# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# FORM 8-K/A

## CURRENT REPORT

**Pursuant to Section 13 or 15(d) of**
**the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): **July 7, 2019**

# PETIQ, INC.
(Exact name of registrant as specified in its charter)

| Delaware | 001-38163 | 35-2554312 |
|---|---|---|
| (State or other jurisdiction of incorporation) | (Commission File Number) | (I.R.S. Employer Identification No.) |

| 923 S. Bridgeway Place Eagle, Idaho | 83616 |
|---|---|
| (Address of principal executive offices) | (Zip Code) |

**(208) 939-8900**
(Registrant's telephone number, including area code)

**N/A**
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

☒ Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act (17 CFR 230.405) or Rule 12b-2 of the Securities Exchange Act (17 CFR 240.12b-2)

☒ Indicate by check mark if the registrant has elected not to use the extended transition period for complying with new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act (17 CFR 240.13(a)-1)

| Title of Each Class | Trading Symbol | Name of Exchange on Which Registered |
|---|---|---|
| Class A common stock, par value $0.001 per share | PETQ | NYSE |

PetIQ, Inc. (the "Company") hereby amends and supplements the Current Report on Form 8-K originally filed with the Securities and Exchange Commission on July 9, 2019 to include the information required by Item 9.01(a) and Item 9.01(b) on Form 8-K in connection with the acquisition of all of the outstanding capital stock of Sergeant's Pet Care Products, Inc., including any assets related to Perrigo's animal health business, which closed on July 8, 2019.

**Item 9.01. Financial Statements and Exhibits**

(a) Financial Statements of Business Acquired

Audited combined financial statements of the Animal Health business of Perrigo Company plc which comprise the combined balance sheets as of December 31, 2018 and 2017, and the related combined statements of operations, equity, and cash flows for the years then ended, and the related notes to the combined financial statements, are attached hereto as Exhibit 99.1 and incorporated herein by reference.

Unaudited condensed combined financial statements of the Animal Health business of Perrigo Company plc which comprise the condensed combined balance sheets as of March 30, 2019 and December 31, 2018 and the related condensed combined statements of operations, equity, and cash flows for the three months ended March 30, 2019 and March 31, 2018, and the related notes to the condensed combined financial statements, are attached hereto as Exhibit 99.2 and incorporated herein by reference.

(b) Pro Forma Financial Information

Unaudited pro forma condensed combined balance sheet as of March 31, 2019 and unaudited pro forma condensed combined statements of operations for the year ended December 31, 2018, and the three months ended March 31, 2019 of PetIQ, Inc. and Sergeant's Pet Care Products, Inc. are attached hereto as exhibit 99.3 and incorporated herein by reference. The unaudited pro forma condensed combined financial information is a presentation of historical results with accounting adjustments necessary to reflect the estimated pro forma effect of the acquisition and is presented for informational purposes only. The unaudited pro forma condensed combined financial information does not reflect the effects of any anticipated changes to be made to the operations of the combined companies in connection with the acquisitions, including synergies and cost savings and does not include one-time charges expected to result from the transaction. The unaudited pro forma condensed combined financial information should not be construed to be indicative of future results of operations or financial position.

*(d)* *Exhibits:*

| Exhibit No. | Description |
|---|---|
| 23.1 | Consent of Ernst & Young LLP |
| 99.1 | Audited combined financial statements of the Animal Health business of Perrigo Company plc, which comprise the combined balance sheets as of December 31, 2018 and 2017 and the related combined statements of operations, equity, and cash flows for the years then ended, and the related notes to the combined financial statements |
| 99.2 | Unaudited condensed combined financial statements of the Animal Health business of Perrigo Company plc, which comprise the condensed combined balance sheets as of March 30, 2019 and December 31, 2018 and the related combined statements of operations, equity, and cash flows for the three months ended March 30, 2019 and March 31, 2018, and the related notes to the condensed combined financial statements |
| 99.3 | Unaudited pro forma condensed combined balance sheet as of March 31, 2019, and unaudited pro forma condensed combined statements of operations for the year ended December 31, 2018, and the three months ended March 31, 2019 of PetIQ, Inc. and Sergeant's Pet Care Products, Inc. |

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

| | |
|---|---|
| | PETIQ, INC. |
| Dated: September 19, 2019 | By /s/ John Newland |
| | Name: John Newland |
| | Title: Chief Financial Officer |

## Consent of Independent Auditors

We consent to the incorporation by reference in the following Registration Statements:

1) Registration Statement (Form S-3 No. 333-227186) of PetIQ Inc.,

2) Registration Statement (Form S-8 No. 333-219455) pertaining to the PetIQ, Inc. 2017 Omnibus Incentive Plan,

3) Registration Statement (Form S-8 No. 333-231795) pertaining to the PetIQ, Inc. Amended and Restated 2017 Omnibus Incentive Plan, and

4) Registration Statement (Form S-8 No. 333-223635) pertaining to the PetIQ, Inc. 2018 Inducement and Retention Stock Plan for CVC Employees;

of our report dated July 2, 2019, with respect to the combined financial statements of the Animal Health business of Perrigo Company plc, included in this Current Report on Form 8-K/A.

/s/ Ernst & Young LLP

Grand Rapids, Michigan
September 19, 2019

# ANIMAL HEALTH BUSINESS OF PERRIGO COMPANY PLC

## COMBINED FINANCIAL STATEMENTS

As of and for the years ended
December 31, 2018 and 2017;
Report of Independent Auditors

**ANIMAL HEALTH BUSINESS OF PERRIGO COMPANY PLC**

## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of Perrigo Company plc

We have audited the accompanying combined financial statements of the Animal Health business of Perrigo Company plc, which comprise the combined balance sheets as of December 31, 2018 and 2017, and the related combined statements of operations, equity and cash flows for the years then ended, and the related notes to the combined financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of the Animal Health business of Perrigo Company plc at December 31, 2018 and 2017, and the combined results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Grand Rapids, Michigan
July 2, 2019

**ANIMAL HEALTH BUSINESS OF PERRIGO COMPANY PLC**
**COMBINED STATEMENTS OF OPERATIONS**
(in thousands)

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Net sales | $ 91,885 | $ 143,294 |
| Cost of sales | 65,399 | 95,205 |
| Gross profit | 26,486 | 48,089 |
| | | |
| Operating expenses | | |
| Selling | 16,379 | 15,451 |
| Administration | 12,558 | 15,448 |
| Distribution | 4,178 | 4,305 |
| Research and development | 2,878 | 3,400 |
| Impairment charges | 172,451 | - |
| Total operating expenses | 208,444 | 38,604 |
| | | |
| Operating (loss) income | (181,958) | 9,485 |
| | | |
| Other income | (250) | - |
| (Loss) income before income taxes | (181,708) | 9,485 |
| Income tax benefit | (13,569) | (5,554) |
| Net (loss) income | $ (168,139) | $ 15,039 |

See accompanying Notes to Combined Financial Statements.

**ANIMAL HEALTH BUSINESS OF PERRIGO COMPANY PLC**
**COMBINED BALANCE SHEETS**
(in thousands)

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| **Assets** | | |
| Cash | $ 132 | $ 120 |
| Accounts receivable, net | 6,517 | 11,694 |
| Inventories | 17,052 | 20,913 |
| Prepaid expenses and other current assets | 1,755 | 1,846 |
| Total current assets | 25,456 | 34,573 |
| Property, plant and equipment, net | 10,909 | 11,891 |
| Goodwill and indefinite-lived intangible assets | 29,633 | 158,601 |
| Definite-lived intangible assets, net | 38,616 | 104,248 |
| Other non-current assets | 11 | 36 |
| Total non-current assets | 79,169 | 274,776 |
| Total assets | $ 104,625 | $ 309,349 |
| **Liabilities and Equity** | | |
| Accounts payable | $ 4,547 | $ 6,907 |
| Payroll and related taxes | 1,330 | 2,210 |
| Accrued customer programs | 4,259 | 3,610 |
| Accrued liabilities | 1,274 | 1,165 |
| Total current liabilities | 11,410 | 13,892 |
| Deferred income taxes | - | 13,569 |
| Other non-current liabilities | 524 | 406 |
| Total non-current liabilities | 524 | 13,975 |
| Total liabilities | 11,934 | 27,867 |
| *Commitments and contingencies - Refer to Note 8* | | |
| Net parent investment | 92,691 | 281,482 |
| **Total liabilities and equity** | $ 104,625 | $ 309,349 |

See accompanying Notes to Combined Financial Statements.

**ANIMAL HEALTH BUSINESS OF PERRIGO COMPANY PLC**
**COMBINED STATEMENTS OF CASH FLOWS**
(in thousands)

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| **Cash Flows From (For) Operating Activities** | | |
| Net income (loss) | $ (168,139) | $ 15,039 |
| Adjustments to derive cash flows | | |
| Depreciation and amortization | 23,424 | 34,917 |
| Impairment charges | 172,451 | - |
| Deferred income taxes | (13,569) | (14,533) |
| Other non-cash adjustments | 650 | 957 |
| Subtotal | 182,956 | 21,341 |
| Increase (decrease) in cash due to: | | |
| Accounts receivable | 5,177 | 2,397 |
| Inventories | 3,861 | 1,953 |
| Prepaid expenses and other current assets | 91 | 1,178 |
| Accounts payable | (2,360) | 2,041 |
| Payroll and related taxes | (880) | 277 |
| Accrued customer programs | 649 | (580) |
| Accrued liabilities | 109 | (1,251) |
| Other, net | 220 | 360 |
| Subtotal | 6,867 | 6,375 |
| Net cash from operating activities | 21,684 | 42,755 |
| **Cash Flows From (For) Investing Activities** | | |
| Additions to property, plant and equipment | (395) | (1,137) |
| Proceeds from sale of assets | - | 7,000 |
| Net cash from (for) investing activities | (395) | 5,863 |
| **Cash Flows For Financing Activities** | | |
| Transfer to Parent | (21,277) | (48,766) |
| Net cash for financing activities | (21,277) | (48,766) |
| Net increase (decrease) in cash and cash equivalents | 12 | (148) |
| Cash, beginning of period | 120 | 268 |
| Cash, end of period | $ 132 | $ 120 |

See accompanying Notes to Combined Financial Statements.

**ANIMAL HEALTH BUSINESS OF PERRIGO COMPANY PLC**
**COMBINED STATEMENTS OF EQUITY**
(in thousands)

| | Total Equity |
|---|---|
| Balance at January 1, 2017 | $ 314,655 |
| Net income | 15,039 |
| Transfer to Parent | (48,212) |
| Balance at December 31, 2017 | 281,482 |
| Net loss | (168,139) |
| Transfer to Parent | (20,652) |
| Balance at December 31, 2018 | $ 92,691 |

See accompanying Notes to Combined Financial Statements.

**NOTE 1 - BASIS OF PRESENTATION**

*The Company*

Perrigo Company plc's ("Perrigo" or the "Parent") Animal Health reporting unit ("Animal Health business") develops, manufactures, and markets a portfolio of pet health and wellness products in the U.S. These Combined Financial Statements reflect the Animal Health business of Perrigo. The words "we", "us", "our" or the "Company" and similar words refer to the combined Animal Health business of Perrigo.

