
**Brakke Consulting's
Animal Health News & Notes for August 20, 2004**
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IN THE NEWS:

earnings news:

PETCO
PETsMART
Synbiotics

other news:

BET Pharm
Campofrio Alimentacion
Emmpak Foods
Merial
PETCO
PetMedExpress
PIC
Smithfield
Sygen Int'l

COMPANY EARNINGS RELEASES

> **Synbiotics** Corp. announced that it recorded a net income for the second quarter of 2004 of \$357,000, compared to a net income of \$224,000 for the second quarter of 2003. The second quarter of 2004 results include a litigation settlement credit of \$850,000. The results for the second quarter of 2004 also include significant legal expenses. Synbiotics' revenues were \$4.7 million for the second quarter of 2004, a decrease of 3% from \$4.9 million for the prior year period. The decrease in both periods is primarily due to additional competition in the canine heartworm diagnostic market, offset by increases in royalty revenues resulting from the litigation settlements in 2004 and 2003. (*Business Wire*)

> **PETsMART**, Inc. announced results for its second quarter ended Aug. 1, 2004. The company reported second quarter net income of \$34.1 million compared with net income of \$28.1 million in the second quarter of 2003. Second quarter 2004 results included a tax benefit of approximately \$8 million, and a similar amount of various expenses. Net sales for the second quarter were \$806 million, compared to \$725 million for the same period in 2003. Comparable store sales, or sales in stores open at least a year, grew 5.4% percent. (*Business Wire*)

> **PETCO Animal Supplies**, Inc. reported financial results for the second quarter ended July 31, 2004. Net sales in the second quarter of 2004 were \$439 million with a comparable store net sales increase of 6.7%. Overall, net sales increased 12.9% over the second quarter of fiscal 2003. Net earnings for the second quarter increased to \$19.3 million compared with net earnings of \$13.5 million in the prior year second quarter. The second quarter of 2003 included \$1.6 million of non-cash debt retirement costs resulting from an early repayment of a portion of the Company's long-term senior credit facility. On a comparable basis, net earnings for the second quarter of 2004 increased 34% over the prior year period pro forma net earnings. (*company website*)

BRAKKE CONSULTING, INC.
Pet Dental Market Study New This Fall

You have an opportunity to participate in a comprehensive study of the companion animal dental market, one of the true growth opportunities in veterinary medicine.

Brakke Consulting, in cooperation with Market Directions, Inc., is in the final stages of planning a substantial qualitative and quantitative survey among both veterinarians and pet owners.

The study examines, among other topics, :

- Prevalence of periodontal disease in dogs and cats
- Economic importance to veterinarians
- Pet owner expenditures on dental products
- Products currently recommended by veterinarians
- Products, including OTC, most commonly used by pet owner
- Levels of performance and satisfaction
- Revenue potential for current and future products
- Overall market growth potential

The study investigates the markets for foods, treats, chews, toys, rinses, gels, pastes, sprays, therapeutic products and veterinary equipment. Research is scheduled for Fall 2004 with a full report by January 2005. The study is available for \$9,500, with a 10% discount for companies that order by Sept. 1, 2004 and pay 50%. The first 5 companies to order have an opportunity to include up to three proprietary questions in the quantitative questionnaires.

For more information, or to subscribe to the Brakke Companion Animal Dental Market Study, email John Volk at jvolk@brakkeconsulting.com

COMPANY NEWS RELEASES

> The FDA amended the animal drug regulations to reflect approval of a new animal drug application (NADA) filed by **Merial Ltd.** The NADA provides for veterinary prescription use of firocoxib chewable tablets in dogs for the control of pain and inflammation associated with osteoarthritis. (*AnimalNet - Federal Register*)

> **PETCO Animal Supplies, Inc.** and the PETCO Foundation announced the introduction of an all-inclusive "Think Adoption First" initiative in PETCO stores across the country. Specifically, with this effort, PETCO will recommend adoption before purchase of any animal. PETCO does not sell dogs or cats, but the stores do offer small animals, reptiles and birds. Although PETCO will continue to offer companion animals in their stores, they will encourage customers to seek adoptable animals in the community as a first option, providing informational kiosks and in-store adoption opportunities to a larger variety of rescue groups. (*PRNewswire*)

> A class action lawsuit was filed in the US District Court for the Southern District of Florida on behalf of all securities purchasers of **PetMed Express, Inc.** from June 18, 2003 through July 26, 2004, inclusive. The complaint charges PetMedExpress, Menderes Akdag, Marc Puleo, and Bruce S. Rosenbloom with violations of the Securities Exchange Act of 1934. More specifically, the Complaint alleges that the Company failed to disclose and misrepresented various material adverse facts which were known to defendants or recklessly disregarded by them, and that as a result, the Company's financial results were not sustainable, causing the stock to trade at artificially high prices. During the class period while PetMed's stock price was inflated, Defendants and Company insiders sold almost \$65 million in privately held PetMed's stock. On

