



ALL EARS!!

THE LITCHFIELD FUND WEEKLY NEWSLETTER

"OUR EARS SPAN ALL FIELDS"



A HARD RAIN ON A SUMMER AFTERNOON. A winter day, snowbound in the house. Time passes slowly. The day feels as though it may never end. You need to do something to pass the time away. What will you, your family or friends do? Wait, it's a perfect afternoon for a game of *Monopoly!* Drive your competitors into bankruptcy & end up living in the penthouse of a Boardwalk hotel. Or better yet, *Risk!* World domination! Push your opponent off the surface of the world & then retire to your biosphere in the ocean, like a villain in a James Bond movie. All while petting the dog with one hand. It is winner take all & get it all! All the money, all of the world. A classic Zero-Sum Game!

ZERO-SUM: "There are winners & there are losers, ain't no big deal," John Mellencamp wails in his rock classic, *Little Pink Houses*. But losing is likely a big deal to the loser! In most fair competitions, there is one winner, a winner who takes all! A heavyweight match with two pugilists demonstrating the sweet science until the referee raises an arm in victory. A chess match where one competitor claims "checkmate!" A golfing skins match or a Texas Hold'em tournament, where one winner walks away with all the cash. Winner-take-all competitions, in mathematical game theory, are called zero-sum games. In most cases, the economy is a zero-sum game. As an example, there are investment instruments such as puts, calls, options, etc., where two sides are essentially placing a bet. One side walks away a winner, the other side a loser. Some suggest the economy is not a zero-sum, once you take into account variables such as growth, market expansion, wage increases, etc. But because there are limits, such as market size or consumer spending power, it means those playing the game cannot all be winners. One example is retail grocery shelf space. Every store has only so much space, & every piece of real estate has to have the best possible revenue. There may only be spots for 10 products in the beverage set. So even if product #10 is selling well, if the store management believes another product their customers will buy can sell better, #10 will be replaced. Club & big box stores do this amazingly well. Another example brings consumer spending power into play. Soaring inflation, 3% higher than wage increases, has reduced consumer purchasing power. Consumers only have so much money to spend. We share statistics weekly that show those purchase habits are changing consumer loyalty, consumers switching to lower cost outlets, products & private label store brands. Consumers are opting for what they & their family must have, such as bread, milk, meat, eggs, cheese, etc.; moving to cheaper (& likely less healthy) snacks & sweets & skipping premium, luxury, or even functional healthy products they may need. There will be products that lose, simply because there is not room for them in the consumers' purchase basket. Market growth also does not change the zero-sum game. The alt-meat category, be it plant-based, cell-cultured, 3-D printed, fermented or chemically-created, will grow to 10% of the global protein market in 15 years, per many analysts. This is a big number, maybe \$133B in today's dollars. But think of the billions of dollars already invested in these many companies! There will be winners, & losers, because the market has limitations. In actuality, we are all constantly playing a zero-sum game. Comedian George Carlin quipped, "Life is a zero-sum game!" There are only 24 hours in a day, & whether we like it or not, only so many of those days have been granted to us. How we use that time, be it love, family, friends, career, work, church or community; in pursuit of knowledge or wisdom or some form of fun or pleasure; or exercise & meditation, that time, those minutes, we will never get back. And if the game of *Life* was one you played, stuck in the house on a rainy day, remember, the winners in life are not those with the most, but those who looked deep inside then chose to spend their time wisely. From Abraham Maslow, "One cannot choose wisely for a life unless he dares to listen to himself, his own self, at each moment of his life."

INDUSTRY NEWS: YouTube marketed *Chamberlain Coffee* raised \$7M led by *Blazar Capital*. *Positive Food*, freshly packaged salads, heat & eat prepared meals & vegan overnight oats, raised \$7M in funding from *BlueYard Capital*, *Western Tech*, *Y Combinator* & *Gaingels*. *Eat Just* secured \$25M & a strategic partnership from *C2 Capital Partners*, an *Alibaba*-backed PE firm. Singapore oat milk brand *OATSIDE* raised a \$65.6M Series A co-led by *Temasek Holdings* & *GGV Capital*. Cultivated meat company *Novel Farms* raised \$1.4M. Swedish vegan seafood company *Hooked Foods* raised a €10M Series A from undisclosed investors. *Bakkal*, online grocers for middle eastern products from multiple retailers, raised \$3M. *Byte Kitchen*, ghost kitchen digital food halls, closed on \$6M led by *Crosslink Capital* & *Emergent Ventures* with participation from *Correlation Ventures*, *Wndrco*, *Soma Capital*, *Y Combinator* & notable angels. *John Deere* made a minority investment in fleet management tech startup *Hello Tractor*, which aligns *Deere's* plans to pursue small ag equipment connectivity. *Groundwork BioAg*, producer of mycorrhizal

inoculants, fungi to enhance crop growth, completed a \$18M round led by *Climate Innovation Capital*. *Soiltech Wireless*, crop management, completed a \$2.5 million seed round led by *Homegrown Capital*. *KatKin*, DTC fresh cat food, raised \$22M led by PE firms *Perwyn Advisors & Verlinvest*. Food & beverage M&A activity fell 15% YOY in 2nd QTR, YOY, according to *Kroll*, due to the failing economy. For the same reasons, *Kraft & Kellogg* will pull back from new investments. PE food investors *Butterfly* closed on their second fund at \$1B. *Walmart* is buying *Delivery Drivers*, the gig-labor management company for their *Spark Driver* platform. *Laird Superfoods* received a \$3/share takeover offer from *EF Hutton SPV I LLC*; the company will review what is in the best interests of the business & shareholders. *KDP* denied they are in talks to acquire *Bang Energy*.

