

Perrigo Company Reports Fiscal 2005 Third Quarter and Nine Months Losses Due to Write Off of In-Process Research and Development

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ALLEGAN, Mich.

The Perrigo Company (NASDAQ: PRGO)(TASE: PRGO) today announced results for the third quarter and nine months of fiscal 2005 ended March 26, 2005.

Perrigo Company
(in thousands, except per share amounts)

| | Third Quarter | | Year-To-Date | |
|-------------------|---------------|-----------|--------------|-----------|
| | 2005 | 2004 | 2005 | 2004 |
| Sales | \$220,093 | \$232,863 | \$699,560 | \$692,079 |
| (Net Loss)/Income | \$(379,436) | \$17,739 | \$(346,020) | \$72,482 |
| Diluted Shares | 73,660 | 72,598 | 71,970 | 72,035 |
| Diluted EPS | \$(5.15) | \$0.24 | \$(4.81) | \$1.01 |

The acquisition of Agis Industries was completed on March 17, 2005. Agis is included in the consolidated balance sheet as of March 26, 2005. Agis operating results are not included in the third quarter, but will be included in the consolidated results beginning in the fourth quarter of fiscal 2005.

Third Quarter Results

Net sales for the third quarter of fiscal 2005 were \$220.1 million, a decrease of five percent from \$232.9 million last year due to a sales shortfall in the Consumer Healthcare segment. Perrigo reported a net loss of \$379.4 million, or \$5.15 per share, which includes charges associated with the acquisition of Agis.

The acquisition-related charges include the following: the write-off of in-process research and development of \$388.6 million, which is not deductible for tax purposes; a charge for operational improvements and asset impairments in the Consumer Healthcare segment of \$6.4 million pre-tax, or \$4.1 million after-tax; and, acquisition-related legal, audit and integration expenses of \$4.6 million pre-tax, or \$3.0 million after-tax.

Excluding the charges associated with the acquisition, net income was \$16.2 million, or \$0.22 per share. This is compared with net income of \$17.7 million, or \$0.24 per share, a year ago. A reconciliation of these non-GAAP measures is shown in Table II at the end of this press release.

"Our operating results in the third quarter reflect lower sales and profits in the Consumer Healthcare segment where we experienced weak seasonal demand for cough/cold and pain relief products. There was a late pick-up at retail, but, with adequate inventories available following the season's slow start, retailers were able to meet consumer demand in the quarter from on-hand inventory," said David T. Gibbons, Perrigo Chairman, President and Chief Executive Officer.

Agis Acquisition

Commenting on the Agis acquisition, Mr. Gibbons stated, "The combination of Perrigo and Agis has created a global company with broader capabilities to grow in the generic

pharmaceutical, active pharmaceutical ingredients and consumer healthcare markets. We have brought together talent and technology and we are combining Perrigo's leadership in store brand over-the-counter pharmaceutical and nutritional products with Agis' growing position in topical generics and active pharmaceutical ingredients. Together, we have excellent R&D and an experienced, global management team. The integration of our companies is off to a good start and we are enthusiastic about the opportunities we see to grow and enhance value for our shareholders."

Nine Months Results

Net sales for the nine months ended March 26, 2005 were \$699.6 million, an increase of \$7.5 million, or one percent, compared with \$692.1 million last year. Perrigo reported a net loss of \$346.0 million, or \$4.81 per share, which includes charges associated with the acquisition of Agis and the expense of a product recall.

The charges and expenses associated with the acquisition were the same as those recorded in the third quarter. The impact of the loratadine syrup product recall in the second quarter of fiscal 2005 reduced sales by \$6.3 million and after-tax income by \$5.3 million. In the prior year, the Company reported a one-time tax benefit of \$13.1 million after-tax.

Excluding the write-off of in-process research and development, acquisition-related expenses and the expense of the product recall, net income was \$54.9 million, or \$0.76 per share. Excluding the one-time tax benefit of \$13.1 million, or \$0.18 per share, in the prior year period, comparable net income was \$59.4 million, or \$0.83 per share. A reconciliation of these non- GAAP measures is shown in Table II at the end of this press release.

