



# ALL EARS!!

THE LITCHFIELD FUND WEEKLY NEWSLETTER

"OUR EARS SPAN ALL FIELDS"



**OUR CAVEMEN FRIEND THUK** had been out on the plains all day. It had been a long day of hunting & gathering with the other men. He was on his way home with some giant hunks of mastodon, a few new stylish saber tooth tiger hides & a pouch full of nuts & berries. He knew Mrs. Thuk would be pleased with the results! But she also would be angry. *"You have been out enjoying yourself with your friends, while I have been stuck in this cave with these little Neanderthals! They have been etching on the cave walls all day!"* (Thuk thought their etchings were good & would add to the resale value of the cave!) Thuk wondered what he could do to smooth things over with Mrs. Thuk.

**CAVEMAN ECONOMICS:** Thuk came upon Puk's cave stand. Puk made wooden bowls for the community, which he traded for food & hides. This evening, Puk had something new & different. His new bowls were made from the thick red earth that was no good for planting grains. Unlike the wood bowls, they didn't rot away over time or need to be replaced as often. However, these bowls were more difficult & took longer to make. Puk had to use fire, with that black rock that burned long & hot, to dry & harden the clay bowl. Because they were better & harder to make, Puk wanted more in trade. Now Thuk knew Mrs. Thuk would prefer those necklaces Yuck made from the shiny green & red rocks he dug up. Yuck's cave was on the far side of the mountain & Thuk was tired from hauling a side of mastodon home. So he traded a few pelts for a set of clay bowls. Now Mrs. Thuk wasn't completely thrilled, but she did like the bowls! She told her neighbors, who rushed to trade for Puk's bowls. Puk tried to keep up with demand, but the bowls took so long to make. Puk decided to ask for more in trade, then trade what he got for more of what he needed to make more bowls, including getting some help. His higher price for the bowls is demand driven inflation & it is not entirely a bad thing. Demand driven inflation can be a sign of a healthy, innovative, growing, free market economy. But there are other types of inflation that are not signs of a healthy economy. For example, let's suppose Puk's neighbors don't like the black smoke from those black rocks that Puk uses to dry his bowls. They ban together to make a rule that Puk has to dry his bowls at a lower temperature to not create so much smoke. This takes longer, costs more & puts fewer bowls on his cave stand. Or maybe the local leader, The Big Uk, likes the pretty red dirt. He tells Puk to get his red dirt from the next mountain, where The Big Uk's family just happens to do a lot of business. The people in Puk's community who gather the red dirt no longer have a job. The cave people on the next mountain know Puk is desperate, so they raise their price for the red dirt. Puk has to pass those costs along to his customers, some of whom no longer have jobs. The men who haul the red dirt from the other mountain also know Puk is desperate, so they ask for higher wages & fewer hours. Until they get what they want, they leave the red dirt they were hauling out in the open plains. Things might then get even worse. The Big Uk sees that people like the bowls, so he wants his share; charging Puk & his customers 0.075 of a hide for every bowl. These consumers now have less to trade for other goods & some more neighbors lose their jobs. All these factors are not indications of a healthy economy, but of an over regulated & perhaps corrupt economy. These actions violate a major Milton Friedman tenant, *"The most important single central fact about a free market is that no exchange takes place unless both parties benefit."* This example is also proof of what Ludwig von Mises wrote, *"Depressions & mass unemployment are not caused by the free market but by government interference in the economy."* Our friend Puk demonstrates the best of free markets & capitalism, & how, without government interference, innovation & entrepreneurship blossom to serve the community. Von Mises also wrote, *"The entrepreneur profits to the extent he has succeeded in serving the consumers better than other people have done."* Undeterred free markets allow people to grow & succeed. President Ronald Reagan said, *"We who live in free market societies believe that growth & prosperity, & ultimately human fulfillment are created from the bottom up, not the government down."*

**INDUSTRY NEWS:** *Supplant*, sugar blends made by upcycling parts of plants underutilized such as wheat straw, oat husks, corn cobs & rice straw, raised \$18M from private & public investors. Food technology startup *Better Brand*, modified enzyme technology to reduce the net carbs in grain-based foods, closed a \$2.5M led by *Seven Seven Six*, with *Soma Capital* & *VERSO Capital* involved. Led by *Knox Lane*, *Pattern*, Utah-based e-commerce accelerator to help brands optimize sales on marketplaces like *Amazon*, *Walmart*, *Target*, *eBay* & *Google*, raised \$225M. French startup *Jow* raised \$20M led by *Eurazeo*, for its meal planning & ordering platform, with *Headline*, *DST* & *Stride.VC* involved. *Rebel Foods*, Indian cloud kitchen company operating in 20 countries, raised \$175M (\$1.4B valuation) led by *Qatar Investment Authority* with *Coatue* & *Evolvece*. Indoor mushroom

