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Animal Health News & Notes for January 30, 2004
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COMPANY EARNINGS RELEASES

> Eli Lilly reported financial results for the fourth quarter and year-end 2003 for its animal health division **Elanco**. Sales for the fourth quarter were \$213 million, an increase of 9% compared to the fourth quarter of 2002. Sales for the year were \$727 million, an increase of 5% compared to the year 2002. (*company website*)

> **Schering-Plough** Corporation reported financial results for the 2003 fourth quarter and full year for its animal health

division. Revenues were \$214 million, an increase of 11% compared to the fourth quarter of 2002. Revenues for the full year were \$697 million, an increase of 3% compared to 2002. (*company website*)

> **IDEXX** Laboratories reported that revenue for the fourth quarter of 2003 increased 18% to \$125 million from the fourth quarter 2002. Companion Animal Group revenue for the quarter increased 20% to \$100 million, primarily due to increased sales of instruments and consumables, laboratory services and rapid assays. Net income decreased 3% for the quarter to \$12.4 million. The company incurred a previously announced after-tax charge of \$4.5 million in connection with discontinuing development of a clinical chemistry instrument in favor of another development project and to write down certain fixed assets purchased for production of consumables for use in that instrument. Excluding this charge, net income increased 32% to \$16.9 million. Revenues for the year 2003 increased 15% to \$476 million; net income increased 26% to \$57 million. Companion Animal Group revenue for the year increased 18% to \$384 million. (*company website*)

> **Neogen** Corporation announced that second quarter net income increased 10% to \$1.5 million compared to the prior year. Second quarter revenues were \$13.2 million, the first time quarterly revenues have exceeded \$13 million. Quarterly revenues were 5% greater than the prior year, and \$25.5 million for the first six months, up 7% as compared to the prior year's same six-month period. For the first six months, net income increased 15% to \$2.8 million. (*company website*)

> **Abaxis** reported results for the third quarter of fiscal 2004, ended December 31, 2003. The Company sold 2,990 veterinary HMT reagent kits during the quarter, up 37% compared to the same period last year. Veterinary market sales for the quarter were \$9.8 million, an increase of 27% compared to the third fiscal quarter of 2002. (*company website*)

> **PetMed Express**, Inc. announced results for the quarter and nine months ended December 31, 2003. Net sales were \$17.2 million, compared to \$11.1 million for the three months ended December 31, 2002, an increase of 55%. Net income was \$1.2 million for the quarter, compared to net income of \$435,000 for the same quarter a year ago, an increase of 182%. Net sales for the nine months ended December 31, 2003 were \$72.5 million, compared to \$40.1 million for the nine months ended December 31, 2002, an increase of 81%. Net income was \$4.5 million for the nine month period, compared to net income of \$1.5 million for the same period a year ago, an increase of 190%. The company reported new customer growth of approximately 82,000 customers for the quarter. (*Business Wire*)

> **Tyson Foods Inc.** reported its earnings rose 46% for its first fiscal quarter as operating profits surged in its chicken and pork businesses, and beef revenues rose despite worries about BSE. The company earned \$57 million for the three months ended Dec. 27 versus a profit of \$39 million a year ago. Sales rose to \$6.5 billion compared to \$5.8 billion in its first quarter last year. *(AP)*

> **Pilgrim's Pride** reported net income of \$10.3 million for the first fiscal quarter ended Jan. 3, 2004, an increase of \$7.5 million compared with net income in the first quarter of fiscal 2003. The company also reported net sales for the first quarter of fiscal 2004 of \$1.0 billion, an increase of \$417.0 million, compared with net sales for the same period last year. *(Meating Place)*

COMPANY NEWS RELEASES

> Following management recommendation, the board of **Aventis SA** (50% parent of **Merial**) recommended that shareholders reject an unsolicited \$60 billion takeover bid from **Sanofi-Synthelabo SA**, and told management to study alternatives. The company said 15 of its 16 board members took part in the meeting and unanimous vote, including the representative of its biggest shareholder. The board instructed executives to study alternatives that offer "a stronger industrial and labor rationale" than the Sanofi bid. If successful, Sanofi's acquisition of Aventis would create the third biggest global drug firm by sales after Pfizer Inc. and GlaxoSmithKline PLC. *(AP)*

> **Pfizer** announced a \$3 million grant to the National Cattlemen's Foundation, to be given over the next three years. The grant will be used to enhance educational programming for US cattle producers. The announcement was made at the National Cattlemen's Beef Association annual meeting. *(company press release)*

> **Maple Leaf Foods Inc.** announced that it is set to launch the first commercial application of a DNA traceability program for pork. Maple Leaf worked with **Pyxis Genomics Inc.** in the research and development phase of the DNA traceability project to develop a panel of highly informative genetic markers that provides the foundation for the pork traceability system, which can accurately and rapidly trace pork products back to the farm of origin. Although the traceability system was developed for pork products, it is broadly applicable to other animal species. The DNA traceability system will allow Canadian pork marketed anywhere in the world to be traced back to the maternal sow. *(company press release)*

