



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

To recall a pleasant moment from our childhood brings about happiness. If we recall a difficult time in our life, it may reignite a sadness from within us. As we age, *just being able to recall* an event or memory tells us our old gray matter still has a bit of juice sparking its synapses! For the elected official, the word ‘recall’ causes shivers! Your constituency has had enough of your leadership, has been willing to go through a fairly rigorous process of gathering signatures & mounting an election, to attempt to remove you from office. For a food company, a product recall strikes fear, as it may lead to reputational & financial disaster.

Total Recall: The use of recall elections dates back to the Greeks & was used in the Massachusetts Bay Colony in the 17th century. Three state governors have been recalled, two lost their recall elections, and one, Scott Walker of Wisconsin, won the recall election & stayed in office. Lynn Frazier, North Dakota governor was ousted in 1921 over the conduct of state owned industries. Gray Davis of California was removed in 2003 because of budget issues. Most states have very precise guidelines under which the recall process can be used but it has been used at all levels of local and state government.

Product recalls have been in the news a lot of late. Organic foods, both frozen & others, have been affected. While none of these recalls are on the level of pain-killers laced with cyanide, exploding tires, self-combustible computer batteries, smash your face airbags or self-accelerating cars, every food company needs to be sure they have their supply, manufacturing & distribution processes locked down, monitored & tested. With failure comes more than just financial problems & reputational loss, but the risk of consumer health & well-being.

Industry News: According to the Organic Trade Association, organic product sales reached a record of more than \$43B in 2015, an 11% increase. Organic sales grew 3 times faster than the overall food market sales of 3%. Food was approximately 90% of the total organic sales. Organic accounts for 5% of all food sales. Organic produce, the largest segment of the organic market, was reported at \$14.4B, close to 13% of all produce sold.

General Mills (**GIS**) through its subsidiary *301 Inc.*, led an \$18M investment round in vegan & plant based dairy company *Kite Hill*, makers of uniquely flavored yogurts & cheeses. *CAVU Partners* joined in the raise. *301 Inc.* added *Kite Hill* to its recent investments that include *Rhythm Superfoods*, *Tio Gazpacho*, *Good Culture* & *Beyond Meat*. *Hormel*, who purchased Applegate Farms last year, bought up nut butter maker *Justin’s* this week. Hormel paid \$286M for Justin’s, estimated at about 3X current sales. The Boulder-based company’s leadership

team, including Justin Gold, will stay in place. Former Vitamin Shoppe (**VSI**) Chief Marketing Officer Lou Weiss was hired by the ready to cook ingredient delivery company *Plated* to be President & Chief Marketing Officer. *Plated* landed a Shark Tank deal with Mark Cuban that never materialized, but Shark Kevin O’Leary, Mr. Wonderful, came in later with an investment. *R.e.d.d.*, maker of a superfood energy bar, relaunched its products with new packaging & a \$1M investment round. *Amazon* has said it will enter the private label business in a big way adding food, including perishable items, & household necessities through its *Amazon Basics* platform. They expect to get millennial interest in the product line. *Amazon* does offer many natural & organic products today. Meanwhile, *Direct Eats* acquired *Abe’s Market*, creating an on-line delivery system of more than 20,000 products.

Congress is sticking its nose into places it does not belong trying to write organic standards with big AG in their back pockets! Kashi, owned by Kellogg’s, announced supporting organic certifier Quality Assurance International (QAI) to launch ‘Certified Transitional’ to recognize crops grown on farmland that are transitioning from conventional to organic growing.

Portfolio News: United Natural Foods (**UNFI**) completed the acquisition of *Haddon House* which will operate as a wholly owned subsidiary. Analysts continue to give Whitewave Foods (**WWAV**) positive reports in a what appears to be a post earnings euphoria for the plant-based food company. Analysts cite a well-positioned brand portfolio. Whitewave Foods has waded into the fast-growing cold-brew coffee category with the launch of STÖK, a new line of RTD iced coffees. The cold-brew coffee segment is growing at almost 150%. Despite its recent stock price pull back Kroger (**KR**) demonstrates strong growth & margins with a strategy to strengthen its presence in & between its current markets. The company is also repurchasing shares which should help drive the stock higher.

Market News: With a host of economic data not due out until next week the markets finally had a winning week despite FED comments that increased forecasters perception that a June rate hike is in the offing. Oil prices rose for the week. NY FED comments put 2nd QTR GDP at 1.7%, another indication of this administration’s economic failure.

Seeds, Sprouts, Grow, Harvest!

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