



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

1-Adam-12, 1-Adam-12!!! That call meant perpetually youthful looking actor Martin Milner was coming to your rescue in an LAPD black & white (not a Corvette) with partner Kent McCord (not George Maharis). If you were in trouble in Hawaii & needed the help of a private investigator you sought out the services of mustachioed, Detroit Tigers baseball cap wearing Tom Selleck, *Magnum P.I.* (Don’t forget to stay on John Hillerman’s good side!) But off-screen you would find Messrs. Milner & Selleck on their avocado ranches! Botanist David Fairchild found the avocado to be a fruit *beyond compare*, the *veritable fruit of paradise!*

An Avocado Avocation: A Pasadena postman, originally from Milwaukee, bought some avocado seeds from a nursery in the early 1920s. Avocados were already popular with the Fuerte avocado being the most commercially used. Avocados are self-pollinating & are often propagated by root stock & grafting but the nursery’s seeds, a mixed variety that possibly included restaurant scraps, had likely already been cross-pollinated in nature. A seedling sprung quickly & produced fruit for the mail carrier, much faster than the slower maturing Fuerte. He eventually was able to graft & grow more trees from this original root stock. His family loved the taste, he brought extras to his co-workers & began to sell them. In 1935, the first U.S. Patent for a tree was granted to Rudolph Haas. Mr. Haas was merely an amateur botanist but today, Haas avocados make up 80% of the commercial market. Avocados, of course, are growing in popularity & per a recent study, 60M to 80M lbs. of organic avocados are consumed by Americans each year! Pass the guacamole!

Industry News: *Brynwood Partners* acquired *Cold Spring Brewing Company* for an undisclosed amount. *Sunrise Strategic Partners* took a minority interest in sports hydration & clean recovery beverage *Kill Cliff*. *Wellnext*, whose brands include *Rainbow Light* & *Natural Vitality*, acquired collagen supplement maker *Neocell*. After a significant recent investment, *Impossible Foods’* use of soy leghemoglobin has not yet been declared safe by the FDA. Having never been used by consumers, the fear is that it is an allergen. *Impossible Foods* can continue to sell its products, however. *JPMorgan Chase* suggests *Sprouts Farmers Market* may be the last chain buy out target, though bidders & merger partners appear limited. *Koa*, a nutrient rich beverage made with a proprietary method to extract sugar & calories, filed bankruptcy after failing to get funding. Algae-based ingredient maker *Terravia* has declared bankruptcy. *Corbion* has made a \$20M bid. *GrubHub* spent \$287.5M to purchase the food order business *Eat24* from *Yelp*. This adds 15,000 restaurants to *GrubHub’s* 55,000 restaurant base.

HyVee is eliminating 200 artificial ingredients, synthetic chemicals, high fructose corn syrup & artificial colors from its store brands by July 2018. *Amazon* may be looking to mainstream organic grass-fed beef. *Beyond Meat’s Beyond Burger* will appear in the meat case at *Kroger*. In response

to a *Royal Hawaiian Orchards* request the FDA will allow verbiage that macadamia nuts may reduce the risk of heart disease. *Hampton Creek* received a GRAS (Generally Recognized as Safe) ruling from the FDA for the mung bean based egg substitute in its *Just Scramble*. *Triscuit* will be non-GMO across all its product offerings. *Pamela's* is entering the gluten-free pasta category. Plant-based *Kite Hill*, under the temporary leadership of investor *301 Inc.*'s John Haugen, will introduce Greek-style yogurt, a drinkable probiotic-enhanced yogurt & children's yogurt tubes.

There were numerous companies in our industry reporting earnings this past week, here are some highlights. *Snyder's-Lance* gained market share in its *Late July, Cape Cod, Kettle & Pretzel Crisp* brands. Reporting mixed earnings, the snack maker will look to reduce as many as 750 SKUs to save \$175M. Weak demand led to a down 2nd QTR for *B&G Foods*, who will seek to acquire frozen & shelf stable on-trend brands. Too many SKUs & excess capacity were the cause for a \$34M 2nd QTR loss at *Treehouse Foods*, who will begin a restructuring initiative. *Kraft-Heinz's* cost-cutting measures took force in 2nd QTR as EPS rose 21% on a 1.7% sales decline. The company reported \$50M in 2017 incremental savings. *Dean Foods*, citing a milk oversupply & competition, reported a 19¢ EPS, down from 37¢ reported for 2nd QTR last year. *Tyson Foods* beat analyst estimates & last year's 3rd QTR earnings with a \$1.27 EPS. *Dave's Killer Bread* had a strong showing for *Flower Foods*, but the baker fell 9% on sales & 12.5% on 2nd QTR EPS. *Amplify Snacks*, makers of *Skinny Pop*, expects to see future growth for the ready-to-eat popcorn segment despite reporting a 10¢ drop in EPS to 2¢. Adjusted EPS met analyst 2nd QTR estimates of 8¢. Revenue growth came from its recent acquisitions.

Consumers define natural not just by the growing practice but also by the processing method & the health properties. Older consumers & female consumers prefer natural products. In other surveys, only 4% of consumers shop for groceries on-line at least once a week while 84% never do. Consumers between the ages of 18 & 29 grocery shop on-line at least once a month. While more physicians are offering up diet changes to treat health problems, only 25% of medical schools offer the recommended 25 hours of food nutrition courses. A 5-year study reported in the *Journal of Agricultural & Food Chemistry* shows that organic onions are richer in antioxidants & have a higher flavor profile than conventionally grown onions. Forecasts show a possible record soybean crop, a 4% lower corn yield & rising sugar prices.

Market News: The markets finished down this week with geopolitical concerns dominating the media reporting. Meanwhile, economic news included a recent high in companies posting open positions & low-inflation signaling confidence in the FED's interest rate strategy. *Bloomberg* reported that U.S. companies are experiencing the best quarterly earnings in 13 years.

Seeds, Sprouts, Grow, Harvest!

The Litchfield Fund

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