

# NEWS RELEASE

Trading symbol: RCL on The Toronto Stock Exchange

FOR IMMEDIATE RELEASE

## RIDLEY REPORTS RESULTS FOR FISCAL 2004 SECOND QUARTER

**Mankato, Minnesota / Winnipeg, Manitoba, February 23, 2004** — Ridley Inc., ([www.ridleyinc.com](http://www.ridleyinc.com)) one of the largest commercial animal nutrition companies in North America, today reported results for its fiscal 2004 second quarter ended December 31, 2003. All currency figures are stated in Canadian dollars.

“Ridley recorded net earnings of \$5.0 million for the second quarter of fiscal 2004. This was achieved in a very challenging operating environment,” said Bob Gallaway, Ridley Inc. President and Chief Executive Officer. “Among the issues Ridley’s customers are facing are continuing weak swine economics for producers on both sides of the border, a weakening U.S. dollar and the impact on Canadian beef producers of the BSE-related ban on exports of Canadian cattle and beef products.”

The following summary data is presented to assist in reading the explanation of results.

(Millions of dollars except for EPS)	3 Months Ended 31-Dec-03	3 Months Ended 31-Dec-02	6 Months Ended 31-Dec-03	6 Months Ended 31-Dec-02
Sales	\$164.4	\$196.8	\$308.9	\$363.1
EBITDA*	13.5	21.5	23.3	34.7
Net earnings from continuing operations	6.0	10.5	9.6	16.1
Discontinued operations	(0.9)	(2.0)	(1.1)	(3.1)
Net earnings	5.0	8.5	8.5	13.0
EPS - diluted	0.37	0.62	0.62	0.95

\*EBITDA – earnings from continuing operations before interest, income taxes, depreciation and amortization. EBITDA does not have a standardized meaning prescribed by Canadian GAAP and therefore is not readily comparable to similar measures presented by other companies.

Mr. Gallaway noted that the comparative figures for the fiscal 2003 second quarter and six months were heavily influenced by an extended period of drought conditions in the midwestern and western U.S., leading to introduction of a drought assistance program by the USDA. The drought assistance program helped Ridley attain record feed sales and strong profitability in the first half of last year.

In the current year, without the benefit of a drought assistance program, and with better moisture conditions for cattle grazing, sales volumes in the U.S. of both feed and higher margin low moisture blocks are sharply lower. In Canada, pork producers are still struggling with a combination of weak market prices and a lower U.S. dollar exchange rate, and beef producers have been devastated by the effects of BSE, leading to reduced sales volumes. These conditions have caused the Company to increase doubtful debt reserves in the first half due to the financial impact for certain customers. Bad and doubtful debt expense has increased for the six-month period from \$0.6 million in 2002 to \$2.5 million in 2003. Total reserves for receivables and loans have increased from \$6.0 million in December 2002 to \$13.5 million in December 2003. The situation will continue to be closely monitored.

## **Second Quarter Results**

Sales decreased by 16.5% to \$164.4 million compared with \$196.8 million in the year-earlier period. Generally, a comparison of sales on a dollar basis is not necessarily indicative of the strength of Ridley's business because fluctuating commodities prices can influence revenues. However, for this quarter and for the year to date, the lower sales revenues closely track the reduction in the Company's sales volumes.

Ridley's gross profit percentages were down slightly in the second quarter of fiscal 2004, reflecting the difficult operating environment. This, combined with reduced sales volumes, resulted in consolidated gross profit of \$33.6 million in the 2004 second quarter compared with \$42.4 million in fiscal 2003.

Operating expenses in the fiscal 2004 second quarter were \$22.8 million, a reduction of \$1.1 million from the previous year, but the change is primarily attributable to the lower U.S. dollar exchange rate. Operating income was \$10.9 million compared with \$18.5 million in the first quarter of fiscal 2003. Strong cash flow generated from operations allowed Ridley to further reduce bank debt, resulting in a saving of \$0.5 million in interest expense.

Earnings from continuing operations were \$6.0 million for the fiscal 2004 second quarter compared with \$10.5 million in 2003. The remaining portion of the Company's discontinued Cotswold Swine Genetics business, which is in the process of being divested, reported a loss of \$0.9 million in the second quarter compared with a loss of \$2.0 million in the same quarter of fiscal 2003. The Cotswold liquidation and orderly exit continues on plan and liquidation costs to date are on track with expectations.

Net earnings for the fiscal 2004 second quarter were \$5.0 million (diluted earnings per share of \$0.37) compared with \$8.5 million (diluted earnings per share of \$0.62) in 2003. EBITDA were \$13.5 million in the second quarter of fiscal 2004 compared with \$21.5 million for the same period in 2003.

