



# 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**

**What came first, the chicken or the egg?** The philosophy, theology & science is much too esoteric for our humble imaginations! But as to what came first, supply or demand, it is demand! Any new idea, to be successful, must find some sort of demand. When Thomas Edison invented the light bulb, there were no sockets in which to screw the bulb & no method to deliver the needed electricity. But there was demand: People needed to see at night in their homes, safely walk the dark streets of growing municipalities, not have kerosene oil lamps burn their homes to the ground or natural gas lamps blow their homes to smithereens.

**Demand:** Edison also built the first power station as a means to generate & distribute electrical power. Edison had more than 1,000 patents in the U.S. & many others around the world. Even for his inventions like the phonograph or moving pictures, there was a demand. Prior to the phonograph, to listen to music in your house, you had to play an instrument, or suffer through your child learning the violin. A trip to Broadway to see a quality theatrical production was certainly not available to most Americans circa 1900, the best was local playhouses & travelling shows. Motion pictures changed that, with entertainment available to the masses. In our industry, we see demand as the driver. We believe most people see the high cost of healthcare (no matter who is in charge in Washington) & seek healthier ways of eating & living to prevent healthcare expense. Each week we gather the news we read & often report on the growing demand for organic & better-for-you products. This week, *CoBank* reported that U.S. demand for organic grains is out pacing domestic supply, causing increases in foreign organic grain imports. We were glad to hear *Kashi* speak at *Green Biz 2017* in Phoenix on their efforts to help farmers transition to organic farming. That sounds just a bit like Edison building a power station!

**Industry News:** *JMK Consumer Growth Partners* led a \$6M investment raise, its first, in *Miyoko’s Kitchen*, maker of vegan, plant-based cultured cheeses. German retailer *Lidl* announced the opening of its first 20 stores in the USA. The company plans to open 100 stores in the USA. Meanwhile, German competitor *Aldi* plans a \$1.6B investment to upgrade its stores while still maintaining low prices. *Aldi* wants to increase their ability to compete with higher end stores such as *Whole Foods*. *Snyder’s-Lance* made an investment in contract manufacturer *Natural Foodworks Group*. *Target* announced ‘Target Take-off’ a start-up accelerator in the health & wellness segment. *Fresca Foods* acquired *Open Road Snacks*, makers of *Sinfully Thin Popcorn*.

*Southeastern Grocers*, the parent of *Winn-Dixie*, is reformulating thousands of its private label products, removing artificial colors, flavors, trans-fats, high fructose corn syrups, etc. *Stonyfield* is planning to reduce added sugar usage by 25% across all of its yogurt products. *Nestle* is also

reformulating *Nestea* with less sugar. *Dahlicious* plans to produce plant-based kefir. *Amplify Snack Brands* is launching new *Skinny Pop* popcorn cakes, mini cakes & microwave popcorn.

While *Pepsi* missed analyst projections by 31¢ management commented that sales improvement in its healthier brands led the overall growth. For 2016, *Dr. Pepper Snapple* reported EPS of \$4.54, a 14% increase over 2015. Management believes the acquisition of *Bai* will add to 2017 performance. *Campbell Soup* reported a somewhat down 2<sup>nd</sup> QTR year over year with organic sales sliding. *Campbell* will continue to look to improve sales in its organic food & beverage segment with new innovative products. *GNC* continued its string of under-performing quarters, reporting a loss of over \$400M. *Flower Foods* reported a flat 2016 & projected the same for 2017, while anticipating growth in 2018 & beyond. *Flower* will look to innovation in other baking categories & cost reductions to spur growth. Despite a slight miss on 4<sup>th</sup> QTR EPS, *Snyder's-Lance* reported a strong 2016 citing growth in its better-for-you brands. *Kraft Heinz* made an unexpected \$143B bid for *Unilever* that was quickly rejected. Analysts thought *Kraft Heinz* was planning to focus on more food centric companies, such as *General Mills*. *General Mills* lowered its forecast for 2017 with falling sales in organic products.

Spanish researchers have shown that a traditional Mediterranean diet lowers the risk of heart disease because olive oil helps maintain healthy blood flow & the functioning of high density lipoproteins, or HDL, the good cholesterol. Also, Spanish researchers are using algae to create a better sunscreen. The Food Marketing Institute & the Grocery Manufacturers Association propose "Best if used by" & "Use by" as standards for product expiration. "Best if used by" would indicate quality, while "Use by" would indicate a perishable date. Regulation before congress seeks to prevent alcohol taxes on kombucha manufacturers as the fermenting process produces trace alcohol amounts. The Organic Trade Association (OTA) reported that millennial age parents form the largest group of organic buyers. Per the internet data research company *Hitwise*, gluten free diet interest is increasing & becoming consistent, while paleo diet interest is fading. On-line grocery sales are expected to increase more than 5-fold in the next ten years.

**Market News:** With confidence apparently growing from both investors & consumers in the new administration's economic plans, markets hit record highs throughout the week & settled at or near those highs. Data seemed to help the market this week, as upticks in retail sales & a slight spike in inflation, coupled with Yellen's comments on rates, spurred investors throughout the week. The President's comments on major tax reform & the Speaker of the House's assurance that it will happen buoyed investor confidence.

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

**The Litchfield Fund**

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