



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

Whether the term ‘Madison Avenue’ brings to mind Evan L. Evans, Rock Hunter, Darrin Stephens or Don Draper, we all know those cool, glitzy & gimmicky *Madison Avenue* ads designed just to get people to *buy* product! The term’s usage arose in the 1920s but by the 1940s those slick advertisers & ads were being parodied in books, plays & movies. And who could forget *Mad* magazine’s great satirical fake-but-real-looking advertisements (*Mad* itself did not run ads in its pages), like “Hi, I’m Mickey Mantle & I hit a lot of long blasts, so I know about blast furnaces! So the next time you need a blast furnace, see my friends at ...”

Madison Avenue: Advertising agencies began to cluster in Manhattan as early as the mid-19th century. James Joyce’s 1922 modernist novel, *Ulysses*, documents the struggles of an ordinary day (16 June 1904) for its Dublin protagonist Leopold Bloom, who worked in advertising. By the 1920s advertising & Madison Avenue were already well established. The Jazz Age brought modern mass produced electric conveniences: refrigerators, washing machines, irons, razors, etc. Along with radio, movies & the Golden Age of Sports, Madison Avenue rose to new heights. After a Depression Era slowdown, companies proudly advertised their war efforts! Post war peace & prosperity, along with suburban lifestyles, brought with it not just more cheap household conveniences but *food that saved time!* Instant was important. Frozen meant convenient & easy. TV dinners were made to eat on a TV tray in front of the TV while watching commercials about TV dinners – *that’s Madison Avenue!* But instant, frozen, canned brought with it preservatives, *artificial everything*, GMOs & *a bit of chemistry!* *What was in the instant pudding we so craved in 1965?* While convenience is still king in everyone’s busy life, fake food, *like fake news*, is not welcome, apparent from this week’s news! *Papa John’s* is testing organic ingredients & gluten-free crust in several markets. With baseball season upon us, *Tyson* has cleaned up its *Ball Park Franks* removing nitrates, meat bi-products/fillers, artificial colors & flavors. In the ‘*maybe it just should have been butter*’ category, *Unilever* will be selling its spreads business amid declining sales. Fast, casual Italian *Fazoli’s* announced they will soon be free of artificial flavors, sweeteners, colors & preservatives. *Kentucky Fried Chicken* announced that all its chicken will be free of antibiotics by 2018. With many Madison Avenue firms moving further downtown, is slick advertising a thing of the past? Hardly, as Calvin replied when an adult asked why he was not wearing a costume to trick-or-treat: I’m yet another resource-consuming kid in an overpopulated planet, raised to an alarming extent by Madison Avenue & Hollywood, poised with my cynical & alienated peers to take over the world when you’re old and weak...*Boy, am I scary or what?*

Industry News: *Celsius* announced 2016 revenue of \$218M with a gross margin of 42.7%, up from \$17.2M & a 40.9% gross margin in 2015. For 2016, *Celsius* had a loss of \$3.4M compared

to \$2.6M in 2015. *Tops'* 4th QTR sales were 2.9% with a \$13.8M loss compared to an extra week 4th QTR 2015 loss of \$15.8M. *Tops* said results were due to deflation & promotion costs. For the year, *Tops* lost \$44.6M compared to \$62.2M in a 53-week 2015. To compete better as *Sprouts & Lucky's* enter its markets, *Publix* will revamp its specialty natural & organic concept *Greenwise* in 2018 to meet changes in consumer preferences. Rumors indicate *Sprouts Farmers Market* is eyeing expansion outside its current template, with the Northwest & East/Northeast on its map.

7-Eleven will pay \$3.3B for 1,100 *Sunoco* C-stores. *JAB Holdings*, which has *Krispy Kreme*, *Einstein Noah*, *Pete's & Caribou Coffee* among its holdings, acquired *Panera Bread* for \$7.5B, ending speculation. Granola & hot cereal brand *Purely Elizabeth* received a \$3M investment from *301 Inc.* *New Age Beverage Corporation* acquired coconut water brand *Coco Libre* & its parent company *Maverick Brands LLC* & the *Marley Beverage Company*, which markets a variety of ready-to-drink coffees & teas. *New Age* expects \$5M in savings from merged operations with *Coco Libre*. *New Age* had previously integrated *Marley's* operations into their own. Austin-based *Vital Farms*, a pastured raised egg producer, received a minority investment from *Sunrise Strategic Partners*. *Bay State Milling* acquired Colorado-based *Clean Dirt Farms*, an organic & conventional milling operation. *Nestlé Water NA* announced Fernando Mercé as President & CEO. Mercé is a veteran of *Nestlé*, most recently leading *Purina*. *Save-a-lot* announced former *Lidl* executive Kenneth McGrath as CEO. Following difficulties in launching *Mutant*, *Monster* is delaying the launch of energy water *Hydro*. *Veri Soda* has shut down operations, supposedly due to differences between the founders & investors.

Euromonitor International reports that the USA savory snack market will reach more than \$50B by 2021, up from its current \$46B. The Specialty Food Association reported that a 15% jump in sales since 2014 has made specialty food a \$127B industry. Sales increased in 57 of 61 categories, with beverages up 24% & refrigerated juices 31%. Categories such as sustainable, transparent, gluten-free, etc., continue to grow, with e-commerce leading the way. Studies indicate post-menopausal women absorb calcium from supplements equally as well as they do from food.

Market News: Markets meandered this week as geopolitical concerns took center stage. With 1st QTR earnings reporting season looming, markets are lacking any initiative now with projections of strong earnings & possible major tax reform on the horizon. A good season could send markets higher. We are cautious, as recent hiring & the lack of 2016 capital investment hold our view of a possible 1st QTR breakout in check. However, M&A & investment strength, always ahead of the cycle, gives us optimism 1st QTR may bring some surprises.

Seeds, Sprouts, Grow, Harvest!

The Litchfield Fund

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