
**Brakke Consulting's
Animal Health News & Notes for May 7, 2004**
Copyright © Brakke Consulting, Inc.

IN THE NEWS:

earnings news:

ABAXIS
Alpharma
Central Garden & Pet
Embrex
OurPet's Company

other news:

Agenix
Allflex
Bayer
Bertin Group
CEVA
Furnas County Farms
Harper's Pet Products
Intervet
Kalchem Int'l
Peptech
Pyxis Genomics
Sergeant's
Sun Pet Toys
Tabor Home Medical Services
Virbac

BRAKKE CONSULTING WELCOMES NEW CONSULTANT

Brakke Consulting announced the addition of Damian Raffele to its consulting team. In this new role, Raffele will head the expansion and development of Brakke's e-business strategies as it relates to clients within the animal health, pet, and veterinary markets. He joins the company as a proven e-business and marketing strategist specializing in the veterinary industry and other pet owner markets.

Raffele brings several years of marketing, sales, business and web development experience to the table, spending the majority of his career working within the pet insurance, pet product, and consumer areas. Prior to joining Brakke, Raffele was the Director of Online Marketing for Veterinary Pet Insurance (VPI). While at VPI, Raffele worked to help transform the company into a dynamic e-commerce driven organization.

Damian Raffele can be reached at draffele@brakkeconsulting.com or (714) 398-8445.

COMPANY EARNINGS RELEASES

> **Alpharma** Inc. announced first quarter 2004 revenues for its Animal Health Division (AHD) increased approximately 26% to \$84.5 million, including **Wynco** revenues, compared to \$67.0 million in 2003. On January 7, 2004, the company purchased the outstanding 50% interest of Wynco, LLC, an Animal Health distribution company. Wynco was sold, as planned, on March 30, 2004 and the company recorded a pre-tax loss of \$1.3 million. Excluding Wynco revenues, AHD revenues declined 2% compared to 2003. Operating margins were 5.0% in 2004 versus 3.9% in 2003. The inclusion of Wynco in first quarter results negatively impacted margins by 1.6 percentage points. Excluding the Wynco business, Animal Health margins improved from 3.9% in 2003 to 6.6% in 2004, reflecting cost reductions, productivity initiatives and product mix. *(PRNewswire)*

> **ABAXIS**, Inc. reported financial results for the fourth quarter and the fiscal year ended March 31, 2004. For the fourth fiscal quarter, ABAXIS reported veterinary market revenues of \$10.5 million, as compared with revenues of \$8.5 million for the comparable period last year, an increase of 24%. For the twelve-month period ended March 31, 2004, ABAXIS reported veterinary market revenues of \$37.9 million as compared with revenues of \$30.3 million for the comparable period last year, an increase of 25%. Veterinary market revenues represent approximately 80% of the company's total revenues. *(company website)*

> **Embrex**, Inc., announced financial results for the first quarter ended March 31, 2004. For the quarter ended March 31, 2004, total revenues were \$12.0 million, a 10% increase over total revenues of \$10.9 million for the first quarter of 2003. This is primarily attributable to a 14% increase primarily in device revenue which was offset by product sales that declined by \$0.4 million. Consolidated net income for the first quarter of 2004 decreased to \$1.1 million, 13% lower than 2003 net income of \$1.3 million. The decrease in first quarter 2004 net income compared to 2003 was primarily due to a higher effective tax rate. *(company website)*

> **Central Garden & Pet** Company announced its financial results for the fiscal second quarter of 2004, ended March 27, 2004. Net sales for the second quarter were \$359 million, an 8.6% increase from \$331 million in the comparable fiscal 2003 period. The Company recorded net income for the quarter of \$18.8 million compared with net income of \$13.5 million in the comparable year-ago period. Year-over-year second quarter earnings per share increased 34%. The improved results for the second fiscal quarter of 2004 versus 2003 were primarily driven by continued growth of the Company's branded products, including contributions from the recent Kent Marine and New England Pottery acquisitions, improved gross margins and lower interest expense. *(Business Wire)*

> **OurPet's Company** reported financial results for its first quarter ended March 31, 2004. Net sales for the first quarter were \$1,325,000, an increase of 4% compared to \$1,276,000 for the prior year first quarter. Net income for the quarter was \$8,000 compared to a net income of \$10,000 in the prior year first quarter. OurPet introduced over fifty new products at the annual American Pet Product Manufacturers Association (APPMA) Trade Show in March 2004. *(Business Wire)*

BRAKKE CONSULTING, INC.

