



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

We have all been there: it’s the middle of the night & pitch dark. Cozy & warm in our bed until suddenly there is a noise outside – an animal; or an intruder? Or maybe it is the cry of a child in need, an uncomfortable dream or worse, the dreaded urge to use the bathroom! We spring to our feet! The Sandman did his job well & with barely open sand-filled eyes (lacking the contacts or glasses we need), we fumble for the light switch! Taking comfort as we find it & flip it on, we are suddenly stunned like Manfred Mann – *Blinded by the Light!* While the nerdier of us perhaps feel a bit more like Thomas Dolby – *Blinded by the Science!*

On & Off: Quick-break technology was developed in the late 1800s. It prevented the circuit from arcing when opened or closed, which caused deterioration in the contacts. The first light switches actually were 2 buttons, one for on, the other for off. In 1916 the toggle switch was invented & for those of us who flipped a switch before 2004, we remember the distinctive click, which has now been replaced with lower force silent switches. Ninety years to remove a ‘click’? Who says innovation moves at a break neck pace?

That is certainly not true in the natural & organic industry. Innovative new products are introduced daily! Investment is high & sales are up. Organic food sales rose 16.7% to \$13.4 billion for the year ended April 2, per Nielsen data. Meanwhile, all food sales rose just 1.6% to \$468 billion during that time. So every great product idea will have a great future, right? Of course not, entrepreneurs still have to make all the right moves to build a business. But let’s say the basics are covered: there is great product, strong branding & good story, attractive packaging, funding to grow, significant social media presence, a reliable co-packer & the right team. Now it is execution! And that means getting ON the shelf & OFF the shelf. Let’s face it, with the number of products available & being introduced, *the war is for shelf space*. Post, Kraft Heinz & others may be seeing sales slip to new organic products but they won’t be relinquishing shelf space to *your* new product anytime soon. And until you have sales through that justify your shelf presence, neither will the grocery store. Stores won’t be adding freezer/refrigerator space. Smaller footprint stores are also somewhat in vogue. Your distributor has limited warehouse space, too! Yes, you can look to on-line sales but for some products with expiration dates & shipping considerations, this brings its own concerns. Growing a company is about executing the movement of your product: *co-packer to distributor to shelf to consumer*. *All Ears!!* will add to this discussion in the coming weeks.

Earnings News: GNC, which had appeared to be turning the tide from recent troubles took a big step back with 1st QTR earnings, missing analyst estimates by 10%. The company cited a

decrease in vitamin/supplement sales in general & continued slow progress on righting the company's direction. The decrease in sales resulted in discounting to get products off the shelf. 2016 EPS targets were lowered significantly.

Industry News: *Hershey* paid 3X to 4X sales for *barkTHINS*, the fast growing line of chocolate snacks whose sales are projected at around \$65M. Cold brew coffee maker *High Brew* landed a distribution deal with DPS (the *Dr. Pepper Snapple* distribution alliance) & a \$4M investment from a partnership group led by *CAVU Partners*. *CAVU Partners*, along with *Clearlake Capital*, led a \$6M raise for *Chef's Cut Real Jerky*. *BIGR* was part of *HOPE Food's* \$2.2M raise. *Lundberg Family Farms* is on the shelves with its new organic sprouted rice mixes. *Dannon* will label GMOs, create greater transparency & remove GMO ingredients from its products within 3 years. *Walmart* dropped its licensing of *Wild Oats* products to focus on adding organic to its *Great Value* brand & adding other products including more fresh produce to its stores.

Market/Portfolio News: Stocks did well in April but the last week of the month brought only malaise to news seekers. Prognosticators suggest that a return to \$30 oil, investments moving to financials & a merger slowdown signal an end of both the recent rally & this second longest bull run in history. Many see troubling signs of 2000 & 2007, but stocks are not as overpriced as in those years. Despite *Amazon's* big week & the FED's steady-as-it-goes speed on interest rates, general disappointment in earnings squelched investor sentiment this week. Better forecasts & results for Eurozone growth plus continued signs of China stability did not give the market any fuel this week, ending the run at last May's highs well short of the summit. There was very little news for our stocks in the Consumer Staples & Consumer Discretionary sectors. Higher interest rates will impact dividend paying stocks in these sectors as will the general economic slowdown that always seems to accompany a presidential election cycle, as the 'let's see who is in charge before we make decisions' attitude predominates.

Seeds, Sprouts, Grow, Harvest!

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