



# ALL EARS!!

THE LITCHFIELD FUND WEEKLY NEWSLETTER

"OUR EARS SPAN ALL FIELDS"



LITCHFIELD

**WE VALUE THAT WHICH IS SCARCE.** That is why for most of us, above all else, we value & treasure the one true love that is with us forever, by our side, through every up, down & inside out. We value the warm comfort of friendship, especially the lifelong friendship of someone who knows us so very well; the amazingly strong squeeze of an infant child's hand around our finger; the loyal, understanding dog who knowingly places his head in our lap at exactly the moment it is needed & in today's world, *the honest truth*. These are valuable because they are rare & while the demand is high, no amount of money, time, effort, production, mining, drilling or farming can supply more.

**SCARCITY:** Gold is valuable because it is scarce. While small amounts of free-found gold were found in prehistoric caves used by the earliest humans, the first use of gold can be found in the artifacts of eastern European societies from the 5<sup>th</sup> millennium BC; the gold was likely found along the Black Sea or in the mountain caves of Transylvania. Within a millennium, gold can be found in the artifacts of pre-dynastic Egypt, where gold smelting began near the end of 4<sup>th</sup> millennium BC. Of all the gold that has ever been mined, two-thirds has been removed from the earth since 1950! All the gold ever removed from the earth would create a 75-foot cube – a small 5-story office building, each floor just 5,500 sq. ft. The first diamonds were found in India in the 4<sup>th</sup> century BC. They immediately became items of trade with the west & the orient. Only about 2.5M pounds of diamonds have been removed from the Earth since antiquity & when considering the many uses of diamonds in jewelry & industry, explains their value, despite the fact that diamonds can be manufactured. While gold, diamonds, rubies & emeralds are rare & therefore, by the basic laws of supply & demand are valuable, other resources that come from the earth are plentiful, & when wisely used, can supply our businesses & pantries inexpensively for eternity. Today, the supply chain, that ability to timely obtain the important ingredients to manufacture a product, has never been under more stress & scrutiny. Let's assume you have a food product with one major ingredient. That ingredient is not only the most important in manufacturing your product, it also drives your company's 'persona' – it makes everything else work, from the way you message the consumer & resonate with their needs, to your ability to provide a quality product, on time & at a cost that makes your business profitable & that the consumer is willing to pay. Now suppose you own the supply chain for that ingredient, you can grow all you want, on land you own, at a low-cost. Would you suddenly decide to buy that ingredient elsewhere, at a higher cost? Would you choose to buy that ingredient from a competitor, enrich that competitor, become dependent on that competitor? What if that competitor actually wants to drive you out of business, take over your customers & markets - would you still buy that ingredient from them? And if you did buy that costly ingredient from a competitor, would you expect your customer to spend more on your product? Or to change their usage & lifestyle to accommodate a different usage of your product? Or would you say, "*Buy another product, it won't work as well, taste as good or meet your needs, & it costs more, but that is your choice!*" Of course not! What business leader would do that? And what government would do that with our own resources? We know from Friedman, von Mises, Hayek, Burke, Smith & others that free, functioning capitalism only works in an honest democracy & can only be brought to ruin by government interference. From George Orwell, "*It is deliberate policy to keep even the favored groups somewhere near the brink of hardship, because a general state of scarcity increases the importance of small privileges & thus magnifies the distinction between one group & another.*" From author David Icke, "*Abundance equals choice & freedom. Scarcity equals dependence & control.*" American lampoonist Margaret Halsey reminds us that scarcity drives the economy, "*In a business society, the emotional economy is an economy of scarcity.*" It may be that 'scarce' is just 'scare' with an extra C, that C standing for communism, for as American food, diet & nutrition author Frances Moore Lappé writes, "*Hunger is not caused by a scarcity of food but a scarcity of democracy.*"

**INDUSTRY NEWS:** *Three Farmers Foods*, roasted bean snacks, raised \$6.2M led by *District Ventures*, with participation from *Export Development Canada*, *Golden Opportunities Fund* & *PIC Investment Group*. Foodtech start up *Tomorrow Farms* raised an \$8.5M seed round led by *Lowercarbon Capital*. *Shore Capital Partners* invested an undisclosed amount in *OC Flavors*, custom flavor developer & manufacturer based in Chino, California. *Brightseed's* AI-platform to find plant nutrients raised \$68M led by *Temasek* with participation from *Lewis & Clark AgriFood*, *S2G Ventures*, *CGC Ventures*, *Germin8* & *AgFunder*. *Mooji Meats*, 3-D printed plant-based proteins, raised \$3M from *Good Startup*, *Collaborative Fund*, *Lever VC*, *AgFunder* & *Y Combinator*. France's

