



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

In *Casablanca*, Ingrid Bergman flips a coin in the air & says to Humphrey Bogart, “A franc for your thoughts?” To which Bogie responds, “In America they’d bring only a penny, and, huh, I guess that’s about all they’re worth.” The exchange rate before WWII made that franc actually worth about 3¢! The saying was first written in the 16th century works of Sir Thomas More. It means a wise man who doesn’t speak much can *perhaps* be tempted with money. We agree with Bogie, the thoughts we share in *All Ears!!* for free are hardly worth a penny, or after 80 years of inflation 17¢, or at this week’s closing exchange rates about €0.16!

Two Cents: With everyone offering their thoughts this week about the roughly \$750M investment in *Whole Foods Market* led by *Jana Partners*, we cannot resist offering our own *two cents!* We likely won’t be able to add a great deal of wisdom that will rain down *like pennies from heaven*, just a few of our *penny ante* thoughts! This is not the first time we discuss *Whole Foods* in *All Ears!!* nor is it likely to be the last!

So how did this happen to the natural/organic icon? For so long, *Whole Foods* was the only game in town. It was a giant health food store bringing exciting, game changing products to its shelves. It was priced like a health food store, but that was okay! There was a rarity of competition & certainly no other place to get the variety of products offered. There were significant barriers to entry: real estate, distribution, product knowledge, etc. We can all point to numbers to say when the decline started, but to us, it has been about 3 years since we have just seen a series of missteps for *Whole Foods*. First, they focused on value - of their supply chain, their standards, their role in the communities they served! All good stuff! But as competition was rising from every direction, they seemed to believe these attributes alone justified their higher margins, all while innovation was lacking, aisle allocation to supplements, health & beauty was shrinking & new stores were focused on restaurants, taverns & prepared foods to encourage traffic. There were loyalty programs & reward programs that never came into existence. The once stable workforce transitioned, becoming less knowledgeable & less trained. As bigger outlets - Costco, Kroger, Walmart - used their sourcing & distribution to drive down price, *Whole Foods*, still twice as large as its smaller competitors couldn’t, or just didn’t. As consumers, we felt like *a penny waiting for change*. Smaller competitors offered not just lower prices, but innovation, larger health, wellness & personal care offerings & sold only organic produce. Instead of reacting, *Whole Foods* came up with a still hard to define new concept, *365*. So now *Jana Partners* adds to its holdings, gathering up almost 9% of the stock & getting board seats. What is interesting here is not the activist role *Jana* has a history of taking with its investments, but the group of individual investors who have joined them. This is a group of retail industry stalwarts & organic

industry experts. Change is coming, but it takes time to turn a cruise ship while navigating stormy waters! What we hope is that *Whole Foods* uses its real estate & distribution effectively to drive down price, add customers & bring innovation back to the forefront. This will cost a *pretty penny*. But will it be *worth every penny*? Only time will tell!

Industry News: *Danone* has completed the \$12.5B acquisition of *Whitewave Foods*, forming *DanoneWave* to operate in North America. *Whitewave's* 2016 sales were about \$4.2B. In other investment actions, *Full Harvest*, a B2B platform for ugly surplus produce attained a \$2M investment from a group including *Wireframe Ventures*. *Good Day Chocolate* is reported to have received a bit less than \$1M from investors. *Boulder Food Group* is just one of several investors. *The Andersons*, *Grain Group* acquired *Vita Spelt & Nature's Legacy* pasta company *Purity Foods*. Industry icon *Atkins Nutraceutical* was acquired by *Coyers Park Acquisition Corp*. *SuperValu* took *Unified Grocers*, with \$16B in revenue & 3,000 stores, for \$375M. Analysts see \$60M in savings. *Hain Celestial* now has a 49% stake in a joint venture to license frozen pasta meals from *Rosetto Foods*. *Rosetto Foods* had \$10M in sales in 2016.

Since 2005, *General Mills* has increased the health profile for 79% of its products with 98% of its cereals now containing whole grains. *General Mills* offers more than a thousand gluten-free products & is #2 in gluten-free sales. *General Mills* reported that they are #4 in all organic sales. In 2016, the company increased its spending on food safety to \$16M, \$3M more than 2015. *McCormick Spices* will be free of artificial colors & extracts & also be BPA-free. In health news, a Swiss study reported in *Molecular Psychiatry* indicates a fatty childhood/adolescent diet affects adult cognitive functions along with memory, planning, attention, impulse control & social behavior. In another study from *Frontiers in Aging Neuroscience*, lutein, the pigmentation found in leafy greens & broccoli, increases the ability of adults to use the knowledge & skills acquired in a lifetime, termed as crystalized intelligence.

The USDA has indicated that 2017 rain & weather will be more favorable for crops. Much needed rain & additional snow pack has reduced drought affected areas in California & the Great Plains. The spring weather forecast appears especially good for planting with many water reserves already replenished for the summer.

Market News: In a shortened holiday week, stocks took a step backward. Bank earnings showed weak loan growth. Geopolitical concerns continued to test markets as the U.S. demonstrated its strong positions on the world's stage.

Seeds, Sprouts, Grow, Harvest!

The Litchfield Fund

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