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

A young, depressed saxophonist spends his nights trying to become Stan Getz, Charlie Parker or Chet Baker. Feeling like a loser, he drinks too much & drives off the road in a fiery crash. Hard to believe this is the story from one of the most popular & enduring hit songs from the 1970's band *Steely Dan*! Perhaps it was such foresight that led the band to stop touring early in their career & focus on delivering their near perfect studio albums! The band gave little thought to the boastful winners in the world – *They call Alabama the Crimson Tide*; but the young, doomed, scotch-drinking musician – call him *Deacon Blues*!

The Litchfield Blues: Dig a hole in through the center of the stock market and you end up in China. The Litchfield Blues would be a good name for a softball team! Or perhaps we could swing into a nice take-off on Bob Dylan's *Stuck Inside of Mobile with the Memphis Blues Again*. But in doing a bit of a deeper dive on a the less performing stocks in our portfolio, we will try to keep in mind a line from John Mellencamp's *Little Pink Houses-There's winners, and there's losers, ain't no big deal!*

Of course, not every stock pick can be a winner. And just because a stock falters doesn't mean there is not an upside, and often that upside is better than other investment options. Over the next few weeks we will take both a micro & macro look at 5 stocks that have been struggling.

Boulder Brands (**BDBD**): Boulder Brands has perhaps been the most disappointing stock in our portfolio, based on our expectations alone. **BDBD** seemed like a smaller version of Hain Celestial (**HAIN**) a perennial long term growth stand-out. Unlike **HAIN**, **BDBD** has had problems at integrating their operations & brands, and difficulties in forecasting & reporting financials. Despite strong revenue growth (12%), certain brands have underperformed. While industry nay-sayers want to blame the entire market demand for gluten-free products, this seems unlikely. Big Food companies (e.g. General Mills (**GIS**)) are shifting to healthier gluten-free products, athletes are now understanding the performance enhancement from GF diets, & mainstream doctors are identifying the health risks of heavy gluten-based diets. While there is no doubt that some people who are worried about gluten need not, there are still many who will benefit from a diet change. **BDBD**'s gluten free products continue to get expanded space on the grocery shelves & freezer space, and indication that revenue is being maintained and/or growing. With leadership changes, operational adjustments & input from activist investors **BDBD**'s stock price has increased more than 30% in recent weeks, but remains more than 30% lower than 2014 highs. **BDBD** is investigating a buyout. With more than $500M in revenue and a 40% gross margin analysts are suggesting a 2X to 3X purchase at $1B to $1.5B. This translates to a $16 to $24 price. By removing sales related to less performing segments, we would estimate a buyout price in the $18 to $20 range. ConAgra (**CAG**), who seems to have intentions to be more organic & natural in the long-term, may be a buyer. We also wonder if **HAIN** or Whitewave Foods (**WWAV**), both terrific at brand integration, would see **BDBD** as a nice expansion of their product lines. At this time, we see an upside for **BDBD**.

United Natural Foods (**UNFI**): **UNFI** has one of the largest distribution networks in the natural/ organic food sector with more than 40 distribution locations across the country. They have made it very clear that they will continue to expand through acquisition, which has been successful for them, & has produced nearly 20% annual revenue growth. **UNFI** also provides a host of services, consulting, transportation, advertising, marketing to help the brands they distribute. With a PEG ratio at about 1.4, **UNFI** seems to have a lot of growth ahead of them. The loss of Albertsons/Safeway was 5% of revenues, so while significant, not a roadblock to continued growth. However, **UNFI** is down considerably from its recent highs above $80, below $47 late last week. Analysts still project recovery & growth, with many price targets in the $60 to $65 range. We think **UNFI** pays the price of being a public company in the natural/organic sector. Every slip in earnings by Whole Foods (**WFM**), Spouts (**SFM**) or **BDBD** results in a hit to **UNFI**'s stock price. Likewise the growth of self-distributing Kroger's (**KR**) natural/organic product base & store sales seems to put pressure on **UNFI**'s stock price growth. However, the mainstreaming of natural/organic products, the growth of store chains smaller than **WFM** & **SFM** & the major players growth plans should bode well for **UNFI.** We think the recovery to $60 or $65 is attainable, as the current price is about equal to the average S&P P/E and that **UNFI**'s growth post-Albertsons should continue to outpace the broader market.

Next week *All Ears!!* will continue its review with a look at **WFM**, **SFM**, & Vitamin Shoppe (**VSI**).

Portfolio News: **HAIN** reported 4th QTR earnings in line with analyst projections, but a tempered 2016 growth projection sent the stock falling to $XX.XX by week's end, a XX% decrease. Reporting sales growth of nearly 20%, **HAIN** hit analyst estimates of 55¢ EPS and outpaced analysts revenue estimates by $4M at $698M for the QTR. For 2016, **HAIN** is projecting EPS of $2.11 to $2.26 (analysts estimate $2.19) on revenue of $2.97B to $3.11B (analysts estimate $2.98B). Hard to believe this reporting had such a negative impact on **HAIN**'s stock price!

Seeds, ***Sprouts,*** Grow, Harvest!
The Litchfield Fund
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