*Basis of Presentation*

The Animal Health business has not historically constituted a separate legal group. Stand-alone financial statements have not previously been prepared for the Animal Health business. The Combined Financial Statements as of and for the years ended December 31, 2018 and 2017 have been prepared on a stand-alone basis derived from the financial statements and related accounting records of the Parent. The accompanying Combined Financial Statements reflect the historical Statements of Operations, Balance Sheets, Statements of Cash Flows, and Statements of Equity of the Animal Health business as they were historically managed and are presented in conformity with the U.S. generally accepted accounting principles ("GAAP").

The Combined Balance Sheets reflect the assets and liabilities of the Parent that are either specifically identifiable or are directly attributable to the Animal Health business and its operations. The basis of the assets and liabilities attributable to the combined entity is historical cost. All intercompany transactions and accounts have been eliminated within the Animal Health business. All transactions between the Animal Health business and the Parent are considered to be effectively settled in the Combined Financial Statements at the time the transaction is recorded. The total net effect of the settlement of these intercompany transactions between the Animal Health business and the Parent is reflected in the Combined Statements of Cash Flows as a financing activity and in the Combined Balance Sheets as Net parent investment.

The Combined Financial Statements reflect allocations of direct and indirect expenses related to certain support functions including executive oversight, administration, legal, finance, operations, supply chain, information technology, quality, regulatory, compliance and employee-related costs that are provided on a centralized basis by the Parent. These expenses have been allocated to the Animal Health business based on direct usage or benefit where specifically identifiable, with the remaining allocated based on a pro rata basis of revenue. Management believes the assumptions underlying the Combined Financial Statements, including the assumptions regarding allocation of expenses, are reasonable. However, the allocations may not be indicative of the actual expense that would have been incurred had the Company operated as an independent company for the periods presented. It is impractical to estimate what the standalone costs of the Animal Health business would have been in historical periods.

The income tax amounts in these Combined Financial Statements have been calculated based on a separate return method and presented as if the Animal Health business' operations were separate taxpayers in each respective jurisdiction.

The Animal Health business' Net parent investment in these Combined Financial Statements represents the excess of total assets over total liabilities. Net parent investment is primarily impacted by contributions from the Parent which are the result of treasury activities and net funding provided by or distributed to the Parent.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***General Information***

*Use of Estimates*

The preparation of the Combined Financial Statements in conformity with GAAP required us to make estimates and assumptions that affect the reported amounts and disclosures at the date of the Combined Financial Statements and the reported amounts of revenues and expenses during the reporting period. These estimates and underlying assumptions can impact all elements of the Combined Financial Statements, including but not limited to allocations of costs and expenses from the Parent. The estimates and associated assumptions are based on historical experience, complex judgments and various other factors that are believed to be reasonable under the circumstances but are inherently uncertain and unpredictable. Actual results could differ from these estimates.

As future events and their effects cannot be determined with certainty, the estimates and assumptions may prove to be incomplete, inaccurate or unanticipated events and circumstances may occur that might cause a change in the estimates and assumptions. We are subject to risks and uncertainties that may cause actual results to differ from estimated amounts, such as changes in competition, litigation, legislation and regulations. We will adjust the estimates and assumptions when facts and circumstances indicate the need for change. Those changes generally will be reflected in our Combined Financial Statements on a prospective basis unless they are required to be treated retrospectively under relevant accounting standards. It is possible that others, applying reasonable judgment to the same facts and circumstances, could develop and support a range of alternative estimates.

***Revenues***

*Revenue Recognition*

We adopted ASU 2014-09 Revenue from Contracts with Customers and its related amendments (collectively, "ASC 606") on January 1, 2018 using the modified retrospective method for all contracts not completed as of the adoption date. The reported results for the periods in 2018 reflect the application of ASC 606 while the results for the comparable reporting periods in 2017 were prepared under the guidance of Revenue Recognition ("ASC 605"). The adoption of ASC 606 represents a change in accounting principle that closely aligns revenue recognition with the transfer of control of our products and will provide enhanced disclosures of the nature, amount, timing, and uncertainty of revenues and cash flows arising from contracts with customers.

In accordance with ASC 606, revenue is recognized when or as a customer obtains control of promised products. The amount of revenue recognized reflects the consideration to which we expect to be entitled to receive in exchange for these products.

The adoption of ASC 606 has no impact to either reported Net sales to customers or Net income for the period ended December 31, 2018.

We generated all third-party revenue in the U.S. for the years ended December 31, 2018 and December 31, 2017.

*Product Revenue*

We recognize product revenue for our contract performance obligations at a point in time, when control has transferred to the customer. The transfer of title is the primary indicator that control has transferred which typically occurs upon shipment or delivery of products to customers. For customers upon which control transfers on delivery due to free on-board destination terms (“FOB”), an adjustment is recorded to defer revenue recognition over an estimate of days until control transfers at the point of delivery.

Net product sales include estimates of variable consideration for which accruals and allowances are established. Variable consideration for product sales consists primarily of chargebacks, rebates, and promotional and slotting allowances recorded on the Combined Balance Sheets as Accrued customer programs and sales returns recorded on the Combined Balance Sheets as a reduction to Accounts receivable. Where appropriate, these estimates take into consideration a range of possible outcomes in which relevant factors, such as historical experience, current contractual and statutory requirements, specific known market events and trends, industry data and forecasted customer buying and payment patterns, are either probability weighted to derive an estimate of expected value or the estimate reflects the single most likely outcome. Overall, these reserves reflect the best estimates of the amount of consideration to which we are entitled based on the terms of the contract. Actual amounts of consideration ultimately received may differ from our estimates. If actual results in the future vary from the estimates, these estimates are adjusted, which would affect revenue and earnings in the period such variances become known.

*Other Revenue Policies*

We receive payments from our customers based on the terms established in each contract. Amounts are recorded as accounts receivable when our right to consideration is unconditional. The timing of the unconditional right to payment aligns with shipment or delivery of the product and the recognition of revenue.

Taxes collected from customers relating to product sales and remitted to governmental authorities are excluded from revenue.

Shipping and handling costs billed to customers are included in Net sales. Conversely, shipping and handling expenses we incur are included in Cost of sales.

***Accounts Receivable***

We maintain an allowance for doubtful accounts that reduces our receivables to amounts that are expected to be collected. In estimating the allowance, management considers factors such as current overall and industry-specific economic conditions, statutory requirements, historical and anticipated customer performance, historical experience with write-offs and the level of past-due amounts. Changes in these conditions may result in additional allowances. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. The allowance for doubtful accounts is immaterial as of December 31, 2018 and December 31, 2017.

***Inventories***

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the first-in first-out method. Costs include material and conversion costs. Inventory related to Research and Development ("R&D") is expensed at the point when it is determined the materials have no alternative future use.

We maintain reserves for estimated obsolete or unmarketable inventory based on the difference between the cost of the inventory and its estimated net realizable value. In estimating the reserves, management considers factors such as excess or slow-moving inventories, product expiration dating, products on quality hold, current and future customer demand and market conditions. Changes in these conditions may result in additional reserves.

***Property, Plant and Equipment, net***

Property, plant and equipment, net is recorded at cost and is depreciated using the straight-line method. Useful lives for financial reporting are 30 years for buildings and 1 to 15 years for machinery and equipment. Maintenance and repair costs are charged to earnings, while expenditures that increase asset lives are capitalized. Depreciation expense totaled $1,275 thousand and $1,540 thousand for the years ended December 31, 2018 and December 31, 2017, respectively.

We held the following property, plant and equipment, net (in thousands):

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Land | $ 1,885 | $ 1,788 |
| Buildings | 5,401 | 5,401 |
| Machinery and equipment | 11,393 | 11,916 |
| Gross property, plant and equipment | 18,679 | 19,105 |
| Less accumulated depreciation | (7,770) | (7,214) |
| Property, plant and equipment, net | $ 10,909 | $ 11,891 |

We review buildings and machinery and equipment for impairment when indicators of impairment are evident by comparing the carrying value of the assets to their estimated future undiscounted cash flows.

***Goodwill and Intangible Assets***

*Goodwill*

Goodwill represents amounts paid for an acquisition in excess of the fair value of net assets received. Goodwill is tested for impairment annually on the first day of our fourth quarter, or more frequently if changes in circumstances or the occurrence of events suggest an impairment exists.

The test for impairment requires us to make several estimates about fair value, most of which are based on projected future cash flows and market valuation multiples. The estimates associated with the goodwill impairment tests are considered critical due to the judgments required in determining fair value amounts, including projected discounted future cash flows. Changes in these estimates may result in the recognition of an impairment loss.

*Indefinite-lived Intangible Assets*

We have indefinite-lived trademarks, trade names, and brands tested for impairment annually on the first day of our fourth quarter, or more frequently if changes in circumstances or the occurrence of events suggest an impairment exists. An impairment loss is recognized if the carrying amount of the asset is not recoverable and its carrying amount exceed its fair value.

*Definite-lived Intangible Assets*

We have definite-lived intangible assets acquired through various business acquisitions and include a portfolio of customer relationships and distribution networks, developed product technology, formulations and product rights, distribution and license agreements and supply agreements, trademarks, trade names, and brands, and non-compete agreements. The assets are typically initially valued using the relief from royalty method. The assets are amortized on either a straight-line basis or proportionately to the benefits derived from those relationships or agreements. Useful lives vary by asset type and are determined based on the period over which the intangible asset is expected to contribute directly or indirectly to our future cash flows.

Goodwill, indefinite-lived intangible asset and definite-lived intangible asset impairments of $172,451 thousand were recorded in Impairment charges on the Combined Statements of Operations for the year ended December 31, 2018.

***Income Taxes***

We are included in the consolidated U.S. federal and certain state income tax returns of Perrigo, where applicable. The tax provision and current and deferred tax balances have been prepared on a separate-return basis as if the Company were a separate filer. Any differences between actual amounts paid or received by the Company have been reflected in Net parent investment.

We record deferred income tax assets and liabilities on the balance sheets as noncurrent based upon the difference between the financial reporting and the tax reporting basis of assets and liabilities using the enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period the new tax rate is enacted.

To the extent that available evidence raises doubt about the realization of a deferred income tax asset, a valuation allowance is established. In the event we determine that we would be able to realize our deferred income tax assets in the future in excess of their net recorded amount, we would make an adjustment to the valuation allowance which would reduce the provision for income taxes

We record reserves for uncertain tax positions to the extent it is more likely than not that the tax position will be sustained on audit, based on the technical merits of the position. Periodic changes in reserves for uncertain tax positions are reflected in the provision for income taxes. We include interest and penalties attributable to uncertain tax positions and income taxes as a component of our income tax provision.

***Legal Contingencies***

We are involved in product liability, patent, commercial, regulatory and other legal proceedings that arise in the normal course of business. We record a liability when a loss is considered probable and the amount can be reasonably estimated. If the reasonable estimate of a probable loss is a range and no amount within that range is a better estimate, the minimum amount in the range is accrued. If a loss is not probable or a probable loss cannot be reasonably estimated, no liability is recorded. We established reserves for certain of our legal matters. We also separately record any insurance recoveries that are probable of occurring.

***Research and Development***

All R&D costs, including payments related to products under development and research consulting agreements, are expensed as incurred. We may continue to make non-refundable payments to third parties for new technologies and for R&D work that has been completed. These payments may be expensed at the time of payment depending on the nature of the payment made.

***Collaboration Agreements***

We may collaborate with other animal health companies to develop certain products. Our policy on accounting for costs of collaborations determines the timing of the recognition of development costs and determines whether the costs are classified as development expense or capitalized as an asset. Management is required to form judgments with respect to the commercial status of such products in determining whether development costs meet the criteria for immediate expense or capitalization.

