

Perrigo Company Reports Second Quarter Fiscal 2006 Financial Results

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ALLEGAN, Mich.

The Perrigo Company (NASDAQ: PRGO)(TASE: PRGO) today announced results for the second quarter of fiscal year 2006 ended Dec. 24, 2005.

The acquisition of Agis Industries was completed on March 17, 2005. Agis was first included in the consolidated balance sheet as of March 26, 2005 and operating results were first included in the quarter ended June 25, 2005.

Perrigo Company
(in thousands, except per share amounts)

	Second Quarter		Six Months	
	2006	2005	2006	2005
Sales	\$359,697	\$251,748	\$679,431	\$479,467
Net Income	\$25,366	\$15,838	\$38,277	\$33,416
Diluted EPS	\$0.27	\$0.22	\$0.41	\$0.46
Diluted Shares	93,963	73,285	94,167	73,166

Second Quarter Results

Net sales for the second quarter of fiscal 2006 were \$359.7 million, an increase of 43 percent from \$251.7 million last year, reflecting the addition of Agis' product sales. Net income was \$25.4 million, or \$0.27 per share, including a gain of \$2.9 million after-tax, or \$0.03 per share, on the sale of the Company's non-controlling interest in a Canadian distribution company. Last year, net income was \$15.8 million, or \$0.22 per share, which included a charge for a product recall of \$5.3 million after-tax, or \$0.07 per share.

Commenting on the second quarter, David T. Gibbons, Perrigo Chairman, President and Chief Executive Officer, said, "We are pleased with the performance of the Rx Pharmaceutical and API businesses which delivered strong results this quarter. Our results in Consumer Healthcare reflect the transition occurring in pseudoephedrine-based cough/cold products. The elimination of certain pseudoephedrine products and the shift to behind the counter by many retailers has resulted in lower cough/cold product sales, operational complexity and continued pressure on our Consumer Healthcare segment profits as we push to reformulate these products and introduce a record number of new products at the same time.

"Perrigo's financial position remains secure, with strong cash flow from operations of \$55 million which has allowed us to repurchase approximately 1.2 million shares for \$16 million so far this year."

Six Months Results

Net sales for the six months ended Dec. 24, 2005 were \$679.4 million, an increase of \$200 million, or 42 percent, compared with \$479.5 million last year, reflecting the addition of Agis' product sales. Net income for the six months was \$38.3 million, or \$0.41 per share, compared with \$33.4 million, or \$0.46 per share, a year ago, which included a charge for a product recall of \$5.3 million, or \$0.07 per share.

Excluding an acquisition-related write-off of the step-up in the value of inventory acquired in the first quarter (\$3.7 million after-tax, or \$0.04 per share) and a gain on the sale of the non-controlling interest in a Canadian distribution company (\$2.9 million after-tax, or \$0.03 per share) in the second quarter, net income for the six months was \$39.1 million, or \$0.41 per share. A reconciliation of non-GAAP measures is shown in Table II at the end of this press release.

Consumer Healthcare

Consumer Healthcare segment sales in the quarter were \$272.2 million compared with \$251.6 million in the second quarter last year. These results included topical OTC product sales of \$14 million related to the Agis acquisition and \$17 million in new product sales, offset by a decline of \$20 million of pseudoephedrine-based cough and cold products. Operating income was \$32.1 million, compared with \$26.5 million a year-ago.

For the first six months of fiscal 2006, Consumer Healthcare sales were \$500.9 million compared with \$479.3 million in the first six months last year. These results included topical OTC product sales of \$32 million related to the Agis acquisition and \$26 million in new product sales, offset by a decline of \$43 million on pseudoephedrine-based cough and cold products. Operating income was \$45.2 million, compared with \$54.4 million a year ago, reflecting the incremental sales of lower-margin topical OTC products acquired in the Agis acquisition, the sales decline of higher-margin pseudoephedrine-based products and higher inventory obsolescence expenses.

Rx Pharmaceuticals

The Rx Pharmaceuticals segment reported sales of \$28.6 million and operating income of \$5.3 million. In the prior year, the Rx Pharmaceutical segment reported an operating loss of \$2.4 million, reflecting the Company's investment in the start-up of the generics business. For the six months, sales were \$57.7 million and operating income was \$9.1 million, including a pre-tax charge of \$2.8 million for a product recall in the first quarter, compared with an operating loss of \$3.6 million in the same period last year.

API

Second quarter sales for the API segment were \$26.9 million and operating income was \$6.5 million. For the six months, sales were \$53.7 million and operating income was \$13.1 million. Excluding the first quarter write-off of the step-up in the value of inventory acquired of \$1.7 million, the API segment had operating income of \$14.9 million for the six months.

