
**Brakke Consulting's
Animal Health News & Notes for May 14, 2004**
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LAST WEEK TO ORDER UPCOMING EQUINE MARKET REPORT AT THE DISCOUNTED PRICE!

IN THE NEWS:

earnings news:

Bayer
Gold Kist
Ridley
Seaboard Farms

other news:

American Pet Care Properties
BowTie
Cargill Animal Nutrition
Danish Crown
Fancy Publications
Flagship Foods
Gruppo Pizzolo
Intervet
Kennel Club Books
National PetCare Centers
PetCARE TV
Tulip Ltd.
VCA Antech

COMPANY EARNINGS RELEASES

> **Bayer** reported that sales for the first quarter of 2004 for its animal health division remained steady year-on-year at 178 million euros (\$217 million). In local currencies, business grew by 6.3%. Sales in North America played a key role. (*company website*)

> **Seaboard Farms** posted substantially higher first quarter earnings and sales compared with last year. For the first quarter ended April 3, 2004, Seaboard reported sales of \$616 million, a 33% increase from the \$462 million it reported in the first quarter of 2003. In addition, the company reported net earnings of \$27.4 million for the first quarter of 2004 compared to \$2.7 million last year. The company attributed its sales gains to higher sales volumes and market prices for pork products, increased commodity prices and trading volumes, and an increased level of marine cargo service with improved rates. (*Wattnet Meatnews*)

> **Gold Kist Inc.** reported net margin of \$29.8 million for the third fiscal quarter ended March 27, 2004, compared to a net loss of (\$11.8 million) in the same quarter last year. Third quarter sales were \$576 million, compared to \$446 million for the same period last year. For the nine months ended March 27, 2004, the company reported net margin of \$56.7 million, compared to a net loss of (\$66 million) for the same period last year. This was on sales of \$1.62 billion for the first nine months of 2004, compared to sales of \$1.36 billion for the first nine months of 2003. (*PRNewswire*)

> **Ridley** Inc. reported results for its fiscal 2004 third quarter ended March 31, 2004. Ridley recorded net earnings of C\$0.6 million (US\$0.46 million) for the third quarter of fiscal 2004, after the significant loan impairment Ridley announced on May 3, 2004, compared with earnings of C\$4.0 million for the same period in fiscal 2003, as the effects of weak economics for livestock producers continue to impact results. Sales decreased 6.6% to C\$153 million (US\$117 million) compared with C\$164 million in the year-earlier period. Generally, a comparison of sales on a dollar basis is not necessarily indicative of the strength of Ridley's business because fluctuating commodities prices can influence revenues. For the third quarter, the lower sales revenues reflect a reduction (of about 8%) in feed sales volumes and a lower exchange rate, offset by sharply higher commodity prices for feed ingredients. (*Business Wire*)

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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

> The FDA announced approval for a porcine insulin zinc suspension product as the first drug for treating diabetic dogs. Prior to the development of this product, the only treatment veterinarians could use on diabetic dogs was human insulin, which is less compatible with a dog's metabolic system. The product will be marketed under the trade name Vetsulin by **Intervet**, Inc. and will be available under a veterinarian's prescription. (*FDA website*)

> **VCA Antech**, Inc. and **National PetCare Centers**, Inc. (NPC) announced the signing of a definitive merger agreement. Under the agreement, VCA Antech will acquire NPC for \$76.5 million (less assumed debt), to be paid in cash. NPC operates 69 animal hospitals in 11 states with annual revenues in 2003 of \$81.7 million. On completion of the merger, the combined companies will operate 316 animal hospitals in 36 states. (*company press release*)

> **PetCARE Television Network**, Inc. announced that it received a \$250,000 equity infusion from Victus Capital, LP. Victus requested that PetCARE TV issue shares of its restricted common stock at \$.70 per share in exchange for the interest due on a previously-issued convertible promissory note of \$1 million. The Company also issued common stock purchase warrants to Victus with an exercise price of \$1.00. The \$250,000 that was being held in escrow to make

interest payments on the note has now been released to PetCARE TV and will be used for working capital. (*Business Wire*)