***Fair Value Measurements***

Fair value is the price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following fair value hierarchy is used in selecting inputs, with the highest priority given to Level 1, as these are the most transparent or reliable.

Level 1: Quoted prices for identical instruments in active markets.

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets.

Level 3: Valuations derived from valuation techniques in which one or more significant inputs are not observable.

There were no transfers among Level 1, 2, and 3 during the years ended December 31, 2018 or December 31, 2017. Our policy regarding the recording of transfers between levels is to record any such transfers at the end of the reporting period.

The carrying amounts of our other financial instruments consisting of cash, accounts receivable, and accounts payable approximate their fair value.

***Recent Accounting Standard Pronouncements***

Below are recent accounting standard updates that we adopted or are still assessing to determine the effect on our Combined Financial Statements. We do not believe that any other recently issued accounting standards could have a material effect on our Combined Financial Statements. As new accounting pronouncements are issued, we will adopt those that are applicable under the circumstances.

**Recently Issued Accounting Standards Not Yet Adopted**

| Standard | Description | Effective Date | Effect on the Financial Statements or Other Significant Matters |
|---|---|---|---|
| ASU 2016-02 Leases (Topic 842) and subsequent amendments | This guidance was issued to increase transparency and comparability among organizations by requiring recognition of lease assets and lease liabilities on the balance sheet and disclosure of key information about leasing arrangements. For leases with a term of 12 months or less, lessees are permitted to make an election to not recognize right-of-use assets and lease liabilities. The guidance is required to be adopted using the modified retrospective approach. | January 1, 2019 | We plan to adopt the standard using the modified retrospective approach on the effective date. Upon adoption, we intend to apply the transition package of practical expedients allowed by the standard and to transition to the standard by recognizing a cumulative-effect adjustment to the opening balance of retained earnings. We expect our financial statement disclosures to be expanded to present additional qualitative and quantitative details of our leasing arrangements.<br><br>We have substantially completed: (1) our identification of the global lease population, (2) the data migration to a lease integration tool that will support the accounting and disclosure requirements under the standard, (3) the testing and review phase of the tool, and (4) designing processes and internal controls over the post-implementation leasing activities.<br><br>Based on our current lease portfolio, in the period of adoption we anticipate recognizing operating lease liabilities and operating lease assets of approximately \$11,200 to \$11,500 thousand on our Combined Balance Sheets. We anticipate an immaterial impact on our Combined Statement of Operations. |

| | | | |
|---|---|---|---|
| ASU 2017-04 Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill | The objective of this update is to reduce the cost and complexity of subsequent goodwill accounting and simplify the impairment test by removing the Step 2 requirement to perform a hypothetical purchase price allocation when the carrying value of a reporting unit exceeds its fair value. If a reporting unit's carrying value exceeds its fair value, an entity would record an impairment charge based on that difference, limited to the amount of goodwill attributed to that reporting unit. This will not change the guidance on completing Step 1 of the goodwill impairment test and would be applied prospectively. Early adoption is permitted | January 1, 2020 | We are currently evaluating the implications of adoption on our Combined Financial Statements. |
| ASU 2018-13 Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement | This guidance amends ASC 820 to add, remove, and modify certain disclosure requirements for fair value measurements. | January 1, 2020 | We are currently evaluating the implications of adoption on our Combined Financial Statements. |
| ASU 2018-18 Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606 | This guidance amends ASC 808 to clarify that certain transactions between participants in a collaborative arrangement should be accounted for under ASC 606 when the counterparty is a customer. The proposed guidance would be applied retrospectively to the date of initial adoption of Topic 606. | January 1, 2020 | We are currently evaluating the implications of adoption on our Combined Financial Statements. |
| ASU 2016-13: Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments<br><br>ASU 2018-19 Codification Improvements for Topic 326: Measurement of Credit Losses on Financial Instruments | This guidance changes the impairment model for most financial assets and certain other instruments, replacing the current "incurred loss" approach with an "expected loss" credit impairment model, which will apply to most financial assets measured at amortized cost, and certain other instruments, including trade and other receivables, loans, held-to-maturity debt securities and off-balance sheet credit exposures such as letters of credit. | January 1, 2020 | We are currently evaluating the implications of adoption on our Combined Financial Statements. |

**NOTE 3 - RELATED PARTY TRANSACTIONS**

We have not historically operated as a standalone business and have various relationships with the Parent whereby the Parent provides services to us.

***Corporate Overhead and Other Allocations from Perrigo***

The following table summarizes corporate overhead and other allocations from Perrigo included in the Combined Financial Statements for the years ended December 31, 2018 and December 31, 2017 (in thousands):

| | Year Ended | |
|---|---|---|
| | December 31, 2018 | December 31, 2017 |
| Cost of sales | $ 679 | $ 1,111 |
| Selling | 1,370 | 1,853 |
| Administration | 4,721 | 3,950 |
| | $ 6,770 | $ 6,914 |

***Cash***

The Parent uses a centralized approach to cash management and financing of operations for its subsidiaries. The Animal Health entities are party to the Parent's cash pooling arrangements with certain financial institutions to maximize the availability of cash for general operating and investing purposes. Under these cash pooling arrangements, cash balances are swept regularly from the Animal Health business' accounts. Certain treasury activities are recorded to reflect net cash collections as distributed to the Parent and net cash outlays as provided by the Parent and are reflected as elements of Net parent investment.

***Debt***

The Animal Health business is not the borrower or primary obligor for any third-party borrowing arrangements. Additionally, Perrigo's third-party debt and the related interest expense have not been allocated to the Company for any of the periods presented as the Company was not the legal obligor of the debt and Perrigo borrowings were not directly attributable to the Company's business.

***Share-Based Awards***

Our share-based compensation programs include grants to Animal Health business employees under the Parent's share-based compensation plans. We measure and record compensation expense for all share-based awards based on estimated grant date fair values, and net of any estimated forfeitures over the vesting period of the awards. Forfeiture rates are estimated at the grant date based on historical experience and adjusted in subsequent periods for any differences in actual forfeitures from those estimates. Share-based compensation costs related to our employees were immaterial for the years ended December 31, 2018 and December 31, 2017.

***Post Employment Plans***

Our employees participate in a qualified profit-sharing and investment plan under Section 401(k) of the IRS sponsored by Perrigo. Our contributions to the plan include an annual nondiscretionary contribution of 3% of an employee's eligible compensation and a discretionary contribution at the option of the Perrigo Board of Directors. The costs of such plans related to the employees of the Animal Health business were immaterial for the years ended December 31, 2018 and December 31, 2017.

## NOTE 4 – COLLABORATION AGREEMENTS

Effective March 19, 2018, we entered into a product development and asset purchase agreement with a third party for four product formulations in development by the third party. We accounted for the transaction as an asset acquisition based on our assessment that we did not acquire any substantive processes related to the creation of outputs from the third party. Upon signing the agreement, we paid a $250 thousand non-refundable upfront fee which was recorded in R&D expense because the in-process research and development product formulations have no alternative use. We may make up to $24,300 thousand of additional payments over the course of the next several years contingent on achievement of certain development, regulatory approval, and sales milestones. There can be no assurance that these products will be approved by the U.S. Food and Drug Administration ("FDA") on the anticipated schedule or at all. Consideration paid after FDA approval will be capitalized and amortized to cost of goods sold over the economic life of each product.

## NOTE 5 - GOODWILL AND INTANGIBLE ASSETS

*Goodwill*

Changes in the carrying amount of goodwill were as follows (in thousands):

| | Goodwill |
|---|---|
| Balance at January 1, 2017 | $ 125,601 |
| Impairment | - |
| Balance at December 31, 2017 | 125,601 |
| Impairment | (95,968) |
| Balance at December 31, 2018 | $ 29,633 |

We had accumulated impairments of $113,164 thousand and $17,196 thousand for the years ended December 31, 2018 and December 31, 2017, respectively.

*Intangible Assets*

Intangible assets and the related accumulated amortization consisted of the following (in thousands):

| | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Gross | Accumulated Amortization | Gross | Accumulated Amortization |
| **Indefinite-lived intangibles:** | | | | |
| Trademarks, trade names, and brands | $ - | $ - | $ 33,000 | $ - |
| Total Indefinite-lived intangibles | - | - | 33,000 | - |
| **Definite-lived intangibles:** | | | | |
| Customer relationships and distribution networks | 18,700 | 6,512 | 18,700 | 5,519 |
| Developed product technology, formulations, and product rights | 11,140 | 746 | 66,140 | 34,699 |
| Distribution and license agreements and supply agreements | 10,000 | 556 | 141,000 | 87,530 |
| Trademarks, trade names, and brands | 6,800 | 210 | 7,600 | 1,444 |
| Non-compete agreements | 4,260 | 4,260 | 4,260 | 4,260 |
| Total definite-lived intangibles | 50,900 | 12,284 | 237,700 | 133,452 |
| Total intangibles assets | $ 50,900 | $ 12,284 | $ 270,700 | $ 133,452 |

The remaining weighted-average useful life for our amortizable intangible assets by asset class at December 31, 2018 was as follows:

| Amortizable Intangible Asset Category | Remaining Weighted-Average Useful Life (Years) |
|---|---|
| Customer relationships and distribution networks | 15 |
| Developed product technology, formulations, and product rights | 4 |
| Distribution and license agreements and supply agreements | 5 |
| Trademarks, trade names, and brands | 10 |

We recorded amortization expense of $22,149 thousand and $33,377 thousand during the years ended December 31, 2018 and December 31, 2017, respectively.

Our estimated future amortization expense is as follows (in thousands):

| Year | Amount |
|---|---|
| 2019 | $ 6,777 |
| 2020 | 6,745 |
| 2021 | 6,732 |
| 2022 | 6,032 |
| 2023 | 2,296 |
| Thereafter | 10,030 |

*Impairments*

During the year ended December 31, 2018, the Animal Health business experienced declines in its year-to-date financial results and had indications of potential impairment due to changes in channel dynamics, a strategic decision to re-prioritize our brands, and a decline in the forecasted outlook of the business. Step one of the goodwill impairment test indicated that the fair value of the Animal Health business was below its net book value. We also performed a recoverability test of the definite-lived intangibles and determined a significant asset group was not recoverable and determined the fair value of the indefinite-lived intangible asset had fallen below its net book value. Based on our evaluation, we recorded $172,451 thousand in impairments comprised of a $95,968 thousand goodwill impairment, a brand indefinite-lived intangible asset impairment charge of $27,600 thousand, a developed product technology and distribution agreement definite-lived intangible asset impairment of $41,571 thousand, a supply agreement definite-lived intangible asset impairment of $2,784 thousand, and a trade name and trademark definite-lived intangible asset impairment of $4,528 thousand.

During the year ended December 31, 2018, as a result of the strategic decision to re-prioritize a brand within the indefinite-lived asset, we reassessed the useful life of the indefinite-lived intangible asset and reclassified a $5,400 indefinite-lived intangible asset to a definite-lived asset.