Consumer Healthcare

Consumer Healthcare segment sales decreased six percent to \$194.0 million, compared with \$206.1 million in the third quarter of fiscal 2004. The decline reflected lower sales of loratadine products compared with strong initial sales a year ago. Sales were also lower in the vitamin category following our strong first half. We received positive benefits from sales of new products for smoking cessation and feminine hygiene. Operating income was \$18.7 million, reflecting lower sales and production levels, as well as a \$6.4 million charge for asset impairment and acquisition-related restructuring expense. Excluding the \$6.4 million charge, operating income was \$25.1 million, compared with \$28.8 million last year.

For nine months of fiscal 2005, Consumer Healthcare sales were \$612.4 million, two percent below the \$623.9 million in the same period last year. Operating income was \$69.7 million, reflecting lower sales and production levels, an asset impairment charge, acquisition-related expenses and the expense of a product recall. Excluding the charge of \$6.4 million and the product recall expense of \$8.3 million, operating income was \$84.4 million, compared with \$91.5 million a year ago.

Pseudoephedrine

Mr. Gibbons also noted, "A number of major retailers have recently announced plans to move certain over-the-counter products that contain the active ingredient pseudoephedrine to a position behind the pharmacy counter. This is in reaction to new legislation in certain states to slow the misuse of pseudoephedrine-based products to create methamphetamine

for illegal drug use. We are developing phenylephrine-based alternatives for the most popular solid dose products and expect to phase-in the reformulated products as soon as possible throughout the 2005/2006 season. We anticipate that the recent acceleration of the move behind the counter will have some negative impact on our cough/cold/allergy/sinus category sales in the next year. However, it is too early to accurately measure the effect."

Pharmaceuticals

In the third quarter, the Pharmaceutical Segment recorded an operating loss of \$1.9 million, compared with a loss of \$1.6 million a year ago as the Company continued to invest in its start-up pharmaceutical business. For nine months of fiscal 2005, Pharmaceutical operating loss was \$5.5 million, compared with a loss of \$3.0 million last year.

United Kingdom

Third quarter net sales for the United Kingdom operations decreased \$2.0 million, or nine percent, to \$19.8 million due to declines in contract and nutritional product sales, partially offset by favorable foreign exchange rates. Operating income for the third quarter was \$0.4 million compared with \$0.2 million last year.

Sales for nine months were \$67.5 million, compared with \$49.4 million in the year ago period, and operating income was \$2.3 million, compared with \$1.5 million a year ago.

Mexico

Sales for Perrigo's Mexico Operations increased \$0.9 million, or 18 percent, to \$5.9 million in the third quarter as a result of increased sales to the store brand and pharmaceutical distribution channels. Operating income for the quarter was \$0.2 million, compared with an operating loss of \$0.8 million last year. Sales for nine months were \$19.1 million, compared with \$18.7 million last year and operating income was \$1.7 million, compared with \$0.6 million for the comparable nine months a year ago.

Opening Balance Sheet

The attached condensed balance sheet includes the preliminary allocation of the purchase price for Agis into the components of fair value of the assets at acquisition, as well as adjustments related to the transaction financing.

At closing, Perrigo also entered into a loan agreement with an Israeli bank for \$400 million. Simultaneously, \$400 million was deposited by Perrigo with the same Israeli bank. As required, these amounts are reported separately on the consolidated balance sheet as long-term debt and restricted cash. Perrigo will pay interest expense on the loan and receive interest income on the deposit in subsequent periods. The purpose of this transaction is to provide an appropriate and efficient mechanism for inter-company financing.

Included in the fair value of the assets of Agis is a step-up in the value of inventory of \$27.6 million. This amount will be charged to cost of sales over the next three to six months, but is not expected to have any impact beyond that period.

Outlook

The year-to-date reported net loss of \$346.0 million included the write-off of in-process research and development of \$388.6 million, the loratadine recall of \$5.3 million and other acquisition-related costs of \$7.0 million. Adjusted net income was \$54.9 million, or \$0.76 per share, through nine months of fiscal 2005.

There will be an additional \$2 million in integration costs incurred in the fourth quarter. Further, the write-off of the inventory step-up that was recorded as part of the purchase price adjustment will approximate \$16 million.

