



ALL EARS!!

*The Litchfield Fund
Weekly Newsletter*

“We just don’t hear it on the street, we have our ears spread across all the fields!!!!”



Litchfield

Ancient nomads, travelers & armies hunted & foraged for food as they journeyed.

As the Neolithic age ended (about 10,000 BC) cities & villages formed around agriculture & fermentation to produce a safe beverage, *beer!* It was at this time that grain began to be pounded into flour & unleavened bread was baked, producing a hard-packed biscuit. (Yeast occurred naturally & of course was eventually used to make leavened bread, often using beer foam.) The Roman armies conquered their empire eating a hard biscuit that was easy to travel with, *a biscotti!* Their foraging was just limited to finding a nice place for a *cappuccino*.

Thanksgiving Pie: The Grecians began to stuff bread with meats & fruits around the 5th century BC, adding a fluffy crust on top! Baked on an open fire, the topping helped to steam & cook the stuffing. Pie was a way to store & travel with food. In medieval times, songbirds were a delicacy reserved for the Royals & protected by Royal Decree! Stuffed into pies, a cooked bird was placed on top of a pie to identify the contents. (Porcelain pie servers with the small figure of a bird on top come from this tradition.) Sometimes live birds were placed in a pie for entertainment – to fly out & amuse the King & Queen! We hope you enjoy your pie this Thanksgiving, whether its pumpkin, apple, pecan (our favorite), berry or *Four & Twenty Blackbirds baked in a pie!*

Industry News: *Vestar Capital Partners* will acquire *Nonni’s Food Group*, premium cookies & snacks, from *Wind Point Partners*. *Tyson Foods* continues to expand foodservice options by acquiring *Original Philly Holdings*, Philly-style sandwich steak & cheesesteak appetizers for an undisclosed amount. Former *Whole Foods’* CEO Walter Robb has invested & joined the board of *HeatGenie*, manufacturer of a self-heating can. *TSG Consumer Partners* has taken an undisclosed minority position in *Nuun* hydration tablets & powders. *Jana Partners* sold its almost 600K shares of *Sprouts Farmers Market* which they had purchased earlier this year.

Walmart had a strong 3rd QTR, blasting past analyst forecasts with strong same store sales growth (2.7%) & a 50% increase in ecommerce sales from the acquisition of *Jet.com*. *Target* reported lower 3rd QTR net income (21%) on a slight sales increase (1.4%) & an almost 1% same store sales growth. *Target* reported positive results from its investment in fresh & organic. *Reed’s* extended a 3rd QTR loss to \$5.6M on a 11.7% sales decline. *Reed’s* will focus on its core brands, *Reed’s* & *Virgil’s*, reducing more than 80 SKUs. A loss from restructuring charges impacted *SpartanNash’s* 3rd QTR along with weak retail sales as overall revenue rose 5.2%. Net income slipped 58% for *Weis Markets* due to promotional activity & price pressure, despite good 3rd QTR same store sales growth & income growth from acquisitions. *Loblaw’s* had a strong 3rd QTR but will close 22 underperforming stores in 1st QTR. It was another weak 3rd QTR for *The Vitamin Shoppe* as sales fell 8.5% & earnings 15.7%. For *Smucker’s* 2nd QTR, net income fell (4.1%) on a slight sales

increase as the cost of green coffee beans dragged on *Folger's* earnings. *Flower Foods* 3rd QTR reflected more than \$120M in restructuring costs but with a slight sales increase, EBITDA rose 9%. *SunOpta* had another 3rd QTR loss as it focuses on brand optimization. *Hostess* saw a \$22M drop in net income (\$9.5M for 3rd QTR) due to weather & supplier issues. *Post Holdings* saw a 15% 4th QTR sales increase & a 30% jump in EBITDA with help from its protein segment.

Treehouse Foods will innovate around clean label, trending product concepts & packaging. *Coca-Cola* reaffirmed its commitment to expanding its better-for-you portfolio through innovation & M&A as well as expanding ecommerce availability. Fitness guru Jillian Michaels will partner with *Sodastream* to encourage healthy hydration. *Instanet* has increased partnerships since the *Amazon & Whole Foods* merger, adding *Kroger* this week. *Amazon* leads online food & beverage ecommerce sales with 18%, though very little comes from fresh food. *Walmart* holds the second spot with 9%. A *Wall Street Journal* report suggest that *Wal-Mart* will charge customers more to buy some products online to raise profits & increase store traffic. A study from the *Hartman Group* shows consumers see *Whole Foods*, *Walmart* & *Target* as the most transparent companies. Plant-based *Beyond Burger*, working with *Sysco Foodservice's Cutting Edge Solutions*, is expanding in restaurants. *Halo Top* debuted a scoop shop in California.

Per *Euromonitor International*, USA packaged food sales will grow at 1.2% in 2017, lower than previous years. Reasons include price deflation, increases in fresh food purchases, foodservice & meal kit usage. The savory snack segment is still seeing growth. Per the USDA, consumption of fresh fruit rose to 116 lbs. per capita, up from 112.5 lbs. the year before, with the increase being driven by lemons, limes, mangoes & blueberries. Per a *Nielson* report, branded produce sales grew 8% as unbranded produce sales fell 8.6%. By May, the FDA will require that restaurants & grocery delis (more than 20 locations) include calorie count on menus. Per *Our Own Brands*, 74% of consumers see store brands as a perfectly good alternative to name brands. A study from the *Journal of the American College of Cardiology* adds to the data that people eating five or more servings of nuts per week have a lower risk of cardiovascular diseases than people who rarely eat nuts. USA organic grain acreage was up 30% over 2016 per a study by *Mercaris (2017 Organic & Non-GMO Acreage Report)* with total number of certified organic farms rising 15% to more than 17K. Organic certifications rose for corn (17%) & soybeans (26%). Whole wheat production is on track for the full year but 3rd QTR production was down 7% from 2016.

Market News: Markets bounced around this week on a variety of news. The negatives included falling world-wide commodity prices, the positives included strong earnings. Congress moving closer to a version of tax reform had both positive & negative impacts!

Seeds, Sprouts, Grow, Harvest!

The Litchfield Fund

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