When determining the fair value of our Animal Health business for the year ended December 31, 2018, we utilized a combination of comparable company market and discounted cash flow techniques. In our comparable company market approach, we considered observable market information and transactions for companies that we deemed to be of a comparable nature, scope, and size of animal health (Level 2 inputs). Our cash flow projections included revenue assumptions related to new products, product line extensions, and existing products, plus gross margin, advertising and promotion, and other operating expenses based on the growth plans (Level 3 inputs). In our discounted cash flow analysis, we utilized projected sales growth rate and discount rate assumptions of 2.5% and 9.8%, respectively. The discount rate correlates with the required investment return and risk that we believe market participants would apply to the projected growth. In addition, we burdened projected free cash flows with the capital spending deemed necessary to support the cash flows and applied the jurisdictional tax rate of 22.8%. We weighted indications of fair value resulting from the market approach and present value techniques, considering the reasonableness of the range of measurements and the point within the range that we determined was most representative of fair market.

When assessing our animal health indefinite-lived intangible asset for the year ended December 31, 2018, we utilized a multi-period excess earnings method ("MPEEM") to determine the fair value of the intangible asset. Our cash flow projections included revenue assumptions related to new products, product line extensions, and existing products. We utilized long-term growth rate and discount rate assumptions of (0.3)% and 9.8%, respectively, and we applied a jurisdictional tax rate of 22.8%.

When assessing our animal health definite-lived assets for impairment for the year ended December 31, 2018, we utilized a combination of MPEEM and relief from royalty methods to determine the fair values of definite-lived assets within the asset group. The projected financial information, inputs, and assumptions utilized were consistent with those utilized in the goodwill discounted cash flow analysis described above.

**NOTE 6 - INVENTORIES**

Major components of inventory were as follows (in thousands):

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Raw materials | $ 6,428 | $ 5,340 |
| Work in process | 1,187 | 1,980 |
| Finished Goods | 9,437 | 13,593 |
| Total inventories | $ 17,052 | $ 20,913 |

Inventories are net of reserves of $1,567 thousand and $3,383 thousand as of December 31, 2018 and December 31, 2017, respectively.

**NOTE 7 - INCOME TAXES**

The components of income tax expense (benefit) are summarized as follows (in thousands):

| | Year Ended | |
|---|---|---|
| | December 31, 2018 | December 31, 2017 |
| Federal | $ - | $ 8,745 |
| State | - | 234 |
| Total current tax expense | - | 8,979 |
| | | |
| Federal | (12,201) | (14,165) |
| State | (1,368) | (368) |
| Total deferred tax benefit | (13,569) | (14,533) |
| Total income tax benefit | $ (13,569) | $ (5,554) |

A reconciliation of the provision based on the statutory income tax rate to our effective income tax rate is as follows:

| | Year Ended | |
|---|---|---|
| | December 31, 2018 | December 31, 2017 |
| Statutory rate | 21.0 % | 35.0 % |
| State income taxes, net of federal benefit | 0.6 | (8.1) |
| Tax law changes | - | (87.8) |
| Valuation allowance changes | (9.3) | 9.1 |
| Permanent differences | - | (6.8) |
| Impairment | (4.9) | - |
| Effective income tax rate | 7.4 % | (58.6) % |

The effective income tax rate for the year ended December 31, 2018 increased in comparison to the prior year primarily due to the one-time benefit from the remeasurement of the deferred tax assets recorded in 2017 from 35% to 21% pursuant to the U.S. Tax Act, partially offset by additional valuation allowance recorded in 2018.

Deferred income taxes arise from temporary differences between the financial reporting and the tax reporting basis of assets and liabilities and operating loss and tax credit carryforwards for tax purposes. The components of our net deferred income tax asset (liability) were as follows (in thousands):

| | Year Ended | |
|---|---|---|
| | December 31, 2018 | December 31, 2017 |
| Deferred income tax asset (liability): | | |
| Depreciation and amortization | $ 14,985 | $ (15,508) |
| Loss and credit carryforwards | 10,898 | 9,874 |
| Inventory basis differences | 580 | 971 |
| Accrued liabilities | 440 | 488 |
| Other, net | (313) | (378) |
| Gross deferred income tax asset (liability) | 26,590 | (4,553) |
| Valuation allowance | (26,590) | (9,016) |
| Net deferred income tax liability | $ - | $ (13,569) |

The above amounts are classified on the Combined Balance Sheets as follows (in thousands):

| | Year Ended | |
|---|---|---|
| | December 31, 2018 | December 31, 2017 |
| Assets | $ - | $ - |
| Liabilities | - | (13,569) |
| Net deferred income tax liability | $ - | $ (13,569) |

We have federal operating loss carryforwards of $28,243 thousand and $23,631 thousand at December 31, 2018 and December 31, 2017. We have state operating loss carryforwards of $33,336 thousand and $33,115 thousand, for the years ended December 31, 2018 and December 31, 2017, respectively. We have state credits of $2,970 thousand for the years ended December 31, 2018 and December 31, 2017. Operating loss carryforwards and credits have no expiration.

Perrigo files income tax returns in numerous jurisdictions and is therefore subject to audits by tax authorities in each jurisdiction. Although we believe that our tax estimates are reasonable and that we prepare our tax filings in accordance with all applicable tax laws, the final determination with respect to any tax audit and any related litigation could be materially different from our estimates or from our historical income tax provisions and accruals. The results of an audit or litigation could have a material effect on operating results and/or cash flows in the periods for which that determination is made. In addition, future period earnings may be adversely impacted by litigation costs, settlements, penalties, and/or interest assessments.

Perrigo has ongoing audits in multiple jurisdictions, the resolution of which remains uncertain. The IRS is currently auditing Perrigo's U.S. federal tax years for the fiscal years ended June 29, 2013, June 28, 2014, and June 27, 2015.

*Tax Law Changes*

On December 22, 2017, the United States enacted the Tax Cuts and Jobs Act ("U.S. Tax Act"). The U.S. Tax Act includes a number of significant changes to existing U.S. tax laws that impact us. These changes include a corporate income tax rate reduction from 35% to 21% and the elimination or reduction of certain U.S. deductions and credits including limitations on the U.S. deductibility of interest expense and executive compensation. The U.S. Tax Act also transitions the U.S. taxation of international earnings from a worldwide system to a modified territorial system. These changes were effective beginning in 2018. The U.S. Tax Act also includes a one-time mandatory deemed repatriation tax on accumulated U.S. owned foreign corporations' previously untaxed foreign earnings ("Transition Toll Tax"). Perrigo paid our full Transition Toll Tax liability as of December 31, 2018.

For the year ended December 31, 2017, we recorded an income tax benefit of $8,325 thousand in connection with the remeasurement of certain deferred tax assets and liabilities. For the year ended December 31, 2018, we completed the accounting for the income tax effects of the U.S. Tax Act. Based on additional guidance issued by the IRS and updates to our calculations, no additional tax expense was recorded.

## NOTE 8 - COMMITMENTS AND CONTINGENCIES

We lease certain assets, principally warehouse facilities and computer equipment, under agreements that expire at various dates through the year ended December 31, 2022. Certain leases contain provisions for renewal and purchase options and require us to pay various related expenses. Future non-cancelable minimum operating lease commitments are as follows (in thousands):

| Due | Amount |
|---|---|
| 2019 | $ 2,321 |
| 2020 | 2,239 |
| 2021 | 1,917 |
| 2022 | 30 |

Rent expense under all leases was $2,396 thousand and $2,483 thousand for the years ended December 31, 2018 and December 31, 2017, respectively.

At December 31, 2018, we had non-cancelable purchase obligations totaling $4,921 thousand consisting of contractual commitments to purchase materials. The obligations are expected to be paid within one year.

In view of the inherent difficulties of predicting the outcome of various types of legal proceedings, we cannot determine the ultimate resolution of the matters described below. We establish reserves for litigation and regulatory matters when losses associated with the claims become probable and the amounts can be reasonably estimated. The actual costs of resolving legal matters may be substantially higher or lower than the amounts reserved for those matters. For matters where the likelihood or extent of a loss is not probable or cannot be reasonably estimated as of December 31, 2018 and December 31, 2017 we have not recorded a loss reserve. If certain of these matters are determined against us, there could be a material adverse effect on our financial condition, results of operations, or cash flows. We currently believe we have valid defenses to the claims in these lawsuits and intend to defend these lawsuits vigorously regardless of whether or not we have a loss reserve. Other than what is disclosed below, we do not expect the outcome of the litigation matters to which we are currently subject to, individually or in the aggregate, have a material adverse effect on our financial condition, results of operations, or cash flows.

*Perrigo v. Merial (U.S. District Court – N.D. Georgia)*

This case was brought by Perrigo in December 2014 for breach of a patent settlement agreement. Following a trial the week of March 4, 2019, the jury returned a verdict in Perrigo's favor in the amount of $2,000 thousand. On April 5, 2019, Merial filed a motion for a judgment notwithstanding the verdict, and disposition of that motion is currently pending. A related case in the Western District of Michigan has been dismissed, and Merial is seeking leave to appeal that dismissal.

**NOTE 9 - SUBSEQUENT EVENTS**

We evaluated subsequent events from the balance sheet through July 2, 2019, the date at which these Combined Financial Statements were available to be issued, and determined that there were no other material items to disclose.

**ANIMAL HEALTH BUSINESS OF PERRIGO COMPANY PLC**

**CONDENSED COMBINED FINANCIAL STATEMENTS**

**(UNAUDITED)**

As of March 30, 2019 and December 31, 2018
and for the three months ended
March 30, 2019 and March 31, 2018

ANIMAL HEALTH BUSINESS OF PERRIGO COMPANY PLC

**ANIMAL HEALTH BUSINESS OF PERRIGO COMPANY PLC**
**CONDENSED COMBINED STATEMENTS OF OPERATIONS**
(in thousands, unaudited)

| | Three Months Ended | |
|---|---|---|
| | **March 30, 2019** | **March 31, 2018** |
| Net sales | $ 19,569 | $ 26,311 |
| Cost of sales | 10,610 | 18,539 |
| Gross profit | 8,959 | 7,772 |
| | | |
| Operating expenses | | |
| Selling | 4,018 | 3,403 |
| Administration | 3,332 | 1,935 |
| Distribution | 852 | 1,050 |
| Research and development | 482 | 580 |
| Total operating expenses | 8,684 | 6,968 |
| | | |
| Operating income | 275 | 804 |
| | | |
| Other income | - | (250) |
| Income before income taxes | 275 | 1,054 |
| Income tax expense | - | 211 |
| Net income | $ 275 | $ 843 |

See accompanying Notes to Condensed Combined Financial Statements.

**ANIMAL HEALTH BUSINESS OF PERRIGO COMPANY PLC**
**CONDENSED COMBINED BALANCE SHEETS**
(in thousands, unaudited)

| | March 30, 2019 | December 31, 2018 |
|---|---|---|
| **Assets** | | |
| Cash | $ 116 | $ 132 |
| Accounts receivable, net | 14,731 | 6,517 |
| Inventories | 16,511 | 17,052 |
| Prepaid expenses and other current assets | 2,421 | 1,755 |
| Total current assets | 33,779 | 25,456 |
| Property, plant and equipment, net | 10,684 | 10,909 |
| Operating lease assets | 11,161 | - |
| Goodwill | 29,633 | 29,633 |
| Definite-lived intangible assets, net | 36,922 | 38,616 |
| Other non-current assets | 12 | 11 |
| Total non-current assets | 88,412 | 79,169 |
| Total assets | $ 122,191 | $ 104,625 |
| **Liabilities and Equity** | | |
| Accounts payable | $ 7,588 | $ 4,547 |
| Payroll and related taxes | 747 | 1,330 |
| Accrued customer programs | 3,602 | 4,259 |
| Accrued liabilities | 2,758 | 1,274 |
| Total current liabilities | 14,695 | 11,410 |
| Operating lease liabilities | 9,694 | - |
| Other non-current liabilities | 449 | 524 |
| Total non-current liabilities | 10,143 | 524 |
| Total liabilities | 24,838 | 11,934 |
| *Commitments and contingencies - Refer to Note 8* | | |
| Net parent investment | 97,353 | 92,691 |
| **Total liabilities and equity** | $ 122,191 | $ 104,625 |

See accompanying Notes to Condensed Combined Financial Statements.