*Sencrop*, weather analytics services for agriculture, raised \$18M led by *Jerusalem Venture Partners* with *EIT Food*, *Stellar Impact*, *IRD Management* & others. *Absolute Foods* raised \$100M led by *Sequoia Capital*, *Alpha Wave* & *Tiger Global* for its integrated bioscience research capabilities, farm software & trading platform. *Mashgin*, touchless self-checkout systems, completed a \$62.5M Series B round led by *NEA* at a \$1.5B valuation. Britain's *Lollipop* raised £5M in a seed round led by *Octopus Ventures* for its app that combines meal planning, shopping & cooking services. *Florida Food Products* acquired *T-Bev*, manufacturer & distributor of organic coffee, tea & botanicals, from *Swander Pace Capital*; terms not disclosed. *General Mills* acquired *TNT Crust* from PE-firm *Peak Rock Capital*; terms not disclosed. Chilean retailer *Cencosud* will take a majority representation on *The Fresh Market's* board of directors, purchasing 67% of the specialty grocer for \$676M. *B&G Foods* acquired the frozen vegetable manufacturing operations of *Growers Express* & its Arizona facilities to support its *Green Giant* supply chain; terms were not disclosed. *GrubMarket* acquired Florida-based *Vega Produce*, which sources Asian fruits & vegetables from 40 countries. *FreshEdge*, produce & specialty food company backed by *Rotunda Capital Partners*, acquired *City Produce*, a Florida fresh food distributor. Distributor *Batory Foods*, acquired sweetener formulator *Sweetener Solutions* for an undisclosed amount. *Sargento* will acquire Wisconsin string cheese maker *Baker Cheese Factory*, which was established in 1916. *Campari Group* acquired French bitter apéritif brand, *Picon*, from *Diageo* for €119M. CBD brand *Gem+Jane* was purchased by Cannabis-Infused *Wine Maker Vintage*. *WOWorks* (*Saladworks*, *Frutta Bowls*, *Garbanzo Mediterranean Fresh* & *The Simple Greek*) acquired *Barberitos Southwestern Grille & Cantina* & *Zoup! Eatery*. *Soylent* is rumored to be exploring a sale. *Mondelez* plans to divest its gum (*Dentyen*, *Trident*, etc.) & *Halls* businesses. *Instacart* is rumored to be filing confidentially for an IPO.

The failing economy drove bargain hunting consumers to *Grocery Outlet* in 1<sup>st</sup> QTR, with gains in revenue & comps, though net income was 7% lower. Net income jumped over 30% in 2<sup>nd</sup> QTR for *Natural Grocers by Vitamin Cottage* with strong growth in sales & comparables. *Ahold Delhaize* reported strong global 1<sup>st</sup> QTR sales, led by USA gains, with a 4¢ increase in net EPS. Sales increased slightly for *Hain Celestial* in 3<sup>rd</sup> QTR though gross margin & income fell significantly. For *Hostess* in 1<sup>st</sup> QTR, sales & income rose 25% & 29%, respectively. Higher costs & the potential exit of the *Bantam Bagels* business led to a net loss in *Lancaster Colony's* 3<sup>rd</sup> QTR, though sales jumped 13%. *B&G Foods* had a lower 1<sup>st</sup> QTR net income & higher sales, inflation hindering performance. *Treehouse Foods* beat analyst's 1<sup>st</sup> QTR estimates as inflation drove consumers to purchase private label brands. The spin-off of *BellRing Brands* gave *Post* an 8X increase in net income, with sales up 17%, in 2<sup>nd</sup> QTR, though management admits the company is underperforming. *Tyson* blew past analysts 2<sup>nd</sup> QTR estimates, driven by price hikes, & raised full year guidance. *Beyond Meat's* stock price fell 21% after reporting a \$100.5M loss & slow growth in 1<sup>st</sup> QTR. Veteran-owned *Black Rifle Coffee*, in its first public quarterly report, posted a 35% revenue increase & an 18% increase in gross profit. *Monster* saw a 22.1% increase in 1<sup>st</sup> QTR revenue, though higher costs impacted income, aluminum costs the main driver.

*DoorDash* & *SpartanNash* will partner on delivery for *SpartanNash* stores, while *SpartanNash* supplies *DashMart* for its online convenience delivery. *DoorDash* will bring *DashMart* to Long Island. *Gopuff* will offer a fresh pizza from its own restaurant, *Mean Tomato*. *Food Rocket*, 15-minute delivery, is planning to open a fulfillment center in Chicago co-located with a new *Circle K* convenience store, before expanding to other cities. Ultrafast delivery firm *Jokr* announced the launch of *Jokr Media*, a self-service advertising media platform to increase CPG product sales & diversify its revenue streams. For the 4<sup>th</sup> year, *7-Eleven* will hold an event to find emerging & start-up brands for its shelves. *Ahold Delhaize* added its 22<sup>nd</sup> self-distribution warehouse in York, PA. *Walgreens* plans to offer only cage-free eggs by year-end. *Forager Project* debuted an organic kids *Cashewmilk Yogurt* with a 3-SKU line. Britain's *WNNW* has commercialized its cacao-free chocolate, which is made from fermented barley & carob. *Molson Coors* launched *Golden Wing Barley Milk* at some *Sprouts*, *Whole Foods* & on DTC. *Sucro Can Canada* will more than double its sugar refining capacity in Hamilton, ON, reaching 200K tonnes annual capacity by 2024. *Kraft Heinz* will test a paper-based ketchup bottle in partnership with *Pulpex*.

From *First Insight*, 75% of consumers have less confidence today to spend money & 97% are reprioritizing their buying habits to better afford their most critical purchases, like gas & groceries. From *Brick Meets Click*, April on-line grocery sales fell 3.8% in April, but order volume dropped 5.8% & total users were also lower; inflation drove higher per order value. Mexico has become the world's second largest exporter of broccoli & cauliflower with 19.2% of the world market, second only to Spain. The spring harvest has brought some price easing, especially for limes, melons, broccoli, peppers & cucumbers. Celery prices are on the rise as spring harvests end. Food inflation came in at 10.8%, per the USA Labor Department.

**MARKET NEWS:** Markets continued to plummet as the economic disaster that commenced in January, 2021 unveils the coming attraction, recession. Gas prices have hit a record high. April inflation was 8.3%, higher than estimates. The Producers Price Index was 11%.

### **SEEDS, SPROUTS, GROW, HARVEST!**

**THE LITCHFIELD FUND** – *Tom Malenka*

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