
**Brakke Consulting's
Animal Health News & Notes for May 19, 2006**
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COMPANY EARNINGS RELEASES

> **CEVA Sante Animale** announced results for the first quarter of 2006. The company achieved a turnover of EUR 72 million (\$87 million), increasing by 31% compared to the same period of 2005. The Animal Health activity (which counts for 97.5% of the total CEVA activity) was supported by a strong growth in Europe. In Asia and USA, the activity remained good with an excellent performance of recombinant vaccines from Biomune on the US market. (*company information*)

> **Virbac Corp.** announced earnings for the three months ended March 31, 2006. Virbac reported first quarter 2006 net income of \$0.4 million on revenues of \$19.7 million, compared to first quarter 2005 net income of \$0.3 million on revenues of \$19.1 million. (*company press release*)

> **Heska** Corporation reported financial results for its first quarter ended March 31, 2006. The company reported revenue of \$17.5 million, the highest first quarter result in Company history. Core Companion Animal Health product revenue was \$14.3 million, up 11% from the first quarter of 2005. Net loss was (\$239,000), an improvement of over \$1 million compared to the first quarter of 2005. (*PRNewswire*)

> **Doane Pet Care** Company reported net sales and earnings results for its fiscal 2006 first quarter. For the first quarter of fiscal 2006, the Company reported a net loss of (\$5.4 million) compared to net income of \$7.2 million for its fiscal 2005 first quarter. The Company's net sales were \$237.7 million compared to \$267.1 million for the first quarter of fiscal 2005, a decrease of 11.0%. The decrease in net sales was primarily due to the expected lower domestic sales volumes consistent with previous announcements regarding the timing of promotional activity and the discontinuation of domestic non-manufactured product distribution services. In addition, a weak U.S. dollar in the 2005 first quarter compared to a stronger U.S. dollar in the current quarter negatively impacted the Company's European net sales. *(Business Wire)*

> **PetSmart, Inc.** reported net income of \$41.8 million for the first fiscal quarter of 2006. That compares with net income of \$44.7 million for the first quarter of fiscal 2005, which included a pre-tax gain of \$8.5 million related to a legal settlement. Net sales for the first quarter of 2006 were \$1.0 billion, compared to \$903.2 million for the same period in 2005, and comparable store sales - or sales in stores open at least a year - grew 3.7% in the first quarter. Pet services sales were \$90.3 million, up 27% from the same period last year. PetSmart opened 20 new stores and closed four locations during the first quarter of 2006. *(company website)*

> **PetMed Express, Inc.** announced its financial results for the fiscal year ended March 31, 2006. Net sales for the year were \$137.6 million, an increase of 27% compared to the year ended March 31, 2005. Net income for the year was \$12.1 million, an increase of 51% compared to the year ended March 31, 2005. The Company acquired approximately 624,000 new customers during the fiscal year. *(Business Wire)*

> **OurPet's Company** reported financial results for its first quarter ended March 31, 2006. Net revenues for the 2006 first quarter increased 34% to \$2.1 million from \$1.6 million in the same period a year ago. The recent Pet Zone acquisition added \$371,240 to sales in the 2006 first quarter. Net income for the 2006 first quarter increased 6% to \$55,619, from \$52,556 in the 2005 first quarter. *(Business Wire)*

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COMPANY NEWS RELEASES

> **Pfizer Animal Health** has announced that it will be moving its Europe division from its headquarters in New York to Paris, France. As part of the change, Pfizer will be increasing its Europe regional headquarters staffing levels by three times, and will concentrate on leveraging resources across the continent. *(Animal Pharm)*

> **Intervet** and **DSM International** signed an agreement on the sale of Intervet's CRINA business to DSM. CRINA develops plant extracts used as feed additives. The sale marks the completion

of Intervet's divestiture of its global feed additives business to focus on its core vaccines and pharmaceuticals business. Financial terms were not disclosed. *(Feedstuffs)*

> **Alltech Inc.** has filed a lawsuit seeking a permanent injunction against **Cenzone Tech Inc.**, claiming that Cenzone's Microbond product infringes on a U.S. patent that covers Alltech's MTB 100 product (known as Mycosorb outside North America). The company is asking the court to issue an injunction to prevent Cenzone from selling its product. *(Feedstuffs online)*

> **Mach One Corp.** announced it has acquired **BioQual Inc.**'s veterinary immunoglobulin business, including the Lyphomune, ImmunoGam, and MiniGam products; equipment necessary for manufacturing; and patent. Financial terms were not disclosed. *(Feedstuffs)*

> **Vets Plus** introduced Probios Dog Treats. Probios Treats contain a source of live (viable) natural-occurring microorganisms to help maintain normal intestinal health. Probios Dog Treats are available in three varieties—Probios Treats Digestion Support, Probios Treats with glucosamine and Probios Treats Soft & Shiny Coat. Vets Plus, Inc. manufactures and distributes Probios brand microbial products under license agreement from **Chr. Hansen**. *(Petfood Industry Newsletter)*

> **SkyLynx Communications** announced that it has acquired **VETCO Hospitals, Inc.**, a California based provider of veterinary health care products and services. The all stock deal is valued at \$3.25 million. VETCO's current annual revenue rate for the last twelve months ending September 30, 2005 is \$5.9 million. VETCO will be the surviving entity and wholly owned subsidiary of the company. VETCO operates in two divisions: a Pet Hospital Division and a Vaccine Clinic Division. The former consists of five full-service veterinary hospitals inside stores belonging to a major, national pet retail chain in five western states. The latter runs 135 mobile vaccine clinics. In addition, VETCO operates an e-commerce website, PetService.com. *(Business Wire)*