In converting Ridley's U.S. dollar denominated earnings for financial statement purposes, a weaker U.S. dollar exchange rate reduced Ridley's reported operating income by \$2.5 million for the quarter and by \$3.6 million in the first half of fiscal 2004. The lower exchange rate negatively impacted net income by \$1.3 million for the quarter and \$1.9 million for the year to date.

### **Six Months Results**

Sales for the year to date decreased by 14.9% to \$308.9 million, compared with \$363.1 million in fiscal 2003. The sales decline reflects factors similar to those described for the second quarter. Gross profit for the first half of fiscal 2004 was \$62.2 million, compared with \$74.3 million in the year-earlier period.

Bank debt exclusive of foreign currency translation has been reduced by \$12.5 million since the June 30, 2003 year-end, and by \$14.8 million from a year ago. The lower level of bank debt, combined with continuing favorable interest rates, enabled Ridley to reduce interest expense in the first half of fiscal 2004 by \$0.9 million compared with the same period of fiscal 2003.

Earnings from continuing operations are \$9.6 million for fiscal 2004 compared with \$16.1 million in 2003. The loss attributed to the discontinued Cotswold operations was \$1.1 million for the fiscal 2004 first half compared with a loss of \$3.1 million in the same period of fiscal 2003.

Net earnings for the year to date were \$8.5 million (diluted earnings per share of \$0.62) compared with \$13.0 million (diluted earnings per share of \$0.95) in the first half of fiscal 2003. EBITDA were \$23.3 million in fiscal 2004 compared with \$34.7 million in fiscal 2003.

### **Segment Results**

The U.S. Division generated lower feed sales volumes in the second quarter and year to date of fiscal 2004, resulting in operating income decreasing by \$7.8 million for the second quarter and \$11.0 million for the year to date.

The decrease in year-over-year sales volumes was largely due to a drought assistance program that was in effect for much of the first half of fiscal 2003. Introduced by the USDA in August 2002, the program helped to generate additional sales volumes for the U.S. Division until its expiry in January 2003. Sales slowed appreciably following expiry of the program and it became apparent that many livestock producers took advantage of the opportunity to stockpile feed inventory.

Beef feed sales in fiscal 2004 have also been restrained by improved moisture conditions in much of the midwestern and western U.S. in the summer and autumn of 2003, and by mild early winter weather with little snow cover, resulting in good grazing conditions for cattle.

The Canadian Division's operating income was down \$0.1 million for the second quarter and \$0.4 million for the year to date. Sales volumes were down slightly for both the quarter and year to date, reflecting the impact of BSE on North American markets. In addition, the prolonged drought in western Canada and consequent shortage of grain led to a gradual reduction over the past two to three years in the number of cattle on feed.

## **Outlook**

"We are cautious going into the second half of fiscal 2004," Mr. Gallaway said. "While we remain vigilant about the financial situation of our customers as they weather the current poor producer economics, and we recognize that feed sales volumes will not reach last year's drought-driven record levels, we expect to deliver acceptable near-term performance given the current business environment. We are confident that Ridley's nutrition businesses are capable of producing solid returns over the medium- to long-term, and by focusing on our long-term strategic plan, we expect to see steady improvement in profitability."

Ridley Inc., headquartered in Mankato, Minnesota and Winnipeg, Manitoba, is one of North America's leading commercial animal nutrition companies. Ridley manufactures and/or distributes a full range of animal nutrition products under a number of highly regarded trade names.

Ridley's common shares are listed on The Toronto Stock Exchange (Trading symbol: RCL).

-30-

### For more information:

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**Ridley Inc.****Consolidated Balance Sheet (Unaudited)**

(Cdn \$ in thousands)

	31 December 2003	30 June 2003	31 December 2002
<b>Assets</b>			
Cash and short-term deposits.....	2,137	873	1,266
Accounts receivable.....	40,440	36,289	53,466
Inventories .....	44,160	42,226	46,747
Income taxes recoverable.....	-	3,354	-
Prepays and other current assets .....	3,301	1,821	3,564
Current portion of loans receivable.....	5,972	6,073	7,212
Current assets of discontinued operations.....	3,085	6,574	13,040
Total current assets .....	99,095	97,210	125,295
Loans receivable, less current portion.....	9,790	12,023	16,059
Investments .....	221	414	519
Assets held for sale.....	1,746	1,820	2,123
Fixed assets.....	112,867	112,912	125,064
Other assets.....	2,579	2,423	2,987
Goodwill.....	56,008	57,057	64,886
Non-current assets of discontinued operations.....	1,435	1,157	8,895
Total non-current assets .....	184,646	187,806	220,533
Total assets .....	283,741	285,016	345,828
<b>Liabilities and Shareholders' Equity</b>			
Accounts payable and accrued liabilities.....	48,483	44,118	63,674
Income taxes payable.....	6,803	-	2,483
Current portion of long-term debt.....	17,326	15,818	17,600
Current liabilities of discontinued operations .....	1,895	1,638	2,631
Total current liabilities .....	74,507	61,574	86,388
Long-term debt, less current portion.....	43,905	60,075	70,449
Future income taxes .....	24,465	26,674	33,593
Pension and post-retirement benefits.....	4,363	4,569	4,883
Total long-term liabilities .....	72,733	91,318	108,925
<b>Shareholders' Equity</b>			
Share capital.....	84,162	83,912	82,505
Minority interest.....	395	372	316
Cumulative foreign currency translation adjustment.....	(15,182)	(10,803)	6,388
Retained earnings.....	67,126	58,643	61,306
Total shareholders' equity.....	136,501	132,124	150,515
Total liabilities and shareholders' equity.....	283,741	285,016	345,828

