Ralston Purina Announces Third Quarter Earnings

Ralston Purina Company today announced third quarter earnings before unusual items of $86,200,000 compared to earnings from continuing operations before unusual items of $64,300,000 in the prior year quarter, an increase of 34 percent. Earnings per share before unusual items were $.30 and $.29 on a basic and diluted basis, respectively, compared to earnings per share from continuing operations before unusual items of $.22 a year ago. Earnings increased primarily on higher profitability in all three business segments and lower interest expense. Third quarter sales were $707,200,000 compared to $668,300,000 in the prior year third quarter.

For the current nine months, sales and earnings before unusual items were $2,144,600,000 and $245,200,000, respectively, compared to sales and pro forma earnings from continuing operations before unusual items of $2,087,400,000 and $233,200,000 in the prior year. The earnings improvement for the nine months resulted primarily from higher segment profitability and lower interest expense, partially offset by lower IBC equity earnings.

Earnings per share before unusual items were $.85 and $.84 on a basic and diluted basis, respectively, compared to pro forma earnings per share from continuing operations before unusual items of $.81 and $.80 a year ago.

Segment Results

Sales for North American Pet Foods increased 5 percent in the quarter and 1 percent in the nine months compared to the prior year. In both periods, favorable pricing and product mix were partially offset by an unfavorable size mix. Slightly higher volumes also contributed to the sales increase for the quarter, while volumes for the nine months were slightly lower than in the prior year.

Profitability for this segment increased 13 percent in the quarter as a result of the sales increase, partially offset by higher promotional expenses in response to increased competitive activity. In the nine months, profitability increased 2 percent as the sales increase combined with lower advertising expenses was partially offset by higher ingredient costs.

International Pet Foods' sales increased 3 percent in the quarter and in the nine months. These increases resulted primarily from volume growth in most world areas, partially offset by decreased sales in Northern Europe due to lower volumes and unfavorable foreign exchange.

Profitability for this segment increased 16 percent in the quarter due primarily to the sales increase and cost containment efforts. In the nine months, profitability decreased 6 percent primarily as a result of decreased volumes in Northern Europe, expenses associated with expansion in the Asian market and unfavorable foreign exchange.

Sales for Golden Products increased 17 percent in the quarter and 14 percent in the nine months. These increases are attributable to volume increases in scooping litter, sales of Tidy Cats Crystals Blend, the new blended scoop and conventional litter products introduced in the current quarter, and incremental sales of the new products introduced during the third quarter of the prior year.

Profitability for Golden Products increased 36 percent in the quarter and 12 percent in the nine months as

the sales increases were partially offset by increased advertising and promotion expenses. Additionally, gross margins improved in the third quarter.

Net Earnings

Net earnings for the third quarter were $77,500,000, or $.27 and $.26 per basic and diluted share, respectively. These results include an after-tax gain on investments of $.8 million and after-tax merger-related costs, primarily transaction costs, associated with the pending merger between the Company and Nestle S.A. of $9.5 million, or $.03 per basic and diluted share.

Prior year third quarter net earnings of $61,100,000, or $.21 per basic and diluted share, include an unrealized after-tax gain of $2.5 million, or $.01 per basic and diluted share, representing a market value adjustment of the Company's stock appreciation income linked securities (SAILS). Also included in net earnings is a net loss from discontinued operations of $5.7 million, or $.02 per basic and diluted share.

Net earnings for the current year nine months were $213,300,000, or $.74 and $.73 per basic and diluted share, respectively. These results include a net after-tax loss on investments of $3.2 million, or $.01 per basic and diluted share, and merger-related costs, primarily adjustments to employee-related liabilities denominated in share equivalents or tied to stock performance and transaction costs, of $28.7 million, or $.10 per basic and diluted share.

Net earnings for the prior year nine months were $446,900,000, or $1.55 and $1.53 per basic and diluted share, respectively, and include several unusual items which increased net earnings by $127.5 million, or $.44 per basic and diluted share, as follows: an unrealized after-tax gain of $89.3 million, or $.31 per basic and diluted share, representing a SAILS market value adjustment; an after-tax gain on investments of $7.1 million, or $.02 per basic and diluted share; and capital loss tax benefits totaling $31.1 million, or $.11 per basic and diluted share. Net earnings also include net earnings from discontinued operations of $93.9 million, or $.33 and $.32 per basic and diluted share, respectively.

Editor's Note: On January 16, 2001, the Company and Nestle S.A. announced that they have entered into a definitive merger agreement. For more information, please refer to Ralston's definitive proxy statement filed April 17, 2001.

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