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**Brakke Consulting's  
Animal Health News & Notes for November 5, 2004**  
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S&M NuTec  
Smithfield Foods  
Spotless Paw  
Vet Med Lab

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**COMPANY EARNINGS RELEASES**

> **Alpharma** Inc. announced results for the third quarter of 2004. Revenues for the Animal Health division increased slightly to \$74.6 million compared to \$73.9 million in 2003. Third quarter 2003 and 2004 results include revenues related to the Animal Health aquatic operation which was divested in July 2004. Excluding revenues from the aquatic operations and the impact of foreign currency, sales increased 5%, reflecting strong performance of poultry products. (*company press release*)

> **Embrex**, Inc. announced financial results for the third quarter ended September 30, 2004. For the quarter, consolidated revenues were \$12.8 million, an 11% increase compared to consolidated revenues of \$11.5 million for the third quarter of 2003. Consolidated net income for the third quarter 2004 decreased to \$0.8 million, 71% lower than 2003 third quarter net income of \$2.6 million. This decrease in net income is primarily attributable to an income tax adjustment in the third quarter 2003 related to the Fort Dodge settlement that increased net income for the third quarter of 2003 by \$1.3 million. (*company press release*)

> **Digital Angel** Corporation announced results for its third quarter and nine months ended September 30, 2004. Revenue for the Company's Animal Applications segment of the business increased 2.9%, from \$5.4 million to \$5.5 million in the third quarter, and 1.9%, from \$18.3 million to \$18.7 million, in the first nine months of 2004 compared to the prior year periods. Highlights for

the third quarter included the signing of a renewed 10-year contract with Schering Plough for the companion pet Home Again product for the US. (*company website*)

> DSM reported results for the third quarter ended September 30, 2004. Revenues for the **DSM Nutritional Products** division were 472 million euros (\$582 million). No prior-year comparison was given due to the division's acquisition in 2003. Volumes and prices in the Animal Nutrition and Health markets were stable compared with previous quarters of 2004, whereas the Human Nutrition and Health markets were down. (*company website*)

> **The Clorox Company** reported that its Specialty Products division increased shipments of cat litter behind the 10th consecutive quarter of year-over-year volume growth for Scoop Away cat litters, eighth consecutive quarter of year-over-year growth for Fresh Step scoopable cat litter and record shipments of Fresh Step Plus Dual Action Crystals blended cat litter. (*Business Wire*)

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## **BRAKKE CONSULTING INDUSTRY OVERVIEW NEW YORK CITY - NOV. 29, 2004**

Brakke Consulting will conduct a 2 - 3 hour briefing and presentation on the status of the animal health and pet industry in New York City at the Princeton Club on November 29th, 2004, from 1:30 to 4:00 pm. The key topics that will be covered by Senior Consultants during the briefing will be:

- A financial review and update related to the market place in 2004 for all market segments
- Where the values are in various types of companies serving the segments
  - Major manufacturers
  - Distributors (Veterinary and OTC)
  - Smaller companies (Sales under \$30 million)
- Technologies likely to impact the market place 2005 - 2007
- Where companies should invest for the future
- Summary of BCI views on 2005 for the leading companies and market segments

The cost of the Animal Health Industry briefing will be \$350 per attendee, with a discount for multiple registrations from one company. We believe this briefing will be very important for companies currently involved in the industry, investors considering various investments, and new companies with technology wishing to enter the various market segments.

Space will be limited for this briefing, so please call Jane Morgan at 972-243-4033 to reserve your seat.

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## **COMPANY NEWS RELEASES**

> **Elanco Animal Health** announced that The FDA has approved Rumensin (monensin sodium) for increased milk production efficiency in dairy cows. Rumensin is already approved in feed for therapeutic and production uses in feedlot cattle, pasture cattle (beef and dairy heifers, and slaughter, stocker feeder cattle), beef cows, and calves excluding veal calves. Rumensin is the first, approved new animal drug feed ingredient for dairy cows that increases milk production efficiency. (*AnimalNet - CVM*)

> **IDEXX Laboratories**, Inc. announced that it has completed the purchase of **Vet Med Lab**, the leading provider of veterinary reference laboratory services in the European market, for approximately \$31 million in cash. Headquartered in Germany, Vet Med Lab has locations in nine countries from which it serves customers throughout Europe. Vet Med Lab will be operated as

part of IDEXX's worldwide reference laboratory network. IDEXX estimates that Vet Med Lab will have 2004 revenues of approximately \$25 million. (*company press release*)

> **AVID Identification Systems** announced that the federal district court recently ruled that certain products used and distributed by **Pethealth Services USA** Inc. infringe a patent owned by AVID. AVID and Pethealth settled the remaining portions of the case. (*company press release*)

> **GPC Pet Products**, a division of Grain Processing Corp., announced the acquisition of **INOBY**S Ltd. from Yamanouchi Consumer Inc. GPC plans to relaunch the INOBY'S PetFirst line of oral pet care, treats, and supplements for dogs and cats, which had been effectively shut down pending Yamanouchi's divestiture of its consumer businesses. Financial terms were not disclosed. (*Pet Product News*)

> **S&M NuTec** announced the acquisition of **Spotless Paw**, microfiber glove designed to clean dogs' wet, dirty paws. S&M NuTec also receives right of first refusal on several pet product prototypes developed by the inventor of Spotless Paw. Financial terms were not disclosed. (*Pet Product News*)

> **Amarillo Biosciences** announced that it has submitted requests to the FDA's Office of MUMS (Minor Use and Minor Species) Animal Drug Development for the listing human interferon alpha as a Designated New Animal Drug for a variety of animal diseases. The listings would qualify its treatment as an "orphan drug" under the new MUMS legislation, according to the company, making it eligible for FDA grants that would allow it to test its interferon alpha for the stated uses. (*Veterinary Practice News*)

