



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

There ain’t no such thing as a free lunch! The *TANSTAAFL* saying dates from the 19th century custom whereby saloons offered a free lunch to patrons who purchased drinks. Of course, the food was highly salted & patrons purchased more drinks to wash away their thirst. The phrase was popularized by New York City’s Mayor La Guardia to announce the end of graft & corruption, in Heinlen’s libertarian *The Moon is a Harsh Mistress* and, of course, Milton Freeman’s 1975 work on opportunity cost. But this week, let’s focus on how new brands & smart entrepreneurs are eating the major conventional brands’ lunch!

Lunchtime! Those 19th century saloonkeepers were great economists and businessmen. They knew that the higher margins & greater profit was on selling their probably-watered-down alcohol. But today they would be driven into extinction by a more health conscious consumer seeking ingredient transparency and willing to pay 30% more for such a product! Several recent surveys (see: <http://www.projectnosh.com/news/2015/survey-of-surveys-in-shadow-of-big-brands-declines-entrepreneurs-grow>) continue to demonstrate that small entrepreneurial brands are eating away at larger brands’ markets. While demand & growth for conventional food & beverage packaged goods is basically flat, several studies show growth in the natural & organic channel to be in the 10% to 11% range through 2020. The overall natural channel indicates an almost 9% CAGR through 2020, reaching \$274B. The Specialty Food Association states that 51M millennials look for artisan & sustainable products. In all, these surveys show that major brands are flat or losing market share in their categories while overall the category is growing! As an example, the dried fruit & veggie segment alone is reaching \$4B! New refrigerated & frozen brands abound replacing more processed brands. Walmart’s plunge this week seems to further indicate the changing marketplace with consumers increasing their electronic shopping & looking for more artisan & transparent brands. (Walmart’s stock plunge was likely the cause of Albertson’s IPO delay. Albertson’s wants to raise capital to pay down its \$12B in debt.)

Industry news: It was reported that while Coca-Cola dropped its pursuit of Chobani, Pepsi & Whitewave Foods (**WWAV**) may be interested. On an interesting note, at this week’s NACS (National Association of Convenience Stores) tradeshow in Las Vegas, the Coke exhibit included *Suja Juice*, with Coke having plans for Suja’s 2016 release in more conventional & convenience outlets. Dr. Pepper displayed *Bai 5*, having made a \$15M minority investment in the coffee-fruit brand this past April.

Portfolio News: *Harvest Soul*, a **Litchfield Fund** investment, announced the availability of its chewable juices on Amazon (<http://www.bevnet.com/news/2015/harvest-soul-now-available-on-amazon>).

Hain Celestial (**HAIN**) is holding a mean target price of \$69.29 and BUY ratings from several firms covering the stock. The target price is more than 30% higher than **HAIN**'s price this week. Boulder Brands (**BDBD**) saw the exit of another executive, this time the manager of its *Smart Balance* spreads & investment management segments. **BDBD**'s *Smart Balance* segment continues to drag down overall performance. There are indications that consumers are realizing the benefit of some fattier foods. Price targets for **GNC** average \$51.56, 25% higher than this week's price. Vitamin Shoppe (**VSI**) announced their Protein Pantry, a section of their store featuring protein-packed bars, drinks, jerkies, etc., another indication of the consumer demand for protein filled foods! Cal-Maine Foods (**CALM**) has analyst price targets above \$64 a share. While Zoe's Kitchen (**ZOES**) continues its post-IPO earnings struggle, an article this week in Investor's Business Daily discussed **ZOES**' marketing strategy & strengths: (<http://news.investors.com/business-the-new-america/101515-775872-zoes-leads-restaurants-with-unique-fare.htm?p=3>).

Whole Foods Market (**WFM**) announced a partnership investment with Mendocino Farms, a Los Angeles based sandwich chain. The partnership will likely involve outlets within the new *365 by Whole Foods Market*. Also, after **WFM**'s recent comments about reducing their workforce & investing in technology, **WFM** announced a partnership with tech company *Infor* to create a cloud-based merchandising & supply chain management system.

Market News: With the FED apparently waiting patiently for some 'sign' to raise rates, earnings will drive the market for the next few weeks. It is likely there will be continued volatility. Positive or negative earnings reports will cause market bounces just as Walmart, GE & Honeywell did this week.

Seeds, Sprouts, Grow, Harvest!

The Litchfield Fund

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