**Ridley Inc.**

<b>Consolidated Statement of Earnings</b> (Unaudited) (Cdn \$ in thousands)	Three Months Ended 31-Dec-03	Three Months Ended 31-Dec-02	Six Months Ended 31-Dec-03	Six Months Ended 31-Dec-02
Revenue .....	164,442	196,839	308,928	363,116
Cost of sales .....	130,810	154,469	246,755	288,788
Gross profit .....	33,632	42,370	62,173	74,328
Operating expenses				
Selling, general and administrative .....	19,923	20,667	38,511	39,175
Depreciation .....	2,497	2,725	4,995	5,329
Research and development .....	190	228	407	490
Amortization .....	170	262	414	524
Total operating expenses .....	22,780	23,882	44,327	45,518
Operating income .....	10,852	18,488	17,846	28,810
Interest expense .....	1,301	1,810	2,742	3,609
Loss on sale of investment .....	-	684	-	684
Other income, net .....	(308)	(687)	(631)	(1,240)
Earnings before income taxes .....	9,859	16,681	15,735	25,757
Provision for income taxes .....	3,881	6,247	6,129	9,655
Minority share of net income .....	(1)	(45)	30	10
Net earnings from continuing operations .....	5,979	10,479	9,576	16,092
Loss attributed to discontinued operations .....	(933)	(1,985)	(1,093)	(3,079)
Net earnings .....	5,046	8,494	8,483	13,013
Earnings per share from continuing operations - basic .....	0.44	0.78	0.70	1.20
- diluted .....	0.44	0.76	0.70	1.17
Net earnings per share - basic .....	0.37	0.63	0.62	0.97
- diluted .....	0.37	0.62	0.62	0.95
Retained earnings, beginning of period .....			58,643	48,293
Current year earnings .....			8,483	13,013
Retained earnings, end of period .....			67,126	61,306

**Ridley Inc.**

<b>Consolidated Statement of Cash Flows</b> (Unaudited) (Cdn \$ in thousands)	Three Months Ended 31-Dec-03	Three Months Ended 31-Dec-02	Six Months Ended 31-Dec-03	Six Months Ended 31-Dec-02
<b>Operating activities</b>				
Net earnings for the period.....	5,046	8,494	8,483	13,013
Add (deduct) items not affecting cash:				
Depreciation of fixed assets .....	2,500	2,820	5,004	5,517
Future income taxes .....	(3,025)	1,310	(1,102)	1,310
Diminution in value of breeding stock.....	-	147	-	294
Gain on sale of fixed assets .....	(14)	(22)	(28)	(43)
Loss on investments .....	-	684	-	684
Gain on liquidated assets.....	-	-	(2,382)	-
Amortization.....	170	309	422	622
Other items not affecting cash.....	73	323	21	323
Cash flow from earnings .....	4,750	14,065	10,418	21,720
Net change in non-cash working capital balances related to operations:				
Accounts receivable.....	1,504	(7,636)	(4,293)	(8,226)
Inventories .....	(2,621)	(479)	(965)	(84)
Prepaid expenses .....	(1,487)	525	(1,554)	(1,470)
Accounts payable, accruals and other liabilities .....	4,472	9,263	4,568	1,871
Income taxes payable.....	6,145	1,173	9,288	4,038
Net cash from operating activities .....	12,763	16,911	17,462	17,849
<b>Investing activities</b>				
Proceeds on disposal of fixed assets and investments .....	88	158	187	241
Purchase of fixed assets and investments .....	(2,274)	(2,286)	(4,598)	(4,610)
Proceeds on liquidated assets .....	516	-	4,348	-
Decrease (increase) in loans receivable.....	(559)	2,255	2,652	3,475
Business acquisitions.....	(164)	(203)	(6,017)	(3,556)
Net cash utilized for investing activities.....	(2,393)	(76)	(3,428)	(4,450)
<b>Financing activities</b>				
Repayment of long-term debt.....	(10,599)	(17,440)	(12,474)	(13,768)
Issuance of share capital .....	142	368	250	407
Net cash utilized for financing activities.....	(10,457)	(17,072)	(12,224)	(13,361)
Effect of exchange rate changes on cash.....	(22)	(13)	(64)	93
<b>Increase (decrease) in cash and short-term deposits .....</b>	<b>(109)</b>	<b>(250)</b>	<b>1,746</b>	<b>131</b>
<b>Net cash and short-term deposits – beginning .....</b>	<b>2,781</b>	<b>2,331</b>	<b>926</b>	<b>1,950</b>
<b>Net cash and short-term deposits – ending.....</b>	<b>2,672</b>	<b>2,081</b>	<b>2,672</b>	<b>2,081</b>
Cash of discontinued operations .....	(535)	(815)	(535)	(815)
<b>Net cash and short-term deposits .....</b>	<b>2,137</b>	<b>1,266</b>	<b>2,137</b>	<b>1,266</b>