> POLAND, ROMANIA **Smithfield Foods** announced the acquisition of Polish meat processor **Morliny** from Spain's **Campofrio Alimentacion** for approximately \$53 million. The purchase gives Smithfield a 10% share of the Polish meat market. Morliny is Poland's No. 2 meat brand, trailing Krakus, already owned by Smithfield. Morliny has annual sales of about \$100 million and showed a profit of about \$1.7 million last year. Smithfield also announced the acquisition of Romanian meat processor **Comtim Group**, which produces and processes roughly 200,000 market hogs each year. (*Meating Place*)

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### **InnoVet Conference November 8 - 9 in Quebec**

InnoVet, an International Veterinary Industry Conference, will be held November 8 - 9, 2004, in Quebec, Canada. This unique venue brings together veterinary researchers, practitioners and product developers, biotechnology industry decision makers, investors and regulatory leaders for a focused discussion of the current challenges facing the animal health industry. This year's themes are: vaccine development, commercialization trends, and strategic alliances. Visit [www.innovet2004.com](http://www.innovet2004.com) for complete program, registration and sponsorship details.

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### **ANIMAL HEALTH NEWS**

> FRANCE - BSE IN GOAT A report in The Times of London says that BSE has jumped species for the first time, with a goat in France testing positive for the disease. It is believed that the goat was fed bovine bone meal and other byproducts, a practice that was discontinued in 2001. According to the report, over 140,000 goats have been tested for BSE throughout the European Union, with only this one case discovered. The rest of the infected animal's herd was tested, with all returning negative results. The European Food Safety Authority is waiting for confirmation before deciding whether new restrictions are necessary on French goat meat, milk

and cheese. (*Meating Place*)

> IRELAND - BSE A 14-year old dairy cow in County Caven in Ireland tested positive for BSE, the 105th case discovered so far this year in the country. That compares to 159 in the same period a year ago and 285 in the first 10 months of 2002. (*Meating Place*)

> US - PSEUDORABIES FREE The National Pseudorabies Control Board declared commercial swine herds in all 50 states to be free of the Pseudorabies Virus (PRV) for the first time in history. If there were no future PRV outbreaks, the US would officially be recognized as PRV free in October 2006. (*NPPC website*)

> US - CLONED PIGS Studies by scientists with the USDA and the University of Missouri indicate that the natural immune system of young cloned pigs doesn't appear to fight diseases as effectively as the immune system of non-cloned pigs. In their experiments, the scientists gave a naturally occurring toxin called lipopolysaccharide to 7 young, cloned pigs and 11 genetically similar non-cloned pigs. Although the non-cloned pigs' immune response was adequate, the cloned pigs' immune system didn't produce sufficient quantities of natural proteins called cytokines, which fight infections. (*Pork Alert*)

> A team of researchers led at the University of Minnesota College of Veterinary Medicine found indications that antibiotic use in animal production results in healthier animals, and the meat derived from these healthier animals has lower levels of bacteria that can cause food-borne illness in people. The results of the study were presented at the annual Interscience Conference on Antimicrobial Agents and Chemotherapy (ICAAC) in Washington, DC. The researchers developed a mathematical model to evaluate the potential human health risks and benefits of the use of the antibiotic, tylosin, in chickens. They compared the potential risks associated with increased levels of antibiotic-resistant bacteria in meat with the potential benefits associated with decreased risk of food-borne illness. The model demonstrated that the reduced number of infections and illness days associated with the use of tylosin in chicken far exceeded the increased human health risks associated with antibiotic resistance due to tylosin use. (*Food Production Daily*)

> US - ANIMAL ID A group of extension agricultural economists and other industry experts have developed a set of 11 fact sheets regarding the National Animal Identification System. The fact sheets address a variety of issues related to animal identification and the NAIS, including implementation logistics, costs, risks, legal issues and potential market opportunities. To download the fact sheets, go to <http://www.lmic.info/memberspublic/animalID/AnimalID.htm> (*Pork Alert*)

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## AGRIBUSINESS NEWS

> **Farm Credit Services of America** announced it has called off the proposed merger with **Rabobank** and rejected a merger proposal from sister Farm Credit System institution AgStar Financial Services. The FCSA board considered a revised offer from Rabobank of \$750 million, but Rabobank required that the money be allocated equally to all FCSA stockholders rather than through a patronage-based formula consistent with the band's bylaws. (*Feedstuffs*)

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## BRAKKE CONSULTING VIEWPOINT

It has been a most interesting fall for the industry. Some companies have experienced the negatives of having a product recalled from the market place. Other companies have been successful in creating new technologies that will have a positive impact on the future of several product categories.

We believe the number of new innovations either in basic compounds or reformulation will drive new sales growth in 2005 and beyond. We're of the opinion that the industry is on the verge of another growth era. Many of the negatives that have reduced growth the past few years are now behind us. While there will continue to be consolidations at all levels of the industry the number of transactions will be reduced and the quality and values will increase. The competition between the strategic and financial buyers for successful companies or product lines has increased the value.

Are there still reasonable opportunities out there? Yes, it just takes a bit more effort and imagination to find them. Sometimes an outside resource can be useful in achieving your objectives. We look forward to hearing from you.

Hopefully, you noted earlier in this newsletter that we plan to discuss various issues and opportunities in our industry at a management briefing in New York City on November 29th. This briefing will not be our standard industry overview. Instead we will provide a forum to discuss in detail some of the key issues related to the industry for those companies currently involved or hoping to be involved. We hope to see many of you there.

Have a great weekend.

*Ron Brakke*

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