grower *Smallhold* raised \$25M led by *Astanor Ventures* with participation from *Energy Impact Partners*, *Wheatsheaf Group*, *AlleyCorp* & *Almanac Insight*. *OptoScale* raised \$4.1M, for its fish farm monitoring tech, from *Blue Ocean* & *Skagerak Maturo*. USA grain trading platform *Bushel* acquired *GrainBridge*, its counterpart, a *Cargill* & *ADM* joint venture. USA based PE firm *Clayton, Dubilier & Rice* will buy *Morrisons*, the fourth largest UK supermarket chain, for £7.1B. *Givaudan* will acquire *DDW*, *The Color House*, natural colors supplier, for an undisclosed amount. French dairy company *Savencia Fromage & Dairy* acquired *Hope Foods* - hummus, nut & plant-based dips. Irish dairy cooperative *Ornua* acquired *Whitehall Specialties Inc.*, maker of plant-based cheeses for food manufacturing, for an undisclosed amount. *Dairy.com*, dairy supply chain technology, acquired similar technology provider, Indian company *Mr Milkman*, for an undisclosed sum. *Wellbeam Consumer Health*, eCommerce wellness business, acquired *TruSkin*, a plant-based skincare brand. South Korean indoor ag startup *N.Thing* added \$21M led by VC firms *InterVest* & *Kiwoom Investment*. *Sauer Brands* (condiments, seasonings & spices maker) acquired *Mateo's Gourmet Salsa*; terms not disclosed. Kraft Heinz purchased Brazil based *BR spices* for an undisclosed amount. *4x4 Capital* acquired the former sports nutrition division of *The Bountiful Company* from *KKR* & *Carlyle*, terms not disclosed. *Revol Greens* acquired *BJ's Produce* (the *Living Fresh* brand) in Athens, Georgia, to establish its first East Coast greenhouse operation. *FreshEdge*, a family produce & specialty food company backed by *Rotunda Capital Partners*, acquired *Vine Line*, a fresh produce distributor located in Grand Rapids, Michigan. *BurgerFi* will acquire *Anthony's Coal Fired Pizza & Wings* from *L Catterton* for approximately \$161.3M in stock & new notes. *S2G Ventures* adds Walton Family heir *Lukas Walton* as the biggest investor in the Chicago-based agrifoodtech VC, *Builders Vision*. *Nabati Foods*, recently launching its USA DTC site with its plant-based liquid egg product, joined the *Canadian Securities Exchange* & the *Frankfurt Stock Exchange*, a dual listing, with plans to expand. An entity affiliated with *Keurig Dr Pepper* will take a \$20M stake in *Vita Coco's* IPO. *The Real Good Foods Company*, grain-free & better-for-you frozen entrees, will file a \$86.25M IPO.

*ShopRite* operator *Village Super Market* saw 4<sup>th</sup> QTR results that were lower than a year ago but higher than 2 years prior. *PepsiCo* beat 3<sup>rd</sup> QTR estimates & raised full year guidance despite supply chain pressure. *Constellation Brands'* 2<sup>nd</sup> QTR numbers came in well below analyst estimates, results impacted by the hard seltzer segment declining. While showing declines in revenue & earnings, *Conagra* beat 1<sup>st</sup> QTR consensus estimates. *Lamb Weston's* 1<sup>st</sup> QTR sales rose 13% on foodservice & institutional business recovery, but the company's net income fell 67% due to inflation, supply chain disruptions, labor shortages & potato crop damage.

*Ahold Delhaize* is now 65% self-distributed. *Kroger* will enter South Florida with two smaller-size automated fulfillment facilities, developed alongside technology partner *Ocado*, designed for 30-minute delivery. *Kroger* will also open an *Ocado* eCommerce fulfillment center to enter the Northeast USA where the retailer has no outlets. *Kroger* is putting salaried workers on the production line due to labor shortages & strikes. *Publix* will roll out more plant-based meat options for its *GreenWise* better-for-you brand, including *Chickenless Tenders*. *AeroFarms* will expand into 350 *Stop & Shop* stores. *Sam's Club* will partner with online alcohol delivery platform *DRINKS* to provide online wine purchasing & delivery to customers. *DoorDash* is now offering digital advertising capabilities to restaurants & CPG brands. *Thrive Market* debuts a shoppable cookbook, with 60+ recipes & QR codes people can scan to add ingredients to their online carts. *PivotBio*, which converts nitrogen from the air to fuel soil bacteria as fertilizer, has launched a popcorn snack, *Connect*, with corn grown using its system. *McDonald's* will test a *Beyond Meat McPlant* burger in 8 stores. *PepsiCo's* *Rockstar* will launch a hemp-infused beverage. *Conagra* follows the industry pattern of passing along inflation to the already suffering end consumer. The FDA released voluntary sodium reduction guidelines for 163 categories of processed food, including baby food, snacks & foodservice items.

*Numerator* joins those predicting positive growth for Halloween season candy sales. *Brick Meets Click/Mercatus* reports that online grocery sales fell 7% in September to \$8B; pick-up & delivery gaining market share. *Inmar Intelligence* reports that 54% of all shoppers recently purchased a new brand because it was less expensive, with 33% using a digital coupon. Digital coupon use continues to grow. *Barclays* reports that during the last two years *Instacart's* customer loyalty fell from 16% to 7% while grocery store loyalty has grown from 22% to 29%. Per *Barclays*, sales of comfy apparel, especially for younger people, are increasing, likely due to consumer weight gain caused by mandatory government lockdowns. From *Keybridge*, the move to low or no-calorie beverages has seen sales grow from 50.1% of the market in 2014 to 58.7%, eliminating 1.5T calories consumed. Prices for organic soybeans used to feed livestock & manufacture soy milk have surged to a record high.

**MARKET NEWS:** Markets recovered this week. Small business confidence fell to its lowest level of the year. The quit rate, people dropping out of the workforce, hit a record high. Inflation rose 5.4% in September YOY, the highest rate in 13 years.

## **SEEDS, SPROUTS, GROW, HARVEST!**

**THE LITCHFIELD FUND** – *Tom Malenga*

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