



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

What is ‘it’? For Kipling, in *Mrs. Bathurst*, it wasn’t beauty or a manner of speaking, it was, well, just *it!* And let’s face *it*, some brands & products do just have *it!* Some intangible that goes beyond the quantitative & qualitative to make a brand & product iconic! This is also true of America’s sex symbols. The modern age of sex symbols came about with the growth of U.S. cinema. By the 1920s, half the U.S. population of 100M went to the theater each week. The 1920s saw many Hollywood sex symbols rise to fame but the most renown, & leading box office draw, certainly had ‘*it*’, so much so that she was known as *The It Girl!!!*

The It Girl! Clara Bow was just 18 (she was born July 29, 1905) when her movies began to draw notice. She embodied the Flapper lifestyle & the Roaring Twenties, known for her dancing, drinking, smoking & driving her convertible down Sunset Strip. But it was her 1927 movie, *It*, that dubbed her *The It Girl*, made her a global icon & a top money draw. She retired in 1931, tired of false salacious media narratives, married & moved to a Montana ranch. Despite her short career she became an icon, although it was singer Helen Kane, not Miss Bow, whom Max Fleischer used as the model for Betty Boop! Investors seek products, brands & entrepreneurs that not just meet the numbers, but have ‘*it*’; that unexplainable intangible that will bring success & perhaps make the product eventually iconic, like *Campbell Soup*, & worthy of an Andy Warhol painting!

Industry News: Per an *NCN Report*, so far in 2017, nutrition/health/wellness M&A activity is up 33% & total investment transactions are up 6%. Natural/organic/functional food & beverage M&A rose 26% with transactions up 25%! This week, *Kohlberg Kravis Roberts (KKR)* purchased *WebMD* & *Nature’s Bounty*. Per reports, the *Nature’s Bounty* purchase was valued at \$3B, with previous owner *The Carlyle Group* retaining a significant share. *McCormick* purchased the food division of *Reckitt Benckiser* for \$4.2B, makers of simple, quality condiments like *French’s Mustard* & *Frank’s Red Hot*. The deal will add \$5B in revenue & \$1B EBITDA. *Schwan’s* acquired two pizza companies, *Better Baked Foods* & *Drayton Foods*. It was announced that earlier this year, fast growing *Chosen Foods* was purchased by Mexico-based *Sesajal*, which already owned 50% of the sauce & oil producer. *TemperPack* raised \$10M for its environmentally-friendly box liner that helps insulate products shipped cold. Betting on increased ecommerce usage, investors include *SJF Ventures*, *Interplay Ventures*, *Third Prime Capital* & *Dolik Ventures*. *VMG Partners* closed its 4th fund at \$700M. *Country Archer Jerky* raised money from *Monogram Capital*. *Caribé* raised \$2M to develop a processing plant in the founder’s native Dominican Republic, close to the source of the tropical fruit in its drinks. *Protein2o* attained \$4M in capital for its whey-protein infused beverage, also adding *Pepsi* & *Gatorade* beverage veterans to its leadership team.

Whole Foods Market’s 3rd QTR earnings reported record sales on a slight sales increase but a 11.7% drop in net income from higher expenses. While comparables were still negative, a slight

improvement may carry forward into 4th QTR. For *GNC's* 2nd QTR, an increase in transactions (12.3%) was offset by lower comparables. Revenue fell almost 5% & net income was \$15.7M, down from \$64.0M a year ago. *Coca-Cola* had a 60% drop in EPS (32¢ compared to 79¢). Causes include asset impairment & costs associated with productivity, reinvestment & restructuring. *Smart & Final* offered a surprise in its 2nd QTR earnings with better comparables & revenue, but lost a penny on EPS (14¢). Despite a 6% increase in revenue due mostly to its wholesale business & the rollout of its supplier relationship with *The Fresh Market*, *Supervalu* missed on 1st QTR EPS. *Dr. Pepper Snapple* reported a 28% lower 2nd QTR EPS (\$1.02) due to the *Bai Brand* merger cost & associated marketing, along with a debt write-down. *Starbucks*, down 8% on 3rd QTR net income, will close all 379 Teavana stores in 2018 while still carrying the tea brand in their stores & in CPG. *Nestlé* reported sluggish growth for 2nd QTR. *Chipotle's* stock price was lower after an outbreak of norovirus in Virginia.

Montana Specialty Mills is building a new \$20 million, 20-acre non-GMO processing center in Great Falls, MT. *Ingredion*, citing a favorable business environment & an increase in exporting opportunities, is investing \$10M in expanding its North Carolina operations. Phoenix suburb Goodyear is developing a proposal to bring an *Aldi's* regional headquarters & new jobs to Arizona. Both *Mondelez & Campbell* seek to grow & innovate their healthier snack segment. *WTRMLN* *WTR* is facing a class action lawsuit alleging that the amount of watermelon juice in its drink is overstated & for claiming that its juice is not pasteurized or heated. Ortega has launched new *Good Grains Taco Shells* with healthy, on trend, ingredients.

Studies from *Rodale & Men's Health* indicate that men remain the primary food shopper at a whopping 84%! Also, 77% of men prepare family meals! A recent *NPD Group* study indicated that restaurant visitors are evenly spread as Baby Boomers represent 26% of the visits, Millennials at 25% & Generation X at 23%. The study suggests restaurants should focus on Gen X (age 36 to 52) because they likely have dual incomes. USDA researchers indicate that rules requiring manufacturers to reduce trans-fats led to a 53% decline in trans-fat blood plasma levels between 2000 & 2010. The USDA is forecasting a sugar shortage.

Market News: All the market indices hit record highs mid-week with the Dow finishing the week with a record close. The S&P was flat for the week, the Nasdaq a bit lower, due to Amazon's surprising earnings miss. The 2nd QTR GDP came in slightly higher than analyst forecasts, a healthy acceleration. Teen & African-American unemployment hit significant lows, the latter falling to a 16-year low!

Seeds, Sprouts, Grow, Harvest!

The Litchfield Fund

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