Coming Soon: New report on the US Equine Market

The equine market is often underappreciated as an important part of the animal health market. However, there are approximately 7 million horses in the US, and their owners are willing to spend money on their health care. One of the most explosive new product introductions in the

past few years was the launch of Fort Dodge's West Nile Virus vaccine, which has doubled the size of the entire market for equine vaccines in just two years.

Brakke Consulting's new report on the US Equine market is a valuable overview of the market, including information on such topics as

- healthcare spending by owner segment
- distribution channels for equine products
- profiles of leading equine healthcare companies
- sales and trends by product category
- recent product launches
- surveys of participants in the market

The report will be available at the end of May 2004. The report is priced at \$2,950 if ordered before May 21, 2004, and \$3,500 if ordered after that date. For more information, email lfondon@brakkeconsulting.com.

COMPANY NEWS RELEASES

> **Bayer** announce a favorable Court Order in its lawsuit against **Tabor Home Medical Services** and **Kalchem International** Inc. for deceptive trade practices on Baytril 100. Bayer is the only FDA-approved manufacturer of Baytril 100 (enrofloxacin) Injectable Solution and, therefore, the only legitimate source of this product. The civil action charged that Tabor and Kalchem knowingly purchased counterfeit enrofloxacin from illegal sources, manufactured unapproved material, and misrepresented the product as Baytril and enrofloxacin to veterinarians and cattle producers. The Court Order includes monetary damages in the amount of \$400,000, which equals the proceeds received by Tabor Home Medical Services and Kalchem International Inc. from the sale of enrofloxacin. In addition, the court order also includes a permanent injunction prohibiting Tabor Home Medical Services and Kalchem International Inc. from buying or selling of enrofloxacin. Bayer Animal Health and the FDA will take possession of the counterfeit enrofloxacin drug substance currently on hand at Kalchem International Inc. and will see that it is properly destroyed. (*company press release*)

> **Virbac Corporation** announced that its French affiliate has made the following statement regarding the inclusion of estimated financial information in its estimated accounts filed with French regulators. "In the US, as a result of the inquiry conducted by the audit committee in November 2003, Virbac Corporation will restate its 2001, 2002 and first half of 2003 financial statements. These statements will be fully audited by the external auditors of the company. This audit is not completed at the end of April. Nevertheless, Virbac S.A. has estimated that the level of uncertainty related to the information gathered at this stage was acceptable and, as a result, included past year restatements and 2003 preliminary financial statements in its consolidated accounts. The adjustments for 2001 and 2002 are twofold: (1) Definitive losses: reversal of revenues related to some products that were subsequently destroyed or returned after their shelf life has expired and adjustments of certain expenses, assets and depreciation of inventories. The net impact of these corrections has been recorded as "correction of errors" in the 2003 consolidated statements and amounted to 2.3 million euros of which 1.4 is the Group share. (2) Timing differences related to sales that should have been accounted as of the time of payment at the time of delivery. These timing differences, which fall down from one year to the next, have no incidence in the consolidated accounts. In addition, Virbac Corp's contribution to the 2003 consolidated profit is negative due to the expenses incurred in relation to the inquiry, the thorough evaluation of expenses and depreciation, and the slow down of sales at year-end." (*Business Wire*)

> Akzo Nobel announced that it has decided to consolidate the CRINA and Bredol feed additives businesses into its animal health division **Intervet**. CRINA is a leader in developing, producing

and marketing feed additives based on essential oil compounds; the entire responsibility for marketing, manufacturing, and R&D for CRINA products will be transferred from the Surface Chemistry business unit to Intervet. Bredol is a leader in emulsifiers for the milk replacer industry; the commercial and R&D responsibility will be transferred from Surface Chemistry to Intervet, while the former will continue to produce the Bredol products. *(company press release)*

