



# 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**

**Everyone has their favorite** movie stars, singers, rock bands, comedians, chefs, authors & athletes! For nerds like us, let’s throw in economists! While we prefer the free market & rugged individualism views of Smith, Friedman or even Hayek (*The Road to Serfdom*) to the big government & centralized actions of Keynes or Galbraith, we do like one thing all these economists share -- a healthy disdain, cynicism & pessimism toward government, big business & surprisingly, economists! And we too, would prefer to be stranded on a deserted island with the practical-minded engineer than an economist – *IF* we had a boat, we *could*...

**Act of Love:** Mr. Galbraith once said, “A person buying ordinary products in a supermarket is in touch with his deepest emotions.” A study from *The Hartman Group* this week confirms this, that despite ecommerce growth, 86% of consumers still shop in a store & feel that selecting groceries for their families is a loving & nurturing act. We too like to see & select our groceries & prepare food for the one we love. But our favorite quote of Mr. Galbraith’s reflects a bit of the cynicism we spoke of: *If all else fails, immortality can always be assured by spectacular error.*

**Industry News:** *Hormel Foods* will acquire *Columbus Manufacturing*, maker of premium deli meats, for \$850M. *Constellation Brands* acquired a 9.9% minority stake in Canada’s *Canopy Growth*, the world’s largest marijuana company, for \$191M to develop cannabis products for Canada, until it is legalized in the USA. An unnamed investor led a \$2.5M investment in *Eat Your Coffee* energy bar. Meanwhile, instant coffee *Alpine Start* received an undisclosed investment from *Slow Ventures*. Collagen producer *Vital Proteins* took in a \$19M investment from *CAVU Partners*. *Freiberger USA* spent \$435M to acquire pizza maker *Richelieu Foods*. *Nestlé* will acquire Austin-based *Chameleon Cold-Brew* for an undisclosed amount. *Unilever* will purchase *TAZO* tea from *Starbucks* for \$364M. *Starbucks* will focus on its *Teavana* brand.

*Mondelez* saw 3<sup>rd</sup> QTR EPS come in at 66¢ (up from 35¢) as net revenue rose 2.1%, *weathering* the impact of *weather* with strong snack segment performance. *Kellogg* saw an 8.3% income increase on a slight increase in revenue, as performance of recent acquisitions offset continuing difficulties in cereal & morning foods. *Kraft Heinz* saw a slight increase in 3<sup>rd</sup> QTR net sales & a 12.1% increase in net income. With USA sales slowing, *Kraft Heinz* will continue to expand brand presence. *Sprouts Farmers Market* had strong same store sales growth (4.6%) in 3<sup>rd</sup> QTR as net sales rose 16% & net income rose 32%. Sporting a 28.7% gross margin, *Sprouts* upped future guidance. *Publix*, with increased hurricane purchases, showed gains in 3<sup>rd</sup> QTR revenue, income & same store sales growth. Generally good brand performance & recent acquisitions led to a 28% net sales & 45% earnings increase for *B&G Foods*’ 3<sup>rd</sup> QTR. Problems competing in the global market caused *ADM* to miss 3<sup>rd</sup> QTR earnings, down 44% on an almost 7% decline in revenue.

*Hello Fresh's* IPO valued the company at \$1.6B, twice that of competitor *Blue Apron*, who posted an \$87M loss on a 3% revenue gain & a 6% customer base loss, but a transaction size increase. *Papa John's* stock fell as it missed same store sales expectations & lowered future guidance as a result of its NFL relationship & ongoing controversy.

*General Mills* is adding organic soup to its *Progresso* brand. Like many beverage distributors & producers, *Cascadian Managing Brands* will expand beyond beverages to include snacks. *Walmart* will also test robot shelf inspectors (*Ahold*) for inventory control. *Campbell Soup* is the first major food company to become a member of the year-old *Plant Based Foods Association* trade association. *Tyson Foods* is pushing its way into C-store foodservice with 60 grab-n-go products. *Lidl* will open its first New Jersey store. *ConAgra & Kellogg* are among investors in *The Hatchery*, a private kitchen in Chicago, which will house 75 food companies, mostly making snacks, by the end of 2018. Responding to competition, *Amazon* will lower the platform listing fee suppliers pay for non-perishable grocery items from 15% to 8% for the next year. *Amazon Fresh* will cease delivery in 5 states. *Door to Door Organics* expects growth & has added a relationship with UPS. Despite an existing relationship with *Instacart* in Chicago, *Jewel-Osco* will begin delivery using its own staff. *DanoneWave* will spend \$60M to expand its Virginia-based plant-based beverage processing facility. To meet demand for natural cheese, *Sargento* will add 40k sqft. to its Wisconsin facility. *Humm* kombucha is establishing a Virginia production facility.

A *Retail Feedback Group* survey indicates that about 25% of consumers using grocery delivery are unhappy with quality, especially frozen foods. *The Organic Center & Northeastern University* report that soil managed organically has 44% more humic acid, thereby storing more carbon long term. Based on studies, the FDA is considering to reject claims that soy reduces the risk of heart disease. A USDA study shows people with less access to large supermarkets make fewer trips but spend the same percentage of their budget at supermarkets as those with easy access. *Kevita* is the target of a class action suit charging that its kombucha line misleads consumers as its probiotics do not occur naturally. *Kevita* adds shelf-stable probiotics after pasteurization.

**Market News:** The markets ended 3<sup>rd</sup> QTR & the week with record closes. October Consumer Confidence hit a 17 year high, confounding economists who predicted otherwise. October saw 261K jobs created & the lowest unemployment rate since December, 2000. The GOP revealed a tax plan that lowered corporate rates & reduced the number of personal brackets. FED Governor Jerome Powell will follow Janet Yellen as FED Chairman. Meanwhile, despite forecasting a strong economic future, the FED closed its meeting with rates unchanged, though December is looking good for the third rate hike this year. The Atlanta FED is forecasting 4.5% growth.

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

The Litchfield Fund

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