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Brakke Consulting's
Animal Health News & Notes for July 27, 2007
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2007 Animal Health Industry Overview and Mid-Year Update at the Central Veterinary Conference
September 17, 2007

Brakke Consulting will present its Mid-Year Update Overview at the Central Veterinary Conference in Kansas City on Monday, September 17.

Early registration fees, good through August 10th, are $325.00 for the first person from a company to register and $300 for each additional person from the same company.

To register, go to the Brakke homepage on www.brakkeconsulting.com and click on the link at the bottom for details. You can also call Jane Morgan in the Dallas office to register at (972)243-4033.

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COMPANY EARNINGS RELEASES

> Merck & Co., Inc. announced second-quarter 2007 results. Second-quarter sales for joint venture **Merial** were $637 million, an increase of 9% compared to the second quarter of 2006. *(company website)*

> Akzo Nobel reported results for the second quarter of 2007. Second quarter revenues at **Intervet** grew 9% to a record EUR 306 million ($412 million). *(company website)*

> Schering-Plough Corporation reported financial results for the second quarter of 2007. Animal Health sales increased 10% to $264 million, reflecting solid growth internationally, led by the poultry, companion animal, aquaculture and swine product lines, coupled with a positive impact from foreign currency exchange rates. *(company website)*

> Eli Lilly and Company announced financial results for the second quarter of 2007. Worldwide sales for animal health division **Elanco** in the second quarter were $215 million, an increase of 7% compared with the second quarter of 2006. *(company website)*

> IDEXX Laboratories, Inc. reported that revenue for the second quarter of 2007 increased 24% to $237 million for the second quarter of 2006. Companion Animal Group ("CAG") revenue for the second quarter of 2007 increased 24% to $194 million for the second quarter of 2006 primarily due to higher sales in all CAG product and service categories, generated in part by acquisitions, with the largest growth in revenue dollars from laboratory and consulting services and from instruments and consumables products. *(PRNewswire)*

> Vétoquinol announced results for the first half of 2007. For the six months ended 30 June 2007, Vétoquinol earned revenues of EUR 111 million ($150 million), versus EUR 98 million over the same period one year earlier, an increase of 13%. All of the group's strategic regions made a contribution to this satisfactory revenue performance. The biggest increase of the half-year came from Europe, and sales were up sharply in the US thanks, in particular, to the successful integration of Vet Solutions in early 2007 and the synergies generated. *(Business Wire)*

> Heska Corporation reported financial results for its second quarter ended June 30, 2007. Net revenues for the quarter were $20.1 million, an increase of 9% increase compared to the second quarter of 2006. Net income was $1.03 million, compared to net income of $302,000 in the second quarter last year. *(company press release)*

> Neogen Corporation announced results for its 2007 fiscal year, which ended May 31. Fiscal year 2007 revenues were $86.1 million, up 19% from $72.4 million in Neogen's previous fiscal year. Net income was $9.1 million in fiscal year 2007, up 30% over fiscal year 2006. Annual sales for Neogen's Animal Safety Division increased to $39.2 million. Sales of Neogen's specialty veterinary instruments and needles more than doubled in fiscal year 2007. *(company press release)*

> Abaxis, Inc. reported financial results for the first fiscal quarter ended June 30, 2007. Veterinary market revenues were $16.4 million, an increase of 6% compared to the comparable period in 2006. Additionally, veterinary reagent disc sales for the first quarter of fiscal 2008 were $11.0 million, an increase of 19% compared to the same period last year. *(PRNewswire)*

> Colgate-Palmolive Company announced financial results for the second quarter of 2007. Sales at **Hill's Pet Nutrition** grew 11.5% to $458 million, and unit volume grew 4.5%. *(company press release)*

> Evialis Group reported results for the first half of 2007. The Group achieved a turnover of EUR 351 million ($473 million) for the first six months, compared with EUR 316 million over the same period the previous year, representing an increase of 11%. On a like-for-like basis, turnover increased by 8%. *(company website)*

> VCA Antech, Inc. reported financial results for the quarter ended June 30, 2007, as follows: revenue increased 18% to a second quarter record of $300 million; and net income increased 21% to $36 million. Laboratory revenue increased 17% to $79 million, while animal hospital revenue increased 18% to $219 million and medical technology revenue increased 27% to $10.6 million. *(company press release)*

> PetMed Express, Inc. announced its financial results for the quarter ended June 30, 2007. Net sales for the quarter ended June 30, 2007 were $59 million, compared to $51 million for the quarter ended June 30, 2006, an increase of 17%. Net income was $6.2 million for the quarter, compared to net income of $4.8 million for the quarter ended June 30, 2006, an increase to net income of 30%. *(Business Wire)*

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2007 VETERINARY DISTRIBUTOR EFFECTIVENESS STUDY
PLACE YOUR ORDER NOW

The 2007 Distributor Effectiveness Study is a follow-up to the original 2003 study. The study will utilize a quantitative survey of approximately 800 companion animal veterinarians to identify what they view to be the most important traits of a distributor, and to have them rate the performance of distributors that serve their practices on 20 business activities and measures.