> **Sergeant's** Pet Care Products announced its expansion into the pet toys business with the acquisition of **Sun Pet Toys**, a division of Sun Products, Inc. Sun Pet Toys sells premium and unique pet toys, including toys that glow in the dark or light up and blink upon impact. Financial terms were not disclosed. *(Pet Business)*

> The **Bertin Group** of Brazil announced the acquisition of US-based **Harper's Pet Products** from Westar Capital LLC. Effective March 5, 2004, Harper's began integrating Bertin South American rawhide products into its existing product lines. Harper's CEO commented that the acquisition combines the top two rawhide producers in the world. Financial terms were not disclosed. *(Pet Business)*

> **Allflex** announced the appointment of Brian W. Bolton as CEO of Allflex USA, its North American subsidiary. Bringing a strong marketing and growth background in international agriculture, Bolton first became involved in the North American Ag scene in the mid-1980s exporting bovine genetics to Europe. More recently he has taken a leading role in the rapid uptake of new technology in the identification and traceability industry globally. *(PRNewswire)*

> **Peptech Ltd** and **Agenix Ltd** announced a proposed merger, which would create one of Australia's leading biotechnology companies. Under the terms of the merger, Peptech will acquire all of the issued shares in Agenix for the issue of 7 Peptech shares for every 10 Agenix shares held by Agenix shareholders. The proposed terms represent a premium of 25% for Agenix shareholders. Highlights of the merged company will include a substantial increase in market capitalisation to around \$400 million and enhanced liquidity, and a strong portfolio of products and aggressive development program, leveraging existing technology. *(company press release)*

> **Pyxis Genomics** announced the investment of \$100,000 by Ag-West Bio in the company's Saskatoon operation. The funds will contribute to Pyxis' research and development efforts in non-antibiotic feed additives. In other news, Pyxis announced that Mr. Brendan Fox, a member of the Board of Directors since August 2003, has been named President and Chief Executive Officer. In his new capacity, Mr. Fox will direct the expansion of Pyxis Genomics' commercial operations, building on the company's strong foundation in animal genomics R&D. *(company press release)*

> **Furnas County Farms**, Nebraska's largest hog producer and a division of Sand Livestock, filed for protection this week under Chapter 11 of the Federal Bankruptcy Code. Sand Livestock and Sand Systems are not part of the Chapter 11 filing. Furnas County Farms is the nation's 15th largest hog producer, with 50,000 sows producing more than 800,000 pigs annually. Company officials say they have signed a letter of intent with a potential buyer and are seeking to qualify this potential buyer in order to finalize an asset purchase agreement and conduct a 363 sale process, the purpose of which will be to solicit other potential purchasers to ensure that the best possible price is achieved. *(Meating Place)*

> HUNGARY The **CEVA** Group announced the inauguration of its new vaccine production and control facilities in Budapest, on the site of its subsidiary CEVA Phylaxia. CEVA Phylaxia is the CEVA Group's worldwide biologicals center. Sold mostly in international zones outside the EU, the vaccines of the CEVA Group target poultry, pigs and sheep. *(company press release)*

**National Institute for Animal Agriculture's
ID/INFO EXPO
May 18 - 20, 2004
Chicago, IL**

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.

To register or for more details, visit <http://www.animalagriculture.org>.

