

8 LEADING ACCELERATORS | 7 TIPS FOR SCALING SUSTAINABLY

CONSCIOUS COMPANY

THE FUTURE OF BUSINESS AS USUAL

WHAT WILL IT TAKE TO SCALE?

- > IMPACT INVESTING
- > RENEWABLE ENERGY
- > SUSTAINABLE AGRICULTURE

THE INSIDE STORY

HONEST TEA'S ACQUISITION
BY COCA-COLA

SOLARCITY'S CEO
LYNDON RIVE
PREDICTS THE
FUTURE OF SOLAR



THE RISE OF KIND

AN EXCLUSIVE CONVERSATION WITH
FOUNDER AND CEO, DANIEL LUBETZKY

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ETHICS AT SCALE

HOW A TEXAS FARM HAS GROWN TO BECOME THE LARGEST PASTURE-RAISED EGG COMPANY IN THE COUNTRY

In 2007, after a long entrepreneurial career, Matt O'Hayer and his wife Catherine Stewart decided to embark on their next adventure — egg farming. With a small tract of land in Austin, Texas, the couple rescued a handful of chickens to start their journey. The first two chickens that the couple rescued had been saved from a caged-hen egg production facility. When O'Hayer took the birds out of their cage and placed them on the beautiful pasture of their new farm, the birds didn't move. They had been confined in a cage their entire lives and had lost the ability to walk, spread their wings, perch, or behave as chickens normally would. The O'Hayers had made the decision to raise their birds in the most humane way possible, with plenty of room — 108 square feet per bird, to be exact — and under organic guidelines, but seeing the plight of these two birds only strengthened their resolve. In short, they endeavored to produce ethical food that was the antithesis of factory-farmed, caged-hen egg production facilities. Since then, the small operation, now called Vital Farms, has brought more than 100 other family-owned farms into their enterprise and has become the largest producer of pasture-raised eggs in the United States. We spoke with Matt O'Hayer about scaling his company, the benefits of the stakeholder model, and the overall landscape of the food industry.

VITAL FARMS AT A GLANCE

-  **Location:** Austin, TX
-  **Founded:** 2007
-  **Employees:** 60
-  **Structure:** Privately held
-  **2014 Sales:** \$28.7 million
-  **Recognition:** Number one on Inc. Magazine's list of fastest growing food and beverage companies in America in 2012 and number two in 2013. Five-time Inc. 5000 honoree
-  **Fun Fact:** Vital Farms works with more than 100 family-owned farms
-  **In short:** Vital Farms is the largest supplier of pasture-raised eggs in the country

Can you talk to us about the inspiration behind Vital Farms?

Matt O'Hayer: Over the years, I've run a bunch of different companies — I'm a serial entrepreneur. About eight years ago I was with a friend of mine on a trip and we were talking about what he felt was a new era in egg farming: pasture-raising.

From that conversation, I started thinking about a way to sustainably do egg production on a national basis using the pasture-raised method, where the welfare of the hen is paramount and where the birds are out on pasture, consuming that pasture as part of their diet. Would it be possible to do that on a national basis, where you actually had farms around the country producing under certain guidelines to ensure the health and welfare of the birds while producing a safe and fantastically delicious product? I started crafting a plan around that question.

We started with one farm in Austin, Texas. We started with 20 chickens, then 1,000, and then 4,000. After we got customers for all those eggs, we started looking for another farm.

We added family farms that would follow our prescribed method, and we started with a couple pages of guidelines — now we have scores of pages of guidelines with a lot of detail. We have more than 60 farms around the United States that follow our exact guidelines, from California to Georgia.

I'd had a number of companies throughout my life.

“Our farmers make more money taking care of 6,000 birds on their farm than they would have made on a farm with 50,000 or 60,000 birds.”