> **BowTie**, Inc. announced that it has acquired **Kennel Club Books**, Inc. Kennel Club Books is known for producing the world's largest series of dog breed books, as well as books related to other pets and animals. The new book division will work in collaboration with BowTie Press, the current book division of BowTie, Inc. The Kennel Club Books line will remain based in New Jersey as a division of BowTie, Inc. BowTie, Inc. is the parent company of **Fancy Publications**, the world's largest producer of pet and animal magazines including such titles as *Dog Fancy*, *Cat Fancy*, and *Horse Illustrated*. Financial terms were not disclosed. (*PRNewswire*)

> **American Pet Care Properties**, LLC, announced its formation as the first real estate investment company to focus exclusively on pet care and pet service industry. The company is seeking investments in high quality pet care related real estate on a sale/leaseback basis. The company's CEO describes American Pet Care Properties clients as pet care providers wishing to acquire a practice(s), expand existing facilities, move into new facilities, open additional locations, or diversify or liquify their investments in real estate. (*company press release*)

> ITALY **Cargill Animal Nutrition** has signed an agreement with **ASA srl Gruppo Pizzolo**, a prominent Italian food and feed processing company, to acquire its Agridea feed brand. Cargill will also acquire Agridea's manufacturing facility in Modena with 33 employees, plus a network of 30 sales agents. The deal is expected to close by the end of May. Cargill Animal Nutrition, with its Purina, Sildamin, and Agridea brands, will produce more than 500,000 metric tons of animal feed annually in five manufacturing facilities throughout Italy. Financial terms were not disclosed. (*Wattnet Meatnews*)

> UK **Flagship Foods** Ltd. and **Danish Crown** have reached an agreement to combine the businesses of Flagship Foods and Danish Crown's UK subsidiary **Tulip** Ltd., creating one of the UK's largest meat groups. The new group will be named Tulip Ltd. Both companies already have a significant presence in the UK market. The new group will cover the complete range from farm to fork, including pig production, abattoirs and fresh meat operations, as well as significant bacon, cooked meats and other further processed products. The UK sales of the new group will be close to 1 billion pounds, and it will employ almost 7,000 people across 21 sites. Financial terms were not disclosed. (*Wattnet Meatnews*)

ANIMAL HEALTH NEWS

> CANADA - AVIAN INFLUENZA A new case of avian influenza was discovered in a duck and goose farm in the Fraser Valley in western Canada, and officials said it was different from the strains seen before in the area. The Canadian Food Inspection Agency said preliminary tests found the H5 subtype of the virus, but further testing revealed that the geese were exposed to the H6 avian influenza virus, which is not associated with serious animal or human illness. Officials have begun to cull the 37,000 bird flock and closed a nearby school located across from the farm. (*Meating Place, AnimalNet*)

> US - CANADIAN PORK IMPORTS The US International Trade Commission, an independent government agency that oversees trade disputes, voted unanimously (6-0) allow the US pork industry to proceed with its demand for tariffs to be imposed on live pigs from Canada. The ITC found "a reasonable indication that the imports financially damaged US producers." The US pork industry has said Canadian government subsidies enable Canada's producers to sell pigs in the US at below fair market prices. (*Wattnet Meatnews*)

> US - AVIAN INFLUENZA PREVENTION Agriculture Secretary Ann Veneman transferred \$13.7 million from the USDA's Commodity Credit Corporation to the Animal and Plant Health Inspection Service (APHIS) to address avian influenza. \$10.8 million of the funding will be used to develop a national low pathogenic avian influenza control and prevention program. The other \$2.9 million will be used to assist Texas with the disposal, surveillance and indemnification costs associated with the February outbreak of highly pathogenic avian influenza (HPAI) that led to more than 30 countries suspending poultry trade with all or part of the US. (*AnimalNet - USDA press release*)

> JAPAN - US BEEF TRADE The USDA reported that the US and Japan will begin a series of technical working group meetings next week to jump start the resumption of beef trade sometime in the summer. The first meeting will be held May 18 and 19 in Tokyo, with subsequent meetings in June and July. The group will address issues such as the definition of BSE, methods of testing for the disease, the definition of specified risk materials (SRM), methods for removing SRMs, surveillance practices and feed ban implementation. (*Meating Place*)