Commenting on the outlook for the fourth quarter and full year, Mr. Gibbons stated, "Operating results for Agis will be consolidated for the first time in our fiscal fourth quarter and the shares outstanding will change to reflect the 22 million shares issued as part of the purchase price. Consistent with the historical seasonal pattern, we anticipate lower sequential sales and profits in our Consumer Healthcare business. The continuing ramp-up in sales of new nicotine gum products should help offset difficult comparisons on our loratadine products.

"We anticipate reported per share results for the full year to range from a loss of \$4.45 to a loss of \$4.55 per share. On an operating basis, we expect income per share in the range of \$0.90 to \$0.94."

Perrigo will host a conference call to discuss third quarter fiscal 2005 results at 11 a.m. (ET) today. The call and replay will be available via webcast on the Company's Web site at <http://www.perrigo.com/investor/>, or by phone, at 800-473-6123, International, 973-582-2745. A taped replay of the call will be available beginning at approximately 2:30 p.m. (ET) Thursday, May 5 until midnight Wednesday, May 11. To listen to the replay, call 877-519-4471, International 973-341-3080, access code 6009317.

Perrigo Company is a leading global healthcare supplier and the world's largest manufacturer of over-the-counter (OTC) pharmaceutical and nutritional products for the store brand and contract manufacturing markets. Store brand products are sold by food, drug, mass merchandise, dollar store and club store retailers under their own labels. The Company also develops, manufactures and markets topical OTC pharmaceuticals, prescription generic drugs, active pharmaceutical ingredients and consumer products, and operates manufacturing and logistics facilities in the United States, Israel, United Kingdom, Mexico, and Germany. Visit Perrigo on the Internet (<http://www.perrigo.com/>).

Note: Certain statements in this press release are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbor created thereby. These statements relate to future events or the Company's future financial performance and involve known and unknown risks, uncertainties and other factors that may cause the actual results, levels of activity, performance or achievements of the Company or its industry to be materially different from those expressed or implied by any forward-looking statements. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "would," "should," "expect," "plan," "anticipate," "intend," "believe," "estimate," "predict," "potential" or other comparable terminology. Please see the "Cautionary Note Regarding Forward-Looking Statements" on pages 27 - 33 of the Company's Form 10-K for the year ended June 26, 2004 for a discussion of certain important factors that relate to forward-looking statements contained in this press release. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct. Unless otherwise required by

applicable securities laws, the Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PERRIGO COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share amounts)
(unaudited)

| | Third Quarter | | Year-To-Date | |
|---|---------------|-----------|--------------|-----------|
| | 2005 | 2004 | 2005 | 2004 |
| Net sales | \$220,093 | \$232,863 | \$699,560 | \$692,079 |
| Cost of sales | 157,132 | 164,108 | 504,830 | 487,125 |
| Gross profit | 62,961 | 68,755 | 194,730 | 204,954 |
| Operating expenses | | | | |
| Distribution | 4,032 | 4,117 | 12,130 | 11,472 |
| Research and development | 7,224 | 6,685 | 22,864 | 18,584 |
| Selling and administration | 32,552 | 31,441 | 89,808 | 84,271 |
| Subtotal | 43,808 | 42,243 | 124,802 | 114,327 |
| Write-off of in-process research and development | 388,600 | - | 388,600 | - |
| Restructuring | 6,382 | - | 6,382 | - |
| Total | 438,790 | 42,243 | 519,784 | 114,327 |
| Operating (loss) income | (375,829) | 26,512 | (325,054) | 90,627 |
| Interest and other, net | (1,545) | (1,206) | (2,989) | (2,159) |
| (Loss) income before income taxes | (374,284) | 27,718 | (322,065) | 92,786 |
| Income tax expense | 5,152 | 9,979 | 23,955 | 20,304 |
| Net (loss) income | \$(379,436) | \$17,739 | \$(346,020) | \$72,482 |
| (Loss) Earnings per share | | | | |
| Basic | \$(5.15) | \$0.25 | \$(4.81) | \$1.03 |
| Diluted | \$(5.15) | \$0.24 | \$(4.81) | \$1.01 |
| Weighted average shares outstanding | | | | |
| Basic | 73,660 | 70,296 | 71,970 | 70,103 |
| Diluted | 73,660 | 72,598 | 71,970 | 72,035 |
| Dividends declared per share | \$0.04 | \$0.035 | \$0.115 | \$0.095 |