The 2007 DES will provide insight about some of the major changes in the marketplace since 2003 that have affected veterinarians' relationship with their distributors such as:
- Mergers and Acquisitions: At least half of the top 10 distributors in 2003 have either been acquired or merged with other companies.
- Geographical Expansion: Several strong regional distributors have expanded to new market areas or grown to become national companies.
- National and Regional Market Shares have changed dramatically for some companies and regions.
- Distribution and Call Center Location: Significant changes have been made by many companies with regard to relocation of distribution centers and call centers to achieve greater productivity and cost efficiency.

Timing: The survey of 800 veterinary clinics will be completed in October and final reports will be delivered by December 2007.

Contact for Information: Project Manager Jay Lockhart can be reached at (314) 821-3368 or jlockhart@brakkeconsulting.com

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COMPANY NEWS RELEASES

> Schering-Plough Animal Health reported that it secured an agreement with **Microbial Developments Ltd** (MDL) to become sole supplier of Aviguard, the leading natural gut flora product for poultry. This is a global agreement which becomes effective June 1, 2007. Previously Aviguard had been marketed by **Bayer Animal Health**. *(PoultrySite.com)*

> Bioniche Life Sciences Inc. announced that Mr. Jim Phillips has been appointed as President of Bioniche Animal Health (global). Mr. Martin Warmelink, former president, has left the company

after six years to pursue other interests. Mr. Phillips previously served as president of Bioniche Animal Health USA, Inc. since 1997, and has been employed with the company since 1985. *(CNW)*

> Maple Leaf Foods announced that it has closed the sale of its animal nutrition business to **Nutreco Holding** NV for C$500 million (US$475 million) plus closing adjustments. Proceeds from the transaction will initially be used to pay down short-term debt. Proceeds from the transaction will provide the company with significant resources to invest in global expansion of its value-added protein and bakery businesses. *(Feedstuffs)*

> Diamond V announced the launch of DiaMune Se, a selenium yeast premix that combines Diamond V's SelenoSource AF with Diamond V Yeast Culture and nutritional metabolites through the company's proprietary DiaMatrix Technology. DiaMune Se is a fully fermented product rather than a simple blend of yeast and selenium. *(company press release)*

> Healionics Corporation announced a partnership deal with **BioMimetic Tissue Sciences**. The partnership between Healionics and BioMimetic Tissue Sciences will initially focus on ophthalmic devices for treating canine glaucoma. *(company press release)*

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ANIMAL HEALTH NEWS

> US - PET INSURANCE SUMMIT **Pets Best Insurance** announced that it is hosting the first North American Pet Insurance Summit on September 6 - 8, 2007 in Sun Valley, Idaho. The Summit will bring together many of the companies currently involved in the US pet insurance industry, as well as key individuals from the veterinary profession, to discuss ways that insurers and veterinary medicine can cooperate to increase the awareness and perception of the need for pet insurance to pet owners. *(company press release)*

> US - BEHAVIOR RESEARCH FUND The Morris Animal Foundation (MAF) announced it has established the R. K. Anderson Animal Behavior Research Endowment Fund. The fund is intended to advance the science and knowledge of behavior in companion animals so that the quality and duration of their lives can be increased. *(association press release)*

> US - VETERINARY WORKFORCE EXPANSION ACT The Veterinary Public Health Workforce Expansion Act has been approved by the US Senate. The act authorizes a competitive grants program to increase capacity in the nation's veterinary medical colleges and alleviate the critical shortage of veterinarians. The workforce act was offered as an amendment to the Higher Education Authorization bill, which passed in the Senate by a vote of 95 to zero. *(AAVMC announcement)*

> US - COOL LEGISLATION The US House Agriculture Committee approved its version of the new Farm Bill, including a compromise for mandatory country-of-origin labeling. Provisions of mandatory COOL, set to take effect Sept. 30, 2008, were altered to reduce paper trail requirements for the owners of cattle born in the US. There will be three categories of labeling under mandatory COOL: products from animals born, raised and processed in the US; products not exclusively born, raised and processed in the US, such as Mexican cattle finished in the US. *(Drovers Alert)*

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BRAKKE CONSULTING VIEWPOINT

Wow!! The second quarter was strong for the companies reporting this week. It appears that most companies are meeting their expectations for the business growth for the first half of the

year. If the positive revenue trends continue we'll find 2007 will be another great year for the industry.

The increases reported by manufacturers flow through and from customers such as distributors, veterinary clinics, other retailers and large producers. While there are a few dark clouds on the horizon for some food animal areas, in general it appears that consumers are accepting increased pricing for animal protein. In parts of the US we're now looking at record-setting numbers for corn and soybean production in 2007, which will ease some cost pressures on producers.

These positive signs all make for an environment that will encourage the equity funds and other investors to provide funding needed to expand the market even more in the future. One of the stories this week mentions an action targeted at increasing the importance of pet insurance to the veterinarian, pet owner and those companies that supply products and services to veterinarians. A successful pet insurance industry in the US can have a positive impact on revenues for all parties involved and allow for improved care of companion animals. We hope that your company has agreed to be involved in this evolutionary process.

Have a great weekend!

Ron Brakke

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