**ANIMAL HEALTH BUSINESS OF PERRIGO COMPANY PLC**
**CONDENSED COMBINED STATEMENTS OF CASH FLOWS**
(in thousands, unaudited)

| | Three Months Ended | |
|---|---|---|
| | **March 30, 2019** | **March 31, 2018** |
| **Cash Flows From (For) Operating Activities** | | |
| Net income | $ 275 | $ 843 |
| Adjustments to derive cash flows | | |
| Depreciation and amortization | 2,391 | 7,155 |
| Deferred income taxes | - | (13,569) |
| Other non-cash adjustments | 41 | 127 |
| Subtotal | 2,432 | (6,287) |
| Increase (decrease) in cash due to: | | |
| Accounts receivable | (8,214) | (5,888) |
| Inventories | 541 | (3,345) |
| Prepaid expenses and other current assets | (666) | (939) |
| Accounts payable | 3,041 | 2,312 |
| Payroll and related taxes | (583) | (1,140) |
| Accrued customer programs | (657) | 403 |
| Accrued liabilities | 3 | 711 |
| Accrued income taxes | - | 211 |
| Operating leases | (375) | - |
| Other, net | (75) | (198) |
| Subtotal | (6,985) | (7,873) |
| Net cash for operating activities | (4,278) | (13,317) |
| **Cash Flows For Investing Activities** | | |
| Additions to property, plant and equipment | (84) | (154) |
| Net cash for investing activities | (84) | (154) |
| **Cash Flows From Financing Activities** | | |
| Transfer from Parent | 4,346 | 13,469 |
| Net cash from financing activities | 4,346 | 13,469 |
| Net decrease in cash and cash equivalents | (16) | (2) |
| Cash, beginning of period | 132 | 120 |
| Cash, end of period | $ 116 | $ 118 |

See accompanying Notes to Condensed Combined Financial Statements.

**ANIMAL HEALTH BUSINESS OF PERRIGO COMPANY PLC**
**CONDENSED COMBINED STATEMENTS OF EQUITY**
(in thousands, unaudited)

| | Total Equity |
|---|---|
| Balance at January 1, 2019 | $ 92,691 |
| Net income | 275 |
| Transfer from Parent | 4,387 |
| Balance at March 30, 2019 | $ 97,353 |
| | |
| Balance at January 1, 2018 | $ 281,482 |
| Net income | 843 |
| Transfer from Parent | 13,593 |
| Balance at March 31, 2018 | $ 295,918 |

See accompanying Notes to Condensed Combined Financial Statements.

**NOTE 1 – BASIS OF PRESENTATION**

*The Company*

Perrigo Company plc's ("Perrigo" or the "Parent") Animal Health reporting unit ("Animal Health business") develops, manufactures, and markets a portfolio of pet health and wellness products in the U.S. These Condensed Combined Financial Statements reflect the Animal Health business of Perrigo. The words "we", "us", "our" or the "Company" and similar words refer to the combined Animal Health business of Perrigo.

*Basis of Presentation*

The Animal Health business has not historically constituted a separate legal group. Stand-alone financial statements have not previously been prepared for the Animal Health business. The Condensed Combined Financial Statements as of March 30, 2019 and December 31, 2018 and for the three months ended March 30, 2019 and March 31, 2018 have been prepared on a stand-alone basis derived from the financial statements and related accounting records of the Parent. The accompanying Condensed Combined Financial Statements reflect the historical Statements of Operations, Balance Sheets, Statements of Cash Flows, and Statements of Equity of the Animal Health business as they were historically managed and are presented in conformity with the U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The unaudited Condensed Combined Financial Statements should be read in conjunction with the Combined Financial Statements and footnotes for the years ended December 31, 2018 and 2017.

The Condensed Combined Balance Sheets reflect the assets and liabilities of the Parent that are either specifically identifiable or are directly attributable to the Animal Health business and its operations. The basis of the assets and liabilities attributable to the combined entity is historical cost. All intercompany transactions and accounts have been eliminated within the Animal Health business. All transactions between the Animal Health business and the Parent are considered to be effectively settled in the Condensed Combined Financial Statements at the time the transaction is recorded. The total net effect of the settlement of these intercompany transactions between the Animal Health business and the Parent is reflected in the Condensed Combined Statements of Cash Flows as a financing activity and in the Condensed Combined Balance Sheets as Net parent investment.

The Condensed Combined Financial Statements reflect allocations of direct and indirect expenses related to certain support functions including executive oversight, administration, legal, finance, operations, supply chain, information technology, quality, regulatory, compliance and employee-related costs that are provided on a centralized basis by the Parent. These expenses have been allocated to the Animal Health business based on direct usage or benefit where specifically identifiable, with the remaining allocated based on a pro rata basis of revenue. Management believes the assumptions underlying the Condensed Combined Financial Statements, including the assumptions regarding allocation of expenses, are reasonable. However, the allocations may not be indicative of the actual expense that would have been incurred had the Company operated as an independent company for the periods presented. It is impractical to estimate what the standalone costs of the Animal Health business would have been in historical periods.

The income tax amounts in these Condensed Combined Financial Statements have been calculated based on a separate return method and presented as if the Animal Health business' operations were separate taxpayers in each respective jurisdiction.

The Animal Health business' Net parent investment in these Condensed Combined Financial Statements represents the excess of total assets over total liabilities. Net parent investment is primarily impacted by contributions from the Parent which are the result of treasury activities and net funding provided by or distributed to the Parent.

**NOTE 2 – RELATED PARTY TRANSACTIONS**

We have not historically operated as a standalone business and have various relationships with the Parent whereby the Parent provides services to us.

***Corporate Overhead and Other Allocations from Perrigo***

The following table summarizes corporate overhead and other allocations from Perrigo included in the Condensed Combined Financial Statements for the three months ended March 30, 2019 and March 31, 2018 (in thousands):

| | Three Months Ended | |
|---|---|---|
| | **March 30, 2019** | **March 31, 2018** |
| Cost of sales | $ 230 | $ 203 |
| Selling | 377 | 416 |
| Administration | 585 | 229 |
| | $ 1,192 | $ 848 |

***Cash***

The Parent uses a centralized approach to cash management and financing of operations for its subsidiaries. The Animal Health entities are party to the Parent's cash pooling arrangements with certain financial institutions to maximize the availability of cash for general operating and investing purposes. Under these cash pooling arrangements, cash balances are swept regularly from the Animal Health business' accounts. Certain treasury activities are recorded to reflect net cash collections as distributed to the Parent and net cash outlays as provided by the Parent and are reflected as elements of Net parent investment.

***Debt***

The Animal Health business is not the borrower or primary obligor for any third-party borrowing arrangements. Additionally, Perrigo's third-party debt and the related interest expense have not been allocated to the Company for any of the periods presented as the Company was not the legal obligor of the debt and Perrigo borrowings were not directly attributable to the Company's business.

***Share-Based Awards***

Our share-based compensation programs include grants to Animal Health business employees under the Parent's share-based compensation plans. We measure and record compensation expense for all share-based awards based on estimated grant date fair values, and net of any estimated forfeitures over the vesting period of the awards. Forfeiture rates are estimated at the grant date based on historical experience and adjusted in subsequent periods for any differences in actual forfeitures from those estimates. Share-based compensation costs related to our employees were immaterial for the three months ended March 30, 2019 and March 31, 2018.

***Post Employment Plans***

Our employees participate in a qualified profit-sharing and investment plan under Section 401(k) of the IRS sponsored by Perrigo. Our contributions to the plan include an annual nondiscretionary contribution of 3% of an employee's eligible compensation and a discretionary contribution at the option of the Perrigo Board of Directors. The costs of such plans related to the employees of the Animal Health business were immaterial for the three months ended March 30, 2019 and March 31, 2018.

**NOTE 3 – COLLABORATION AGREEMENTS**

Effective March 19, 2018, we entered into a product development and asset purchase agreement with a third party for four product formulations in development by the third party. We accounted for the transaction as an asset acquisition based on our assessment that we did not acquire any substantive processes related to the creation of outputs from the third party. Upon signing the agreement, we paid a $250 thousand non-refundable upfront fee which was recorded in R&D expense because the in-process research and development product formulations have no alternative use. As of March 30, 2019, we paid $500 thousand of additional milestone payments which was recorded in R&D expense. We may make up to $23,800 thousand of additional payments over the course of the next several years contingent on achievement of certain development, regulatory approval, and sales milestones. There can be no assurance that these products will be approved by the U.S. Food and Drug Administration ("FDA") on the anticipated schedule or at all. Consideration paid after FDA approval will be capitalized and amortized to cost of goods sold over the economic life of each product.

**NOTE 4 – INTANGIBLE ASSETS**

*Intangible Assets*

Intangible assets and the related accumulated amortization consisted of the following (in thousands):

| | March 30, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | **Gross** | **Accumulated Amortization** | **Gross** | **Accumulated Amortization** |
| **Definite-lived intangibles:** | | | | |
| Customer relationships and distribution networks | $ 18,700 | $ 6,751 | $ 18,700 | $ 6,512 |
| Developed product technology, formulations, and product rights | 11,140 | 1,436 | 11,140 | 746 |
| Distribution and license agreements and supply agreements | 10,000 | 1,111 | 10,000 | 556 |
| Trademarks, trade names, and brands | 6,800 | 420 | 6,800 | 210 |
| Non-compete agreements | 4,260 | 4,260 | 4,260 | 4,260 |
| Total definite-lived intangibles assets | $ 50,900 | $ 13,978 | $ 50,900 | $ 12,284 |

We recorded amortization expense of $1,694 thousand and $6,815 thousand during the three months ended March 30, 2019 and March 31, 2018, respectively.

**NOTE 5 – INVENTORIES**

Major components of inventory were as follows (in thousands):

| | **March 30, 2019** | **December 31, 2018** |
|---|---|---|
| Raw materials | $ 5,391 | $ 6,428 |
| Work in process | 1,532 | 1,187 |
| Finished Goods | 9,588 | 9,437 |
| Total inventories | $ 16,511 | $ 17,052 |

**NOTE 6 – LEASES**

We adopted ASU 2016-02, Leases (Topic 842) and subsequent amendments, as of January 1, 2019, using the modified retrospective approach. There was no cumulative-effect adjustment to the opening balance of net parent investment as of the effective date. The financial results reported in periods prior to 2019 are unchanged. In addition, we elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed us to carry forward the historical lease classification.

Adoption of the new standard resulted in additional operating lease liabilities and operating lease assets of approximately $11,200 and $11,500 thousand, respectively, on our Condensed Combined Balance Sheet as of January 1, 2019. The standard did not materially impact our Condensed Combined Statement of Operations or Condensed Combined Statement of Cash Flows.

We lease certain office buildings, warehouse facilities, machinery and equipment. Lease assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease.