PERRIGO COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

| | March 26, 2005 | June 26, 2004 | March 27, 2004 | |
|--|-------------------|------------------|-------------------|----------|
| | (unaudited) | | (unaudited) | |
| Assets | | | | |
| Current assets | | | | |
| Cash and cash equivalents | | \$40,735 | \$8,392 | \$30,692 |
| Investment securities | | 33,200 | 163,308 | 125,725 |
| Accounts receivable | | 203,849 | 86,040 | 102,299 |
| Inventories | | 301,270 | 174,253 | 154,847 |
| Current deferred income taxes | | 47,380 | 29,877 | 30,041 |
| Prepaid expenses and other current assets | | 28,690 | 11,359 | 19,846 |
| Total current assets | | 655,124 | 473,229 | 463,450 |
| Property and equipment | | 576,049 | 462,185 | 468,056 |
| Less accumulated depreciation | | 253,316 | 234,544 | 241,724 |
| | | 322,733 | 227,641 | 226,332 |
| Restricted cash | 400,000 | - | - | |
| Goodwill | 150,226 | 35,919 | 35,919 | |
| Other intangible assets | 142,050 | 94 | 110 | |
| Non-current deferred income taxes | | 13,922 | 8,137 | 8,062 |

| | | | |
|--------------------------|-------------|-----------|-----------|
| Other non-current assets | 47,126 | 14,074 | 12,774 |
| | \$1,731,181 | \$759,094 | \$746,647 |

Liabilities and Shareholders' Equity

Current liabilities

| | | | |
|---|-----------|----------|----------|
| Accounts payable | \$141,621 | \$88,858 | \$89,289 |
| Notes payable | 22,334 | 9,528 | 9,746 |
| Current maturities of long-term liabilities | 20,000 | - | - |
| Payroll and related taxes | 48,160 | 41,387 | 35,530 |
| Accrued customer programs | 31,302 | 13,212 | 13,187 |
| Accrued liabilities | 74,496 | 30,477 | 36,121 |
| Accrued income taxes | 15,201 | - | - |
| Current deferred income taxes | 9,010 | 4,024 | 4,095 |
| Total current liabilities | 362,124 | 187,486 | 187,968 |

Long-term liabilities

| | | | |
|---|---------|--------|--------|
| Long-term debt, less current maturities | 666,706 | - | - |
| Non-current deferred income taxes | 59,740 | 29,606 | 26,315 |
| Other non-current liabilities | 33,637 | 5,770 | 5,490 |
| Total long-term liabilities | 760,083 | 35,376 | 31,805 |

Shareholders' equity

| | | | |
|--|-------------|-----------|-----------|
| Preferred stock, without par value, 10,000 shares authorized | - | - | - |
| Common stock, without par value, 200,000 shares authorized | 532,108 | 104,160 | 99,622 |
| Unearned compensation | (4,888) | (514) | (631) |
| Accumulated other comprehensive income | 6,275 | 2,892 | 3,801 |
| Retained earnings | 75,479 | 429,694 | 424,082 |
| Total shareholders' equity | 608,974 | 536,232 | 526,874 |
| | \$1,731,181 | \$759,094 | \$746,647 |

Supplemental Disclosures of Balance

Sheet Information

| | | | |
|---------------------------------|-----------|-----------|-----------|
| Allowance for doubtful accounts | \$8,280 | \$8,296 | \$7,606 |
| Allowance for inventory | \$27,841 | \$22,888 | \$22,493 |
| Working capital | \$293,000 | \$285,743 | \$275,482 |
| Preferred stock, shares issued | - | - | - |
| Common stock, shares issued | 93,802 | 70,882 | 70,595 |

