
**Brakke Consulting's
Animal Health News & Notes for July 23, 2004**
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IN THE NEWS:

earnings news:

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Yorkshire Animal Health

COMPANY EARNINGS RELEASES

> **Pfizer** reported results for the three and six month periods ended June 30, 2004. Second quarter revenues for its animal health division were \$484 million, a 26% increase compared to the second quarter of 2003. First half revenues were \$912 million, an increase of 40% compared to the first half of 2003. Pfizer's acquisition of Pharmacia was completed on April 16, 2003. In addition to the impact of the Pharmacia acquisition, results were driven by strong performances by Rimadyl, Revolution and Clavamox/Synulox, and cattle biologicals, and by the favorable impact of a weaker US dollar relative to the prior year. (*company website*)

- > Akzo Nobel announced results for the three and six month periods ended June 30, 2004. The animal health group **Intervet** achieved 6% autonomous growth, with sales of 254 million euros (\$307 million) for the second quarter. For the first half of 2004, sales were 511 million euros (\$618 million) compared to 496 million euros in the first half of 2003. (*company website*)
- > Wyeth reported results for the three and six month periods ended June 30, 2004. Second quarter revenues for the **Fort Dodge** Animal Health division were \$239 million, an increase of 12% compared to the second quarter of 2003. Revenues for the first half of 2004 were \$458 million, an increase of 16% compared to the first half of 2003. The increased revenues were due primarily to higher sales of ProHeart 6 offset in part by lower sales of West Nile Innovator vaccine. Excluding the favorable impact of foreign exchange, revenues increased 10% for the second quarter and 11% for the first half of 2004. (*company website*)
- > **Novartis** reported that first-half 2004 sales for its Animal Health division increased to \$353 million, a 4% raise in US dollars and a 2% decline in local currency, skewed by the divestment of non-strategic brands (Neocidol and Nuvan) in 2003. Excluding this effect, the ongoing business grew 14% in US dollars and 7% in local currency. New companion animal products, primarily in the US and European markets, were the main growth drivers. The farm animal franchise declined slightly with growth of cattle and sheep parasiticides and the new farm fly control remedies only partially compensating for the divested brands. Operating income Q2 soared by 29%, leading to an operating margin of 11.6% for the half year. The operating cost of the business increased due to the exchange rate effect, but remained at previous year level in local currency. (*company communication*)
- > Eli Lilly reported results for the second quarter of 2004. Revenues for the animal health division **Elanco** were \$180 million, an 8% increase compared to the second quarter of 2003. (*company website*)
- > **Schering-Plough** Corporation reported financial results for the 2004 second quarter. Sales of Animal Health products totaled \$186 million in the second quarter of 2004, up 9%, including a favorable foreign exchange impact of 6%. Sales for the first half of 2004 were \$356 million, an increase of 14% compared to the first half of 2003. (*company website*)
- > **IDEXX Laboratories** Inc. reported that net income increased 43% to \$23.9 million for the quarter ended June 30, 2004, from \$16.7 million for the same period in the prior year. Revenue for the second quarter of 2004 increased 13% to \$137 million from \$122 million for the second quarter of 2003. The favorable impact of currency contributed 2% to revenue growth. Companion Animal Group (CAG) revenue for the second quarter of 2004 increased 14% to \$113 million from \$99 million for the second quarter of 2003. (*company website*)
- > Colgate-Palmolive reported results for the second quarter of 2004. At the **Hill's Pet Nutrition** division (14% of Company Sales), unit volume grew 4.0% in second quarter 2004 on top of a very strong performance in the year ago period. Dollar sales rose 9.0% to \$355 million compared to second quarter 2003, reflecting this volume growth, favorable foreign exchange of 3.0% and the effect of a domestic price increase. Dollar operating profit in the second quarter increased 9.0% to \$99 million after increased commercial investment. (*company press release*)
- > **Neogen** Corporation reported a 16% increase in revenues for its 2004 fiscal year, which ended May 31, and a continuation of the Company's outstanding record of profitable quarters from operations and revenue increases. Fiscal year 2004 revenues were \$55.5 million compared to \$47.7 million in FY 2003. Despite nonrecurring fourth quarter expenses of \$300,000 to consolidate operations and significantly cut future operational costs, Neogen reported net income of \$5.1 million, an increase of 6.5% compared to the previous year. (*company press release*)

> **ABAXIS**, Inc. reported record financial results for the first fiscal quarter ended June 30, 2004. For the first fiscal quarter, ABAXIS reported record revenues of \$13.2 million, compared with revenues of \$10.3 million for the comparable period last year, an increase of 28%. The Company reported net income attributable to common shareholders of \$1.4 million, compared to \$659,000 for the same period last year; an increase of 118%. Net income for the quarter benefited from the conversion, in October 2003, of Series D and E Preferred Stock into common shares; thereby eliminating the Company's obligation to distribute preferred dividends in the quarter ended June 30, 2004. (*company press release*)

> **ImmuCell** Corporation announced the results of its operations for the three months ended June 30, 2004. For the three months ended June 30, 2004, product sales increased by 9% to \$642,000, in comparison to the same period in 2003. The Company recognized a net loss of (\$58,000) for the three months ended June 30, 2004, compared to a net loss of (\$124,000) during the same period in 2003. (*company press release*)

> **Nestle** reported first quarter 2004 sales of CHF 2.4 billion (\$1.9 billion) for its PetCare division, representing organic growth of 9% compared to the first quarter of 2003. The company attributes the growth in sales to strong growth in the petfood market. (*Animal Pharm*)

WONDERING WHAT YOUR CUSTOMERS ARE THINKING?

