

PERRIGO CO
 Form 10-Q
 November 07, 2012
Table of Contents

UNITED STATES
 SECURITIES AND EXCHANGE COMMISSION
 WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: September 29, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
 Commission file number 0-19725

PERRIGO COMPANY
 (Exact name of registrant as specified in its charter)

Michigan 38-2799573
 (State or other jurisdiction of (I.R.S. Employer
 incorporation or organization) Identification No.)

515 Eastern Avenue 49010
 Allegan, Michigan (Zip Code)
 (Address of principal executive offices)
 (269) 673-8451

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

Edgar Filing: PERRIGO CO - Form 10-Q

As of November 2, 2012, the registrant had 93,880,801 outstanding shares of common stock.

Table of Contents

PERRIGO COMPANY
FORM 10-Q
INDEX

| | PAGE NUMBER |
|---|----------------|
| <u>Cautionary Note Regarding Forward-Looking Statements</u> | <u>1</u> |
| PART I. FINANCIAL INFORMATION | |
| <u>Item 1. Financial Statements (Unaudited)</u> | |
| <u>Condensed consolidated statements of income - For the quarters ended September 29, 2012 and September 24, 2011</u> | <u>2</u> |
| <u>Condensed consolidated statements of comprehensive income - For the quarters ended September 29, 2012 and September 24, 2011</u> | <u>3</u> |
| <u>Condensed consolidated balance sheets - September 29, 2012, June 30, 2012 and September 24, 2011</u> | <u>4</u> |
| <u>Condensed consolidated statements of cash flows - For the year-to-date periods ended September 29, 2012 and September 24, 2011</u> | <u>5</u> |
| <u>Notes to condensed consolidated financial statements</u> | <u>6</u> |
| <u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>22</u> |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | <u>32</u> |
| <u>Item 4. Controls and Procedures</u> | <u>32</u> |
| PART II. OTHER INFORMATION | |
| <u>Item 1. Legal Proceedings</u> | <u>34</u> |
| <u>Item 1A. Risk Factors</u> | <u>34</u> |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>34</u> |
| <u>Item 4. Mine Safety Disclosures</u> | <u>34</u> |
| <u>Item 6. Exhibits</u> | <u>35</u> |
| <u>SIGNATURES</u> | <u>36</u> |
| <u>EXHIBIT INDEX</u> | <u>37</u> |

Table of Contents

Cautionary Note Regarding Forward-Looking Statements

Certain statements in this report 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 particular, statements about the Company’s expectations, beliefs, plans, objectives, assumptions, future events or future performance contained in this report, including certain statements contained in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” are forward-looking statements. In some cases, forward-looking statements can be identified by terminology such as “may,” “will,” “could,” “would,” “should,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “potential” or the negative of those terms or other comparable terminology. Please see Item 1A of the Company’s Form 10-K for the year ended June 30, 2012 and Part II, Item 1A of this Form 10-Q for a discussion of certain important risk factors that relate to forward-looking statements contained in this report. The Company has based these forward-looking statements on its current expectations, assumptions, estimates and projections. While the Company believes these expectations, assumptions, estimates and projections are reasonable, such forward-looking statements are only predictions and involve known and unknown risks and uncertainties, many of which are beyond the Company’s control. These and other important factors may cause actual results, performance or achievements to differ materially from those expressed or implied by these forward-looking statements. The forward-looking statements in this report are made only as of the date hereof, and 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.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

