



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 16th amendment to the U.S. Constitution allowed for an income tax. It was ratified by the requisite 36 states by February, 1913. The history & controversy, much of it true but some of it *conspiracy-theory-ish*, is very fascinating! Needless to say, politicians wanted it more than the people! Many states pushed approval through their legislatures! Income tax in Britain began in 1798 to raise money to pay for the Napoleonic Wars. Various versions were in place through the Battle of Waterloo! In 1842, Britain restarted the income tax, giving rise to generally accepted inventory & accounting methods & structures, like FILO.

The FILO Diet: FIFO (First In, First Out) & FILO (First In, Last Out) accounting are options for managing both inventory & cost. From an inventory perspective, FIFO implies that the oldest goods or supplies are moved first, which is especially important if those goods or supplies can expire. From an accounting perspective, earlier purchased supplies or produced goods are more likely lower cost, increasing profitability when recorded. This appeals to investors as it may increase the cash payout! FILO accounting is another option. For inventory management, if the cost of inventory is consistent & there is no expiration risk, then FILO eases pressure in the warehouse & maintains surplus stock for high demand periods. In a high tax & rising cost environment, FILO reduces profitability, thereby reducing the tax burden. FILO gained popularity in the USA in the 1970s as taxes & inflation rose. Of course, each methodology changes the carrying cost of inventory on the balance sheet.

When it comes to our eating habits & our bodies’ ‘inventory management’ systems, we are following *The FILO Diet!* This sounds strange so let’s explain! The first foods we consume, from the beginning of the day & over time, are the healthiest! These are the foods with the highest & best nutrition, packed with all the vitamins, proteins & healthy bacteria that our system will store, consume & use! In essence, our bodies stock pile these in our ‘warehouse’ to be used when needed for that afternoon energy burst, exercising, working out or dealing with a stressful situation. FIFO is the inventory method for those wasted calories & sweet-treats that may be fun to eat but offer no value to our health & therefore should pass straight through our system, *quickly flushed out!* Now that makes us wonder what accounting method *Thomas Crapper & Company* used! So, when you are planning your daily diet, think FILO for your health & nutrition!

Industry News: A French company, *The Lactalis Group*, acquired *Stonyfield* from *Danone* for \$875M. *Danone* was required to divest *Stonyfield* as part of the *Whitewave Foods* merger. Organic boxed soup company *Pacific Foods* (annual sales of \$218M) was acquired by the *Campbell Soup Company* for \$700M. This is *Campbell’s* fifth purchase in the organic arena. In a *Reuters* report, *Kind bar*, with reported annual sales of more than \$700M, is working with

investment banks to find a minority stake investor. The company, seeking a \$3B valuation, does not intend to offer a future buy-out option. Mark Rampollo of *Powerplant Ventures* will take over as CEO of *Beanfields*, a *Powerplant* investment. Mr. Rampollo took a similar role with *Hail Merry*, another *Powerplant* investment.

ConAgra reported net income of \$648M with an EPS of \$1.46 for fiscal year 2017. This reversed a \$677M loss for fiscal year 2016. Overall sales were 10% lower. *ConAgra* is innovating in its legacy brands, such as *Healthy Choice* offering protein-based power bowls. Because of this, *ConAgra* has seen millennial shoppers' brand purchases increase 17% in the last six months. *ConAgra* forecasts 2018 EPS to be between \$1.84 & \$1.89. As *Fairway Market* struggles to gain momentum after its 2016 bankruptcy, *Moody's* dealt a small set back by lowering *Fairway's* credit rating. Among *Moody's* concerns is competition, both from brick & mortar & ecommerce.

Kroger has filed a trademark infringement lawsuit against recent USA market entrant *Lidl*. *Kroger's* complaint is that *Lidl's Private Selection* brand logo is too similar to *Kroger's* own *Preferred Selection* brand. *Preferred Selection* is *Kroger's* private label featuring gourmet & artisan products. While admitting to no wrong-doing, *The Honest Company* has agreed to a \$7.35M settlement in a lawsuit charging that their products were not all-natural, as labeled. *GT's Kombucha* & *Whole Foods* recent \$8.25M class action settlement for mislabeling is being challenged as not being fair to all class members. Among Illinois' many ideas to tax the state out of debt is a soda tax that was to be implemented on July 1. The court put a restraining order in place based on a filing from the Illinois Retail Merchants Association claiming the tax to be unconstitutional & vague. Illinois legislators are already seeking ways to replace the expected tax revenue of \$675M. Illinois just passed a permanent 32% hike to the state income tax rate.

Ultra-high temperature (UHT) milk accounts for 26.3% of the world's milk consumption. UHT raises the temperature of milk, or other beverages, for a few seconds to kill the bacteria & create a shelf stable product. Since so much of the world is still lacking the access to fresh milk, UHT milk has a growing market. *BevNet* reported that *Suja* will launch a line of organic kombucha in *Costco* later this month. *Tessemae's* will offer a full line of organic condiments including buffalo sauces, mayonnaise, mustards, BBQ sauce & ketchup, some vegan & no sugar added.

Market News: Markets bounced around a bit with a shortened trading week. Economic news was good, with the jobs report coming in 25% greater than analyst forecasts & labor participation remaining at recent highs. The U.S. trade deficit was at a two-year low. The manufacturing index was reported at a 6-year high. Future hiring expectations came in at a multi-decade high.

Seeds, Sprouts, Grow, Harvest!

The Litchfield Fund

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