

12 July 2021

Proposal to acquire Australian Pharmaceutical Industries

Highlights

- Wesfarmers (ASX:WES) has submitted a non-binding, indicative offer to the Board of Australian Pharmaceutical Industries Limited (“API”, ASX:API) to acquire 100 per cent of API’s shares outstanding for \$1.38 cash per share by way of a scheme of arrangement (“Proposal”).
- Proposal price represents a 21 per cent premium to API’s last close price of \$1.145 per share.
- API’s major shareholder Washington H. Soul Pattinson and Company Limited (“WHSP”, ASX:SOL), which owns 19.3 per cent of API’s shares outstanding, has agreed to vote in favour of the Proposal and has granted a call option in respect of its API shares in favour of Wesfarmers.
- API operates a portfolio of complementary wholesale and retail businesses in the growing health, wellbeing and beauty sector.
- Wesfarmers is well-positioned to bring capital and unique capabilities to support investment that will strengthen the competitive position of API and its community pharmacy partners.
- The Proposal is subject to the satisfaction of limited conditions precedent, including completion of due diligence and obtaining clearance from the Australian Competition and Consumer Commission (“ACCC”).

Transaction Details

Wesfarmers today announced that it has submitted a non-binding, indicative offer to acquire 100 per cent of the shares outstanding in API for \$1.38 cash per share by way of a scheme of arrangement.¹

The Proposal price corresponds to a total equity value for API of approximately \$687 million, based on 498.2 million fully diluted shares outstanding,² and represents a premium of:

- 21 per cent to the last close price of \$1.145 on 9 July 2021; and
- 22 per cent to the one-month volume weighted average price of \$1.133 to 9 July 2021.

Wesfarmers will be seeking the support of the API Board and its recommendation of the Proposal to API’s shareholders.

API is a leading Australian distributor of pharmaceutical goods and operates a portfolio of complementary wholesale and retail businesses in the growing health, wellbeing and beauty sector. API provides retail support services to pharmacist-owned pharmacy partners through its Priceline Pharmacy, Soul Pattinson and Pharmacist Advice brands, and is a retailer through company-owned health and beauty stores under the Priceline brand. In addition, API operates Clear Skincare clinics, a provider of skin treatments, laser hair removal and non-invasive cosmetic procedures, and manufactures pharmaceutical and personal care products through its Consumer Brands business.

¹ The cash consideration price will be reduced by the value of any dividends or capital returns declared, determined, proposed or paid after the date of this announcement. The price also assumes that API will achieve its 2021 financial year earnings guidance.

² Comprising 492.656 million ordinary shares as at 28 February 2021 and the effect of 5.502 million potential ordinary shares on issue through the conversion of performance rights (based on API’s 22 April 2021 ASX announcement ‘Half Year Accounts’).

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Support from major shareholder

API's major shareholder, WHSP, has entered into an Undertaking Agreement with Wesfarmers and has indicated its support for the Proposal.

WHSP has agreed to vote its 95.1 million API shares, representing 19.3 per cent of API's shares outstanding, in favour of the Proposal and against any competing proposal (subject to there being no superior proposal, after giving effect to any matching rights available to Wesfarmers). WHSP has also granted a call option in respect of its API shares in favour of Wesfarmers.

The Undertaking Agreement is included in Wesfarmers' substantial shareholding notice in respect of API released by the ASX today.

Transaction Rationale

Wesfarmers Managing Director Rob Scott said the acquisition of API would provide an attractive opportunity to enter the growing health, wellbeing and beauty sector.

"If the Proposal is successful, API would form the basis of a new healthcare division of Wesfarmers and a base from which to invest and develop capabilities in the health and wellbeing sector.

"The combination of Wesfarmers and API is a compelling opportunity to capitalise on API's strengths and positioning in these markets while drawing upon Wesfarmers' capabilities in retail and distribution, our strong balance sheet and our willingness to invest in our businesses for growth over the long term.

"Wesfarmers supports the community pharmacy model, including the pharmacy ownership and location rules, and considers API's relationships with its community pharmacy partners to be one of its key strengths. We see opportunities to build on these relationships and invest to expand ranges, improve supply chain capabilities and enhance the online experience for customers. These investments are expected to strengthen the competitive position of API and its community pharmacy partners," Mr Scott said.

Wesfarmers will finalise its view of the business during due diligence and looks forward to engaging with API stakeholders.

Offer Conditions

The Proposal is conditional upon the satisfaction of conditions including the completion of confirmatory due diligence, entry into a Scheme Implementation Deed, obtaining ACCC clearance, API Board approval and the approval of API shareholders.

Transaction Funding

The transaction will be funded through Wesfarmers' existing balance sheet capacity and debt facilities. Wesfarmers retains significant headroom relative to target credit metrics and the Group's existing credit ratings are not expected to be affected by the proposed transaction.

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This announcement was authorised to be given to the ASX by the Wesfarmers Disclosure Committee.