PERRIGO COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

(unaudited)

| | First Quarter 2013 | 2012 |
|-------------------------------------|-----------------------|-----------|
| Net sales | \$769,810 | \$725,295 |
| Cost of sales | 484,541 | 497,716 |
| Gross profit | 285,269 | 227,579 |
| Operating expenses | | |
| Distribution | 10,767 | 10,264 |
| Research and development | 27,395 | 19,638 |
| Selling and administration | 90,534 | 96,125 |
| Total operating expenses | 128,696 | 126,027 |
| Operating income | 156,573 | 101,552 |
| Interest, net | 15,853 | 12,570 |
| Other (income) expense, net | (62 |) 229 |
| Income before income taxes | 140,782 | 88,753 |
| Income tax expense | 35,202 | 18,295 |
| Net income | \$105,580 | \$70,458 |
| Earnings per share | | |
| Basic earnings per share | \$1.13 | \$0.76 |
| Diluted earnings per share | \$1.12 | \$0.75 |
| Weighted average shares outstanding | | |
| Basic | 93,607 | 92,900 |
| Diluted | 94,335 | 93,953 |
| Dividends declared per share | \$0.08 | \$0.07 |

See accompanying notes to condensed consolidated financial statements.

Table of ContentsPERRIGO COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

| | First Quarter | | |
|--|---------------|----------|---|
| | 2013 | 2012 | |
| Net income | \$105,580 | \$70,458 | |
| Other comprehensive income (loss): | | | |
| Change in fair value of derivative financial instruments, net of tax | 1,462 | (7,796 |) |
| Foreign currency translation adjustments | 5,424 | (52,960 |) |
| Post-retirement liability adjustments, net of tax | (41 |) (17 |) |
| Other comprehensive income (loss), net of tax | 6,845 | (60,773 |) |
| Comprehensive income | \$112,425 | \$9,685 | |

See accompanying notes to condensed consolidated financial statements.

Table of ContentsPERRIGO COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

(unaudited)

| | September 29, 2012 | June 30, 2012 | September 24, 2011 |
|--|-----------------------|------------------|-----------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | \$631,993 | \$602,489 | \$116,615 |
| Accounts receivable, net | 584,008 | 572,582 | 521,263 |
| Inventories | 598,825 | 547,455 | 563,257 |
| Current deferred income taxes | 45,781 | 45,738 | 50,276 |
| Income taxes refundable | 4,252 | 1,047 | 8,891 |
| Prepaid expenses and other current assets | 35,872 | 26,610 | 38,789 |
| Total current assets | 1,900,731 | 1,795,921 | 1,299,091 |
| Property and equipment | 1,135,502 | 1,118,837 | 1,037,270 |
| Less accumulated depreciation | (555,241 |) (540,487 |) (504,389 |
| | 580,261 | 578,350 | 532,881 |
| Goodwill and other indefinite-lived intangible assets | 822,359 | 820,122 | 812,924 |
| Other intangible assets, net | 711,104 | 729,253 | 771,677 |
| Non-current deferred income taxes | 14,627 | 13,444 | 13,479 |
| Other non-current assets | 88,348 | 86,957 | 84,035 |
| | \$4,117,430 | \$4,024,047 | \$3,514,087 |
| Liabilities and Shareholders' Equity | | | |
| Current liabilities | | | |
| Accounts payable | \$306,972 | \$317,341 | \$303,549 |
| Short-term debt | 1,609 | 90 | 3,750 |
| Payroll and related taxes | 57,864 | 89,934 | 72,106 |
| Accrued customer programs | 122,495 | 116,055 | 112,592 |
| Accrued liabilities | 79,756 | 76,406 | 83,374 |
| Accrued income taxes | 21,228 | 12,905 | 6,677 |
| Current portion of long-term debt | 40,000 | 40,000 | 40,000 |
| Total current liabilities | 629,924 | 652,731 | 622,048 |
| Non-current liabilities | | | |
| Long-term debt, less current portion | 1,329,827 | 1,329,235 | 1,155,787 |
| Non-current deferred income taxes | 26,297 | 24,126 | 9,604 |
| Other non-current liabilities | 166,064 | 165,310 | 182,207 |
| Total non-current liabilities | 1,522,188 | 1,518,671 | 1,347,598 |
| Shareholders' Equity | | | |
| Controlling interest: | | | |
| Preferred stock, without par value, 10,000 shares authorized | — | — | — |
| Common stock, without par value, 200,000 shares authorized | 512,658 | 504,708 | 478,035 |
| Accumulated other comprehensive income | 46,249 | 39,404 | 66,277 |
| Retained earnings | 1,404,977 | 1,306,925 | 998,256 |
| | 1,963,884 | 1,851,037 | 1,542,568 |
| Noncontrolling interest | 1,434 | 1,608 | 1,873 |
| Total shareholders' equity | 1,965,318 | 1,852,645 | 1,544,441 |
| | \$4,117,430 | \$4,024,047 | \$3,514,087 |