PERRIGO COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

| | Year-To-Date | |
|---|--------------|-----------|
| | 2005 | 2004 |
| Cash Flows From Operating Activities | | |
| Net income (loss) | \$(346,020) | \$72,482 |
| Adjustments to derive cash flows | | |
| Write-off of in-process research and development | 388,600 | - |
| Depreciation and amortization | 23,561 | 21,270 |
| Share-based compensation | 4,828 | 4,142 |
| Deferred income taxes | (5,860) | 35 |
| Changes in operating assets and liabilities, net of acquisitions of businesses and assets | | |
| Accounts receivable | (11,320) | (11,150) |
| Inventories | 10,202 | 13,551 |
| Accounts payable | (7,108) | 13,074 |
| Payroll and related taxes | (14,369) | (5,001) |
| Accrued income taxes | 3,805 | 2,458 |
| Accrued customer programs | (2,398) | 7,421 |
| Accrued liabilities | 4,090 | (5,572) |
| Other | 6,381 | (8,502) |
| Net cash from operating activities | 54,392 | 104,208 |
| Cash Flows For Investing Activities | | |
| Purchase of securities | (81,070) | (122,325) |

| | | | |
|---|-----------|----------|--|
| Proceeds from sales of securities | 243,975 | 80,035 | |
| Additions to property and equipment | (15,576) | (18,638) | |
| Acquisition of business, net of cash acquired | (381,569) | (12,061) | |
| Acquisition of assets | (5,562) | - | |
| Increase in restricted cash | (400,000) | - | |
| Issuance of note receivable | - | (10,000) | |
| Investment in equity subsidiaries | - | (2,000) | |
| Net cash for investing activities | (639,802) | (84,989) | |
| Cash Flows From Financing Activities | | | |
| Borrowings of short-term debt, net | 3,622 | 789 | |
| Borrowings of long-term debt | 615,000 | - | |
| Increase in deferred bond issue costs | (1,017) | - | |
| Tax benefit of stock transactions | 1,087 | 813 | |
| Issuance of common stock | 6,137 | 7,911 | |
| Repurchase of common stock | (122) | (1,940) | |
| Cash dividends | (8,195) | (6,664) | |
| Net cash from financing activities | 616,512 | 909 | |
| Net Increase in Cash and Cash Equivalents | 31,102 | 20,128 | |
| Cash and cash equivalents, at beginning of period | 8,392 | 10,392 | |
| Effect of exchange rate changes on cash | 1,241 | 172 | |
| Cash and cash equivalents, at end of period | \$40,735 | \$30,692 | |
| Supplemental Disclosures of Cash Flow Information | | | |
| Cash paid during the year for | | | |
| Interest | \$231 | \$467 | |
| Income taxes | \$18,341 | \$25,188 | |

Table I
PERRIGO COMPANY
SEGMENT INFORMATION
(in thousands)
(unaudited)

| | Third Quarter | | Year-To-Date | |
|--|---------------|-----------|--------------|-----------|
| | 2005 | 2004 | 2005 | 2004 |
| Segment Sales | | | | |
| Consumer Healthcare | \$194,009 | \$206,087 | \$612,390 | \$623,917 |
| Pharmaceuticals | 403 | - | 567 | - |
| UK Operations | 19,809 | 21,789 | 67,526 | 49,417 |
| Mexico Operations | 5,872 | 4,987 | 19,077 | 18,745 |
| Total | \$220,093 | \$232,863 | \$699,560 | \$692,079 |
| Segment Operating Income (loss) | | | | |
| Consumer Healthcare | \$18,683 | \$28,771 | \$69,675 | \$91,538 |
| Pharmaceuticals | (1,887) | (1,647) | (5,537) | (3,004) |
| UK Operations | 424 | 159 | 2,286 | 1,493 |
| Mexico Operations | 176 | (771) | 1,747 | 600 |
| Write-off of in-process research and development | (388,600) | - | (388,600) | - |
| Acquisition and integration costs | (4,625) | - | (4,625) | - |
| Total | \$(375,829) | \$26,512 | \$(325,054) | \$90,627 |

Table II
PERRIGO COMPANY
RECONCILIATION OF NON-GAAP MEASURES
(in thousands, except per share amounts)

