



# 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**

**Wait ‘til next year is the fans’ lament** for their unsuccessful sports team. Perhaps it began in Brooklyn, where ‘Dem Bums’, those endearing *Boys of Summer*, the Brooklyn Dodgers, spent years falling short of unseating their uptown rivals, the New York Yankees. Of course, the fans of the White Sox, Red Sox & Cubs said that for a century! For the past 70 years, our hometown Cleveland Indians’ fans moan the same! At **The Litchfield Fund**, we feel that for emerging brands there is no need to *wait until next year!* Because like Eddie Van Halen & Sammy Hagar, we look at our industry & the economy & say, the time is *Right Now!*

**Right Now!** Is this, 2018, *the magic moment* for better-for-you emerging brands? Does *it mean everything?* Is it time to *not dream about yesterday* but *make future plans?* We believe, yes, it is!!! We have a roaring economy! There is an incredible amount of investment & merger activity. Every piece of data suggests that Americans of all ages want to eat healthier. And with the economy growing, wages increasing, higher employment, unbounding optimism about the future of business & personal finances, are we now at the point where people decide to eat & feed their families better & change their lifestyle to be healthier & happier? *Again, resoundingly, YES!!!*

In his book *The Tipping Point: How Little Things Can Make a Big Difference*, Malcolm Gladwell speaks to a moment of critical mass causing socioeconomic change from a series of many small changes that happen as part of everyday life. His book describes how the power of a few (connectors, mavens & salesmen) repeating a message can make change happen. The theory has been used to explain a number of social actions, from reducing crime to selling products! But is this not the description of our industry? The power of a few – *connectors, mavens & salesmen* – staying on message to drive the industry forward! Is this the tipping point, the perfect storm, a *nirvanic vortex?* In our years of eating healthy, following & being a part of the industry, we have not seen the opportunity for emerging brands to make such significant gains. This is the time to focus on marketing, deepening markets, gaining customers & customer loyalty! Yes, there may be an overabundance of products & brands, *Whole Foods* is making it tough for young brands & private labels will eat into your growth, but there will never be an opportunity like there is *right now* to grow your brand. C-stores, foodservice & superstores are expanding their better-for-you offerings & the opportunity to get market share is booming. *It’s your tomorrow!*

Is it smooth sailing forward? Of course not! But remember *working hard makes it easier!* And Messrs. Gladwell, Van Halen & Hagar would all agree, watch the little things, because *if you miss the beat, miss by a fraction, you lose the rhythm & nothing falls into place!*

**Industry News:** Skyr yogurt brand *Siggi’s* will join *Stonyfield Farm* as part of France’s *Lactalis* dairy group. The purchase price was not disclosed. Reports are that *Noosa* yogurt may be looking for a buyer. *Post Holdings*, will look at a possible sale of its private brand production (nut butter, dried fruit & nut, pasta & granola products) for retailers, distributors & manufacturers. Per

*Bloomberg, Ferrero* is close to buying *Nestlé's USA* confectionary business for approximately \$2.8B. *Hershey* is also believed to be in the bidding. *MOD Pizza* (300 USA/UK locations) plans more growth with a \$33M equity investment & a \$40M credit facility. High operating costs, low customer loyalty & the lack of a clear path to profitability are the reasons investors are passing on meal kit companies, per the *Wall Street Journal*. Per *Bloomberg, Hearthside Food Solutions*, grain-based baker of food, bar & snack products, will move from acquirer to seller, engaging *Goldman Sachs & Vestar Capital Partners* to explore a \$2.5B sale.

For 1<sup>st</sup> QTR, *Costco* reported net sales rose 11.9% & earnings 19.6%. With their 46¢ EPS meeting analyst expectations, *SuperValu's* 3<sup>rd</sup> QTR net sales were up 31% primarily due to \$860 million in sales from the acquired *Unified Grocers* business (6% without the acquisition). *Lamb Weston*, on strong demand, had a 4% increase in 2<sup>nd</sup> QTR net sales (\$824.6M) & a 11% earnings rise to \$140M, with foodservice growing 9% & retail sales growing 6%.

*Safeway* introduced *O Organics* in 2005 & now the *Albertsons* owned private-label brand has hit \$1B in sales. Sales are up 15% & *Albertsons* will add 500 new items to the 1,000+ products. *Kohl's* may right size some stores by adding grocery to its floor space. According to a study from the UNC's *Kegan-Flagler Business School*, *Lidl's* market presence is causing deep discounts at competitors across private label products & staples. *Sprouts* will partner with *Instacart* for consumer delivery, beginning in Phoenix & Tucson. *Whole Foods* continues to put pressure on young companies as they will restrict suppliers' control over merchandising & require them to pay for a program that oversees demos, shelf management & displays. Possibly as a result of competing with *Costco & Amazon*, it has been reported that *Walmart* will close about 63 of its *Sam's Club* warehouse stores, about 10% of their total locations. Some of the closed locations will become e-commerce fulfillment centers. Because of the President's tax cuts, *Walmart* will increase its minimum wage to \$11 & add to its employee's bonus & benefit pool. *UNFI* estimates it will see a benefit of \$16M to \$18M from tax reform for just 6 months in their current fiscal year. *Yasso* is introducing an 8-flavor low calorie ice cream line. *Diet Coke* will introduce new flavors in taller skinnier cans to attract millennials. *7-Eleven* is launching a line of organic, cold-pressed juices in its *7-Select Go!Smart* line of better-for-you snacks & beverages.

Millennials spend more of their food grocery budget on prepared foods, pasta & sweets than older generations, according to the USDA. *Health & Human Services* is asking the FDA to take a closer look at its food recall process to better ensure the safety of the food system. Avocado sales are increasing in China, who has yet to increase its own agricultural production. The *Cold Pressure Council (CPC)*, will introduce a 'High Pressure Certified' seal for use on HPP food & beverage packaging. Per a study from *Augusta University*, high doses of vitamin D may reduce arterial stiffness for those with a high risk of heart disease.

**Market News:** With more of the same news, such as the small business confidence index at an all-time high, indices powered to another week of records.

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

The Litchfield Fund

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