



# 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 Litchfield Fund’s recent** beverage industry investments got us thinking about legendary football coach Hank Stram. No, not that he was the winningest coach in AFL history with three AFL championships *and* a Super Bowl ring, or his 20 year CBS TV & Monday Night Football radio broadcasting career. It was that Coach Stram, working with the University of Florida, brought Gatorade to the NFL! The Coach had a great view on life, that can also apply to investing - *Yesterday is a cancelled check. Today is cash on the line. Tomorrow is a promissory note.* Let’s humbly add - an *unguaranteed* promissory note!

**No Guarantees:** At **The Litchfield Fund** we have certainly had the opportunity to speak to & get to know a good many enthusiastic entrepreneurs with exciting & innovative products. While there are many aspects to an investment process, including developing trust & a solid working rapport, we offer three we rely on as we consider a potential investment opportunity.

**No Fuzzy Concepts!** We have had occasion to remember Ansel Adams’, the foremost photographer of America’s beautiful west, thought about concepts, “There is nothing worse than a sharp image of a fuzzy concept.” Investors & entrepreneurs need to be clear on what is the concept for a product and company. What defines & differentiates the product? Why will it be successful? Why will it garner that so precious shelf & cold case space? What consumer need does it fill besides tasting good?

**Facts are stubborn things!** John Adams said this, & Mark Twain added “but statistics are pliable” but it remains that both investor & entrepreneur must stick to the facts & recognize that the facts may be meager for a young company. What is the sales revenue & COGS? How many stores carry the product? Which stores matter-- fit the right demographic, have good turnover & reorders? What has been the cost of acquiring customers, shelf space, demonstrations? Who is the distributor, broker, sales representative? Has there been a positive return for these activities?

**The future is not ours to see!** A bit too *Que Sera Sera* perhaps, maybe Winston Churchill said it better, “It is always wise to look ahead, but difficult to look further than you can see.” Use the facts available to set a valuation, not the overall market potential. Look at volume requirements that begin to lower costs and reach break even. Be specific about where sales are happening & the potential for acquiring similar locations. Remember that *time itself* is a completely unknown variable! No one should be upset that valuations are questioned!

Certainly, there are many, many factors in the investment process. But following these few thoughts can keep the investor & entrepreneur working together for mutual success!

**Portfolio News:** Albertsons & United Natural Foods (**UNFI**) terminated their distribution contract beginning September, 2015 instead of July, 2016. The contract amounts to \$400M annually or about 6% of **UNFI**'s total revenue. Albertsons has not been a strong player in the natural & organic space. We felt that Albertsons interest in Safeway stemmed partly from Safeway's broader role in Natural/Organic products. Safeway has several brands of their own such as O Organics, Lucerne, Open Nature, Eating Right, etc., so this departure of Albertsons from **UNFI** should perhaps not be unexpected. For **UNFI** this departure coincides with their plans to continue to expand through acquisition & dollar resources could be applied to that effort. We feel the stock took too large a hit from this revenue reduction.

New to our portfolio, Cal-Maine Foods (**CALM**) reported 4<sup>th</sup> QTR earnings of 95¢ compared to analysts expectations of \$1.04. However, 2016 & 4<sup>th</sup> QTR were strong record performances for **CALM**. Analysts were relying on an uptick in egg prices due to Avian Flu, which appears not to have been as much of a catalyst as expected. Also, **CALM**'s quarter ended in May. Interestingly, 20% of **CALM**'s business is specialty eggs (organic, cage-free, omega added, etc.) and accounts for 27% of revenue! **CALM**'s stock holds a 2.4% dividend yield.

Hain Celestial (**HAIN**) acquired Mona Group a leading European maker of soy, oat, nut & rice based drinks. Mona's brands include Joya & Happy. The Maxim Group initiated coverage on **HAIN** with a BUY rating which is the consensus of 15 analysts covering the stock. The Vitamin Shoppe has a HOLD rating from 16 analysts covering the stock & a \$44.61 price target, about 30% above Friday's close. Analysts still see an upside for Whitewave Foods (**WWAV**) despite the constant flirting with all time highs. Whole Foods Market (**WFM**) may be reaching a bottom in price with upside from this point forward. General Mills (**GIS**) received an OUTPERFORM rating and a \$65 price target from RBC Capital. France's Bonduelle Group may be preparing a

**Seeds, Sprouts, Grow, Harvest!**

**The Litchfield Fund**

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