> **Smithfield Packing Company** announced it has achieved the USDA's Process Verified Program certification for all three of its pork processing plants, making Smithfield Packing the largest pork company in the world to be 100% process verified. The USDA Process Verified Program assures retailers and consumers that traceability, animal handling and environmental standards have been met and benchmarked for continual improvement. *(company press release)*

> **Oaktree Capital Management** has joined with **Smithfield Foods** in its planned acquisition of **Sara Lee Corp.**'s European meat business, which last year accounted for about \$1.1 billion in sales. *(Meating Place)*

CONSULTANT PROFILE

JAY LOCKHART, Senior Consultant

Jay grew up on a farm in central Indiana before attending Purdue University, where he earned a Bachelor of Science Degree in Agricultural Business Management. He joined Brakke Consulting as a Senior Consultant in March 2002 after completing a 33-year career with Ralston Purina (now renamed Nestle Purina PetCare after being acquired by Nestle, SA in 2001) and established a St. Louis office for Brakke.

Jay's career included sales and marketing assignments in the livestock feed, pet food, and litter products businesses. He established Purina's U.S. veterinary sales organization, developed and managed Purina's veterinary distributor organization, and was part of the senior leadership team that introduced Purina super premium pet foods and therapeutic diets to the pet specialty and veterinary markets respectively.

Primary activities for Brakke clients include:

- Executive Search and recruiting of middle management and sales personnel for clients in the veterinary, animal health, and animal nutrition markets
- Design and management of multi-client studies such as the 2003 Distributor Effectiveness Study, the 2004 Manufacturer Sales Force Effectiveness Study, the 2006 Manufacturer Sales Force Effectiveness Study, and the 2007 Distributor Effectiveness Study
- Proprietary market research projects for individual clients

What does Jay see for the future?

Since 2000, it has been interesting to observe the growth trends in the size manufacturer sales forces in the companion animal veterinary market. In 2006, there are a significant number of companies that employ 75 -100+ sales reps; and a few organizations now exceed 200 representatives. The growth in the number of sales people at many companies has far exceeded the growth rate in the number of veterinary hospitals over the same time period.

It is likely that manufacturers will continue to expand their sales organizations as competition to drive market share in key categories continues to intensify. It is also likely that decision makers in veterinary practices will become more selective about which sales representatives they see as more representatives compete for their time. More than ever, companies will need to make sure their representatives are delivering meaningful information to decision makers with whom they meet.

ANIMAL HEALTH NEWS

> JAPAN - BSE Japanese authorities confirmed that a dairy cow tested for BSE returned a positive result. The animal was destroyed and its remains incinerated, and nothing from the animal reached the human or livestock food supply. The cow was discovered on a farm in the state of Hokkaido. No information about the age of the animal was released. (*Meating Place*)

> VIETNAM - FOOT AND MOUTH DISEASE Foot-and-mouth disease has spread to 30 of Vietnam's 64 provinces and cities in recent weeks. Almost 27,000 pigs, buffalos and cows have been infected across the country, and more than 10,000 have been culled so far this year. Vietnam's President has instructed state agencies to fight the disease through better surveillance, culling sick animals, vaccinating healthy ones and stopping the trade and transport of infected animals. (*Meating Place*)

> DENMARK - AVIAN INFLUENZA Poultry on a smallholding farm on the Danish island of Funen have tested positive for the H5 strain of avian influenza. The birds have been culled and police have cordoned off an area of 3 km around the farm. This is Denmark's first case of H5 bird flu in domestic birds; however, the H5N1 strain has already been found in several wild birds. (*Reuters*)

> HONG KONG - BONE FOUND IN US BEEF Hong Kong meat inspectors found bones in a shipment of US beef. The bones were reportedly found in beef products recently imported from Harris Ranch Beef Co. Earlier this year, Hong Kong banned beef imports from two US beef companies (Cargill Meat Solutions and Swift and Co.) after bones were found in their products. Hong Kong requires that imported US beef not contain specified risk material, primarily brain and spinal cord tissue, or bones. (*Wattnet Meatnews*)

> US - ANIMAL ID FUNDING The House Agricultural Appropriations Committee included \$33.1 million for the national animal identification program but attached conditions that could slow action. Noting that Congress previously has provided \$84.7 million for the program, the bill will

not let 2007 funding be released until Agriculture Secretary Mike Johanns provides the committee with "a complete and detailed plan for the National Animal Identification System, including, but not limited to, proposed legislative changes, cost estimates and means of program evaluation." (NIAA bulletin)

> US - NEW RURAL VET ACT A bill approved by the Kansas Legislature and recently signed into law by the Kansas Governor will benefit veterinary students and rural Kansas communities. The law establishes the "Veterinary Training Program for Rural Kansas" at K-State's College of Veterinary Medicine. The program will provide opportunities and incentives for students pursuing a veterinary medicine degree at K-State to locate their veterinary practice in rural Kansas communities and serve the livestock industry after they graduate. Other states have passed legislation for a debt forgiveness program; but Kansas is the first state to pass legislation and appropriate funds for this sort of program, according to the dean of the College of Veterinary Medicine at Kansas State. (US Newswire)

BRASSE CONSULTING VIEWPOINT

The earnings reports this week showed some mixed results compared to the predominantly strong reports we have seen recently. On the positive side were the results reported by PetMed Express which continued to show strong performance as an increasing number of pet owners chose to purchase pet supplies on-line instead of through their veterinarian. On the food animal front, it appears the House Ag Appropriations Committee has reacted to pressure from various groups by sending a message to USDA that they want to see a definitive plan before releasing funds to develop the national ID system. It is hard to say at this point if this will be beneficial in moving animal agriculture toward a workable national system.

Jay Lockhart

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