**Ridley Inc.**

<b>Segment Information</b> (Unaudited) (Cdn \$ in thousands)	Three Months Ended 31-Dec-03	Three Months Ended 31-Dec-02	Six Months Ended 31-Dec-03	Six Months Ended 31-Dec-02
<b>Revenue</b>				
Canadian Division.....	45,202	49,178	86,279	94,044
US Division.....	119,240	147,661	222,649	269,072
Total revenue.....	164,442	196,839	308,928	363,116
<b>Cost of sales</b>				
Canadian Division.....	36,195	40,711	70,326	78,612
US Division.....	94,615	113,758	176,429	210,176
Total cost of sales.....	130,810	154,469	246,755	288,788
<b>Gross profit</b> .....	33,632	42,370	62,173	74,328
<b>Operating expenses</b>				
Canadian Division.....	5,993	5,324	11,291	10,405
US Division.....	15,744	17,247	30,913	32,579
Unallocated.....	1,043	1,311	2,123	2,534
Total operating expenses.....	22,780	23,882	44,327	45,518
<b>Operating income</b>				
Canadian Division.....	3,014	3,143	4,662	5,027
US Division.....	8,881	16,656	15,307	26,317
Unallocated.....	(1,043)	(1,311)	(2,123)	(2,534)
Total operating income.....	10,852	18,488	17,846	28,810

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Significant accounting policies and basis of presentation

The Company's accounting policies are in accordance with accounting principles generally accepted in Canada. These interim consolidated financial statements are unaudited and are based on accounting principles and practices consistent with those used in the preparation of the annual audited financial statements. These interim consolidated financial statements do not include all the disclosures normally included in the Company's annual consolidated financial statements. They should be read in conjunction with the Company's consolidated financial statements for the year ended June 30, 2003, as set out in the 2003 Annual Report.

### Reclassifications

Prior period amounts have been reclassified to conform with current year presentation. The reclassifications had no impact on net earnings or shareholders' equity as previously reported.

### Foreign operations

The accounts of self-sustaining foreign subsidiary companies are translated into Canadian dollars on the following basis:

- assets and liabilities at the exchange rate prevailing at the balance sheet date; and
- revenue and expenses at weighted average exchange rates for the year.

Adjustments arising from this translation are deferred and recorded as a separate item under shareholders' equity and are included in income only when a reduction in the net investment in these foreign operations is realized. Gains or losses on foreign currency balances and transactions that are designated as hedges of a net investment in self-sustaining foreign operations are offset against exchange losses or gains included in the separate item under shareholders' equity.

### Business acquisitions

On August 11, 2003, the Company acquired the assets and business of Heartland Inc., located in Bismarck, North Dakota, for \$6.0 million. Heartland Inc. manufactures a complete line of animal feeds. Heartland and Hubbard Feeds (Ridley) were previously involved in a joint venture. The values attributed to the net assets acquired were \$4.2 million to fixed assets, \$1.1 million to working capital and \$0.7 million to goodwill. The results of Heartland since the acquisition date are included in the U.S. Division.

### Discontinued operations

The summarized operating results of the discontinued operations, net of income taxes, for the quarter and six months ending December 31, 2003 and 2002 are as follows (in \$000):

	Three Months Ended 31-Dec-03	Three Months Ended 31-Dec-02	Six Months Ended 31-Dec-03	Six Months Ended 31-Dec-02
Operating loss	(645)	(1,985)	(750)	(3,079)
Gain on liquidated assets	(98)	-	1,361	-
Liquidation and exit costs	(190)	-	(1,704)	-
Loss from discontinued operations	(933)	(1,985)	(1,093)	(3,079)