

Ridley Block

Operations

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The strong
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future



RIDLEY Inc.

Ridley Block Operations (RBO) entered fiscal 2004 with a clear understanding of the challenging operating environment and difficulties it faced in matching fiscal 2003's record levels of sales and profitability.

As expected from the outset, fiscal 2004 proved to be a difficult year. After six consecutive years of setting new records for sales and profitability, a number of external factors combined to deny RBO from achieving a seventh year of sales records.

The most significant of these factors was the prolonged drought of 2001 and 2002 in the U.S. Midwest and Canadian prairie provinces, leading to the introduction of a Drought Assistance Program by the USDA in August 2002. The program ran through January 2003, artificially inflating sales volumes while the program was operating, and allowing feed dealers and livestock producers to stockpile substantial inventories of product. Feed sales slowed appreciably immediately following expiry of the program and continued to be restrained until the stockpile of feed inventory was consumed by the spring of 2004.

Another impact of the drought was that it caused ranchers to move their cattle from the drought-stricken western and midwestern U.S., where Ridley's distribution network is strongest, to better grazing conditions in the southeast, where Ridley's distribution network is not as well established. This left fewer cattle to feed in RBO's traditional geographic markets.

Improved moisture conditions in the summer of 2003 (the beginning of Ridley's fiscal 2004), and mild weather and a lack of snow through most of the winter, resulted in good grazing conditions across much of the western U.S., further reducing demand for feed supplementation.

Additionally, the discovery in May 2003 of Bovine Spongiform Encephalopathy (BSE) in a single Canadian cow resulted in significant disruption for the beef industry, and closure of the U.S. border to live cattle from Canada. Just as expectations were raised for a return to normality, another case of BSE was reported in December in a cow in Washington State. The cow's origins were traced back to a herd in Canada, and the market concerns and uncertainty continued.

In Canada, the impact of BSE was devastating, since a large portion of Canadian production is normally destined for export, primarily to the U.S. The border closing in reaction to the BSE incidents drastically reduced the Canadian industry's exports, profits and options.

Adding the Sweetlix® line of feed supplement blocks enhances Ridley's sales presence and distribution system in the southern and eastern U.S.

The primary effect of BSE in the U.S. has been a major disruption of normal cattle movement. Export markets have been closed off, and similarly, imports of cattle from Canada were stopped. With beef supplies low and continuing strong domestic demand fuelled by the popularity of the Atkins diet, coupled with the loss of Canadian supply, beef prices have been very high. Cow/calf operators took advantage of the record high prices by selling off cows and not retaining their heifers to build up their breeding herd. The short supply of cattle also caused feedlot operators to buy calves at a younger age and feed them longer.



Photo: In February, RBO introduced IONO-LYX® B300, the first ever FDA-approved Low Moisture Block with an ionophore. The supplement blocks improve the growth rate of cattle by increasing rumen fermentation efficiencies.

The impact of these changes on RBO is that overall U.S. beef cattle numbers are down and the cattle are spending proportionally more time in feedlots and less time grazing in pastures, dampening demand for Low Moisture Blocks.

All these issues facing Ridley Block Operations were industry-wide problems. The RBO team responded with a stellar effort, continuing to execute its plan, and working to overcome this confluence of adverse circumstances. In the first half of fiscal 2004 RBO was simply unable to match the sales records established in 2003. But from February to June, once the inventory carry-over from the drought assistance program was consumed, and monthly sales totals were not being compared with the drought-assisted 2003 numbers, RBO was able to out-perform its fiscal 2003 monthly volumes.

The strong finish to fiscal 2004 augurs well for the future, as Ridley Block Operations continues to build recognition for the quality of its products. The RBO team responded well to the poor environment for feed supplementation in fiscal 2004, and enhanced its position as the market leader in Low Moisture Block manufacturing, marketing, distribution and research.

New Product Introductions

Ridley Block Operations has established its market leadership position on the strength of its research and new product development. It has been a crucial element in creating and maintaining the market advantage that RBO products enjoy. In fiscal 2004, Ridley Block Operations extended that leadership with its continuing program of research, development and new product launches.

The most significant introduction was the February launch of IONO-LYX® B300, the first ever FDA-approved Low Moisture Block with an ionophore. IONO-LYX® B300 supplement blocks are a free-choice medicated feed supplement for pasture cattle. This exciting new product contains the ionophore Bovatec® (lasalocid sodium), which helps cattle to use energy and protein sources more efficiently, improving the growth of pasture, stocker and replacement beef and dairy heifers. This product is the culmination of more than a decade of research by the technical staff at RBO, and its introduction created a stir in the market. The product, formulation and approved claims are legally protected, giving Ridley Block Operations a clear advantage over competitors.

Another product brought to market after extensive research is CRYSTALYX® Buffer-lyx™, a Low Moisture Block supplement used as a free-choice dietary buffer for dairy cows. Research conducted at the U.S. Dairy Forage Research Center in Wisconsin showed that CRYSTALYX® Buffer-lyx™ Low Moisture Blocks helped to control subacute ruminal acidosis (SARA), a disorder that occurs when the pH is too low in a dairy cow's rumen. This newly designed formulation with patent pending technology was introduced to the market in September 2003, and has been demonstrated to result in increased milk production and dry matter intake for high producing, lactating dairy cows. RBO plans to combine the research findings and actual producer results in a video to promote its dairy product line.