We evaluate arrangements at inception to determine if lease components are included. An arrangement includes a lease component if it identifies an asset and we have control over the asset. For new leases beginning January 1, 2019 or later, we have elected for all asset classes not to separate lease components from the non-lease components included in an arrangement when measuring the leased asset and leased liability.

Lease assets and liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. Leases with an initial term of 12 months or less are not recorded on the balance sheet. We recognize lease expense for leases on a straight-line basis over the lease term. We apply the portfolio approach to certain groups of equipment when the term, classification, and asset type are identical. The discount rate selected is the incremental borrowing rate we would obtain for a secured financing of the lease asset over a similar term.

Certain of our leases include one or more options to extend the lease term. Certain leases also include options to terminate early or purchase the leased property, all of which are executed at our sole discretion. Optional periods may be included in the lease term and measured as part of the lease asset and lease liability if we are reasonably certain to exercise our right to use the leased asset during the optional periods. We generally consider renewal options to be reasonably certain of execution and included in the lease term when significant leasehold improvements have been made by us to the leased assets. The depreciable lives of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

Certain of our lease agreements include contingent rental payments based on per unit usage over contractual levels (e.g., square footage used).

The balance sheet location of our lease assets and liabilities were as follows (in thousands):

| **Balance Sheet Location** | **March 30, 2019** | |
|---|---|---|
| Operating lease assets | $ | 11,161 |
| | | |
| Accrued liabilities | $ | 1,481 |
| Operating lease liabilities | | 9,694 |
| Total liabilities | $ | 11,175 |

Operating lease expense for the three months ended March 30, 2019 was $548 thousand.

The weighted-average remaining operating lease term was 7.1 years and the weighted-average discount rate was 4.4% as of March 30, 2019.

Cash paid for amounts included in the measurement of lease liabilities are classified as operating cash flows in the Condensed Combined Statement of Cash flows and was $562 thousand for the three months ended March 30, 2019.

The annual future maturities of our operating leases as of March 30, 2019 are as follows (in thousands):

| | | Amount |
|---|---|---|
| 2019 | $ | 1,460 |
| 2020 | | 1,911 |
| 2021 | | 1,917 |
| 2022 | | 1,620 |
| 2023 | | 1,609 |
| Thereafter | | 4,506 |
| Total lease payments | | 13,023 |
| Less: Interest | | 1,848 |
| Present value of lease liabilities | $ | 11,175 |

**NOTE 7 – INCOME TAXES**

The effective tax rates were as follows:

| Three Months Ended | |
|---|---|
| **March 30, 2019** | **March 31, 2018** |
| 0.0% | 20.0% |

The effective tax rate for the three months ended March 30, 2019 decreased compared to the prior year primarily due to additional valuation allowance recorded against deferred tax assets in the current year.

**NOTE 8 – COMMITMENTS AND CONTINGENCIES**

In view of the inherent difficulties of predicting the outcome of various types of legal proceedings, we cannot determine the ultimate resolution of the matters described below. We establish reserves for litigation and regulatory matters when losses associated with the claims become probable and the amounts can be reasonably estimated. The actual costs of resolving legal matters may be substantially higher or lower than the amounts reserved for those matters. For matters where the likelihood or extent of a loss is not probable or cannot be reasonably estimated as of March 30, 2019 and December 31, 2018 we have not recorded a loss reserve. If certain of these matters are determined against us, there could be a material adverse effect on our financial condition, results of operations, or cash flows. We currently believe we have valid defenses to the claims in these lawsuits and intend to defend these lawsuits vigorously regardless of whether or not we have a loss reserve. Other than what is disclosed below, we do not expect the outcome of the litigation matters to which we are currently subject to, individually or in the aggregate, have a material adverse effect on our financial condition, results of operations, or cash flows.

*Perrigo v. Merial (U.S. District Court – N.D. Georgia)*

This case was brought by Perrigo in December 2014 for breach of a patent settlement agreement. Following a trial the week of March 4, 2019, the jury returned a verdict in Perrigo's favor in the amount of $2,000 thousand. On April 5, 2019, Merial filed a motion for a judgment notwithstanding the verdict, and disposition of that motion is currently pending. A related case in the Western District of Michigan has been dismissed, and Merial is seeking leave to appeal that dismissal.

**NOTE 9 – SUBSEQUENT EVENTS**

We evaluated subsequent events from the balance sheet through August 20, 2019, the date at which these Condensed Combined Financial Statements were available to be issued, and determined that there were no other material items to disclose.

# PETIQ, Inc.
# UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

On July 7, 2019, PetIQ, Inc. (the "Company"), through its subsidiary PetIQ, LLC completed the acquisition of all the outstanding stock of Sergeant's Pet Care Products, Inc. ("Sergeant's"), dba Perrigo Animal Health, including any assets related to Perrigo Company plc's animal health business ("Sergeant's acquisition"). Sergeant's is now an indirect wholly-owned subsidiary of the Company.

The following unaudited pro forma condensed combined financial information presents the unaudited pro forma condensed combined balance sheet as of March 31, 2019, and unaudited pro forma condensed combined statements of operations for the year ended December 31, 2018, and the three-months ended March 31, 2019 based on the historical financial statements of the Company and Sergeant's, after giving effect to the following transactions (the "Transactions"):

- Conformance of Sergeant's accounting policies to the Company's
- Application of the acquisition method of accounting to the Sergeant's acquisition
- Transaction costs directly attributable to the Sergeant's acquisition;
- Estimated impact of the July 8, 2019 amendment to the Company's existing revolving credit agreement that increased the size of the revolving facility to $110 million with an accordion feature allowing for an additional increase up to $125 million and extending the maturity date of the revolving facility to July 8, 2024; and
- Estimated impact of the July 8, 2019 amended and restated term loan credit agreement (the A&R Term Loan Credit Agreement") providing for a secured term loan facility of $220 million, maturing on July 8, 2025, which proceeds were used to refinance the existing term loan facility and fund the acquisition.

The unaudited pro forma condensed combined balance sheet gives effect to the Transactions as if they had occurred on March 31, 2019. The unaudited pro forma condensed combined statements of operations for the year ended December 31, 2018 and the three-months ended March 31, 2019 gives effects to the Transactions as if they had been consummated on January 1, 2018.

The unaudited pro forma condensed combined financial information has been prepared from (a) the audited consolidated financial statements of PetIQ, Inc. contained in its annual report on Form 10-K for the year ended December 31, 2018, filed on March 12, 2019 and the unaudited consolidated financial statements of PetIQ, Inc. contained in its Quarterly Report on Form 10-Q for the three-months ended March 31, 2019, filed on May 5, 2019 and (b) the audited combined financial statements of Perrigo Company plc's animal health business for the year ended December 31, 2018, included as exhibit 99.1 in this Form 8-K/A and the unaudited combined financial statements of Perrigo Company plc's animal health business for the three-months ended March 30, 2019, included as exhibit 99.2 in this Form 8-K/A. Historical results of Perrigo Company plc's animal health business have been adjusted to reclassify certain amounts to conform with the Company's presentation.

The unaudited pro forma condensed combined financial information is prepared in accordance with SEC Article 11 of Regulation S-X, using the assumptions set forth in the notes to the unaudited pro forma condensed combined financial information. The unaudited pro forma condensed combined financial information has been prepared to reflect adjustments to our historical financial information that are (i) directly attributable to the Transactions described above, (ii) factually supportable and, (iii) with respect to the Unaudited Pro Forma Condensed Combined Statement of Income (Loss), expected to have a continuing impact on our results.

The unaudited pro forma condensed combined financial information is provided for informational purposes only and is not necessarily indicative of the operating results that would have occurred if the Transactions had been completed as of the dates set forth above, nor is it indicative of the future results of the Company. The unaudited pro forma condensed financial information does not give effect to the potential impact of any anticipated synergies, operating efficiencies, or cost savings that may result from the Sergeant's acquisition or any integration costs that do not have a continuing impact.

The unaudited pro forma condensed combined financial information was prepared using the acquisition method of accounting in accordance with ASC 805, *Business Combinations*, with the Company considered the acquiring company. Based on the acquisition method of accounting, the consideration paid for the Sergeant's acquisition is allocated to its assets and liabilities based on their fair value as of the closing date of the acquisition, July 7, 2019. The Company has obtained preliminary third-party valuations of inventory, property plant and equipment, intangible assets, and certain other assets and liabilities. The values of certain assets and liabilities are based on preliminary valuations, as allowed by

U.S. generally accepted accounting principles, and are subject to adjustment as additional information is obtained. We cannot provide any assurances that such adjustments will not result in a material change to the accompanying unaudited pro forma condensed combined financial information and the combined company's future results of operation and financial position.

The unaudited pro forma condensed combined financial information should be read in conjunction with the separate historical consolidated financial statements of the Company and combined financial statements of Perrigo Company plc's animal health business.

## Unaudited Pro Forma Condensed Combined Statements of Income (Loss)
### For the three months ended:
***Amounts in 000's except for per share amounts***

| | Historical | | Pro Forma | |
|---|---|---|---|---|
| | March 31, 2019 | March 30, 2019 As adjusted, | | |
| | PetIQ | Sergeant's | Adjustments | Combined |
| Product sales | $ 126,084 | $ 19,569 | $ — | $ 145,653 |
| Services revenue | 22,352 | — | — | 22,352 |
| Total net sales | 148,436 | 19,569 | — | 168,005 |
| Cost of products sold | 108,064 | 10,610 | (1,363)6(b) | 117,311 |
| Cost of services | 15,642 | — | — | 15,642 |
| Total cost of sales | 123,706 | 10,610 | (1,363) | 132,953 |
| Gross profit | 24,730 | 8,959 | 1,363 | 35,052 |
| Operating expenses | | | | — |
| General and administrative expenses | 20,538 | 8,684 | (483)6(b) (c) | 28,739 |
| Contingent note revaluations gain | (680) | — | — | (680) |
| Operating income | 4,872 | 275 | 1,846 | 6,993 |
| Interest expense, net | (1,937) | — | (3,096)6(d) | (5,033) |
| Foreign currency loss, net | (122) | — | — | (122) |
| Other income, net | 13 | — | | 13 |
| Total other expense, net | (2,046) | — | (3,096) | (5,142) |
| Pretax net income (loss) | 2,826 | 275 | (1,250) | 1,851 |
| Income tax (expense) benefit | (500) | — | 285 6(e) | (215) |
| Net income (loss) | $ 2,326 | $ 275 | $ (965) | $ 1,636 |
| Net income (loss) attributable to non-controlling interest | 715 | — | (220)6(f) | 495 |
| Net income (loss) attributable to PetIQ, Inc. before nonrecurring charges or credits directly attributable to the transaction | 1,611 | 275 | (745) | 1,141 |
| **Net income (loss) per share attributable to PetIQ, Inc. Class A common stock** | | | | |
| -Basic | 0.07 | — | — | 0.05 |
| -Diluted | 0.07 | — | — | 0.05 |
| **Weighted average shares of Class A common stock outstanding** | | | | |
| -Basic | 21,800 | — | — | 21,800 |
| -Diluted | 21,978 | — | — | 21,978 |

