



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

Where does an 800 pound gorilla sleep? *Anywhere he wants*, is the legendary joke’s come back! But in Gary Larson’s *The Far Side!* a gorilla of merely 700 pounds does not have that luxury. The stubborn hotel clerk looks at the underweight gorilla and firmly states that no room is available, but if he had been 800 pounds, well then he would be able to accommodate him! Whole Foods Market, once the 800 pound gorilla able to do whatever it wanted in the natural organic grocery arena may suddenly feeling a bit more like the 700 pound gorilla in Mr. Larson’s comic; on the outside looking for a hotel room!

It was a very interesting week of earnings reports for three holdings in our portfolio -- Whole Foods Market (**WFM**), **GNC** & recent addition Natural Grocers Vitamin Cottage (**NGVC**). **The Litchfield Fund** recently reduced its positions in **WFM** & Sprouts Farmers Market (**SFM**) to broaden its holdings with other grocery retailers. We hardly think that Whole Foods Market is no longer a force in the natural & organic food industry, but clearly the company & stock has lost some of its luster & appeal. **WFM** seems perhaps somewhat less trendy. It is losing market to smaller more nimble retail competitors. It is trying to better engage millennials. It is adding breweries, taverns & smokehouses inside of its stores. WFM still boasts a strong balance-sheet & tremendous industry presence, but with mainstream competition, falling organic prices & less than stellar press, **WFM** may not be the industry gorilla it once was.

WFM missed analyst earnings estimates coming in at 43¢ a share, 2¢ shy. A strong 8% sales revenue increase & \$3.6B in quarterly sales was offset by a weak 1.3% increase in comparable same store sales. Also, **WFM**’s revenue numbers took a big hit in the final weeks of the quarter after another price/weight scandal investigation hit the grocery chain. **WFM**’s stock fell 10% this week. **WFM** has a multiple equal to Kroger (**KR**) who boasts comparable same store sales growth of 5%. **WFM** has had a seesawing quarterly performance for more than a year & needs to find a growth story to still warrant its previous star status. **WFM** also announced the first locations for its new *365 by Whole Foods*, in trendy millennial-laden neighborhoods.

GNC came in at a 79¢ EPS, also a slight miss of 2¢ from analyst estimates. It was a troubled quarter for **GNC** but the company forecasted full year earnings in line with analyst estimates. **GNC** also stated they are moving toward more franchised outlets which have traditionally been more profitable. Despite the miss on earnings, these latter two factors pushed **GNC**’s stock up a *Columbus-sailed-the-ocean- blue* 14.92% this week.

NGVC bested analyst estimates by 4¢. Strong quarter-to-quarter & year-to-year revenue growth was also supported by a 5.8% comparable same store sales growth! The stock gained

more than 18% this week. We are anxiously awaiting the grand opening of NCVC's 100th store in the next few weeks here in Scottsdale, AZ!

Portfolio News: Sprouts Farmers Market (**SFM**) was upgraded to NEUTRAL by Longbow Research. There is a general feeling that **SFM** will be better able to weather the fall in organic foods prices as organic food continues to become available at more mainstream grocery stores. **SFM**'s focus on local produce with premium but less than competitor pricing points to good growth in 2015 & 2016. Analysts suggest growth to be 21.6% and 17.8% over the next 2 years. **SFM**'s stock price free fall was somewhat abated this week.

Cal-Maine Foods (**CALM**) has an average BUY rating, a \$65 price target, & a healthy 5% stock price increase this week. Canaccord Genuity set a target price for Hain Celestial (**HAIN**) at \$73. BMO Capital still has United Natural Foods (**UNFI**) as a Top 15 Small-Cap Pick but lowered **UNFI**'s rating to MARKET PERFORM. **UNFI** adjusted full year revenue & EPS estimates based on the loss of the Albertsons contract. The revenue loss is about 5% of annual sales. **UNFI** lowered annual EPS estimates to \$2.98 from \$3.15. However, year-over-year growth should still be good & **UNFI** holds BUY ratings.

Activist investor Glenn Welling, Engaged Capital, announced an increased position in Boulder Brands (**BDBD**) driving the stock up nearly 22% this week. **BDBD** announces earnings next week. Whitewave Foods (**WWAV**) still holds a STRONG BUY even with prices hovering at all time highs. **WWAV** also reports next week with analysts expecting a 25¢ EPS.

Market News: Oil continued its retreat from its June recovery (\$61 a barrel) to settle the week at \$47 a barrel. The market, especially the Dow, reacted as energy companies' earnings are now demonstrating the impact of lower prices. We still maintain lower oil prices are good for the economy and for our portfolio particularly. Low oil prices will help stem inflationary pressure on food products. These prices, along with a 2nd QTR deceleration of wage increases, may give the FED another reason to delay a rate hike until at least December.

Seeds, Sprouts, Grow, Harvest!

The Litchfield Fund

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