Ralston Purina Fourth Quarter Earnings Increase 17 Percent

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Ralston Purina Company today announced fourth quarter earnings before unusual items of $93,200,000 compared to $79,800,000 in the prior year quarter, an increase of 17 percent. Fourth quarter earnings per share before unusual items were $.32 on a basic and diluted basis compared to $.28 a year ago. Earnings increased primarily on higher profitability in all three business segments partially offset by lower equity earnings from the Company's investment in Interstate Bakeries Corporation (IBC). Fourth quarter sales increased 12 percent to $790,700,000 compared to $706,800,000 in the prior year fourth quarter.

For the current fiscal year ended September 30, 2001, sales and earnings before unusual items were $3,033,300,000 and $338,400,000, respectively, compared to sales and pro forma earnings from continuing operations before unusual items of $2,886,800,000 and $313,000,000 in the prior year. The earnings improvement in the current fiscal year resulted primarily from higher profitability for each business segment and lower interest expense, partially offset by lower IBC equity earnings. Earnings per share before unusual items were $1.18 and $1.16 on a basic and diluted basis, respectively, for the current year, compared to pro forma earnings per share from continuing operations before unusual items of $1.09 and $1.08 a year ago.

Segment Results

Sales for North American Pet Foods increased 14 percent in the quarter and 4 percent for the year. Higher volumes, particularly in the quarter, favorable pricing and product mix were partially offset by an unfavorable size mix.

Profitability for this segment increased 12 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 year, profitability increased 4 percent as the sales increase was partially offset by higher ingredient costs and promotional expenses.

International Pet Foods' sales increased 1 percent in the quarter and 3 percent for the year. These increases resulted primarily from volume growth in Latin America and Asia Pacific and favorable product mix in Europe, partially offset by decreased volume in Northern Europe and unfavorable foreign exchange.

Profitability for this segment increased 109 percent in the quarter and 14 percent in the year due primarily to the sales increase, favorable product mix and cost containment efforts. In the quarter, lower advertising and promotion expenses also contributed to the profitability. In the year, profitability was unfavorably impacted by decreased volumes and unfavorable foreign exchange primarily in Northern Europe, and expenses associated with expansion in the Asian market.

Sales for Golden Products increased 16 percent in the quarter and 14 percent for the year. These increases are attributable to volume increases in scooping litter and sales of Tidy Cats Crystals Blend, the new blended scoop and conventional litter products introduced in the second quarter. For the year, incremental sales of the new products introduced during the third quarter of the prior year also contributed to the sales increase.

Profitability for Golden Products increased 27 percent in the quarter and 15 percent for the year as the sales increases were partially offset by increased advertising and promotion expenses. Additionally, gross margins improved in the quarter.

Net Earnings

Net earnings for the fourth quarter were $86,800,000, or $.30 per basic and diluted share, respectively. These results include after-tax merger- related costs associated with the pending merger between the Company and Nestle S.A., primarily adjustments to employee-related liabilities denominated in share equivalents or tied to stock performance and transaction costs, of $6.4 million, or $.02 per basic and diluted share.

Prior year fourth quarter net earnings of $83,500,000, or $.29 per basic and diluted share, include two unusual items that increased net earnings by $3.7 million. These unusual items include: an after-tax loss of $16.7 million, or $.06 per basic and diluted share, representing the final market value adjustment of the Company's stock appreciation income linked securities (SAILS); and a net after-tax gain on investments of $20.4 million, or $.07 per basic and diluted share.

Net earnings for the current year were $300,100,000, or $1.05 and $1.03 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, of $35.1 million, or $.12 per basic and diluted share.

Net earnings for the prior year were $530,400,000, or $1.84 and $1.82 per basic and diluted share, respectively, and include several unusual items which increased net earnings by $131.2 million, or $.45 per basic and diluted share, as follows: an after-tax gain of $72.6 million, or $.25 per basic and diluted share, representing a SAILS market value adjustment; a net after-tax gain on investments of $27.5 million, or $.09 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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