Supplemental Disclosures of Balance Sheet Information

Edgar Filing: PERRIGO CO - Form 10-Q

| | | | |
|--|-------------|-------------|-----------|
| Allowance for doubtful accounts | \$2,224 | \$2,556 | \$9,617 |
| Working capital | \$1,270,807 | \$1,143,190 | \$677,043 |
| Preferred stock, shares issued and outstanding | — | — | — |
| Common stock, shares issued and outstanding | 93,840 | 93,484 | 93,189 |

See accompanying notes to condensed consolidated financial statements.

4

Table of Contents

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

| | First Quarter 2013 | 2012 | |
|---|-----------------------|------------|---|
| Cash Flows (For) From Operating Activities | | | |
| Net income | \$ 105,580 | \$ 70,458 | |
| Adjustments to derive cash flows | | | |
| Gain on sale of pipeline development projects | — | (3,500 |) |
| Depreciation and amortization | 33,424 | 34,720 | |
| Share-based compensation | 4,772 | 3,935 | |
| Income tax benefit from exercise of stock options | 2,068 | 2,125 | |
| Excess tax benefit of stock transactions | (13,342 |) (10,578 |) |
| Deferred income taxes | (3,483 |) (3,084 |) |
| Subtotal | 129,019 | 94,076 | |
| Changes in operating assets and liabilities, net of business acquisition | | | |
| Accounts receivable | (6,682 |) 8,581 | |
| Inventories | (48,110 |) (7,156 |) |
| Accounts payable | (12,574 |) (47,249 |) |
| Payroll and related taxes | (32,298 |) (10,681 |) |
| Accrued customer programs | 6,440 | (5,708 |) |
| Accrued liabilities | 2,713 | 17,678 | |
| Accrued income taxes | 15,674 | (878 |) |
| Other | (9,327 |) 5,484 | |
| Subtotal | (84,164 |) (39,929 |) |
| Net cash from operating activities | 44,855 | 54,147 | |
| Cash Flows (For) From Investing Activities | | | |
| Acquisition of business, net of cash acquired | — | (547,052 |) |
| Proceeds from sale of intangible assets and pipeline development projects | — | 10,500 | |
| Additions to property and equipment | (14,804 |) (18,953 |) |
| Other | — | (250 |) |
| Net cash for investing activities | (14,804 |) (555,755 |) |
| Cash Flows (For) From Financing Activities | | | |
| Borrowings of short-term debt, net | 1,519 | 980 | |
| Net borrowings under accounts receivable securitization program | — | 55,000 | |
| Borrowings of long-term debt | 592 | 250,787 | |
| Deferred financing fees | — | (2,468 |) |
| Excess tax benefit of stock transactions | 13,342 | 10,578 | |
| Issuance of common stock | 4,063 | 5,884 | |
| Repurchase of common stock | (12,159 |) (7,899 |) |
| Cash dividends | (7,528 |) (6,535 |) |
| Net cash (for) from financing activities | (171 |) 306,327 | |
| Effect of exchange rate changes on cash | (376 |) 1,792 | |
| Net increase (decrease) in cash and cash equivalents | 29,504 | (193,489 |) |
| Cash and cash equivalents, beginning of period | 602,489 | 310,104 | |
| Cash and cash equivalents, end of period | \$ 631,993 | | |