs and Bannister Downs Dairy).

Wide Open has \$6.7 million in the bank, having raised \$3 million in June via an institutional placement at 27 cents a share, an 18 percent discount. The company then raised a further \$2.3 million as option holders exercised their paper at a well in-the-money strike price of 30 cents to 50 cents.

Management declares the company is “adequately funded to continue its current activities during these uncertain times and will continue to demonstrate appropriate fiscal restraint”.

Wide open shares have traded between 10 cents (March 19 this year) and their August 18 peak of \$1.50 a share. In short, there are plenty of happy campers on the register.

## **Alone in the field**

Do we need to remind gentle readers that Wide Open is the only company of its ilk on the ASX? Arguably the nearest ‘regenerative’ comparison is the US-listed Vital Farms, which recently listed on the Nasdaq and is now valued at \$US1.6 billion.

On the branding side, Dr Cole says Wide Open has similarities with A2 Milk, which has marketed its cow-juice concept “incredibly well”.

Now owned by Chinese interests, dairy house Bellamys has been adept at value adding for domestic and export markets.

Other admired non-food regenerative brands include the Body Shop and outdoor clothing chain Patagonia.

If anything, Beyond Meat and fellow Nasdaq listee Impossible Foods are potential customers, rather than rivals.

### **Dr Boreham’s diagnosis:**

For those who want gee-whiz statistics, the global plant-based protein market was estimated at \$US18.5 billion in 2019 and is forecast to grow to \$US40.6 billion by 2025 (a 14 percent per annum increase).

Dirty Clean Foods has huge potential as a switched-on brand, even in its relatively small home market. But supermarket shelves are not exactly devoid of plant-based and eco-friendly foods, so the greater potential lies with the lupins and - in the nearer term - oat milk.

“The soy protein market alone is close to \$7 billion per annum, so to disrupt that market with an environmentally-credentialed new plant-based protein is very exciting to us,” Dr Cole says.

“We see lupins as having the real scale, but in terms of our own development, oat milk is the most tangible.”

Investor-wise, Wide Open is clearly benefiting from its ASX Orphan Annie status and there’s no reason why the appeal should not endure.

As for signing on farmers, the only limit is the sky beyond the vast - and hopefully healthier - pastures.

“It’s not about limited demand,” Dr Cole says. “It’s all about bringing on supply and there are some good networks working in that space to encourage new companies like ours.”

***Disclosure: Dr Boreham is not an agronomist and does not possess a relevant – or irrelevant - doctorate of any sort. He only eats meat on days ending with a ‘y’.***