Other

The Other category, consisting of Israel Consumer Products and Israel Pharmaceutical and Diagnostic Products segments, reported sales of \$32.0 million and operating income of \$0.4 million. Sales for the first six months of fiscal 2006 were \$67.2 million with an operating loss of \$0.3 million. Excluding the first quarter write-off of the step-up in the value of the inventory acquired of \$2.7 million, the Other category had an operating income of \$2.4 million.

In the second quarter, unallocated expense was \$5 million, including corporate costs of \$3.6 million and integration costs of \$1.4 million. For the first six months, unallocated expense was \$7.1 million, consisting of corporate costs of \$5.1 million and integration

costs of \$2.0 million.

New Developments

The Company announced today that it has received approval from the U.S. Food and Drug Administration (FDA) to market over-the-counter (OTC) nicotine polacrilex lozenges. With the approval, the Company has been granted 180 days of generic market exclusivity, beginning with the first shipments which are expected within 30 days. The FDA determined the product is bioequivalent to GlaxoSmithKline's Commit® lozenge, which is indicated as an aid to smoking cessation. Sales for the brand name product at retail were approximately \$100 million in calendar 2005.

The Company has entered into a five-year supply, purchase and license agreement with another pharmaceutical company pursuant to which the Company will produce API for the other company and sell certain intellectual property assets. The Company has also entered into a collaboration agreement with that company pursuant to which the two companies will collaborate on the development and manufacture of two drug products. Revenues from sales under the supply, purchase and license agreement and fees from the collaboration agreement will contribute to the revenues and operating income of the Company's API and Rx Pharmaceutical businesses, respectively, in the second half of 2006 and beyond.

Outlook

Mr. Gibbons stated that, "Despite all of the ups and downs within our business segments, the outlook remains the same and we continue to anticipate full year operating earnings results of \$0.74 - \$0.78 per share. The prior guidance for reported earnings was \$0.70 - \$0.74 per share, which included the acquisition-related inventory step-up expense of \$0.04 per share. Because of the gain on the Canadian distribution company sale, the reported earnings guidance increases to \$0.74 - \$0.78 per share.

"The Rx Pharmaceutical, API and Other business has exceeded expectations in the first half of the year. This business will also be strong in the second half with the completion of the supply agreement and the collaboration agreement with another pharmaceutical company, which will continue to contribute strongly through next year as well. R&D spending will increase significantly in the second half as we invest in our new product pipeline to ensure our future. The anticipated strong results from the Rx Pharmaceutical and API segments, although not quite as strong as in the first half, including the benefit of the noted agreements, will help offset projected weakness in the Consumer Healthcare segment in the second half.

"Our review of Consumer Healthcare operations and projections of current business trends indicate weaker sales and margins than originally planned, primarily related to launch delays and lower sales of new products. In addition, we expect a continuing negative impact from pseudoephedrine as we convert a large number of formulations to non-pseudoephedrine ingredients. This conversion has proven to be more complex and difficult than anticipated. It is clear that we will not overcome the negative impact of the new product and pseudoephedrine issues to the extent anticipated.

"While pseudoephedrine continues to be a difficult situation, Perrigo has been confronted with difficult outside influences in the past, and although larger and more complex, this one has some similarity to the PPA product withdrawal of November 2000. We worked our way

through that situation and we will work through this one as well, targeting a rebound in our Consumer Healthcare business for next year," concluded Mr. Gibbons.

Perrigo will host a conference call to discuss fiscal 2006 second quarter results at 10 a.m. (ET) Thursday, Feb. 2. 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, 973-339-3086. A taped replay of the call will be available beginning at approximately 2:30 p.m. (ET) Thursday, Feb. 2 until midnight Wednesday, Feb. 8. To listen to the replay, call 877-519-4471, International 973-341-3080, access code 6951125.

