



# ALL EARS!!

THE LITCHFIELD FUND WEEKLY NEWSLETTER

"OUR EARS SPAN ALL FIELDS"



**BASEBALL IS A GAME OF FAILURE!** The finest hitters in baseball, those who are immortalized at Cooperstown, failed 70% of the time. The best pitchers lose 40% of the games they pitch. The most prolific home run hitters strike out twice as often as they hit one *outta-the-park*; some striking out 3 or 4 times for every *dinger*. The top closers, those pitchers with ice in their veins, all have their *José Mesa moments*, a meltdown with two outs in the ninth inning. We learn a lot by failing, not just about what we did wrong & how to do it better, but also about our strength & character. But right now, for America, our Nation & our small businesses, *failure is not an option!*

**FAILURE IS NOT AN OPTION:** In the movie Apollo 13, mission control flight director Gene Kranz (played by Ed Harris) says, "We've never lost an American in space; we're sure as hell not going to lose one on my watch. Failure is not an option." The scriptwriters actually came up with the line in an interview with NASA flight controller Jerry Bostick. There have been many other times in history when *failure was not an option*. Our Founding Fathers knew that they were signing more than a document declaring independence from the most powerful country in the world, they were signing their *very own death certificates*. Failure meant they would stand against a wall before a firing squad or on the gallows in the public square. Often during WWII, at Dunkirk, El-Alamein & Tobruk, Midway, Omaha Beach & Bastogne, failure was not an option. Failure would have drastically changed the course of the next 75 years of world history & not for the better. Today, state governors are in a precarious position. The 10<sup>th</sup> amendment to the USA Constitution guarantees states the right to make certain decisions for the safety & well-being of their state. Governors must weigh the possible failure of their state (& the Nation's) economy against the risk of some people getting sick. This is a terrible & an unenviable position. It is their job to lead & the citizenry has a right to disagree. Individual *explicit* Constitutional rights protect the individual from state & federal government overreach, giving people the right to work & earn a living, to attend a place of worship & to congregate & be heard in the public square! Our Nation's small businesses, which account for half of the economy & most of its job creation, are today clearly at risk of failure, as owners have sacrificed their own & their employees' livelihoods by closing their doors! **ALL EARS!!** has always respected small business owners & *not just because we are!* Small business is the ultimate form of American individualism & capitalism. Small business owners stake everything on their own capabilities & effort! They succeed based upon merit. This is difficult under normal conditions, let alone in this current situation with some needed government restrictions. But small business owners accept these risks & try to keep moving forward. Unfortunately, life has always been a daily trial of risks to our physical, mental & emotional health! Machiavelli offers, "All courses of action are risky, so prudence is not in avoiding danger (it's impossible), but calculating risk & acting decisively. Make mistakes of ambition & not mistakes of sloth. Develop the strength to do bold things, not the strength to suffer." From Anais Nin, "And the day came when the risk to remain tight in a bud was more painful than the risk it took to blossom." Importantly, remember what Dr. Franklin sagely warns, "He who would trade liberty for some temporary security, deserves neither liberty nor security."

**INDUSTRY NEWS:** *Cheetah*, a wholesale restaurant delivery service pivoting to consumer delivery under current conditions, raised \$36M led by *Eclipse Ventures*, along with *ICONIQ Capital*, *Hanaco Ventures* & *Floodgate Fund*. *NOBL Beverages* & a group of private equity investors acquired energy drink *MATI*, which

had ceased production in January despite having raised over \$15M. Israeli chickpea protein *InnovoPro* raised \$15M led by *Jerusalem Venture Partners*. The FTC approved *PepsiCo's* \$3.85B purchase of *Rockstar Energy*. The UK has given *Amazon* provisional approval to invest \$575M in delivery startup *Deliveroo*. *Roark Capital* has purchased \$200M of financially troubled *Cheesecake Factory*, adding to its restaurant holdings (*Buffalo Wild Wings, Jamba Juice & Arby's*). If the sale of *Dean Foods'* assets falls apart, bondholders at *Borden Dairy & Dean Foods* are proposing the idea of merging the two bankrupt dairies. *Engage Brands* acquired *Boston Market* from *Sun Capital Partners* for an undisclosed amount. Per *AgFunder*, worldwide FarmTech investments increased 6.8% in 2019, to \$4.7B, up 370% from 2013.

*Albertsons* saw 4<sup>th</sup> QTR sales rise 10.1%, digital sales jump 32% & adjusted EBITDA increase slightly, though net income was impacted by accounting changes. *Keurig Dr Pepper* had a 1<sup>st</sup> QTR sales increase of 4.4% & a comparable adjusted operating income increase of 10.1%. *Nestlé*, indicating a desire to remain in acquisition mode, posted 1<sup>st</sup> QTR sales of \$21.3B, a 6% decrease, due mostly to divestitures. Both *Kellogg & Kraft Heinz* cited stock-up sales for topping 1<sup>st</sup> QTR revenue & income projections. During 1<sup>st</sup> QTR, *Unilever's* sales totaled €12.4B, up 0.2%, though impacted by the decrease in away-from-home food sales. *Domino's* saw 1<sup>st</sup> QTR increases in net income (31%) & sales (4.4%) & projected sales increases to continue in the 2<sup>nd</sup> QTR. *Starbucks'* 2<sup>nd</sup> QTR revenue fell 4.9% with a significant EPS drop due to store closings & reduced traffic. *McDonald's*, also impacted by store closures, saw 1<sup>st</sup> QTR sales fall 6% & earnings drop 17%. *Dine Brands Global (Applebee's, IHOP)* had a 26.9% net income drop in 1<sup>st</sup> QTR on a 13.5% sales decline. *Yum Brands'* sales fell 3% & income fell 68% in their 1<sup>st</sup> QTR.

*Sprouts & Publix* will hold virtual job fairs to find & hire employees. *Giant* is hiring 3K employees. *Kroger* will begin to test employee health. California suspended the 10¢ plastic bag charge to prevent customers from bringing reusable bags into the store. *Nextdoor & Walmart* will partner on *Neighbors Helping Neighbors*, a program that connects neighbors needing, or looking to provide, shopping assistance. *Instacart* hired 300K shoppers in March & is adding another 250K employees. Recent increases in usage indicate *Instacart* will report its first ever profit. *Trader Joe's* says online grocery & delivery is not in its future. *Three Twins* ice cream has stopped production. *PepsiCo*, just completing its acquisition of *Rockstar Energy*, will distribute *Bang Energy* in the USA. Researchers at the National University of Singapore are using old, unsold bread to create a six-week shelf stable probiotic drink.

Home delivery & store pickup grocery sales set a record in April, reaching \$5.3B (up 37% from March), according to *Brick Meets Click & Symphony RetailAI*. During 1<sup>st</sup> QTR, private label dollar & unit sales grew faster, at 14.6% & 11.5% respectively, than national brands, which grew at 12.8% in sales & 9.2% in unit sales. Milk's versatility led to the first 52-week sales increase in dairy sales (3.6%) in more than two decades. *Acosta* reports that comfort food sales are growing faster than staples sales right now. Coffee prices are rising as shutdowns & quarantines prevent harvest & production. An executive order was issued to lessen liability for meat processors who remain open to keep supplying America meat. Congress is considering allowing grocery & C-store workers who earn less than \$75K per year to avoid income taxes on up to \$25K in wages received between February & June.

**MARKET NEWS:** Markets were slightly down this week on economic numbers impacted by the mandated federal & state government shutdowns.

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

**THE LITCHFIELD FUND** – *Tom Malenjo*

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