



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

The expression ‘egg on your face’ seems to have been around forever but some research indicates it may be a late 19th century American idiom. While its true source is unknown, it may arise from the days when a stage actor gave a poor performance and was pelted by the audience with raw eggs! Or it may stem from the popularity of soft-boiled eggs as a breakfast dish & the Victorian-age embarrassment of being ill-mannered! **The Litchfield Fund** favorite is that farmers’ dogs would raid the hen house for raw eggs, leaving the tell-tale sign on their snouts! But this week, the USDA may be a bit EGGLESS on its face!

Eggless on your Face: We will leave it to the media, further investigation & possibly the courts to decide on the merit of *Hampton Creek’s* response to the powers that be that ‘Mayo’ & ‘Mayonnaise’ are not synonymous terms or that the USDA & the Egg Board used taxpayer money to try to prevent ‘Just Mayo’ from reaching store shelves & rather focus on this exchange as further evidence that the traditional food channel is broken! As we watched the livestream from Esca Bona this week we heard many industry leaders discuss the broken food chain and the need for change. That change is happening, and happening quickly. Antiquated government systems are designed to protect lobbyist interests. As traditional definitions have not mattered much to this administration, it is difficult to imagine any other reason why chemically-compromised; genetically-enhanced; & pesticide-, preservative-, hormone-, & antibiotic-laced materials would continue to be defined as food!

Industry news: The FDA seems to welcome state attorney generals’ attempting to regulate the supplement industry. The state Attorney General National Association group meets on November 2 and the supplement industry is likely to be a topic of consideration. On a New Hope 360 sponsored webinar this week, it was mentioned that in general supplement sales are flat, with only probiotics & vitamin K sales having an upside. As a whole, vitamin/supplement industry doldrums are expected over the next 24 months or so.

In the first half of 2015, venture capital firms’ investment in the food and beverage industry reached \$2.06B. It was just \$2.36B for all of 2014! Investment in food/beverage start-ups extends to the largest VC firms & the biggest food companies! Another new \$100M investment group was formed by the former Sweet Leaf Tea founder Clayton Christopher. CAVU (Ceiling & Visibility Unrestricted) was formed by Mr. Christopher along with a former Glaceau Marketing Chief & an investment banker.

While the growth of traditional food channels is flat, sales in the natural & organic channel continue to grow. Natural food snacks pulled in \$3.6B in the past year, a 14% increase over the previous 12 months. In fact, it is reported that in the last 5 years, U.S. food & beverage companies have lost \$18B in sales to the natural & organic food & beverage channel! The global functional food category is reported to be at \$43B & headed to \$54B by 2017!

Portfolio News: Analysts are expecting a 37¢ EPS from Hain Celestial (**HAIN**) reporting 1st QTR earnings next week and a 5¢ 3rd QTR EPS from Boulder Brands (**BDBD**). General Mills (**GIS**), on the heels of its announcement that it will seek to invest in more food start-ups, is closing plants in the United Kingdom & New Zealand. We see this as continued evidence that the Big Food player recognizes changing consumer preferences & that the growth of small innovative brands is outpacing the market. Rumors continue that ConAgra (**CAG**) may be in final negotiations for the sale of its private label business. Zoe's Kitchen (**ZOES**) has a \$48 price target from Maxim Group. Kroger (**KR**) attributes \$11B of its \$108B in sales to natural & organic products! While Whole Foods Market (**WFM**) awaits a technical bounce of its lows, analysts are anticipating a 35¢ EPS when the company reports next week. **GNC** reported earnings amidst continued turbulence in the supplement industry, posting a 75¢ EPS when analysts were expecting 84¢. Third quarter revenue of \$672M missed analyst expectations by \$12M. **GNC** lowered its full year guidance to \$2.85 to \$2.90 EPS from \$3.00 to \$3.10 EPS.

Market News: October was kind to stocks with indices recovering to mid-summer levels but still 3% or more off the May peaks. Technicals indicate a 2000 or 2007 like crash while an easing Chinese monetary policy could create a stock market rally.

Seeds, Sprouts, Grow, Harvest!

The Litchfield Fund

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