ANIMAL HEALTH NEWS

- > ITALY - BSE The Italian Health Ministry reported that a cow from a breeding farm in northern Italy has tested positive for BSE, bringing to 119 the total number of cases in Italy since testing began in 2001. It is the second confirmed case this year. (*AnimalNet - AP*)

- > VIETNAM - AVIAN INFLUENZA Vietnamese officials admitted there was an isolated outbreak of avian influenza in the south, more than a month after the country declared itself free of the disease. The director of the veterinary department under the Agriculture Ministry said there was one outbreak on a small scale in one family, and tests confirmed the presence of the H5N1 virus in the dead chickens. The family told officials that 90 of their 175 chickens had died in recent days. Veterinary officials destroyed all the chickens and quarantined the area as well as surrounding farms. (*AP*)

- > US - CANADA BEEF BAN WILL REMAIN Last week, a federal judge ordered a temporary halt to the shipment of bone-in cuts of meat to the US. The USDA has decided not to fight an extension of that order. The temporary restraining order was to end May 11. (*Drovers Alert*)

- > US - ANTIBIOTIC RESISTANCE Researchers reported in the Journal of Food Protection that the use of tylosin and tilmicosin does not adversely affect the safety of the food supply. The research found that there is an extremely low risk of a person eating beef, poultry or pork from animals treated with these macrolide animal antibiotics and subsequently acquiring a resistant infection that is untreatable with a human macrolide antibiotic. The study assessed two bacteria known to have antibiotic resistance (*Campylobacter* and *Enterococci faecium*) and developed a mathematical equation to determine whether using tylosin or tilmicosin could lead to infections in humans that are difficult to treat. **Elanco Animal Health** assembled the expert panel. (*AnimalNet*)

- > US - COW ORDERED DESTROYED The FDA has decided that the byproducts of a Texas cow that was destroyed after it showed potential signs of a central nervous disorder must be made into pig feed or be destroyed. The FDA said it tracked down all the material from the cow that was sent to a processor for rendering into animal feed and other products. All the material is being held by a business that the agency did not name. The government has said that none of it got into the human food supply. The cow was destroyed before it could be tested for BSE. The FDA planned to send a letter to the business saying it "will not object to use of this material in swine feed only" because pigs are not considered susceptible to BSE. If the business agrees to

only using the material in swine feed, FDA said it will then track the material through the supply chain from the processor to the farm to ensure that the feed is monitored and fed only to pigs.
(AP)

> US - BACTERIAL REDUCTION RESEARCH Proteins from harmless microorganisms can reduce *Campylobacter* and other pathogenic bacteria in poultry intestines, according to new research by a team of Agricultural Research Service and Russian scientists. Researchers used the proteins, called bacteriocins, to reduce *Campylobacter* numbers in bird intestines by 99.999% in small research trials. Large research trials will be necessary to determine if the technology is commercially feasible. The research indicates that bacteriocins could provide an effective alternative to antibiotics the poultry industry uses to control pathogenic bacteria. Preliminary data also indicates bacteriocins may be effective in reducing other food-borne bacteria such as *Salmonella* and *E. coli*. (Meating Place)

BRASSE CONSULTING VIEWPOINT

It's an exciting time at Brasse Consulting. As you read earlier in the newsletter, we are off and running with our new equine market study. Whether you're a manufacturer or distributor, you'll find this report useful in your marketing and sales strategies in this marketplace.

It is always great to be able to announced new capabilities and services to our clients. Over the years we've observed and participated with many of you in developing and implementing your Internet strategies. Now we've added a consultant who has successfully implemented an Internet strategy that created new business and improved customer retention. We regard Damian as one of those bright new Internet-savvy managers that will help share and mold how business is conducted over the Internet at the veterinary, dealer, producer, and pet owner level for our industry. We're pleased to have him as part of the Brasse team.

Have a great weekend.

Ron Brasse

*This electronic newsletter is the sole property of Brasse Consulting, Inc.
Any use of the contents herein should be approved by
and appropriately attributed to Brasse Consulting, Inc.*

For more information about Brasse Consulting's services and syndicated studies, visit our website at www.brasseconsulting.com.

Brasse Consulting, Inc.
2735 Villa Creek, Suite 140
Dallas, TX 75234 USA

In order to receive the HTML version instead of the text version of this newsletter, use the link at the bottom of this week's newsletter that states: "If you would like for us to remove your name from the circulation list, or if you need to change your profile or email address, please click here". Then click on the button below your email address that says HTML, and click "Update subscription."