> **Nylabone Products** launched Quest Multi Care Dental Systems for Dogs, a line of 100% natural chew bones for canine dental care. The product line has three components: Nutri-Dent Edible Dental Brush Chews, Chew n Floss Edible Dental Chews, and Chew n Fresh Edible Dental Chews. The products are available in four sizes. (*Pet Business*)

> **Taminco** is the new name of the Belgian feed additives business that was formerly the methylamines and derivatives division of chemical group **UCB**. This follows the purchase of the division in 2003 by NIB Capital Private Equity. The company produces choline chloride for animal feed applications at plants in Ghent, Belgium and in Shanghai, China. (*Pig E-news*)

**Brakke Consulting's
2004 Animal Health and Nutrition Overview
"Your Customers, Now and in the Future"**

- how are your customers changing?
- is your organization prepared for these changes?
- what is happening in the personnel management area in animal health?
- how are distributors viewed by their customers?
- what have been the successes and challenges for the leading animal health companies?
- market trends and activities in 2003 - 2004
- the Brakke industry outlook for 2004

All these questions will be reviewed and answered at our scheduled seminars. The Overview can also be individually scheduled for your company's management team. We guarantee that the presentation will be challenging and will cause some rethinking of your business plan.

The Overview will be presented Monday, February 16 at the Western Veterinary Conference in Las Vegas. Seating is limited, so reserve your place now. The early-bird discount is available only until Monday, February 2.

For more details or to reserve your seat, please call Jane Morgan at 972-243-4033 or email jmorgan@brakkeconsulting.com, or register online at www.brakkeconsulting.com. [top](#)

ANIMAL HEALTH NEWS

> **CHINA** China confirmed that it has found avian influenza in dead ducks on a southern farm and was tracking "suspect" cases in two other provinces. Laos joined China, taking the total number of countries hit by the flu to 10. The

virus sweeping Asia also has prompted the slaughter of tens of millions of birds. (AP)

> PAKISTAN Pakistan joined the list of countries affected avian influenza when it announced it had detected a form of the disease in its chicken population. The commissioner for livestock husbandry said it was not a strain of bird flu that can spread to humans, something that has happened in other parts of Asia. So far the countries that have reported bird flu include: Vietnam, Thailand, Cambodia, South Korea, Japan, Taiwan, Pakistan, and Indonesia. (AP)

> US The USDA ended the quarantine of five cattle herds that were being investigated as part of the probe into America's first case of BSE. The quarantines were lifted because the disease is not contagious and authorities culled animals from the herd that could be linked to the animal found with BSE. Of the 81 animals that entered the US at the same time as the infected Holstein, the USDA was "really focusing" on 25 animals that were born a year before or a year after the diseased animal. Investigators have found 14 of the 25, but may not be able to track down all 25 animals. The USDA's chief veterinary officer added that the investigation could be over "in days or weeks." (*Meating Place*)

> US Speaking at the National Cattlemen's Beef Association's annual convention, Agriculture Secretary Ann Veneman said the White House has budgeted \$60 million in fiscal year 2005 to fund multi-agency efforts to enhance the nation's bovine spongiform encephalopathy prevention program, a \$47 million increase from the previous year. These funds are in addition to the \$178 million already announced for completion of the National Centers for Animal Health renovation. (*Meating Place*)

> US The FDA announced a set of additional rules on livestock production. These new regulations are designed to strengthen the multiple existing firewalls that protect Americans from exposure to the agent thought to cause BSE. Specifically the third-generation firewalls: (1) ban material from downer or dead cattle from human food, including dietary supplements, and cosmetics; (2) eliminate the present exemption in the feed rule that allows mammalian blood and blood products to be fed to other ruminants as a protein source; (3) prohibit the feeding of "poultry litter" to ruminant animals; (4) ban the use of "plate waste" from restaurants as a feed ingredient for ruminants; and (5) require feed milling equipment, facilities, or production lines to be dedicated to non-ruminant animal feeds if they use protein that is prohibited in ruminant feed. FDA will also increase its inspections of feed mills and rendering facilities and partner with state inspections, including annual inspections of 100% of all known renderers

and feed mills that process products containing materials prohibited in ruminant feed. (*Wattnet Meatnews*)

> US Two US senators (Sen. Arlen Specter, R-Pa., and Sen. Patrick Leahy, D-Vt.) have introduced legislation to create a mandatory national animal ID program. The National Farm Animal Identification and Records Act requires the USDA to track the movement of any animal within 48 hours. It also requires that a national-tracking system for all US livestock be up and running within 90 days of the bill becoming law. That is significantly faster than the proposed US National Animal ID Plan, which phases in a voluntary system that becomes fully operational in 2006. (*Drover's Alert*)