The 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 market. 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 prescription generic drugs, active pharmaceutical ingredients and consumer products, and operates manufacturing 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 33 - 41 of the Company's Form 10-K for the year ended June 25, 2005, as well as the Company's subsequent filings with the Securities and Exchange Commission, 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)

	Second Quarter		Year-to-Date	
	2006	2005	2006	2005
Net sales	\$359,697	\$251,748	\$679,431	\$479,467
Cost of sales	254,127	184,692	486,945	347,698
Gross profit	105,570	67,056	192,486	131,769
Operating expenses				
Distribution	6,953	3,905	14,103	8,098
Research and development	12,226	9,286	24,875	15,640
Selling and administration	47,082	29,716	93,470	57,256
Total	66,261	42,907	132,448	80,994

Operating income	39,309	24,149	60,038	50,775
Interest and other, net	(675)	(604)	2,105	(1,444)
Income before income taxes	39,984	24,753	57,933	52,219
Income tax expense	14,618	8,915	19,656	18,803
Net income	\$25,366	\$15,838	\$38,277	\$33,416
Earnings per share				
Basic	\$0.27	\$0.22	\$0.41	\$0.47
Diluted	\$0.27	\$0.22	\$0.41	\$0.46
Weighted average shares outstanding				
Basic	92,833	71,206	93,063	71,111
Diluted	93,963	73,285	94,167	73,166
Dividends declared per share	\$0.0425	\$0.040	\$0.0825	\$0.075

PERRIGO COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

	December 24, 2005	June 25, 2005	December 25, 2004	
	(unaudited)	(unaudited)	(unaudited)	
Assets				
Current assets				
Cash and cash equivalents		\$15,840	\$16,707	\$8,437
Investment securities		10,717	17,761	170,798
Accounts receivable		235,672	210,308	110,931
Inventories		262,855	272,980	166,615
Current deferred income taxes		52,140	55,987	32,242
Prepaid expenses and other current assets		21,841	35,064	10,271
Total current assets		599,065	608,807	499,294
Property and equipment		594,802	586,306	468,718
Less accumulated depreciation		282,196	262,505	248,140
		312,606	323,801	220,578
Restricted cash		400,000	400,000	-
Goodwill		150,067	150,293	35,919
Other intangible assets		141,079	147,967	8,467
Non-current deferred income taxes		36,130	26,964	7,899
Other non-current assets		45,129	47,144	14,259
		\$1,684,076	\$1,704,976	\$786,416
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable		\$149,541	\$142,789	\$83,299
Notes payable		20,975	25,345	9,758
Payroll and related taxes		42,021	42,326	23,749
Accrued customer programs		50,775	41,666	15,365
Accrued liabilities		55,898	57,532	32,329
Accrued income taxes		11,539	21,225	6,705
Current deferred income taxes		13,727	9,659	3,079
Total current liabilities		344,476	340,542	174,284
Non-current liabilities				
Long-term debt		634,956	656,128	-
Non-current deferred income taxes		64,182	74,379	29,631
Other non-current liabilities		34,807	43,090	7,499
Total non-current liabilities		733,945	773,597	37,130
Shareholders' equity				
Preferred stock, without par value, 10,000 shares authorized		-	-	-
Common stock, without par value, 200,000 shares authorized		518,459	527,748	112,703
Accumulated other comprehensive income (loss)		(8,645)	(1,687)	4,523
Retained earnings		95,841	64,776	457,776

Total shareholders' equity	605,655	590,837	575,002
	\$1,684,076	\$1,704,976	\$786,416

Supplemental Disclosures of Balance
Sheet Information

Allowance for doubtful accounts	\$11,088	\$10,370	\$7,934
Allowance for inventory	\$44,201	\$38,095	\$23,846
Working capital	\$254,589	\$268,265	\$325,010
Preferred stock, shares issued	-	-	-
Common stock, shares issued	93,104	93,903	71,555

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

	Year-To-Date	
	2006	2005
Cash Flows (For) From Operating Activities		
Net income	\$38,277	\$33,416
Adjustments to derive cash flows		
Depreciation and amortization	26,753	15,514
Share-based compensation	4,741	2,827
Deferred income taxes	(7,506)	(2,967)
Sub-total	62,265	48,790
Changes in operating assets and liabilities		
Accounts receivable	(23,845)	(24,354)
Inventories	11,956	8,139
Accounts payable	5,480	(5,237)
Payroll and related taxes	(580)	(17,621)
Accrued customer programs	9,109	2,153
Accrued liabilities	(3,133)	1,944
Accrued income taxes	(12,811)	6,702
Other	6,797	938
Sub-total	(7,027)	(27,336)
Net cash from operating activities	55,238	21,454
Cash Flows (For) From Investing Activities		
Purchase of securities	(27,887)	(76,815)
Proceeds from sales of securities	34,586	69,890
Additions to property and equipment	(12,112)	(7,564)
Acquisition of assets	-	(5,562)
Other	-	(2,478)
Net cash for investing activities	(5,413)	(22,529)
Cash (For) From Financing Activities		
Borrowings (repayments) of short-term debt, net	(4,471)	395
Borrowings of long-term debt	15,000	-
Repayments of long-term debt	(35,000)	-
Tax effect of stock transactions	(635)	821
Issuance of common stock	3,006	5,161
Repurchase of common stock	(16,401)	(122)
Cash dividends	(7,702)	(5,334)
Net cash (for) from financing activities	(46,203)	921
Net increase (decrease) in cash and cash equivalents	3,622	(154)
Cash and cash equivalents, at beginning of period	16,707	8,392
Effect of exchange rate changes on		

cash	(4,489)	199
Cash and cash equivalents, at end of period	\$15,840	\$8,437

Supplemental Disclosures of Cash Flow Information

Cash paid/received during the period for:

Interest paid	\$17,680	\$220
Interest received	\$10,614	\$-
Income taxes paid	\$32,361	\$11,941
Income taxes refunded	\$5,164	\$4,066

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

	Second Quarter		Year-To-Date		
	2006	2005	2006	2005	
Segment Sales					
Consumer Healthcare		\$272,220	\$251,584	\$500,853	\$479,303
Rx Pharmaceuticals		28,645	164	57,739	164
API	26,863	-	53,654	-	
Other	31,969	-	67,185	-	
Total	\$359,697	\$251,748	\$679,431	\$479,467	
Segment Operating Income (Loss)					
Consumer Healthcare		\$32,050	\$26,499	\$45,172	\$54,424
Rx Pharmaceuticals		5,300	(2,350)	9,136	(3,649)
API	6,545	-	13,131	-	
Other	379	-	(280)	-	
Unallocated expenses		(4,965)	-	(7,121)	-
Total	\$39,309	\$24,149	\$60,038	\$50,775	

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

	Second Quarter		Year-To-Date	
	2006	2005	2006	2005
Net sales	\$359,697	\$251,748	\$679,431	\$479,467
Reported gross profit	\$105,570	\$67,056	\$192,486	\$131,769
Inventory step-up	-	-	4,762	-
Adjusted gross profit	\$105,570	\$67,056	\$197,248	\$131,769
Adjusted gross profit %	29.4%	26.6%	29.0%	27.5%
Reported operating income	\$39,309	\$24,149	\$60,038	\$50,775
Inventory step-up	-	-	4,762	-
Adjusted operating income	\$39,309	\$24,149	\$64,800	\$50,775
Reported net income	\$25,366	\$15,838	\$38,277	\$33,416
Inventory step-up (1)	-	-	3,714	-
Gain on sale of equity investment (2)	(2,939)	-	(2,939)	-
Adjusted net income	\$22,427	\$15,838	\$39,052	\$33,416
Diluted earnings per share				
Reported	\$0.27	\$0.22	\$0.41	\$0.46
Adjusted	\$0.24	\$0.22	\$0.41	\$0.46
Diluted weighted average shares outstanding				
	93,963	73,285	94,167	73,166

(1) Net of taxes at 22%.

(2) Net of taxes at 37%.

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

	Second Quarter		Year-To-Date	
	2006	2005	2006	2005
Consumer Healthcare				
Net sales	\$272,220	\$251,584	\$500,853	\$479,303
Reported gross profit	\$70,580	\$67,138	\$123,371	\$131,851
Inventory step-up	-	-	318	-
Adjusted gross profit	\$70,580	\$67,138	\$123,689	\$131,851
Adjusted gross profit %	25.9%	26.7%	24.7%	27.5%
Reported operating income	\$32,050	\$26,499	\$45,172	\$54,424
Inventory step-up	-	-	318	-
Adjusted operating income	\$32,050	\$26,499	\$45,490	\$54,424
API				
Net sales	\$26,863	\$-	\$53,654	\$-
Reported gross profit	\$12,797	\$-	\$24,801	\$-
Inventory step-up	-	-	1,747	-
Adjusted gross profit	\$12,797	\$-	\$26,548	\$-
Adjusted gross profit %	47.6%	0.0%	49.5%	0.0%
Reported operating income	\$6,545	\$-	\$13,131	\$-
Inventory step-up	-	-	1,747	-
Adjusted operating income	\$6,545	\$-	\$14,878	\$-
Other				
Net sales	\$31,969	\$-	\$67,185	\$-
Reported gross profit	\$10,601	\$-	\$21,097	\$-
Inventory step-up	-	-	2,697	-
Adjusted gross profit	\$10,601	\$-	\$23,794	\$-
Adjusted gross profit %	33.2%	0.0%	35.4%	0.0%
Reported operating income (loss)	\$379	\$-	\$(280)	\$-
Inventory step-up	-	-	2,697	-
Adjusted operating income	\$379	\$-	\$2,417	\$-

SOURCE: Perrigo Company

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

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