Together, IONO-LYX® B300 and CRYSTALYX® Buffer-lyx™ Low Moisture Blocks have been very well received in the marketplace, helping to increase sales tonnage and profitability in fiscal 2004. Their introduction generated a high degree of interest in the entire line of Ridley Block Operations products, and will continue to contribute to increased sales in the coming years.

The product launch for the eight-ounce Equine HP™ Performance Bar also took place in September 2003. The Equine HP™ Performance Bar is a nutrient dense feed supplement in a bar form, developed for the equine market. It provides supplemental nutrients to

boost endurance and relieve stress, and this exciting new product with a "portion-controlled" concept has established an entirely new category for equine nutrition.

Marketed through feed distributors in the equine-rich areas of the U.S., it has been very favorably received by the equine community. To meet the growing demand, RBO is planning on making it available through animal health and tack supply outlets, as well as by e-commerce.

Each of the new products launched in fiscal 2004 will be consumed on a year-round basis. Traditionally, Low Moisture feed supplement blocks were a cyclical product, with greatest consumption being by beef cattle in the colder seasons. The new product offerings address the dairy and equine markets as well, and will help to even out the seasonality of RBO's business, providing increased production efficiency and better use of resources.

Sweetlix Acquired in July

Subsequent to the end of the fiscal year, on July 23, 2004, Ridley announced the signing of a definitive agreement to acquire the assets of the livestock feed supplement business of Sweetlix, LLC for US\$16.7 million, making Ridley one of the largest manufacturers of free-choice feed supplement blocks in North America. Sweetlix includes three manufacturing facilities located in Montgomery, Alabama; Syracuse, Indiana; and Fort Worth, Texas.

The acquisition provides Ridley with expanded manufacturing capabilities that will improve Ridley's flexibility and provide additional capacity for future growth. Ridley Inc. now has the capability to manufacture Low Moisture Blocks, pressed blocks, poured blocks and bagged minerals for beef, dairy, equine, bison, wildlife, sheep and goats.

The addition of the Sweetlix® line of feed supplement blocks enhances Ridley's sales presence and distribution system in the southern and eastern U.S., and further strengthens Ridley's ability to fully utilize its extensive research activities to develop and market free-choice supplements. The combined volume of Sweetlix and

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Ridley now provides the most extensive range of free-choice supplement product options in the industry

the existing RBO business provides a number of opportunities to develop synergies, including increased purchasing power for raw materials, packaging and marketing. RBO and Sweetlix will be managed as separate business operations.

The Sweetlix® brand name has been in existence for more than forty years and has pioneered many livestock nutritional innovations. The company has developed several U.S. Environmental Protection Agency (EPA) and Food and Drug Administration (FDA) approved products, which are proprietary to Sweetlix® and are an important component of the transaction. Obtaining EPA and FDA approvals for such products can be a time-consuming and expensive process.

The addition of Sweetlix® feed supplement blocks creates a stronger product mix, giving producers the flexibility to supplement their nutrition programs with a wider variety of product alternatives to meet the requirements of varying livestock management and production methods. Ridley now provides the most extensive range of free-choice supplement product options in the industry.

Outlook

Fiscal 2004 presented Ridley Block Operations with a very challenging business environment. However, RBO is expecting that the issues that negatively affected RBO in fiscal 2004 will be gradually corrected as the beef industry returns to a more normal business pattern.

The lure of near-record prices in the past year kept producers from retaining heifers to re-build their herds, but it is a necessary step in the cattle cycle, and beef cow numbers should begin to recover during the coming year. The severe drought conditions are slowly being alleviated, and beef producers will again move their cattle to grazing lands in the western and midwestern U.S.

The fallout from the BSE-related border closing still leaves some uncertainty in the marketplace, but as government agencies work out an agreed-upon protocol, we anticipate that export restrictions will be slowly eased, providing a modest recovery for Canadian beef producers and greater stability for the U.S. industry.

The recent acquisition of the Sweetlix business provides Ridley Inc. with product lines that can now provide the livestock producer with several feeding options. Ownership of Sweetlix and Ridley Block Operations will enable Ridley Inc. to realize a number of synergies, and most importantly, provide our customers with the most extensive range of free-choice supplement products in the industry.

An important key to Ridley Block Operations' success is its well-trained and knowledgeable workforce. In fiscal 2005, Ridley Block Operations will continue its commitment to employee training as a way of maintaining its leadership in the low-moisture block market. A leading training organization has been contracted to optimize performance of RBO staff, particularly in the areas of customer acquisition, retention and increasing market share.

With relatively strong economics for livestock producers and with a more comprehensive array of products to meet our customers' needs, Ridley Block Operations expects improved performance in fiscal 2005. RBO's history of industry-leading research and development provides a solid foundation for growth, focusing on the development of new products that will address the needs of a wider range of species, and helping to reduce the seasonality of our business. RBO's technical staff is working on other breakthrough products to be introduced soon that will further distance us from our competition.



Photo: RBO is committed to having the safest ingredient profile in the industry. All of its production facilities have earned FCI certification for compliance with the FDA's mammalian protein regulation.

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