



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

Memorizing & analyzing Robert Frost’s poetic take on *the fork in the road*, *The Road Not Taken*, was at one time a school assignment attempting to make students ponder those important life choices. The traveler comes upon two paths & seeing both just as fair, takes the road less travelled by, wondering if one day he will rue his decision. In the same era, *Tea Time Movie* host Art Fern (Johnny Carson), used a pointer on a map to give directions saying, “...until you come to *the fork in the road!*” Then Matinee Lady Carol Wayne flips the map & a fork appears on the road! *We won’t even mention the directions for the Schlosser Cutoff!*

Farm to Fork: A regular Saturday morning trip to the farmers’ market is what got us thinking about forks, that is, *how good is this going to taste on our fork?!!* Of course, access to fresh farm produce is not something everyone has, so we know we are lucky & blessed to every week be able to get organic veggies straight from the farm to our forks, year-round here in Arizona. Urban community farms will help bring fresh veggies to more people, as will the increased use of technology for different types of ‘greenhouses’, many less traditional than when Phillip Marlowe met General Sternwood. In these few pages, we often discuss the problems & opportunities for the farming industry & always show our respect for the hard-working men & women who toil to bring us the goodness of the Earth. August 6th begins *National Farmers’ Market Week*, so stop at your favorite farmers’ market, pick up some of that goodness for your fork & thank a farmer!

Industry News: Japanese pharmaceutical firm *Otsuka* purchased Canadian plant-based *Daiya* food for \$326M. *Impossible Foods*, following some patent & food safety successes, raised \$75M from *Temasek*, *Open Philanthropy Project*, *Bill Gates*, *Khosla Ventures* & *Horizon Ventures*. *Ritual*, a subscription service vitamin start-up using Instagram for much of its marketing, completed a \$10.5M raise led by *Founders Fund* with *Forerunner*, *Norwest Venture Partners* & *Upfront Ventures* participating. *Ritual* has raised \$15M to date. *Beechwood Capital* led a \$7.5M investment round for chickpea based pasta maker *Banza*.

Pinnacle Foods saw 2nd QTR net income fall 59% from 39¢ to 16¢ per share as the result of a recall of several *Aunt Jemima* products & discontinuing some of the brand’s frozen items. Sales were down 16% & full year EPS is projected at lower range of \$2.55 to \$2.60. Forecasting a tough 2nd half with a heavy investment to keep pace with consumers’ changing tastes, *Hershey* lowered full year guidance. *Hershey* did have a strong 2nd QTR, up more than 30% in EPS on a small increase in revenue. The snacking segment remains in focus for *Hershey*. *Kellogg’s* was up 1¢ on EPS for 2nd QTR & will introduce a probiotic *Special K* cereal. *ADM* saw flat EPS for 2nd QTR due to a variety of charges, though adjusted EPS showed a 16¢ increase to 57¢. *Publix* posted a 3.6% increase in sales, a 3.5% increase in net income & a 1.6% increase in same store comparables.

Sprouts Farmers Market will continue to expand delivery, ecommerce & store presence as 2nd QTR results were positive, with EPS growing 16%, net sales up 15% & comparables 1.4%. For *Weis Market*, 2nd QTR sales rose 20%, net income rose 21% & comparables rose 2.7% after a 1st QTR impacted by holiday timing & weather. *Natural Grocers by Vitamin Cottage* took a 3rd QTR EPS hit despite better comparables & revenue. They will slow growth & focus on core operations.

Stepping down from his position with *Annie's*, John Foraker will remain an adviser to *General Mills* while he begins a new, yet-to-be-announced, entrepreneurial endeavor. *Campbell Soup* is looking to invest in snack innovation, partnerships & acquisitions to increase revenue. *Mondelez* CEO Irene Rosenfeld will step down to be replaced by industry veteran Dirk Van de Put. *Mondelez* is launching *Véa*, a new snack brand aimed at millennials with interesting flavors & healthier profiles, including non-GMO seed crackers & bars having no artificial colors or flavors, made with ingredients such as butternut squash, chickpeas, coconut & quinoa. Meanwhile 2nd QTR EPS was 33¢ (up 7%) while net sales fell 5%. *Aramark*, whose foodservice business contracts with 85% of the Fortune 500, will do a makeover of its foodservice platform, offering more local & organic options, having personalized ingredient on-the-go items & offering 30% vegan/vegetarian options. Analysts offered an opinion that *Walmart* is ready to & already aggressively defending their market against both *Aldi* & *Lidl*. *Supermarket News* reported in its Spring Loyalty Report that *Kroger* & its subsidiaries took 4 of the top 5 spots, with its *King Sooper* outlet taking the #1 spot. *Giant Eagle* took the #3 spot.

The *Food Marketing Institute* Power of Produce 2017 report showed that 66% of Boomers prefer supermarkets for produce purchases as compared to 59% for millennials. Millennials are more likely to use supercenters for produce than Boomers, 23% to 12%. Per a *Harris* survey, 25% of adults try meal kits & 70% continue to use them. People feel it is convenient, a time-saver & healthier. Thirty-three percent would like meal kits available in grocery stores. Studies show polyunsaturated fats found in whole foods such as walnuts, Alaska salmon, tuna, flaxseed oil, grapeseed oil, canola oil & fish oil supplements may regulate hormones that signal the body to feel hungry. A court in Cook County lifted the ban on Chicago's controversial soda tax, paving the way for implementation. Flour production was up for 2nd QTR.

Market News: A strong July jobs report & an upward revision of June payrolls led the market to another record close by week end, with the DOW spending the last three days above 22,000. Unemployment was once again reported at a 16-year low. Seventy-two percent of the S&P has reported an earnings beat. Earnings growth for the QTR stands at 10.1%, well outpacing the June 30th 2nd QTR estimate of 6.4%!

Seeds, Sprouts, Grow, Harvest!

The Litchfield Fund

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