(unaudited)

| | Third Quarter | | Year-To-Date | |
|---|---------------|-----------|--------------|-----------|
| | 2005 | 2004 | 2005 | 2004 |
| Reported net sales | \$220,093 | \$232,863 | \$699,560 | \$692,079 |
| Loratadine recall | - | - | 6,300 | - |
| Adjusted net sales | \$220,093 | \$232,863 | \$705,860 | \$692,079 |
| Reported gross profit | \$62,961 | \$68,755 | \$194,730 | \$204,954 |
| Loratadine recall | - | - | 8,300 | - |
| Adjusted gross profit | \$62,961 | \$68,755 | \$203,030 | \$204,954 |
| Reported operating income (loss) | \$(375,829) | \$26,512 | \$(325,054) | \$90,627 |
| Loratadine recall | - | - | 8,300 | - |
| Perrigo operational improvements | 3,150 | - | 3,150 | - |
| Perrigo asset impairments | 3,232 | - | 3,232 | - |
| Purchase accounting adjustment: | | | | |
| Write off in-process R&D | 388,600 | - | 388,600 | - |
| Acquisition costs | 4,625 | - | 4,625 | - |
| Adjusted operating income | \$23,778 | \$26,512 | \$82,853 | \$90,627 |
| Reported net income (loss) | \$(379,436) | \$17,739 | \$(346,020) | \$72,482 |
| Loratadine recall (1) | | 5,300 | | |
| One time tax benefit | | | (13,100) | |
| Perrigo operational improvements (1) | 2,016 | | 2,016 | |
| Perrigo asset impairments (1) | 2,068 | | 2,068 | |
| Purchase accounting adjustment: | | | | |
| Write off in-process R&D (2) | 388,600 | | 388,600 | |
| Acquisition costs (1) | 2,960 | | 2,960 | |
| Adjusted net income | \$16,208 | \$17,739 | \$54,924 | \$59,382 |
| Reported diluted earnings (loss) per share | \$(5.15) | \$0.24 | \$(4.81) | \$1.01 |
| Adjusted diluted earnings per share | \$0.22 | \$0.24 | \$0.76 | \$0.83 |
| Weighted average diluted shares outstanding | 73,660 | 72,598 | 71,970 | 72,035 |

- (1) Net of taxes at 36%
(2) Write-off of in-process research and development is a permanent difference for tax purposes and thus is not tax effected

Table II (Continued)
CONSUMER HEALTHCARE
RECONCILIATION OF NON-GAAP MEASURES
(in thousands, except per share amounts)
(unaudited)

| | Third Quarter | | Year-To-Date | |
|---------------------|---------------|-----------|--------------|-----------|
| | 2005 | 2004 | 2005 | 2004 |
| Consumer Healthcare | | | | |
| Reported net sales | \$194,009 | \$206,087 | \$612,390 | \$623,917 |
| Loratadine recall | - | - | 6,300 | - |
| Adjusted net sales | \$194,009 | \$206,087 | \$618,690 | \$623,917 |

| | | | | |
|-----------------------|----------|----------|-----------|-----------|
| Consumer Healthcare | | | | |
| Reported gross profit | \$58,296 | \$64,997 | \$178,346 | \$192,735 |
| Loratadine recall | - | - | 8,300 | - |
| Adjusted gross profit | \$58,296 | \$64,997 | \$186,646 | \$192,735 |

| | | | | |
|----------------------------------|----------|----------|----------|----------|
| Consumer Healthcare | | | | |
| Reported operating income | | | | |
| (loss) | \$18,683 | \$28,771 | \$69,765 | \$91,538 |
| Loratadine recall | - | - | 8,300 | - |
| Perrigo operational improvements | 3,150 | - | 3,150 | - |
| Perrigo asset impairments | 3,232 | - | 3,232 | - |
| Adjusted operating income | \$25,065 | \$28,771 | \$84,447 | \$91,538 |

SOURCE: Perrigo Company

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Web site: <http://www.perrigo.com/>

<https://investor.perrigo.com/2005-05-05-Perrigo-Company-Reports-Fiscal-2005-Third-Quarter-and-Nine-Months-Losses-Due-to-Write-Off-of-In-Process-Research-and-Development>