



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

The Arthurian legend, whether Disney’s *Sword in the Stone*, Tennyson’s *Idylls of the King*, Mallory’s *Le Morte D’Arthur*, or White’s *The Once & Future King* has always held great appeal & fueled the imagination. In some versions, Arthur’s Queen Guinevere is portrayed often as noble, virtuous yet flawed, then in others as a lustful, self-serving traitor. The name Guinevere is from the Welsh *Gwenhwyfar* (Anglicized as Jennifer). Gwen means white, fair while *hwyfar* stands for a fay (fairy), spirit, enchantress, or even a ghost. Sometimes *hwyfar* is translated to mean *smooth* or a *wave*. Hence the name Guinevere can mean a *white wave*.

The White Fay: Queen Guinevere of course betrayed the hero Arthur, with Lancelot, and in some legends, with Mordred. However, we do not believe that Whitewave Foods (**WWAV**) will fail the expectations of its suitor, *Danone*, as the consolidation of the food industry took a giant step forward with *Danone* offering \$56.25 a share for Whitewave Foods. The deal, valued at \$12.5B given all the considerations for **WWAV** debt, will be all cash & funded by debt. The \$4B annual sales for **WWAV** will nearly double *Danone*’s North American market share to 22%. The deal appears to create a *Camelot* with both a strong business & cultural fit & an expectation for \$300M in cost reductions. Analysts believe other suitors may make a run at the plant-based food company as they consider the offered 24% premium low. *Pepsi*, who has not indicated interest, has been among those that have oft been considered a potential buyer, along with *Coca-Cola*, *General Mills*, *Campbell*, & *Nestle* among the others. One **WWAV** investor group urged **WWAV** to pursue its Lancelot & reject the offer, seeking a price upwards of \$70. We would find it hard to justify a price as high as that suggestion, but do believe the bid might be raised by another company, as **WWAV** has shown continued success across its brands.

The Litchfield Fund has always considered **WWAV** to be a take-out target. While **WWAV** sales growth has fallen from its rocketing 19% to 24% of a few years ago to the 9% to 11% range of the last few quarters, we see that as just part of a normalization of growth in a maturing company. **WWAV**’s brands fit well into the changing model of consumer demand, and *Danone*, like so many food giants, needs to gain access to the markets these younger growth companies command. *Danone* has indicated **WWAV** CEO Gregg Engles will be appointed to the *Danone* board after the buy-out is complete. It bodes well that in so many of the recent high-profile purchases, including *Justin’s*, *Annie’s Homegrown* & *Applegate*, experienced CEOs who have built a loyal millennial-based customer profile have remained within the acquirer.

We certainly believe the consolidation of the industry will continue, for the variety of reasons we have mentioned frequently in *All Ears!!* We still see the number one reason for the

takeover of natural & organic food companies to be the access to speedy innovation & millennial consumers. Food giants seem to lack the ability to innovate with the speed & creativity that younger companies demonstrate. In large part, this is due to the inertia that comes from large bureaucracy, higher costs, internal fiefdoms & process bogs. If this sounds like the federal government no one should be surprised. Small companies, along with local municipality & even state governments, can operate faster & with more flexibility than a large company or its equivalent, the federal government. Hopefully the food giants do not constrain their takeover targets in the same manner Washington D.C. hampers local governments.

Portfolio News: Lifeway Foods (**LWAY**) & Hain Celestial (**HAIN**) rode on the crest of the Whitewave Foods announcement. **LWAY** closed up 16% while **HAIN** ended the week up 6%. United Natural Foods (**UNFI**), amidst a number of strong reports on the company financials, market, & strategy, has seen its stock up over 40% since its mid-May lows. ConAgra Foods (**CAG**) has moved steadily forward this year, up almost 15% since January. Despite all its changes, including moving its headquarters, selling business parts, & preparing for a corporate split of units, the company has pleased investors. Kroger (**KR**) announced plans to increase sustainability efforts including energy, waste & water usage.

Market News: With Brexit apparently off investor's minds this week the market seemed to enjoy a holiday-week-long market nirvana. An excellent June jobs report following a flat May jobs report was the main catalyst for the week-ending rally. However, the *goofy* unemployment percentage rose as more people entered the job force. But job growth coupled with Brexit uncertainty & low inflation gives investors calm that the FED won't be hiking rates soon. The fear index, which swayed drastically through the Brexit vote, returned to the lower levels of earlier this year. Oil traded in the sweet spot, ending the week just above \$45 per barrel. With earnings season kicking off next week and signals that 2nd QTR has produced some good economic numbers, investors are thinking this earnings season could be a winner. The S&P & DOW flirted briefly with new highs, but closed just short.

Seeds, Sprouts, Grow, Harvest!

The Litchfield Fund

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