



Thursday, 29 July 2021

API BOARD REJECTS INDICATIVE PROPOSAL FROM WESFARMERS

On 12 July 2021 Australian Pharmaceutical Industries (ASX:API) ("API") announced that it had received an unsolicited, non-binding, conditional indicative proposal (the "Indicative Proposal") from Wesfarmers Limited (ASX:WES) ("Wesfarmers") to acquire 100% of the shares in API by way of a scheme of arrangement for cash consideration of \$1.38 per share.

The API Board (the "Board") has carefully considered the Indicative Proposal, including obtaining advice from its financial and legal advisers.

The Board has unanimously concluded that the Indicative Proposal undervalues API, is not compelling and is not in the best interests of API shareholders.

In coming to this conclusion, the Board has undertaken detailed analysis of the underlying value of API, including assessing the medium and long term growth prospects of the company and reviewing a range of scenarios in relation to API's recovery from the impacts of COVID-19 ("COVID") and the related lockdown restrictions. In particular, the Board analysis includes the following factors:

- The opportunistic timing of the Indicative Proposal given the impact COVID and the related lockdown restrictions have had on API's financial performance over the last 18 months, and particularly on its retail facing businesses.
- API's portfolio of complementary wholesale and retail businesses are strategically well positioned in the growing health, wellness and beauty sector.
- The expected substantial medium-term growth of Priceline's earnings contributions including:
 - Attractive outlook for discretionary health and beauty spending as COVID restrictions unwind;
 - Continued roll out of Priceline Pharmacy franchise stores;
 - Strength of Priceline's digital health and beauty offering, including utilisation of the recent growth in eScript take-up combined with the Priceline app and store network to deliver essential medicines direct to home; and
 - Benefits of margin improvement and strategic initiatives, including the recent closure of nine loss making company-owned Priceline stores in CBD locations as the network is recalibrated into suburban areas post COVID.
- Strategic value of Priceline's Sister Club loyalty program, Australia's largest health and beauty loyalty program, which is fuelling the digital initiatives.



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- Realisation of the earnings growth anticipated from API's investment in 39 new Clear Skincare clinics over the past three years since the business was acquired by API (representing 47% of the total network) and the continued expansion of the clinic network.
- The certainty of additional funding provided to the Pharmacy Distribution business through the remaining four years of the 7th Community Pharmacy Agreement, coupled with resetting of generics supply and the return of the Pfizer distribution volume.
- Expected savings from completing the development of the new automated Marsden Park Distribution Centre by the end of FY22 which will allow consolidation of API's supply chain footprint.
- Anticipated medium to longer term earnings uplift resulting from the exit of Consumer Brands manufacturing in New Zealand by the second half of FY23.

The Board notes that the Indicative Proposal implies a premium of 18.7%¹ to the 3-month Volume Weighted Average Price (VWAP) which is significantly below the Australian market average for transactions of this nature.

Although API's share price has recently traded above the price offered in the Indicative Proposal, the Board recognises that the share price may trade below this level in the short term. Nevertheless, the Board will only progress a change of control transaction on terms that recognise the fundamental value of API and are in the best interests of API shareholders as a whole.

API shareholders are not required to do anything in relation to the Indicative Proposal and the API Board will keep shareholders updated as appropriate.

Announcement authorised by the API Board.

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¹ 3-month volume weighted average price (VWAP) of \$1.163 based on cumulative trading volume from 10 April 2021 up to and including 9 July 2021

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