



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!!!!!"



As a young man, R.H. Macy worked on a whaling ship. He had a red star tattooed on his arm. He tried opening dry goods stores from California to Massachusetts & failed. Then in 1858, he opened R.H. Macy in New York City. Adam Gimbel immigrated from Bavaria in 1835, working as a ship's hand. He opened his first store in Indiana in 1842. The retailer grew to Milwaukee, then Philadelphia & in 1910 entered New York City. By 1930, with 20 stores, Gimbels was the largest USA department store. The two rival stores competed for customers, holding close their *trade secrets*, thus creating the question, "*Would Macy's tell Gimbels?*"

Secrets: Keeping secrets is hard! Henry Ward Beecher wrote, "*To know that one has a secret is to know half the secret itself.*" Benjamin Franklin said, "*Three may keep a secret, if two of them are dead.*" Of course, what child has not whispered to a friend, "*Can you keep a secret?*" Victor Hugo thought children were good at keeping secrets. As adults, we use secrets as gossip, "*Did you hear....?*" Bertrand Russell said it well, "*No one gossips about other people's secret virtues.*" But Dr. Franklin knew that to "*Keep your secret from an enemy, tell it not to a friend.*" No, Macy's did not tell *Gimbels*, but this week, *Aldi* filed a lawsuit against *Lidl USA*, charging that former *Aldi* employees stole proprietary information about its expansion plans & told *Lidl*. And by the way, Mr. Macy's red star tattoo is still part of *Macy's* logo today!

Industry News: With plans to launch a supply arm, *Kuli Kuli* raised \$5M, led by *Griffith Foods* & current investor *eighteen94 capital*. *Keurig Dr. Pepper* invested \$20M in *Dyla Brands*, makers of *FORTO Coffee* & *Stur*. *Strand Equity* & several celebrities invested \$5.5M in legume-based rice substitute brand *RightRice*. *R.E.D.D.* will rebrand as current & new investors added \$2.2M in capital. *Pipeline Foods* acquired the specialty & organic soy & corn business of *SunOpta* for \$66.5M. *SVPGlobal* acquired *White Energy's* food ingredient business, ethanol business, the USA's largest vital wheat gluten manufacturing facility & an ethanol production facility. *Gingko Bioworks* will launch *Motif Ingredients*, protein alternatives derived from meat, dairy & eggs, with a \$90M investment from *Breakthrough Energy Ventures*, *Dreyfus Company*, *Fonterra* & *Viking Global Investors*. *Glanbia* acquired *Watson*, manufacturer & supplier of custom ingredients for food, beverage, personal care & supplements, for \$89M. *Tilray* will buy *Manitoba Harvest*, hemp foods manufacturer, for CA\$419M (\$317M) & will work to create CBD products. *Walmart's* deal to sell *Asda* to *Sainsbury* may be blocked by UK's Competition & Markets Authority due to competition concerns or may require divesting of some assets. *Kraft Heinz* may be looking to sell *Maxwell House*. With a \$400M EBITDA, the coffee label could bring \$3B, per *CNBC*.

Keurig Dr. Pepper saw net sales rise to \$2.81B from \$1.17B, though analysts forecasted \$2.84B. A 30¢ EPS matched analyst expectations. *Monster Beverage's* sales rose 14.1% with a \$8.5M loss in 4th QTR. *Bunge* lost \$74M in 4th QTR on several special charges & revenue fell almost 1%. *Dean Foods* reported a 4th QTR loss of \$260M & will seek ways to enhance shareholder value, including a possible outright sale. *Hormel Foods* saw a slight 1.2% increase in 1st QTR revenue & earnings met analyst forecasts. At *B&G Foods*, 4th QTR net income fell 14% & revenues fell 1.7%, despite

cost cutting efforts. *UNFI* lost \$341.7M in 2nd QTR, extending its previous QTR loss, due to *Supervalu* integration challenges; legacy sales rose 5.8%. *Spartan Nash's* 4th QTR sales increased 0.6% with an EPS miss of 6¢, coming in at 32¢. Rising transportation & warehousing costs were the problem. *GNC's* 4th QTR net income was \$58.8M (a negative \$212.7M a year ago) as revenue fell 2.6%. Net sales at *Vitamin Shoppe* fell 5.2% with a 4th QTR loss of \$3.3M. The company saw comparables fall 4.7%. The retailer's fiscal year did show a turnaround, with a positive operating income for 2018 after a 2017 loss. *Vitamin Shoppe* will open 30 stores in the *Navy Exchange* on various bases. *Publix* saw comparables rise 1.1% in 4th QTR, sales gain 3.8% but income fell due to accounting changes. *Target* reported flat 4th QTR sales, comparables up 5.3% & a beat on earnings, which were up 11.7% from a year ago. *Kroger's* 4th QTR missed analyst expectations for sales & earnings as the company executes its restructuring, *Restock Kroger*. *Costco's* 4th QTR saw comparables (6.7%), eCommerce (25.5%), revenue (7.3%) & earnings (27%) rise.

Kroger's Smith's Food & Drug Stores will follow their *Food Co.* markets in not accepting *Visa* credit cards for payment due to high processing costs. *Dollar Tree* will shutter 390 *Family Dollar* stores. *Food Lion* will remodel 92 stores. *Earth Fare* is looking at up to 10 new locations in the Tampa Bay area over the next two years. *Whole Foods* in Atlanta & *Albertsons* in Boise will open new flagship stores. *Whole Foods* is nearing 500 store locations. Employee owned *Winco Foods* will open its first two grocery stores in Montana, its tenth state, in Helena & Billings. *Ahold Delhaize* will expand *Stop & Shop* micro fulfillment centers after a successful trial. *Fresco y Más* will partner with online grocery marketplace *Shipt* for delivery in South Florida areas. *Fresh Direct* will expand into more areas in Connecticut & Washington DC & begin to offer same-day delivery. *Instacart* is expanding service with *Sprouts* & adding *Piggly Wiggly* & *Harps Foods*. In a partnership, *Farmstead* will add *Kraft Heinz* products to its eCommerce platform. *Sam's Club* is patenting a new technology to speed up its scan & go offering. *Kellogg* will convert *MorningStar Farms* to 100% plant-based by 2021. *BrightFarms* will expand with three new sustainable greenhouse farms in Massachusetts, New York & North Carolina. *RXBar* will rebrand as *Insurgent Brands*. *Hershey* intends to continue to grow with more expansion into snacks & other products.

A UNLV study compared fruit & vegetable color, cleanliness, freshness & firmness at 40 grocery stores & 14 discount retailers, finding the quality of the produce was just as good at the discounters, but lowered priced 84% of the time. Per *Cowen & Co.*, almost 7% of Americans use CBD products. The potential market opportunity could reach \$16B by 2025. A *dunnhumby* study showed the lowest priced retailer to be *Aldi's* followed by *Market Basket*, *WinCo*, *Food4Less* & *Costco*. Retail produce sales were \$60.8B in 2018, up 1.7% in the past year, the *United Fresh Produce Association* & *Nielsen* reported. *Nielsen* reports 14.3M households purchased meal-kits in the last six months of 2018, (4X growth), with most of the growth coming from in-store purchases. EPA Commissioner Scott Gottlieb resigned to spend more time with family.

Market News: After many months of outstanding job growth, February's unexpected drop caused the market to fall. However, initial jobless claims fell, the PMI & the ISM non-manufacturing indexes indicated continued expansion, 4th QTR production & wages increased.

Seeds, Sprouts, Grow, Harvest!

The Litchfield Fund – *Tom Maloney*

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