Farmers that sell pasture-raised eggs to Vital Farms

VITAL FARMS' INVERTED FRANCHISE MODEL

Each family-owned farm produces eggs from happy hens. Most of the farms are certified organic, they follow the Food and Drug Administration's egg rules, and the US Department of Agriculture audits their farm.

FAMILY-OWNED FARMS



VITAL FARMS PROVIDES

- Premium payments for high-quality eggs
- Egg washing and processing facility
- Consistent branding
- Guidelines for farmers to follow
- Access to distributors to get eggs to retail locations
- Customer relationships

FAMILY-OWNED FARMS PROVIDE

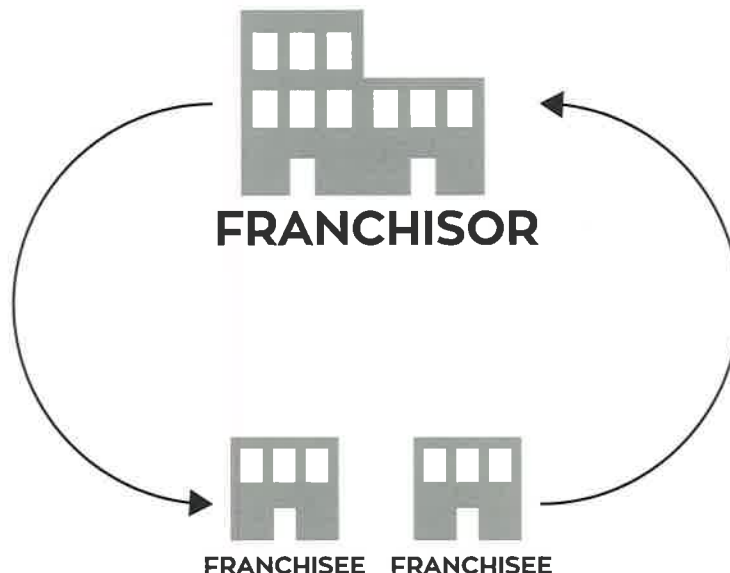
- Pasture-raised eggs produced under Vital Farms' guidelines
- Land stewardship



VS. TRADITIONAL FRANCHISE MODEL

FRANCHISOR PROVIDES

- Branding
- Raw materials and products
- Quality control guidelines
- Processes for a consistent customer experience



FRANCHISEE PROVIDES

- Payment to license intellectual property of franchisor
- Retail locations
- Customer relationships
- Sales of products



I read John Mackey's essay on conscious capitalism on the Whole Foods website back in 2007. That essay, which described the stakeholder model and setting up a company with a deeper purpose, informed and shaped the way I set up our farms.

I decided that all my attempts to focus on bottom lines hadn't given me the results I really wanted out of a company that I was going to be running. The stakeholder model and John's take on conscious capitalism made a tremendous amount of sense, both practically and spiritually.

I'm first and foremost an entrepreneur, and I have been my entire life. It's what I love to do. It's my joy. Working in a growing business feels great. It's like going on vacation; it's what I love doing. So doing it in a way that focused on the stakeholders, as opposed to the bottom line, made a lot of sense. We set up Vital Farms completely around the conscious capitalism market model. I

think that has indirectly been one of the biggest reasons for our success.

How do you ensure you're maintaining the core integrity of your own personal values and the business values in the face of such tremendous growth?

MO: We are growing very fast, but more important than growth is doing it right. Taking care of our stakeholders is paramount to what we do. It's in the fabric of our company. We talk about it all the time. We have a weekly management meeting with all my managers and then we have what we call the "C-crew" meeting — the CFO, COO, CEO. If an issue needs more input in those meetings, we bring all the stakeholders into it. We discuss the effect and impact on various stakeholders. It informs just about every major decision we make as a company.

We won't work with a product that

doesn't meet our deeper purpose as a company, which in our case is bringing ethically produced food to the table.

If it's not ethically produced food, we don't want anything to do with it. As we grow and expand, there's possibly a future beyond eggs, but I'm always concerned with the ethics of what we do, and it really does impact every decision we make.