**Unaudited Pro Forma Condensed Combined Statements of Income (Loss)**
**For the year ended December 31, 2018**
***Amounts in 000's except for per share amounts***

| | Historical | | Pro Forma | |
|---|---|---|---|---|
| | PetIQ | As adjusted, Sergeant's | Adjustments | Combined |
| Product sales | $ 450,229 | $ 91,885 | $ (1,821) 6(a) | $ 540,293 |
| Services revenue | 78,385 | — | — | 78,385 |
| Total net sales | 528,614 | 91,885 | (1,821) | 618,678 |
| Cost of products sold | 383,501 | 65,399 | (22,607) 6(a)(b) | |
| Cost of services | 61,825 | — | — | 61,825 |
| Total cost of sales | 445,326 | 65,399 | (22,607) | 488,118 |
| Gross profit | 83,288 | 26,486 | 20,786 | 130,560 |
| Operating expenses | | | | — |
| General and administrative expenses | 72,260 | 35,993 | 344 6(b) | 108,597 |
| Contingent note revaluations loss | 3,280 | — | — | 3,280 |
| Impairment Charges | — | 172,451 | — | 172,451 |
| Operating income (loss) | 7,748 | (181,958) | 20,442 | (153,768) |
| Interest expense, net | (8,022) | — | (12,379) 6(d) | (20,401) |
| Foreign currency loss, net | 45 | — | — | 45 |
| Other (expense) income, net | (345) | 250 | — | (95) |
| Total other expense, net | (8,322) | 250 | (12,379) | (20,451) |
| Pretax net (loss) income | (574) | (181,708) | 8,063 | (174,219) |
| Income tax benefit | 661 | 13,569 | 5,113 6(e) | 19,343 |
| Net income (loss) | $ 87 | $ (168,139) | $ 13,176 | $ (154,876) |
| Net income (loss) attributable to non-controlling interest | 869 | — | (59,579) 6(f) | (58,710) |
| Net (loss) income attributable to PetIQ, Inc. | (782) | (168,139) | 72,756 | (96,165) |
| **Net income (loss) per share attributable to PetIQ, Inc. Class A common stock** | | | | |
| -Basic | (0.05) | — | — | (5.59) |
| -Diluted | (0.05) | — | | (5.59) |
| **Weighted Average shares of Class A common stock outstanding** | | | | |
| -Basic | 17,216 | — | — | 17,216 |
| -Diluted | 17,216 | — | — | 17,216 |

## Unaudited Pro Forma Condensed Combined Balance Sheets

***Amounts in 000's except for per share amounts***

| | Historical | | Pro Forma | |
|---|---|---|---|---|
| | As of March 31, 2019 | As of March 30, 2019 | | |
| | PetIQ | As adjusted, Sergeant's | Adjustments | Combined |
| Assets | | | | |
| Cash | $ 54,367 | $ 116 | $ (25,027)5(a) | $ 29,456 |
| Accounts receivable, net | 65,466 | 14,731 | — | 80,197 |
| Inventories | 112,539 | 16,511 | 4,205 5(b) | 133,255 |
| Prepaid expenses and other current assets | 4,313 | 2,421 | (338)5(c) | 6,396 |
| Total current assets | 236,685 | 33,779 | (21,160) | 249,304 |
| Property and equipment, net | 26,811 | 10,684 | 5,951 5(d) | 43,446 |
| Operating lease right of use assets | 9,860 | 11,161 | (341)5(e) | 20,680 |
| Deferred tax assets | 46,585 | — | — | 46,585 |
| Other non current assets | 2,667 | 12 | 650 5(a) | 3,329 |
| Intangible assets, net | 87,366 | 36,922 | (4,232)5(f) | 120,056 |
| Goodwill | 125,279 | 29,633 | 83,062 5(g) | 237,974 |
| Total non-current assets | 298,568 | 88,412 | 85,090 | 472,070 |
| Total assets | $ 535,253 | $ 122,191 | $ 63,930 | $ 721,374 |
| Liabilities and Equity | | | | |
| Accounts payable | $ 71,023 | $ 8,088 | $ — | $ 79,111 |
| Accrued wages payable | 4,158 | 747 | — | 4,905 |
| Accrued interest payable | 607 | — | — | 607 |
| Other accrued expenses | 919 | 4,879 | — | 5,798 |
| Current portion of operating leases | 2,862 | 1,481 | 394 5(e) | 4,737 |
| Current portion of long-term debt and capital leases | 2,446 | — | 1,450 5(h) | 3,896 |
| Total current liabilities | 82,015 | 15,195 | 1,844 | 99,054 |
| Operating Lease , less current installments | 7,170 | 9,694 | (750)5(e) | 16,114 |
| Long-term debt, less current installments | 115,274 | — | 164,483 5(h) | 279,757 |
| Capital leases, less current installments | 1,944 | — | — | 1,944 |
| Other non-current liabilities | 268 | 449 | — | 717 |
| Total non-current liabilities | 124,656 | 10,143 | 163,733 | 298,532 |
| Total liabilities | 206,671 | 25,338 | 165,577 | 397,586 |
| Commitments and contingencies | | | | |
| Equity | | | | — |
| Additional paid-in capital | 271,916 | — | — | 271,916 |
| Net parent investment | — | 96,853 | (96,853)5(i) | — |
| Class A common stock; par value $0.001 per share, 125,000 shares authorized, 22,157 shares issued and outstanding at March 31, 2019 | 22 | — | — | 22 |
| Class B common stock, par value $0.001 per share, 100,000 shares authorized, 6,028 shares issued and outstanding at March 31, 2019 | 6 | — | — | 6 |
| Accumulated deficit | (2,839) | — | (4,794)5(a)(j) | (7,633) |
| Accumulated other comprehensive loss | (941) | — | — | (941) |
| Total Equity | 268,164 | 96,853 | (101,647) | 263,370 |
| Non controlling interest | 60,418 | — | — | 60,418 |
| Total Equity | 328,582 | 96,853 | (101,647) | 323,788 |
| Total liabilities and equity | $ 535,253 | $ 122,191 | $ 63,930 | $ 721,374 |

**Notes to Unaudited Pro Forma Condensed Combined Financial Statements**
**Dollars in 000's unless noted otherwise**

**1. Basis of Presentation**

The unaudited pro forma condensed combined financial information and related notes are prepared in accordance with SEC Article 11 of Regulations S-X and present the historical financial information of the Company and Perrigo Company plc's animal health business adjusted to give pro forma effect to events that are (i) directly attributable to the Transactions, (ii) factually supportable and (iii) with respect to the unaudited pro forma condensed combined statement of operations, expected to have a continuing impact on the combined results.

The Sergeant's acquisition will be accounted for under the acquisition method of accounting in accordance with ASC 805, *Business Combinations*. Under the acquisition method of accounting, the purchase price will be allocated to the Sergeant's assets acquired and liabilities assumed based upon their estimated fair values, using fair value concepts defined in ASC 820, *Fair Value Measurements*, at the date of completion of the acquisition. Any excess purchase price consideration over the preliminary estimate of the fair value of the identified assets acquired and liabilities assumed will be recorded to goodwill. Significant judgment is required in determining the preliminary fair values of identified intangible assets, inventory, property, plant and equipment, and certain other assets and liabilities. These preliminary valuations of assets acquired and liabilities assumed are determined using market, income, and cost approaches from the perspective of a market participant, which requires estimates and assumptions, including, but not limited to, estimating cash flows in addition to developing the appropriate market discount rates and obtaining market pricing for comparable assets. The final valuation may materially change the allocation of the purchase price, which could materially affect fair values assigned to the assets acquired and liabilities assumed and could result in a material change to the unaudited pro forma condensed combined financial information.

The unaudited pro forma condensed combined balance sheet gives effect to the Transactions, as if they had occurred on March 31, 2019. The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2018 and for the three-months ended March 31, 2019, gives effect to the Transactions as if they had occurred on January 1, 2018.

The unaudited pro forma condensed combined financial statements are based on a preliminary purchase price allocation, provided for illustrative purposes only, and do not purport to represent what the Companies results of operations would have been had the Acquisition occurred on the dates indicated. They also may not be useful in predicting the future financial condition and results of operations of the Companies. The actual results of operations may differ significantly from the pro forma amounts reflected herein due to a variety of factors. In addition, the unaudited pro forma combined statement of operations do not reflect any future planned cost savings initiatives following the completion of the business combination.

The unaudited pro forma condensed combined financial information is prepared in accordance with SEC Regulation S-X Article 11, using the assumptions set forth in the notes to the unaudited pro forma condensed combined financial information.

**2. Description of the Acquisition and Acquisition Related Financing**

On May 8, 2019, the Company, through one of its subsidiaries, entered into a Purchase and Sale Agreement, as amended, with L. Perrigo Company and Perrigo Company plc to purchase all the outstanding capital stock of Sergeant's Pet Care Products, Inc., including any assets related to Perrigo's animal health business (the "Business"). On July 7, 2019, the Company completed the acquisition of the Business. Sergeant's is now an indirect wholly-owned subsidiary of the Company.

In connection with the closing of the acquisition of the Business, the Company and its domestic subsidiaries entered into an amended and restated term loan credit agreement on July 8, 2019 (the "A&R Term Loan Credit Agreement") with a secured term loan facility of $220 million maturing on July 8, 2025, the proceeds of which were used to finance the existing term loan facility and consummate the acquisition of the Business.

Additionally, the Company and its domestic subsidiaries amended their existing revolving credit agreement on July 8, 2019 (the "Credit Agreement Amendment") to increase the size of the revolving facility to $110 million with an accordion feature allowing for an additional $125 million and extended maturity date of the revolving facility to July 8, 2024. In addition, the Credit Agreement Amendment reduces the interest rate on Eurodollar rate loans and modified certain financial covenants, including eliminating the maximum first lien and coverage ratio. Collectively, the A&R Term Loan Credit Agreement and Credit Agreement Amendment are the acquisition related financings ("Acquisition Related Financing").

**3. Accounting Policies and Reclassifications**

The accounting policies used in the preparation of the unaudited pro forma condensed combined financial information are those set forth in the Company's audited financial statements. Based on the preliminary review of accounting policies of Sergeant's Business, the Company determined no significant adjustments are necessary to conform Sergeant's historical financial statements to the accounting policies used by the Company in the preparation of the unaudited pro forma condensed combined financial information. Upon completion of the review of the accounting policies, the Company may identify differences among the accounting policies of the companies that, when conformed, could have a material impact on the unaudited pro forma condensed combined financial information.

Certain reclassifications and classifications adjustments have been made to the unaudited pro forma condensed combined financial information to conform Sergeant's historical financial statements to the Company's financial statement presentation. Unless otherwise indicated, defined line items included in the footnotes have the meanings given to them in the historical financial statements of the Company.

