



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

Traditionally, August is *the* vacation month. The kids’ summer softball & soccer tournaments are over & the participation trophies have been handed out. Summer school sessions are in the books. Fall term will begin in a few weeks. Now is the time to pack the station wagon & take that classic 1950’s drive through the great American west! Or perhaps it will be a trip to Disneyworld with the grandparents! For the lucky few, maybe a wonderful relaxing week sitting on the beach, watching the kids playing in the sand & a waiter bringing a steady flow of Mai-tais. But we all seek that week or two of idyllic summer bliss -- *nirvana!*

Nirvana: The term nirvana comes from Buddhism & represents a state of spiritual liberation, free from the (often nasty) effects of *karma* & the cycle of birth, life & death. For most of us, nirvana simply refers to that idyllic peaceful place. The research & statistics suggest that the Natural & Organic industry is in a state of *nirvana*, but is there any *bad karma* lurking?

There is certainly endless product innovation! Superfoods, taste combinations & the use of healthy ingredients make every new product worth investigating. There are innovative uses for pulses, high omega fats & oils, ancient herbs & grains, frequently ignored fruits & vegetables, probiotics & cultures! These ingredients are used in cookies, cereals, snacks, beverages, soups, spreads & sauces. The sources for these ingredients are broadening. More farm land is turning organic. Economically struggling countries are working to shift their societies from bullets & illegal crops to plowshares & organic farmland. Investment in agricultural technology grows each quarter. The strong US dollar gives great buying power to young companies that source globally. Retail outlets -- brick & mortar, electronic & delivery -- for organic products are rapidly expanding. All consumer demographics are buying more organic & see the benefit of eating & living healthier. The entrepreneurs are creative, passionate & seek to better the planet through food. The infrastructure to support industry expansion is growing. This includes incubators, marketing & branding firms, research & media outlets & equity investors. Big Food is involved from incubation & investment to acquisition. Yes, this appears to be nirvana!

But is there any bad karma lurking? As investors ourselves, we have to be aware of the risk, to a particular investment & to the industry as a whole. The industry depends on an expanding consumer base, which will only come about with real middle class job & wage growth, something not presently occurring. There needs to be *appropriate* government regulation including a *real GMO labeling requirement*, allowing states to regulate pesticide use & sensible FDA actions. The increasing availability of organic ingredients will lower supply costs, but when coupled with the limited shelf space when more products are introduced & Big Food gets more

involved, margins will shrink & smaller players will be squeezed. The strong US dollar will limit international expansion. Entrepreneurs will need to learn how to manage expenses & operations. There will be failures & losses!

Should we worry about these risks, this bad karma? Of course, but in every innovative period, from the Industrial Revolution to the technology bubble of the 1990s, entrepreneurs were seeking nirvana to escape the karma associated with the *business* birth, life & death cycle! Then & now, entrepreneurs & investors need to manage the bad karma to find their nirvana!

Industry News: The Cornucopia Institute is requesting the Department of Justice review the *Danone* acquisition of *Whitewave Foods* for possible anti-trust issues concerning competition & monopoly. *Amplify Snack Brands*, maker of *Skinny Pop* popcorn, will buy *Tyrrells'* international snack portfolio. *United Natural Foods* continues in expansion through acquisition, picking up east coast organic distributor *Gourmet Guru*. *Grub Market* raised \$20M to expand its online farmer's market outlet. Paul Allen's *Vulcan Capital* has put money into organic meal kit start-up *Sun Basket Meals*.

Analysts feel *Campbell Soup* needs to address cost-cutting while shifting its brands toward more innovative products. *Hershey* has boarded the *less-ingredients-is-better* train with scientists cutting ingredients in many of its products. Analysts have been positive about *Sprouts Farmers Market's* recent quarterly earnings. Despite expected deflationary pressure on full year earnings, *Sprouts* reported revenue growth of 14% year-over year & a 4.1 percent comparable-store sales growth with gross margin increasing 40 basis points.

Market News: Again, economic data at the week's end dampened investor spirits coming off Thursday when all three major indices hit new highs on the same day for the first time since 1999. Consumer spending flat lined, wholesale prices fell & consumer confidence came in below expectations. The market still managed small gains by Friday, with the Nasdaq being the only one of the indices to end up a bit from Thursday's record. Stocks, despite shrinking earnings, are still viewed as the only place to put money as long as interest rates stay at historical lows. But it appears with this last round of economic news that the next possible rate hike is probably not until 2017.

Seeds, Sprouts, Grow, Harvest!

The Litchfield Fund

V3issue08.08.13.16