> US The National Institute for Animal Agriculture (NIAA) announced ID/INFO EXPO 2004, a conference and trade show devoted to the subject of animal identification and information systems. ID/INFO EXPO 2004 is scheduled for May 18-20, 2004, in Chicago, Ill. This event follows a similar national gathering facilitated by NIAA in 2002 and will focus largely on the US Animal Identification Plan that has been proposed by a team of industry representatives and government officials working on a national system for animal identification in the US. Topics will include premises identification, group/lot ID, ID distribution, ID devices/methods, governance, security, confidentiality and many more. Program and registration information will be published in February. Individuals wanting to be sure they are included on the mailing list are encouraged to go to www.animalagriculture.org. (*press release*)

> US The beef industry launched a multimillion dollar ad campaign, one month after the nation's first case of BSE and just in time for Super Bowl parties and romantic Valentine's Day meals. The cattle group delayed its annual "Beef: It's What's For Dinner" campaign for two weeks following the discovery of BSE in a Holstein cow in Washington state. Investigators subsequently learned the cow was born and raised in Canada, and there have been no new cases of the disease in the US. The cattle association believes the American public remains confident in the safety of US beef. (*AP*)

> US The Senate approved a \$373 billion "catch-all" spending bill containing a provision that delays the implementation of Country of Origin Labeling (COOL) until September 2006. The House passed the bill in December and President Bush is expected to sign it into law. Agriculture Secretary Ann Veneman told the House Agriculture Committee she supported a delay in the program to allow Congress time to "put some refinements" on the program that had been slated to start in fall 2004. (*Meating Place*)

> US Two US meat companies have recalled a total of nearly 160,000 pounds of several types of beef products due to possible contamination. Vincent Giordano Corp. is voluntarily recalling approximately 52,000 pounds of ready-to-eat meat products that may be contaminated with *Listeria monocytogenes*, while Hormel Foods Corporation is voluntarily recalling approximately 104,000 pounds of canned chili with meat that may contain plastic and other material from a calculator. (*Wattnet Meatnews, FSIS*)

> US Federal regulators are investigating whether commodities traders profited last month from advance knowledge of the first US case of BSE. The Commodity Futures Exchange Commission is looking into cattle futures trading data on the Chicago Mercantile Exchange as far back as Dec. 9, the day the diseased Canadian Holstein was slaughtered in Washington State and two weeks before the Department of Agriculture confirmed it as the country's first case of BSE. Investigators are targeting investors who made bets that cattle prices would decline prior to the Dec. 23 announcement by Agriculture Secretary Ann Veneman. (*AP*)

> US The nonprofit Center for Consumer Freedom (CCF) launched an online petition aimed at revoking the federal tax exemption of People for the Ethical Treatment of Animals (PETA), which has already attracted the support of more than 10,000 consumers in its first week. The CCF launched the petition and two national TV commercials after learning that the IRS is investigating PETA. According to the press release, PETA has given over \$150,000 to criminal activists, and has donated money in the past to the North American Earth Liberation Front, an organization classified by the FBI as a domestic terrorist group. To view the anti-PETA ads or to sign the petition, visit the CCF's website at www.ConsumerFreedom.com. The CCF is a nonprofit coalition supported by restaurants, food companies and consumers working to promote personal responsibility and protect consumer choices. (*AnimalNet*)

AGRIBUSINESS NEWS

> **IMC Global** Inc. and **Cargill**, Inc. announced the signing of a definitive agreement to combine IMC Global Inc. and Cargill Crop Nutrition to create a new, publicly traded company. The corporate name under which the new company will operate and its shares will trade has not yet been determined. Based on preliminary calculations, the new company is expected to have pro forma, trailing annual revenues of about \$4.1 billion. (*Business Wire*)

BRAKKE CONSULTING VIEWPOINT

What an interesting time to be in animal health. It's been a long time since we've seen so many interesting activities at the start of a year. Here are just a few of the items that we've observed thus far:

- The threats to the cattle industry because of the BSE case found in late December in Washington State and the Industries response, which has been great. We're not through it yet, but at this point consumer demand for beef in the US remains strong. The big issue that impacts the inventory levels is the export markets. I'm currently at the NCBA meeting in Phoenix and in general the mood is upbeat. There is a lot to be done and we believe new programs for issues like the number of animals to be tested (diagnostics) and the animal and meat tracking systems will be accelerated and offer new opportunities for several firms.

- A high level of interest by financial firms in various segments of the animal health industry. While it is not a high growth industry, there are many profit opportunities in a generally stable market place. We believe that before the end of the first quarter in 2004 it is likely that announcements will be made regarding the sale of one of the larger distributors, one of the top 10 animal health companies, and several small transactions. Will there be a new round of consolidation at the parent company level in big pharma that will spill over into the animal health divisions?

- Heavy marketing investment and market share fights in the leading categories of the companion animal market, particularly the parasite and pain areas, by the leading brands. How much more will these markets grow in 2004? We also noted earlier in this letter the financial success of PetMed Express in 2003. It appears that they are offering something that the pet owning public wants or they'd not be so successful.

How is one successful in periods like this? We suggest that you keep your focus, work your plan and be alert to changes. You can only manage that which you can control.

Have a great weekend.

Ron Brakke

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