Brakke Consulting maintains proprietary databases of well over 1,000 small animal veterinarians, as well as several hundred equine veterinarians, available for market research projects. Surveys can be web-based or conducted via fax with a turnaround time of less than a month. We also offer market surveying capabilities using your company's customer lists.

If you're looking for information to help shape your marketing programs, or considering a new product launch, we can give you up-to-the-minute feedback from the people who will determine your success.

For more information, please call 972-243-4033 or email Lynn Fondon at lfondon@brakkeconsulting.com.

COMPANY NEWS RELEASES

> **Alpharma** Inc. announced that it has completed the sale of the aquatic animal health operations of its Animal Health business to an employee group. The aquatic operations, which are headquartered in Oslo, Norway, manufacture and market vaccines primarily for use in immunizing farmed fish worldwide. The sales price of this transaction is expected to be approximately \$3.9 million and is based on working capital of the aquatic business. In addition, the agreement includes potential future payments to Alpharma, based on future aquatic earnings, and the assumption by the buyer of certain liabilities. (*company press release*)

> The FDA amended the animal drug regulations to reflect approval of an abbreviated new animal drug application (ANADA) filed by **Phoenix Scientific**, Inc. The ANADA provides for veterinary prescription use of chewable ivermectin tablets in dogs to prevent canine heartworm disease by eliminating the tissue stage of heartworm larvae for one month after infection. (*AnimalNet - Federal Register*)

> **Fort Dodge Animal Health** announced the introduction of Fel-O-Vax Lv-K/FIV feline vaccine, which provides proven protection against feline leukemia virus (FeLV) and feline

immunodeficiency virus (FIV). The FeLV component is a whole virus vaccine containing key antigenic elements of the complete leukemia virus, which stimulates a complete antibody response. The FIV component contains multiple clades, which provide broad cross protection against the disease, as well as cross protection against clade B. *(company press release)*

> **The Butler Company** announced that Pet Savers Foundation has chosen Butler as their primary animal health supplier for the foundation's cooperative buying program. Although The Butler Company primarily distributes to Veterinary clinics, this partnership calls for Butler to distribute to animal shelters and humane societies as well. *(company press release)*

> **Bioproducts Inc.** announced it is looking to divest its choline chloride business and instead focus on its other animal nutrition businesses. Bioproducts' other businesses include nutritional dairy feed ingredients. *(Feedstuffs)*

> **Optibrand, Ltd.** and **Lextron, Inc.** announced an agreement by which Lextron will become an authorized distributor and reseller of Optibrand's universal livestock identification and data collection technologies. Lextron's sales force will provide Optibrand with coast-to-coast coverage in the critical cow/calf and feedlot sectors. Optibrand is the originator of the world's only universal animal ID system based on retinal scanning technology. *(company press release)*

> **The CattleSale Co.** announced the completion of its acquisition of **CowTek, Inc.** CowTek offers memory tag technology that meets ISO standards and provides individual animal identification and farm to slaughter, and can be modified to follow meat products from slaughter plants to retail stores. The acquisition was structured as an exchange of stock and valued at \$2.1 million. CowTek will be run as a division of CattleSale and will remain in its current Nebraska location led by current CEO and president Gary Marsh. *(Feedstuffs)*

> **United Industries Corp.**, a lawn and garden company also known as **Spectrum Brands**, announced an agreement to acquire **United Pet Group** for \$360 million. United Pet is currently owned by private equity group TA Associates and Friend Skoler & Co. but run as a standalone pet company. United Pet's Brands include Eight in One and Nature's Miracle. John Heil will stay on as chairman and CEO of United Pet Group. The deal is expected to close in August. *(Pet Product News)*

> **Grain Processing Corp.** (GPC) announced the formation of GPC Pet Products to expand its pet market position. The new company will focus on extending the World's Best Cat Litter line, developing new pet products and strategic acquisitions. *(Pet Product News)*

> **Pala-Tech Laboratories** announced the launch of Canine Joint Health Soft Chews, a meat flavored dietary supplement that contains glucosamine, creatine, and MSM. The soft chews are an addition to the company's existing dietary supplement product line. *(Animal Pharm)*

> **DuPont** announced it has acquired the animal health business assets of disinfectants company **BioSentry Inc.** Financial terms were not disclosed. *(Pig e-News)*