July 26, 2004, the defendants disclosed that the Company was operating well below defendants' previous guidance and that PetMed revenues and earnings were well below plan. Shares of PetMed fell \$2.07 per share or 29.70%, on July 26, 2004, to close at \$4.90 per share. (PRNewswire)

> At the request of the FDA, the US District Court issued a seizure warrant for various illegally compounded drug products for use in horses at **BET Pharm** of Lexington, KY. FDA inspections revealed that the firm is illegally manufacturing and distributing unapproved animal drugs intended for various uses in horses. BET Pharm was previously issued a Warning Letter outlining unacceptable practices. The company was given an opportunity to correct the violations but failed to take appropriate actions. (*AnimalNet - FDA press release*)

> **PIC North America**, a subsidiary of **Sygen International PLC**, announced it has signed the world's largest pig genetics contract with pork processor Triumph Foods. PIC will support 550,000 sows for Triumph. PIC North America's contract with the processor will represent about 10% of the US breeding herd population, according to the report. Financial agreements were not disclosed. (*Meating Place*)

> The Sierra Club and Midwest Environmental Advocates notified **Emmpak Foods** of intentions to sue over alleged repeated violations of excessive amounts of oil and grease dumped into the city's sewer system, according to a report by the *Milwaukee Journal Sentinel*. The environmental groups plan to seek legal action under the Clean Water Act, which allows litigation if local officials have failed to enforce the federal law. The Milwaukee Metropolitan Sewerage District (MMSD) has monitored sewage from Emmpak since 1999. According to the report, none of the samples taken from Emmpak's sewage since May 22, 2000, have met the district's standard. However, according to the company, since Excel Corp. purchased Emmpak in 2001, they have not discharged anything that could not have been successfully treated by the city's water treatment system. (*Meating Place*)

> SPAIN **Smithfield Foods**, Inc. announced its recent purchase of nearly 4 million additional shares of **Campofrio Alimentacion SA**, the largest meat processor in Spain. After two privately negotiated transactions, Smithfield announced Friday it bought an additional 3.7 million shares of Campofrio Alimentacion for approximately \$49 million, increasing its stake from 15.2% to 22.4%. With estimated annual sales nearing \$1.2 billion, Campofrio, processor of pork and further processed pork products, is the market leader in Spain. Campofrio has operations in Portugal, Russia, Poland, Romania and France, and exports to over 40 countries. (*Meating Place*)

ANIMAL HEALTH NEWS

> MALAYSIA - AVIAN INFLUENZA Malaysian officials confirmed that avian influenza had been found in a tiny northern village. Senior agriculture ministry officials said that tests showed that the H5N1 strain was present in the chickens. Nearly 200 chickens, ducks and other birds in the village were being slaughtered to keep the disease from spreading and reigniting a regional health scare. Veterinary officials went on a nationwide alert and will inspect hundreds of poultry farms across the country for signs of infection. (*AP*)

> SOUTH AFRICA - AVIAN INFLUENZA The South African government reported that avian influenza has been identified on three more ostrich farms but remains within the officially quarantined infection area. Nationwide tests are underway to confirm the virus has not spread beyond Eastern Cape province, where 8,600 birds have been culled. South African officials have identified the outbreak as the H5N2 strain of the disease. (*AnimalNet - Reuters*)

> CANADA - AVIAN INFLUENZA ERADICATED The Canadian government announced that all remaining movement restrictions on birds, bird products and bird byproducts in British Columbia's Fraser Valley have been lifted, marking an official end to the operation launched in response to the avian influenza outbreak there that began in February. Bird owners may now freely move any live birds. Hatching eggs, federally graded table eggs and poultry products, such as meat, are also eligible to be moved without restriction within Canada. Some international export restrictions remain in place and are being addressed on a country-by-country basis. (*Meating Place*)

BRAKKE CONSULTING VIEWPOINT

This week it looks like the choice is to comment on either litigation or Super Pet Stores. Being an optimist, I'll take Super Pet Stores. It's a funny coincidence because we are currently doing some work in that area. The retail pet market may be outside the mainstream for many firms that consider themselves animal health companies. I am sure pet food companies feel differently. The question is whether the retail market is competitive or complementary to the veterinary market. It may well depend on your product or position in the market. Certainly the veterinary market has learned a lot from the consumer packaged goods market, especially in the use of direct to consumer advertising. The results have been fairly dramatic with regard to growth and market share. What else might we learn from the OTC market? My starters would include: convenience, value pricing and expansion of services. Three things to think about over the weekend.

Have a good one.

John Mannhaupt, Dallas

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