



# 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**

“**The trend is your friend!**” We have certainly heard this phrase often enough here at **The Litchfield Fund!** And over the past few weeks we can attest to the truth in these words. The phrase itself is meant to apply to stock market trends, that is, following the upward rise of stocks & selling when the trend line changes! But it also applies to the market direction of the Natural & Organic industry. Evidence abounds as to how quickly both consumers & companies are embracing a healthier lifestyle. As futurist John Naisbitt (*Megatrends*) said “Trends, like horses, are easier to ride in the direction they are going.”

**Saddle up, let’s ride!** Riding the trend has provided a positive return to **The Litchfield Fund!** But our recent success has been much more than just riding along with a record setting stock market which was most recently fueled by news of a Greek debt extension. The Natural & Organic segment thus far in 2015 has seen strong quarterly earnings & solid sales growth. Despite setbacks from fires, recalls, & class action suits investors & analysts see growth & opportunity. And while investors may get it wrong, companies generally are not willing to make big purchases, cash commitments, or upend processing unless they see a trend continuing, growing more solid, and becoming more profitable.

It would be ridiculous to say the trend to healthier lifestyles is new! Anyone who was alive in the 1960s & ‘70s can recall hippies, tofu, granola & some version of grow-your-own! **The Litchfield Fund** sees the most recent catalyst for healthy lifestyles to be the high cost of healthcare, the advent of Obamacare, & what has basically been the removal of healthcare & insurance from the free market! The market place is now reacting to consumer attitudes that what they put into their bodies matters, especially over a lifetime. To that end, General Mills (**GIS**) acquired Annie’s Homegrown. Hershey (**HSY**) recently purchased KRAVE jerky. Mondelez picked up allergy-friendly Enjoy Life Foods. Hormel is looking to buy out Applegate Farms. Industry poster child for buy & integrate Hain Celestial (**HAIN**) announced another major acquisition, Live Clean, with more than 200 baby & body products.

As we reported last week, General Mills completed a multi-year production process change to certify *Cheerios* as gluten free. This week both Nestle and Hershey announced that they would, in essence, simplify their ingredients, remove artificial flavors & colors, & create transparency! Like General Mills’ process change, these production changes will not happen quickly or cheaply. Indications are that the cost for these changes will *not* be passed on to consumers! General Mills sees its future growth coming from its Natural & Organic segments, with sales

moving from \$600M annually to more than \$1B in 5 years. General Mills also announced this week that over the last 10 years it has improved the 'health profile' of 76% of its products.

Traditional retailers – Walmart, Target, Kroger – placing healthier product choices on their shelves is a clear indication that healthy lifestyle choices are mainstreaming. Indications are that the global market for the Natural & Organic industry could possibly approach \$1 trillion dollars within the next decade. Several private equity placement firms are solely or deeply dedicated to our industry. New company start-ups & new products abound. Companies such as Whitewave (**WWAV**) are outgrowing their processing facilities as they meet growing worldwide consumer demand & new production needs for cashew milk, frozen fruits & veggies from its Earthbound Farms acquisition, a revamped *Silk* product, and a new ice cream line.

So if we follow the money, more & more companies (many anchored in the conventional highly- processed food space) are investing to meet the consumer demand for healthier products. This move may happen slowly, as these companies are committing significant dollars & undergoing great change! But this commitment indicates that they see the staying power & the long-term trend of a healthier, more aware, more socially-conscious consumer. As for **The Litchfield Fund**, our mission should be akin to what America's favorite perpetual teenager, Dick Clark, said "I don't set trends. I just find out what they are and exploit them."

**Other Portfolio News:** Several of our holdings hit record highs this week. Hershey (**HSY**) announced a \$250M stock repurchase. Deutsche Bank gave HOLD ratings to Vitamin Shoppe (**VSI**) & Sprouts Farmers Market (**SFM**). They gave **WWAV** a BUY rating and a \$44 target price.

### **The Litchfield Fund**

#### *Important dates*

**Tuesday, February 24**

**Wednesday, February 25**

**Thursday, February 26**

**The Vitamin Shoppe 4<sup>th</sup> QTR/2014 earnings report**

**Sprouts 4<sup>th</sup> QTR/2014 earnings report**

**Boulder Brands 4<sup>th</sup> QTR/2014 earnings report**

**Seeds, Sprouts, Grow, Harvest!**

**The Litchfield Fund**

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