> UK Farm product distributor **Farmway** announced the acquisition of veterinary product distributor **Yorkshire Animal Health**. Yorkshire's founders will continue as senior management for the division. Financial terms were not disclosed. *(Animal Pharm)*

> EU **Phytopharm** announced the launch of its second veterinary product, to be marketed by **Genitrix**. The product, Zanthofen, helps maintain joint mobility in dogs by blocking production of COX-2 enzyme. Genitrix will market the product under its own brand and is looking for a European distributor. *(Animal Pharm)*

ANIMAL HEALTH NEWS

> ITALY, SLOVENIA - BSE Two new, unrelated cases of BSE have been found in Italy and Slovenia in the past week. The cases of BSE were detected during mandatory testing. It is Italy's fifth confirmed case of BSE this year, and Slovenia's fourth case detected in the country. The infected Slovenian cow was reportedly imported from Germany. Slovenia joined the EU in May. *(Meating Place)*

> FINLAND - EXOTIC NEWCASTLE Exotic Newcastle disease had been discovered on a turkey farm on Finland's west coast. All turkeys on the affected property, which is located about 155 miles northwest of Helsinki, have been slaughtered and destroyed, and the farm will be quarantined and disinfected. The illness, also known as pneumoencephalitis, was discovered during routine testing. It was last seen in Finland in 1996. *(Meating Place)*

> SWEDEN - NEWCASTLE DISEASE Newcastle disease was confirmed in two poultry holdings in the southeastern part of Sweden. One holding contained 42,900 laying hens, and a neighboring commercial farm contained 30,500 laying hens. Both holdings culled all birds to contain the disease. *(AnimalNet)*

> INDONESIA - AVIAN INFLUENZA Indonesia's government announced a huge campaign to vaccinate chickens following new cases of avian influenza in certain parts of the country. An official with the Ministry of Agriculture confirmed that a few thousand chickens died in several East Java districts this month. As a result, the government plans to distribute as many as 300 million doses of vaccine to poultry farms. Indonesia joins Vietnam, China and Thailand, which have all seen a recent resurgence of avian influenza. *(Meating Place)*

> US - MUMS PASSED The Minor Use and Minor Species Animal Health Act (MUMS) has been passed by the US House of Representatives. The legislation now goes to President Bush for his signature. The MUMS legislation created several new incentives for pharmaceutical companies to devote resources for drug development for minor animal species and minor uses in major species, including the conditional drug approval and the index of legally marketed unapproved drugs (drug index). A new Office of Minor Use and Minor Animal Species Drug Development is also created by the legislation. *(AVMA press release)*

> US - BSE PREDICTIONS According to mathematical models, more cases of BSE will be found in the US. However, BSE expert Dr. Will Hueston, of the University of Minnesota's Center for Animal Health and Food Safety, said the number of cases will be small compared to the number detected in Europe between the late 1980s and early 1990s. Hueston believes the number of BSE in the US will be low because of a key firewall ordered by USDA (the removal of specific risk material, mainly ruminant protein, from cattle, sheep, and goat feed) in 1997. *(Wattnet Meatnews)*

> JAPAN/US - BSE TESTING RULES Japanese and US scientists agreed after months of discussions to recommend an end to tests for BSE in young and newborn cattle, a compromise that could reopen the beef trade between the two countries. Scientists from both sides concluded that the prions believed to cause BSE don't show up in tests on cattle younger than 30 months. The scientists' recommendation, in a report to Tokyo and Washington, came at the end of two-day talks aimed at settling a dispute over safeguards for BSE. Japan, citing its own blanket testing for the disease, has refused to lift their ban on importation of US beef until the US tested all cows slaughtered for food. *(AP)*

> SWITZERLAND - PET MICROCHIPPING Switzerland's Federal Council has introduced compulsory microchipping of all dogs. The goal is to have all dogs clearly and securely marked

by 2007. Currently about 25% of Swiss dogs are microchipped, as it is mandatory in five of the country's 26 cantons. (*Animal Pharm*)

AGRIBUSINESS NEWS

> **Cambria Biosciences** LLC announced a three-year collaboration with **Syngenta** Limited, a world leading agribusiness. Cambria will use its technology to elucidate the mechanism of action of small molecule compounds supplied by Syngenta to guide the discovery and development of new classes of safe and effective insecticides. Under the terms of the agreement, Syngenta will provide full research funding and certain in-kind resources to Cambria for this program. Financial terms were not disclosed. (*company press release*)

BRAKKE CONSULTING VIEWPOINT

As predicted, most companies reporting had a strong first half of the year. We still have half a year left but we see no reason for a slowdown for the balance of the year. We believe 2004 will end up being an excellent growth year for most companies. Congratulations for a job well done. It looks like there will be plenty of funds for investment in research and business development.

We'll see many of you at the AVMA meeting in Philadelphia this weekend and early next week.

Have a great weekend.

Ron Brakke

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