Are there any other components that have been key to your success, or to your growth and scale?

MO: You can do everything right in terms of running your business, but if your timing is wrong, you can be out of luck. Timing is important.

I think we were very fortunate to start Vital Farms in the middle of the recession, which I think is a great time to start a business. For the last seven years, the economy has been great. More importantly though, the





TOP 3 PIECES OF ADVICE FOR MISSION-DRIVEN ENTREPRENEURS

1 UNDERSTAND THE STAKEHOLDER MODEL

The first thing I would do is give the entrepreneur a copy of “Conscious Capitalism” by John Mackey and Raj Sisodia. I think it’s a great primer for anyone who wants to get started in business. I think the stakeholder model ought to be taught in all schools; it would have saved me a ton of grief in my life if I had understood this concept when I started my first business at 20 years old. It would have made me a much better CEO.

2 THE BOTTOM LINE IS STILL CRITICAL

I find a lot of entrepreneurs who want to make a difference, but I have to say, “Understand that if you’re not making a profit, you’re not sustainable. You’re not going to be here next month or next year.” You need to focus on the bottom line as well as on the other stakeholders. Make sure you understand that you’ve got to have your investors/shareholders/bottom line — which I look at all together — taken care of, as well as thinking about the environment or how you’re going to change the world. That balance is really necessary.

3 WORK HARD

Once they understand the first two points, then to me it’s all about work. It’s about effort. It’s about putting energy in to get the job done. Don’t give up. “The harder I work, the luckier I get,” is the great old adage, and it’s true in business.

food movement in America has started, and people want to know where their food is coming from. People have started to pay attention and ask questions. Do they really want to eat eggs from birds that have been tortured their entire lives in a cage? Do they really want to eat a bird that’s been fed garbage? A battery chicken is fed a chemically-made feed: 80 percent of their diet is corn.

People want food that tastes great. They’re really focused on what Michael Pollan says, which is “pay more, eat less.” Instead of having half a dozen eggs scrambled up for breakfast, how about one delicious egg? An egg is made up of what a bird eats. Eggs from chickens that are out on pasture look different, and they taste different. So the foodie movement in America has been very helpful in the development of Vital Farms.

In the same vein, California’s Proposition 2 [a ballot initiative that, among other things, now requires egg-laying hens to be able to lie down, stand up, fully extend their wings, and turn

around] has had huge benefits to us as a company because it has created a focus on animal welfare. It was enacted January 1, 2015, but the fact that it was voted on in California and has been in the news constantly for the last four or five years focused people’s attention on where their eggs came from: cages.

A lot of people didn’t realize that 90 percent of eggs in the United States came from chickens that were stuck in cages with up to half a dozen other chickens, unable to stand up or spread their wings their entire lives. The passage of Proposition 2 in California brought that to consumers’ attention. We’ve been lucky from a timing standpoint that all these things are happening at the same time.

Then there’s the issue of the government discussing dietary cholesterol not being as bad for you as people thought it was. Eggs have had a boost from that as well. So I think timing, which is in some part luck, has had a lot to do with our success.

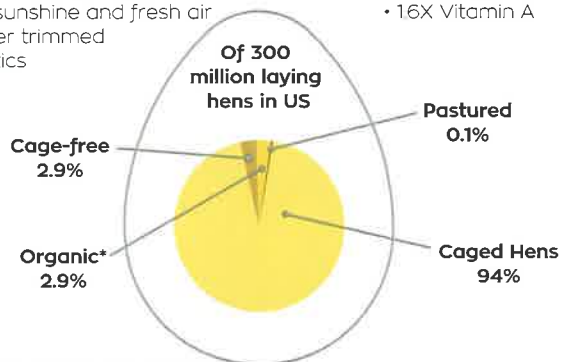
DO YOU KNOW YOUR EGGS?

