



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

Defense wins Championships! At least that is the age old adage. The champion Denver Broncos were the ninth team in the last 30 years to lead the NFL in defense & then reach the Super Bowl. Eight of those nine teams, Denver included, came away as victors. Studies have shown that the better defense wins, well, about 50% of the time! Yet no one has ever been to a football game where the home crowd shouts “Of-fense, Of-fense!” No, the crowd loves a hard-hitting defense and the two guys that bring the big D and the white picket fence right up until the game is on the line & the coach plays the dreaded *prevent!*”

Prevent Defense: Rush three down lineman, drop or replace the linebackers, and add defensive backs. Allow the offense to throw underneath the coverage and avoid giving up a big play. Just a bunch of little gains! In a nutshell, the *Prevent Defense!* It works, for awhile, until a smart quarterback catches the defense off guard with a quick snap & the speedy tailback runs up the middle for a big gain! Or until the offense gets inside field goal range for a winning kick or close enough to the end zone to launch a Hail Mary pass! Then that same smart quarterback throws it just shy of the goal line, where all the ‘good hands’ D-Backs are waiting, into the arms of his 6’6” tight end who catches the ball and falls across the goal line for a touchdown!

We are definitely proponents of a strong defense. Baseball’s Earl Weaver believed in good pitching & a three run homer, but his Baltimore Oriole teams were put together the way baseball teams were supposed to be built – solid defense up the middle! Catcher Elrod Hendricks, 2B Davey Johnson, SS Mark Belanger & CF Paul Blair were among the best defensive players in the league! Yet the best defensive player on the team was the incredible 3B Brooks Robinson, The Human Vacuum Cleaner! But winning means scoring & those three run homers and offensive touchdowns win games!

It seems to us the Fed is playing a prevent defense -- allowing small gains while *preventing* a bubble from forming or popping. At the moment, there is not a bubble to really attract our attention. While stocks are trading at a high multiple, they are nowhere near levels of the last two bubble bursts. Certainly commodities, housing, energy, etc. seem far from over extended. Yet the Fed & the administration policies are doing little to score points. The strong dollar, high taxes, poor trade relationships, mediocre wage growth, lack of middle class job growth, illegal immigration strain, over entitlement, weak foreign policy & security threats all need to be addressed to score some economic points! We can only hope that the next administration is capable of tackling these issues.

Earnings News: Despite a 1.8% decline in same store sales growth, Whole Foods Market (**WFM**) posted a record \$4.83B in 4th QTR sales with a 46¢ EPS. Earnings were 8.3% of sales. The decline in same store sales growth was attributed to competition & cannibalization. **WFM** announced the signing of the first 13 leases for its 365 chain with the first 3 stores opening in Silver Lake, CA, Lake Oswego, OR & Bellevue, WA. **WFM** continues to make progress on its \$300M 2017 cost reduction goal.

Whitewave Foods (**WWAV**) reported a strong 4th QTR, its 2nd consecutive quarter with a billion dollar sales total (\$1.03B) & full year 2015. EPS for 4th QTR was 36¢ (up 44%) beating analyst estimates. Net Income increased 45.5% & operating income rose 27.8%. There were similar full year increases of 12.5% for revenue, 20% for net income & 19% for EPS. Organic product sales rose 10% & Vega products had 50% growth. Full year 2016 estimates were set at \$1.78 to \$1.82 with 5¢ to 6¢ lost to China joint ventures.

Analysts feel **GNC** may have turned a corner with its 4th QTR earnings outcome. Despite a slight miss on revenue, **GNC** posted a better than analyst estimate EPS of 63¢. Franchise stores saw a much healthier comparable same store sales growth & **GNC** will move forward with its plans to change corporate store ownership to better performing franchise ownership. **GNC** forecasted 2016 EPS of \$3.15 to \$3.35 as it executes these plans.

Portfolio News: Struggling *The Fresh Market* is seeking a buyer & reportedly Kroger (**KR**) is interested. *The Fresh Market* has 183 stores in 27 states and \$1.8B in sales, with a 7% sales growth. Enterprise value is about \$835M. Kroger paid about 7X cash flow for Roundy's recently and *The Fresh Market* seems to be a strong target for Kroger.

Industry News: We have been excited to see & sample the abundance of alkaline water reaching the market & grocery shelves. Ranging from store brand 8.0pH to Essentia's 9.5+pH (and some brands with higher pH) we have personally felt benefits from alkaline balancing!

Seeds, Sprouts, Grow, Harvest!

The Litchfield Fund

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