Walmart had a better-than-expected 2nd QTR, despite forecasting slower growth, as price conscious, higher-income consumers looked to beat the strangle-hold of inflation. *Target* missed estimates following 2nd QTR warnings, with an 87% decline in operating income, as the retailer resets inventory. *BJ's Wholesale* beat 2nd earnings estimates with returning & price conscious consumers driving results. *SpartanNash* saw 2nd QTR sales rise 7.3%, & adjusted income rise 13.7%; net income was lower YOY but higher than estimates. *HelloFresh* reported a revenue high in 2nd QTR, up 16% (the USA market driving increases) with a 7.5% decline in adjusted EBITA. *Boxed* showed an increase in 2nd QTR customers & a small increase in revenue & raised full-year revenue guidance. Adjusted net income for 2nd QTR at *Flower Foods* was down 6.4% on a rise in net sales of 11%. *JBS* reported a down 2nd QTR, though results beat analyst estimates. *Laird Superfoods* reported a \$6.3M net loss in 2nd QTR, sales were down 6%, with a shrinking gross margin as inflation pressures prevailed. Income was down 28%, sales up 7.5% for *Krispy Kreme* in 2nd QTR, inflation & exchange rates impacting results. Revenue was up 14% in 3rd QTR, net income was down 12% for *Restaurant Brands International* (*Burger King, Popeye's, Tim Hortons*, etc.). *Dine Brands Global* (*IHOP, Applebee's*) saw a 15% income drop on a 3% 2nd QTR revenue gain. *Wendy's* saw 2nd QTR sales & comp increases but net income fell 27%.

Dollar General will offer fresh produce in 3K stores by the end of the year. *Save Mart* will close its pharmacy & move its services to *Walgreens*. Pennsylvania's *Gerrity's*, a 10 store, 127-year-old family-owned grocery, will rebrand as *The Fresh Grocer*. *Weis Markets* will partner with fresh grocery platform *Invafresh* to streamline demand forecasting, in-store production planning, food traceability, etc. *Amazon* will place its palm scanning payment option in *Whole Foods* stores. *DoorDash* will now offer delivery for all *Grocery Outlets*. *Instacart & Quickly* will expand their partnership to seven cities. *Thrive Market* will introduce a private line of beauty products. *Ford* is patenting a combined drone/vehicle delivery system, where drones can leave a truck with a payload, deliver, then dock at the next nearest vehicle. *Grupo Bimbo* launched *Bimbo Open Door*, a business accelerator to invest in Latin American bakery & snacks that align with its sustainability strategy. *Harmless Harvest* is introducing a coffee & tea line. *Shiok Meats* confirmed its 2023 commercial launch for its cultivated meat. With a changing alt-meat segment, Canada's *The Very Good Food Company* cut 160 employees, despite recent funding. *ADM & LG Chem* established a joint venture to produce corn-based lactic acid & polylactic acid needed for plant-based products. *ADM* will also partner with *New Culture* to scale its dairy-free fermented casein proteins. *Gordon Food Services & Square Roots* opened *Square Roots'* largest indoor farm in Kenosha, WI, growing fresh greens & herbs. *IFF* is planning a new innovation center, Nourish Innovation Lab, in Union Beach, NJ. *Bunker Hill Cheese* will invest \$104K to upgrade its facility in Holmes County, OH. *Tyson* will invest \$200 million to expand & upgrade its Amarillo, TX, beef plant. *Kerry & Florida Food Products* are headed to court over alleged infringement of *Kerry's* cultured celery juice patent.

From *Mercatus*, the two reasons shoppers do not use grocer delivery are, wanting to pay the least possible & choosing their own produce. From *NCSolutions*, 45% of consumers feel like they can't afford their previous lifestyle due to inflation with 76% changing how they buy food. From *NPD*, households earning less than \$75K are eating 89% of their meals at home. From *IRI*, the biggest shifts to private label products, due to runaway government induced inflation, include fresh eggs, butter & margarine, frozen dinners & entrees. The global vegan cheese market is expected to grow at a 10% CAGR to reach \$7B by 2030, according to the *Food Institute*. The University of Leeds reports that vegetarians do not get the necessary nutrients for joint & bone health, & vegetarian women face a higher likelihood of hip fractures. In a study from Japan, sulforaphane, a compound derived from broccoli, may boost brain processing speed & mood in healthy older adults. USA honey consumption reached a new record of \$618M, up 8% YOY, due to better-for-you products & consumers interest. The port at Long Beach reported its busiest July ever. Potato prices are increasing as supply decreases. The Washington state apple crop forecast is down 11.1% YOY, impacted by cold weather. Specialty & organic apple crops are forecasted higher. The USDA projects a larger beet crop.

MARKET NEWS: Markets were lower. The New York Fed's Empire State business conditions index, a gauge of manufacturing activity in the state, plummeted 42.4 points to negative 31.3. July retail sales were flat.

SEEDS, SPROUTS, GROW, HARVEST!

THE LITCHFIELD FUND – *Tom Malenka*

V9issue10.08.20.22

The Litchfield Fund is a family owned & operated limited liability corporation. We do not solicit or accept investment from outside individuals or entities. Opinions contained in *All Ears!!* are ours & should not be considered investment advice or recommendations.