PASTURE-RAISED

- 108 sq ft per hen
- Outdoor living
- Free to roam and forage
- Access to sunshine and fresh air
- Beaks never trimmed
- No antibiotics

MORE NUTRITIOUS

- 7X Beta Carotene
- 4X Vitamin D
- 2X Omega 3
- 16X Vitamin A



*Organic here is free-range by USDA standards

CAGED

- 1/2 sq ft per hen
- Hens confined to cages

CAGE-FREE

- 1 sq ft per hen
- No outdoor access

FREE-RANGE

- 2 sq ft per hen
- Limited outdoor access

CORN/SOY-BASED FEED • BEAKS TRIMMED
MAY USE ANTIBIOTICS • LIMITED OR NO DIRECT SUNLIGHT



Can you tell us more about your stakeholder model?

MO: When it comes to growth, our company has to satisfy all of our stakeholders. We pay a living wage to our crew members: \$30,000 a year for full-time employees. That's \$13 per hour plus a guaranteed minimum amount of overtime if they need it. For someone in our industry, that is pretty much unheard of. This is farming and food prep — a world of underpaid and undocumented workers. But we really take care of our crew members because it is part of our ethos.

The vendors, our farmers, the hens — they are all part of our stakeholder model. Our farmers make more money taking care of 6,000 birds on their farm than they would have made on a farm with 50,000 or 60,000 birds.

We have farm techs that go in and listen to these farmers, sometimes as much as once a week, to support them.

Not just to make sure they're doing what we want them to do, but also to help them become more profitable as a farmer.

We've got investors in the company, but they are here for the long haul and they love what they do. They invest in the company not just for the bottom line, but because we're doing something that is changing the way people think about food in a real, positive way.

In the communities we're involved in, and the farms we care for in those communities, we don't spray any chemicals on the pastures. We treat our pastures organically. Most of them are certified organic, and the ones that aren't don't allow any chemicals, fertilizers, pesticides, or herbicides on the pasture where the birds are. We don't use any antibiotics in our feed. That isn't just about the eggs our customers eat; it's about the runoff that goes into the creek that ends up in the

river that ends up in the ocean. It all has an impact on what we're about.

What qualities do you look for in an investor before you let them invest in Vital Farms?

MO: Good question. There are private equity firms that only invest in companies that will make a positive impact on the environment and society. This is called "impact capital," and it's the only capital we source for our company today.

We hired an investment banking company to help us raise money several years back, and they brought us firms that met that criteria. We vet investors, and they understand what we're about from the get-go. They understand we're about the stakeholder model. We're not going to make decisions just based on them — decisions need to be balanced for all stakeholders.

"A lot of people didn't realize that 90 percent of eggs in the United States came from chickens that were stuck in cages with up to half a dozen other chickens, unable to stand up or spread their wings their entire lives."





Vital Farms' Founder
Matt O'Hayer (right)



“People have started to pay attention and ask questions. Do they really want to eat eggs from birds that have been tortured their entire lives in a cage?”

What is giving you hope for the future?

MO: The fact that people are starting to care about what they eat and what they're putting into their bodies. We went through a really terrible spell in American food consumption from the end of World War II to the birth of the organic movement and the passage of the early organic laws in the 1990s to today.

When I grew up, TV dinners were very popular. The can opener was the

most-used kitchen appliance. I can't remember the last time I opened a can in my kitchen. It's so refreshing to see that people really care.

This is branching out into other areas, like animal welfare. There are bills and legislation across the country on things like cages for hens and gestation pens for pigs. It's a really amazing movement when you think about it: we are actually caring about what we eat and how it's produced. That gives me tremendous hope that we're heading in that direction.

Also, the fact that there are movements like conscious capitalism happening today, which was unheard of a few years ago [gives me hope]. Business schools used to be all about how you could maximize shareholder return, and that was it. It's interesting to me, as an American entrepreneur, that we're broadening out to not just focus on the bottom line, but on other stakeholders. That really gives me the most hope.

Photos: Vital Farms