> EU - COOL Europe's governments have turned their noses up at an EU proposal to scrap labels like "British beef" and replace them with an "EU origin" logo. Germany, France, the UK and eleven other countries rejected the idea despite agreeing that better information was needed in the wake of the BSE crisis. According to the EU's Meat and Livestock Commission, there is quite a lot of resistance to going back to the EU label after so much work has gone into developing national labels. Another sticking point similar to the controversy in the US is the lack of clarity over what member states can accurately label ground beef that might have originated from a cow in Poland, is killed by a German processor and ground by an Austrian company. (*Meating Place*)

> US - COMMODITIES TRADING VIOLATIONS Federal prosecutors are looking into possible criminal violations by commodities traders who may have received advance knowledge about the first US case of BSE and used it to reap profits in the cattle futures market. The disclosure of an investigation by criminal authorities, being conducted in tandem with a previously known civil probe by the Commodity Futures Trading Commission, was made by the agency chairman in testimony before the Senate Agriculture Committee. The CFTC investigators have focused on traders who bet that cattle prices would decline prior to the Dec. 23 announcement by Agriculture Secretary Ann Veneman. The investigators have been trying to determine whether information about the infected cow had been leaked, and by whom, before Dec. 23. (*AP*)

> US - BSE TESTING LABS The USDA's Animal and Plant Health Inspection Service announced this week the approval of five additional state laboratories that will assist in the surveillance program for BSE. The new testing centers include Florida's Kissimmee Diagnostic Laboratory, the Minnesota Veterinary Diagnostic Laboratory, the Kansas State University Veterinary Diagnostic Laboratory, a USDA Laboratory in Frankfort, KY, and the Pennsylvania Veterinary Laboratory. These facilities will work in coordination with seven other state laboratories that were approved in March and will use approved rapid tests for BSE surveillance. The USDA's National Veterinary Services Laboratories in Ames, Iowa, remains the national reference lab for BSE and will conduct confirmatory testing. (*Drovers Alert*)

> US - POULTRY PRODUCTION Liveweight broiler production in the US in 2003 was less than the previous year, the first time that's happened since 1973. According to the USDA's "Poultry-Production and Value 2003 Summary" issued last week, the number of broilers produced last year (Dec. 1, 2002 through Nov. 30, 2003) totaled 8.5 billion weighing 43.9 billion pounds liveweight. In 2002, the number of broilers produced was 8.6 billion with a total liveweight of 44.1 billion pounds. (*Meating Place*)

> US - EGG ADVERTISING The board of directors of the United Egg Producers voted to require that egg producers who use the "Animal Care Certified" logo on their cartons also include a Web site that gives information about what some claim is the inhumane treatment of hens. The vote

was in response to a ruling issued a day earlier by the Better Business Bureau that called the logo misleading. The bureau's National Advertising Review Board said the egg industry should eliminate the logo or provide better information to consumers. The standards behind the Animal Care Certified tag still allowed confinement of hens in cages, beak clipping and forced starvation of the birds, the ruling said. While the Better Business Bureau can't force the egg industry to do anything, it has said it will review any changes to the marketing campaign in a few months. If they don't satisfy the bureau, it could send the case to the Federal Trade Commission or FDA for further review. *(AP)*

> AUSTRALIA - ANIMAL ID The cost to producers using the National Livestock Identification System would be no more than A\$6 per head sold, according to the results of an independent cost analysis released by Meat and Livestock Australia. The report examines the dollar costs incurred by beef cattle producers that are specific to the proposed state legislative requirements of NLIS. Costs were calculated according to the method of sale, the cost of NLIS approved devices, device loss rates, device application, reading equipment, labor costs for device application, the reading of devices and recording transfers on the NLIS database. All costs were calculated in relation to Queensland production systems, however the model could be applied to calculate NLIS compliance costs for a cattle producer anywhere in Australia. NLIS management committee chairman said the key finding of the report was that while NLIS costs will vary from property to property and from state to state, there was no scenario investigated that indicated a cost of more than A\$6 per head sold. *(Wattnet Meatnews)*

