



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 problem with the world" groused Humphrey Bogart, "is that it is 3 drinks behind." The stiff-drinking tough-talking star was speaking of his beloved Scotch. Filming *The African Queen* Bogie & John Huston avoided dysentery--they drank Scotch not water! Bogie blamed his cancer on his late in life switch to martinis! In *Casablanca*, when Bogie (in the iconic standard-setting-leading-man role of Rick Blaine) is asked by the Nazi Major Strasser (Conrad Veidt) his nationality Bogie replies "I'm a drunkard," to which Prefect of Police Luis Renault (dapper Claude Rains) replies, "That makes Rick a citizen of the world!"

Citizens for Fermenting: Anthropologists, social scientists & historians have long agreed that civilization, its cities & laws, came about when humankind learned how to ferment. Safe healthy beverages, as opposed to drinking water that had a multitude of uses, allowed people to co-exist in a larger population. So perhaps it is fitting that this week's G7 summit began with beer & pretzels, for as we know, what goes around comes around. Millennia after the first crude vat produced a fermented beverage (pizza & wings were still a distant dream) people are again realizing the healthy benefits of *non-alcoholic fermented drinks*. We could speak to the plethora of new products at this week's BevNet; spout numbers that demonstrate the success of probiotic drinks; discuss the spectacular growth of CP & HPP juices; list new drinks on the market containing non-traditional super-fruits & medicinal herbs; demonstrate the demand for new waters such as coconut, maple, cactus, or banana; comment on the availability of old ethnic recipes like kombucha, black teas, matcha, kvass; or document the increase in high-end drinks bought at convenience outlets but the story remains the same—beverage sales in general are booming, probiotics drinks leading the way.

So is there room for all these new products? There will be a shake out, but we believe there is a changing market dynamic in play. First, for more than 20 years, we have been a society that is constantly attached to the water bottle for hydration & paying exorbitantly for that privilege, even for water not enhanced with electrolytes & vitamins. Again, not to recite statistics, let's just say sales of ready-to-drink teas & nutrition drinks are up significantly, sales of colas are falling. Sugar content is becoming a bigger issue for both adults & children with newer products now finding ways to reduce sugars naturally while maintaining taste. The beverage product variety meets many different consumer needs such as nutrition, digestive health, hydration, meal replacement, or getting daily doses of antioxidants, vitamins & supplements. Then there is the almost infinite combination of flavors along with the introduction of new exotic fruits, vegetables & flavors, with varying color & texture. And options include dairy & non-dairy probiotic drinks & smoothies. The possible combinations seem endless.

People drink all day long for different reasons. In the morning, they drink for their nutrition & to wake up, at lunch for meal replacement, in the afternoon for hydration & energy, by evening for relaxation & calming. The extent of this market (with the accompanying shift from less healthy colas & dairy) has a long run ahead of it. Not all the participants will survive. Those that do will need to message their brand, maintain a limited number of winning skus to avoid over-complicating & over-combining their flavor options, & manage the cost of booming growth. Too much success too quickly can drain capital & scare investors. Ramping up production too quickly, or constantly changing production partners, can impact quality. Brand truth & operations management are the keys to success.

Market News: A good jobs report only seemed to add to this week's confusion as treasury prices fell amid speculation of a rate hike & rising German Bund rates which almost doubled this week. Turbulent Eurozone bond markets have preceded previous stalls in bull markets. With mergers & acquisitions & company stock repurchases reaching pre-2007 highs, some analysts see the market as having topped out. At the same time, the improved job reports & wage increases suggest that 1st quarter's sluggishness was just a bull market blip. While **The Litchfield Fund** generally takes a pessimistic view of market potential, this market still seems to be operating in a slow growth lower expectation mode that will support 2nd half growth as U.S. & international markets stabilize--perhaps after a rate hike outcome. Meanwhile, the G7 Summit began in southern Germany & the first order of business seemed to be establishing hard lines on Greek plans to ward off its creditors & Russian sanctions over the Ukraine.

Portfolio news: Eggs prices have risen over 250% since April due to concerns about the most recent strain of bird flu. This could impact earnings at Con Agra (**CAG**) & other food producers. It is concerning that United Natural Foods (**UNFI**) fell almost 5% this week just prior to its 3rd QTR earnings release (6/8/15). **UNFI** is 20% off its 52-week high, ending the week at \$63.88. **UNFI** still boasts BUY ratings & 1-year targets in the \$75 to \$90 range. While there have been no pre-earnings whispers, analysts expect an EPS of 86¢. General Mills (**GIS**) is supporting Canada's Prairie Organic Grain Initiative which is exploring ways to improve the stability & resiliency of organic grains. **GIS** is looking to reach \$1B in organic sales in the next few years. Lifeway Foods (**LWAY**) opened a new plant that can support \$500M in sales. **LWAY**, with 95% of the U.S. kefir market, wants to be the Hershey (**HSY**) of kefir. **GNC** confirmed annual EPS in the \$3.00 to \$3.15 range, analyst are expecting \$3.06. Boulder Brands (**BDBD**) maintains BUY ratings at 1-year target prices between \$12.50 & \$13.23.

Seeds, Sprouts, Grow, Harvest!

The Litchfield Fund

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