



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

Spring has sprung, the grass has ris, I wonder what the interest rate is? This lyrical & rhyme-forced poem has long been a spring staple despite its unknown, or at least questionable, origin. Many claim it comes from Ogden Nash, but it seems best we apologize to that prolific Greek, Anonymous, for bending it to fit our needs. The market indices recovered March losses, despite the FRB removing the dreaded ‘patient’; but recognizing low inflation, a strong dollar, & slow growth. Perhaps now the market will heed Bohemia born composer Gustav Mahler: “With the coming of spring, I am calm again.”

See you in September: Most analysts felt the Fed’s wording could stretch the first interest rate hike out as far as September, but somehow that seems unlikely. With growth slow, we begin to wonder if the Fed will raise interest rates to keep the markets from outpacing reality. Meanwhile, volatility appears to be a mainstay for the market in 2015. The market will stampede upon news, & a young Kevin Bacon shouting “Don’t Panic, Remain Calm” will do no good!

Earnings: General Mills (**GIS**) beat analysts EPS estimate of 67¢ by posting a 70¢ EPS for 3rd quarter. This was a 13% year-over-year increase in EPS despite a total revenue decrease of 1%. The strong dollar remains an issue, creating a 4% drag on earnings. Newly acquired *Annie’s Homegrown* added 1% to **GIS** sales growth. **GIS** retained its low growth 2015 EPS projections. **GIS**’s stock price closed up 2.5% this week. **GIS** also reported that it will complete its operational restructuring by the end of its fiscal year in May. General Mills will continue its makeover to higher margin health & wellness products, such as *Annie’s*. Last week *All Ears!!* mentioned the possible sale of Green Giant, & this week it appears that Betty Crocker may be getting its **GIS** pink slip. **GIS** may likely be looking at acquisition targets that will bring higher margins & faster growth. Analysts are mentioning Hain Celestial (**HAIN**), Whitewave Foods (**WWAV**) & Boulder Brands (**BDBD**), all holdings in **The Litchfield Fund** portfolio.

Lifeway Foods’ (**LWAY**) stock price rose 14.6% this week with a strong 4th quarter & full year 2014 earnings reports. Sales in 2014 rose 22% to \$119M, with 4th QTR up 15% to over \$30M. Earnings per share for 2014 came in at 17¢. Imperial Capital gave **LWAY** an OUTPERFORM rating and a \$22 target price, based on an EPS projection of 55¢ for 2015. **LWAY** will continue to seek brand loyalty in 2015. **LWAY** will look to increase distribution with new products & new outlets; improve consumer awareness of Kefir’s health benefits, and open new markets. While Lifeway Foods is a small company, they are the 800 pound *kefir gorilla* in the room, which provides terrific growth potential in its current markets & ability to expand to new markets.

Portfolio News: SPDR Consumer Staples Select (**XLP**) has a medium to low risk rating in this interest rate climate. Terrible winter weather, a little mentioned dockworkers strike, and the strong dollar are making it a tough first quarter for consumer staples. United Natural Foods (**UNFI**) received a buy from Canaccord and an \$85 target price. Deutsche Bank gave UNFI a hold rating. **UNFI** averages a STRONG BUY and a \$90 price target. Whitewave Foods (**WWAV**) received a BUY from Piper Jaffray with a \$45 target price. **WWAV** still holds a consensus BUY from 17 analysts. Sterne Agee initiated coverage on Sprouts Farmers Market (**SFM**) with a NEUTRAL rating & a \$38 target price. **SFM** is about to open its 200th store!

Analysts continue to have a wide range of opinions & target prices on Whole Foods Market (**WFM**). Kroger's strong earnings report certainly brings **WFM**'s product pricing into question more so than Sprouts, who seems to compete more closely on price. **The Litchfield Fund**'s walkthrough of our local Kroger affiliate *Fry's* reveals the variety of natural & organic products (including the proprietary *Simple Truth* label) Kroger can put on its shelves. Prices are lower than Whole Foods' prices. However, **WFM** has strong metrics which would indicate its growth & profitability can be maintained. **WFM** has beat analyst earnings estimates by more than 5% in the last three quarters. **WFM**'s EPS growth has been 22.3% compared to an industry average of 1.7%! Going forward EPS growth is 11.5% compared to a negative 8% projected for the industry. Its Net Profit Margin is over 4% while the industry as a whole maintains a NPM of 1.76%. Whole Foods has a debt-to-equity ratio of 0.02 while the industry averages a 17+ ratio. The slow growth economy has not seemed to impact affluent consumer buying habits, so at present, we remain confident on **WFM**'s upside.

Seeds, Sprouts, Grow, Harvest!

The Litchfield Fund

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