> US - GAG ORDER FOR INSPECTORS USDA officials have ordered inspectors in Texas not to talk to outside parties about BSE after testing policies were violated, according to United Press International. UPI said it had obtained the order, which was sent on May 6 by the circuit supervisor for the Food Safety and Inspection Service's Dallas district. The National Joint Council of Food Inspection Locals, the national inspectors union, said the gag order is a violation of inspector's free speech rights and said it is considering legal action against the USDA for breaching the labor agreement they have with the agency. *(Drovers Alert)*

> US - MEAT TEST Researchers from the USDA's Agricultural Research Science have developed two new ways to detect ractopamine in livestock. ARS developed the methods as a fast, user-friendly alternative to high pressure liquid chromatography. This procedure is the chief means by which federal inspectors now determine residue concentrations of ractopamine in live animals or carcasses. This is not to suggest that there is a problem with using ractopamine as approved, notes ARS officials. Such testing is part of the national food safety programs aimed at protecting consumers from misuse of products in food animal production. Testing also is done to certify meat products, such as for export to certain countries. *(Pork Alert)*

> US - DRUG RESIDUE TEST The Food Safety and Inspection Service has a new system for testing meat carcasses for violative animal-drug residues and disposing of affected tissues. The measure will take effect on June 7. In August 2001, the agency announced its intention to match the FDA's procedures in terms of applying FDA's target tissue/marker residue policy. Under the new system, if the FDA has established a marker residue tolerance in a specific target tissue for a new animal drug but has not established a tolerance for muscle tissue, the FSIS will test only the target tissue in the FDA's regulation. If a tissue isn't identified, the FSIS will continue to collect multiple edible tissue samples, and allow those with residue levels at or below the established tolerances to be used for human food. *(Pork Alert)*

> US - ALTERNATIVE FUEL Fibrowatt, a developer, owner and operator of electricity power plants fueled by agricultural biomass, has started initial construction on its first US facility to use poultry litter. The power plant, which is being built in Benson, Minn., will burn more than 500,000 tons of poultry litter, in addition to other agricultural biomass, to generate 50 megawatts of electricity each year. The electrical output will be sold to Xcel Energy, based in Minneapolis, under a 21-year power purchase agreement. The plant has already contracted with 30 companies and

100 barns to provide the poultry waste. The facility is expected to be finished in two years. Once it's complete, equipment will be tested for six months, followed by another six months to prepare production capacity, according to Fibrowatt officials. (*Meating Place*)

AGRIBUSINESS NEWS

> **Monsanto** Co. has accused **Syngenta** AG of patent infringement, looking to block the rival agribusiness giant from technology used in producing a popular genetically modified corn. The federal lawsuit involves what Monsanto called its "fundamental technique" used in producing glyphosate-tolerant plants, namely corn. Glyphosate is a key ingredient in Roundup, the company's popular herbicide. Monsanto's Roundup sales have been under pressure since 2000, when the company lost U.S. patent protection for glyphosate. Syngenta said earlier this week that it had bought rights to some parts of the GA21 technology from **Bayer CropScience** and plans to use and market that commodity in the US. Monsanto said it had not licensed Bayer CropScience to use its "proprietary intellectual property" for use in corn. In filing suit, Monsanto wants a federal judge to permanently bar Syngenta from marketing GA21 corn, arguing that Syngenta's doing so would violate a Monsanto patent. (*AP*)

BRASSE CONSULTING VIEWPOINT

It's really nice to see most aspects of the animal health industry thriving and improving. The news in this week's newsletter points to the many activities by various companies or government groups to improve food safety.

In the past few days we've been exposed to some exciting new diagnostic and vaccine technologies that will enter the market in the coming months. We're always pleased to participate in the success of investment in new companies.

We remain optimistic regarding animal protein prices for the next few months, and the rapid growth in the companion animal sector continues to be a bright point. It still looks like 2004 will be an excellent year. Please remember your consultants in your 2005 budget process.

Have a great weekend.

Ron Brasse

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