Reclassifications of the unaudited pro forma condensed combined balance sheet as of 3/30/2019.

| | Historical Sergeant's | Reclassification Amount | Historical As Adjusted |
|---|---|---|---|
| Accrued customer payables | $ 3,602 | $ (3,602)(b) | $ — |
| Accrued liabilities | 2,758 | 2,121 (a)(b) | 4,879 |
| Current portion of operating leases | — | 1,481 (a) | 1,481 |

a) Represents the reclassification of $1,481 of current operating lease liabilities from "Accrued Liabilities" to "Current portion of operating leases"
b) Represents the reclassification of $3,602 of accrued customer payables from "Accrued customer payables" to "Accrued Liabilities"

Reclassification of the unaudited pro forma condensed combined statement of income (loss) for:

**Year ended December 31, 2018**

| | Historical Sergeant's | Reclassification Amount | Historical As Adjusted |
|---|---|---|---|
| Selling and Administrative Expenses | $ — | $ 35,993 aa | $ 35,993 |
| Selling | 16,379 | (16,379)aa | — |
| Administration | 12,558 | (12,558)aa | — |
| Distribution | 4,178 | (4,178)aa | — |
| Research and development | 2,878 | (2,878)aa | — |

**Quarter ended March 30, 2019**

| | Historical Sergeant's | Reclassification Amount | Historical As Adjusted |
|---|---|---|---|
| Selling and Administrative Expenses | $ — | $ 8,684 aa | $ 8,684 |
| Selling | 4,018 | (4,018)aa | — |
| Administration | 3,332 | (3,332)aa | — |
| Distribution | 852 | (852)aa | — |
| Research and development | 482 | (482)aa | — |

aa) Represents the reclassification Sergeant's historical selling, administration, distribution and research and development costs separately presented to "Selling and Administrative Expenses"

The unaudited pro forma condensed combined financial information may not reflect all reclassifications necessary to conform the Sergeant's financial statement presentation to that of the Company. Any additional reclassifications and classifications adjustments are not expected to have an effect on reported total assets, total liabilities, equity, or net income (loss).

## 4. Preliminary Purchase Price Allocation and Pro Forma Adjustments

The preliminary estimated purchase consideration and the preliminary allocation of the purchase price to the acquired identifiable assets and assumed liabilities are as follows:

| | | |
|---|---|---|
| Tangible assets acquired: | | |
| Inventories | $ | 20,716 |
| Property, plant and equipment | | 16,635 |
| Other current assets | | 16,930 |
| Other assets | | 10,831 |
| Total tangible assets acquired | | 65,112 |
| Intangible assets acquired | | 32,690 |
| Liabilities assumed | | 24,982 |
| Total preliminary assets acquired in excess of liabilities assumed | | 72,820 |
| Goodwill | | 112,695 |
| Estimated cash purchase consideration (1) | $ | 185,515 |

(1) The consideration paid is subject to a working capital adjustment by which the consideration will be adjusted upward or downward depending on whether the final working capital amount exceeds or is less than a target amount. The working capital adjustment has not yet been finalized and the purchase consideration included in these pro forma financial statements does not reflect any adjustment for the working capital adjustment.

## 5. *Adjustments to the Unaudited Pro Forma Condensed Combined Balance Sheet*

(a) Represents the net cash proceeds of $220 million from the Company's amended and restated term loan facility and $25 million of additional borrowing under the Company's amended revolving credit arrangement offset by the cash purchase consideration paid to complete the Sergeant's acquisition and transaction costs incurred to complete to the complete the Acquisition Related Financing.

| | | |
|---|---|---|
| Sources | | |
| Proceeds from Amended and Restated Term Loan Facility | $ | 220,000 |
| Proceeds from Revolver | | 25,000 |
| Total Proceeds from Financing | | 245,000 |
| Uses | | |
| Estimated purchase consideration | | 185,515 |
| Old Term Loan Payoff | | 74,438 |
| Debt Issuance Costs(1) | | 5,512 |
| Transaction Costs | | 4,562 |
| Total uses | | 270,027 |
| Net effect on cash | $ | (25,027) |

(1) The Debt Issuance costs paid at closing are included on the combined balance sheet as follows:

| | | |
|---|---|---|
| Long-term debt, less current installments | $ | 4,630 |
| Other non current assets | | 650 |
| Accumulated deficit | | 232 |
| Total debt issuance costs paid | $ | 5,512 |

(b) Represents the adjustment necessary to state inventories acquired as of the pro forma acquisition date to their estimated fair value. The valuation approaches used in the preliminary valuation exercise for inventory were the replacement cost approach and the comparative sales method approach.

| | | |
|---|---|---|
| Fair value of acquired inventory | $ | 20,716 |
| Elimination of Sergeant's historical inventory, net | | (16,511) |
| Pro forma adjustment to inventory | $ | 4,205 |

(c) Represents the adjustment necessary to eliminate prepaid expenses that will not benefit the acquirer PetIQ.

(d) Reflects the adjustment to property plant and equipment related to the preliminary fair values for the acquired real and personal property. The valuation approaches used were the sales comparison approach and cost approach.

| | | |
|---|---|---|
| Fair value of acquired property, plant and equipment | $ | 16,635 |
| Elimination of Sergeant's historical net book value of property, plant and equipment | | (10,684) |
| Pro forma adjustment to property, plant and equipment | $ | 5,951 |

(e) Represents the adjustment to record the preliminary fair value of the operating lease liabilities and corresponding right-of-use assets and the removal of Sergeant's historical operating lease liabilities and right-of-use assets in accordance with ASC 842.

| | | |
|---|---|---|
| Fair value of acquired right of use assets | $ | 10,820 |
| Elimination of Sergeant's historical operating lease right of use assets | | (11,161) |
| Pro forma adjustment to operating lease right of use assets | $ | (341) |

| | | |
|---|---|---|
| Fair value of acquired current portion of operating lease liabilities | $ | 1,875 |
| Elimination of Sergeant's historical current portion of operating lease liability | | (1,481) |
| Pro forma adjustment to current portion of operating lease liability | $ | 394 |

| | | |
|---|---|---|
| Fair value of acquired operating lease liabilities, less current installments | $ | 8,944 |
| Elimination of Sergeant's historical operating lease liability, less current installments | | (9,694) |
| Pro forma adjustment to operating lease liabilities, less current installments | $ | (750) |

(f) Represents adjustment to reflect the preliminary fair value of Sergeant's identifiable intangible and the removal of Sergeant's historical net book value of intangible assets. The related impact of these newly acquired intangibles on amortization expense have been reflected in the unaudited pro forma condensed statement of operations. The net adjustments are calculated as follows:

| | | |
|---|---|---|
| Fair value of acquired intangibles | $ | 32,690 |
| Elimination of Sergeant's historical net book value of intangibles | | (36,922) |
| Pro forma adjustment to intangibles | $ | (4,232) |

The general categories of the acquired identified intangibles assets are expected to be the following:

| | | | Useful Lives |
|---|---|---|---|
| Tradenames | $ | 22,020 | 5 - Indefinite |
| Customer Relationships | | 7,070 | 20 |
| Developed technology and Know-How | | 2,960 | 8 |
| In-Process Research & Development | | 640 | Indefinite |
| Intangible assets | $ | 32,690 | |

The preliminary fair values of the intangible assets were determined based on a combination of market, income and cost approaches. Upon finalization of the fair values of the intangibles, the amount that will be allocated to the identifiable intangible assets, and the related amortization, may differ materially from this preliminary allocation.

(g) The adjustment to goodwill is comprised of the elimination of Sergeant's historical goodwill and the preliminary purchase consideration in excess of the fair value of the net assets acquired.

| | | |
|---|---|---|
| Preliminary purchase consideration in excess of fair value of net assets acquired | $ | 112,695 |
| Elimination of Sergeant's historical goodwill | | (29,633) |
| Pro forma adjustment to goodwill | $ | 83,062 |

(h) Represents the adjustment to record the proceeds, net of deferred financing costs, and record the corresponding debt related to the Acquisition Related Financing, described in Note 2, which proceeds were primarily used to fund the Sergeant's acquisition and Term Loan refinancing.

| | | |
|---|---|---|
| Proceeds from financing | $ | 245,000 |
| Repayments of debt assumed | | (74,437) |
| Debt issuance costs related to Acquisition Related Financing | | (4,630) |
| Pro forma adjustment for net adjustment to debt | $ | 165,933 |

| | | |
|---|---|---|
| Current portion of debt | $ | 1,450 |
| Long-term debt | | 164,483 |
| Total pro forma debt | $ | 165,933 |

(i) Pro forma adjustment to record the elimination of Sergeant's historical net parent investment.

(j) To record the acquisition costs incurred by PetIQ to complete the transaction as well as the portion of debt issuance costs expensed in 5(a).

**6.** ***Adjustments to the Unaudited Pro Forma Condensed Combined Statement of Operations***

(a) Reflects the elimination of Product sales and Cost of products Sold from Sergeant's to PetIQ as part of the transition of a distribution agreement.

(b) Represents adjustment to eliminate Sergeant's historical depreciation and amortization and record depreciation and amortization based on the fair value of the acquired property, plant and equipment and identifiable intangible assets. Depreciation of property plant and equipment is based on the estimated remaining useful lives of the assets and is calculated on a straight-line basis. The amortization of intangible assets is based on the periods over which the economic benefits of the intangible assets are expected to be realized.

**Cost of Products Sold**

| | 3 months ended March 30, 2019 | | Year ended December 31, 2018 | |
|---|---|---|---|---|
| Depreciation and Amortization | | | | |
| Depreciation and amortization expense of new fair value of assets | $ | 93 | $ | 370 |
| Elimination of Sergeant's historical depreciation and amortization | | (1,456) | | (21,156) |
| Pro forma adjustment to Costs of Products Sold | $ | (1,363) | $ | (20,786) |

The fair value adjustment to the inventories was excluded from the pro forma condensed combined statements of operations as it was determined not to have a continuing effect.

**General and Administrative Expenses**

| | 3 months ended March 30, 2019 | Year ended December 31, 2018 |
|---|---|---|
| Depreciation and Amortization | | |
| Depreciation and amortization expense of new fair value of assets | $ 640 | $ 2,612 |
| Elimination of Sergeant's historical depreciation and amortization | (547) | (2,268) |
| Pro forma adjustment to General and Administrative Expenses | $ 93 | $ 344 |

(c) Reflects the elimination of transaction costs recorded in the historical financial statements of PetIQ of $576 for the three months ended March 31, 2019.

(d) Represents interest expense for additional borrowings of $220 million from the Company's amended and restated term loan facility as well as the interest expense on the additional $25 million borrowed on the Company's Revolver. The Company obtained a variable interest rate of 2.1%, plus a margin of 4.5% on the amended and restated term loan and 5.3% on the Revolver using the base rate. The effect of a 1/8 percent variance in the interest rates would change interest expense, net by approximately $213 and $53 for the year ended December 31, 2018 and the three months ended March 31, 2019, respectively.

(e) Represents the pro forma adjustment for the income tax effect of the historical income of Perrigo's animal health business as a result of its acquisition by PetIQ, as well as the income tax effect of the pro forma adjustments. With respect to the Unaudited Pro Forma Statement of Income (Loss), a blended federal and state statutory tax rate of 25% for the three months ended March 31, 2019 and the year ended December 31, 2018 has been assumed for the pro forma adjustments. The combined company is anticipated to not have a valuation allowance against the deferred tax asset and the recurring valuation allowance expense in the combined financial statements of Perrigo's animal health business for June 30, 2019 and December 31, 2018, of $51 thousand and $16.9 million, respectively, has been removed from tax expense. We have not removed the tax impact of one-time items, including the 2018 impairment charge.

Although not reflected in this unaudited pro forma condensed combined financial information, the effective tax rate of the combined company could be different than the Company's historical effective tax rate (either higher or lower) depending on various factors, including post-acquisition activities.

(f) The non-controlling interest income is calculated by first allocating an amount associated with the pro forma tax distributions to non-controlling interest holders, then allocating the remaining income attributable to PetIQ Holdings, LLC based on the pro forma ownership interest held by the non-controlling interest holders. In a loss situation the non-controlling interest holders will not receive income tax distributions based on provisions in the operating agreement.