

McCauley Bros., Inc.

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Ridley's equine nutrition business, McCauley Bros., Inc., delivered another solid year in fiscal 2004, with strong increases in sales volumes and sales revenues.

Ridley acquired a majority interest in McCauley Bros., Inc. in April 2002 as the first step in its strategic plan to create a new equine business unit focused exclusively on equine nutrition and specialty products.

McCauley produces premium quality equine feeds and nutritional supplements in a state-of-the-art plant in Versailles, Kentucky, in the heart of one of the largest concentrations of Thoroughbred and Standardbred horses in America. McCauley's strength lies in its reputation as the pre-eminent leader in equine nutrition.

Ridley's strategy is to develop a significant presence in equine nutrition, an important market segment that offers considerable growth opportunities. Using the highly successful McCauley model, Ridley intends to expand its reach into other areas of North America that have large horse populations, and owners who are seeking the very best nutritional products for their animals.



The Equine Business had three basic goals for fiscal 2004:

- Continue to aggressively expand McCauley's business from its Versailles plant.
- Construct a new all-equine plant on Ridley property in Chambersburg, Pennsylvania.
- Introduce McCauley products and the McCauley approach to equine nutrition to the equine market within striking distance of Chambersburg (the Mid-Atlantic region).

Despite a rainy Kentucky summer in 2003 and a rainy, mild fall, which provided an abundance of grass for pasture, thus reducing the need for supplemental feed, McCauley's sales volume grew by 6.8% in fiscal 2004. This increase resulted in a plant record for tonnage produced, and came on top of a 13% volume growth in fiscal 2003.

Premium quality oats were in short supply and prices were extremely high early in fiscal 2004 because of the effects of the 2001 - 2002 drought in western Canada. Improved moisture conditions in the summer of 2003 produced a good oat crop, and prices returned to more normal levels for the balance of fiscal 2004. Unfortunately, soybean meal prices sky-rocketed late in fiscal 2004 because of a perceived shortage of beans in the U.S. Overall, the higher ingredient costs compressed margins and profitability for fiscal 2004.

In fiscal 2003 McCauley identified the Mid-Atlantic states – Pennsylvania, Maryland, New Jersey, and Delaware – as offering the most potential for growth, and began construction in fiscal 2004 to build an all-equine plant in Chambersburg, Pennsylvania. Construction is progressing well, and when online by the end of November, the plant will operate under McCauley management and stringent manufacturing controls to produce superior McCauley feeds and nutritional supplements.

During fiscal 2004, McCauley introduced the Mid-Atlantic market to equine products manufactured at its Versailles plant and shipped into the region. This is the first time a truly premium horse feed has been offered in this market, and acceptance of the McCauley product line and quality programs has been excellent.

Dealer interest is very strong, and to establish Chambersburg quickly in the market and drive its growth, McCauley has partnered with new dealers in Maryland, Virginia and Delaware, each with a significant market share. McCauley will continue converting large dealerships to its product line, and at the same time create a pull-through demand for the products by working with individual horse farms.

The marketing program has been helped immensely by independent recognition of the quality of McCauley products. McCauley's Alam®, a beet pulp based product with high fat and fiber content, received the honor of being named the nutritional product of the year by *Horse Journal* magazine. Two years ago, McCauley's Rice Bran Oil was also named product of the year. These two products have attracted many new customers to McCauley's product line.

In addition to building the new Chambersburg plant, the existing showroom was refurbished and re-opened as an equine retail store in January. The store introduced McCauley products to the region's equine community and is drawing good traffic and much interest.



Photo: McCauley Equine Center opened in Chambersburg in January, generating good traffic and significant interest among horse owners in the area.

Another McCauley accomplishment in fiscal 2004 was development of a proprietary computer program to monitor the growth of foals and compare their growth curve to that of the norm. The program, known as "On Track," is currently being field-tested and will be ready for general use in fiscal 2005.

Outlook for Fiscal 2005

In general, the U.S. equine industry is very healthy, and horse numbers are good. Recent Thoroughbred auctions produced many record prices, and it appears that Kentucky has finally recovered from the effects of mare-reproductive-loss syndrome.

Legislation was recently passed in Pennsylvania to allow slot machines at racetracks, with a portion of the revenue used to increase purses and upgrade track facilities. This is expected to provide a boost to the equine industry, and we expect Maryland and Kentucky to follow suit with similar legislation.

McCauley was successful in fiscal 2004 in establishing market awareness for McCauley products in the Mid-Atlantic market. When the Chambersburg plant starts production in November, the immediate challenge will be to generate additional sales tonnage as quickly as possible, to get Chambersburg off to a good start, as well as for the Versailles plant to replace the production tonnage that it transfers to Chambersburg.

Once that challenge has been met, we will focus on identifying other attractive markets with the potential to accept and support McCauley's line of premium quality equine feeds and nutritional supplements. On an ongoing basis, we continue to seek investments in complementary products or processes for our existing McCauley line.