



Thursday, 2 December 2021

**RECEIPT OF NON-BINDING PROPOSAL FROM WOOLWORTHS
TO ACQUIRE 100% OF API**

Australian Pharmaceutical Industries (ASX:API) ("API") today announced that it has received a non-binding indicative proposal from Woolworths Limited (ASX:WOW) ("Woolworths") to acquire 100% of the shares in API by way of a scheme of arrangement (the "Woolworths Proposal"). The indicative price under the Woolworths Proposal is \$1.75 cash per share less the cash amount of any fully franked dividends of up to a maximum of 5 cents per API share which is inclusive of API's final dividend of 2 cents per API share for the financial year ended 31 August 2021.

Woolworths has indicated it would be prepared to proceed with its proposal on terms substantially consistent with the Scheme Implementation Deed between Wesfarmers and API dated 8 November 2021 (**Wesfarmers SID**).

Woolworths has stated it is also willing to explore alternative control transaction structures in order to provide more certainty for API shareholders, such as a takeover bid with a minimum acceptance condition of 50.1%.

The cash price of \$1.75 per API share represents:

- a 52.8% premium to API's undisturbed closing share price as at 9 July 2021 of \$1.145;
- a 54.5% premium to the one-month volume weighted average price to 9 July 2021 ("VWAP") of \$1.133 per share; and
- a \$0.20 per share cash increase over the price currently offered under the Wesfarmers SID.

The Woolworths Proposal is subject to a number of conditions including confirmatory due diligence and ACCC approval.

The API Board notes that Woolworths has indicated it supports the current ownership provisions and location rules which ensure that community pharmacies are well distributed throughout the community, especially in regional and remote parts of Australia and is not seeking to change – now or in the future – the pharmacy ownership rules requirements or location rules.





A copy of the Woolworths Proposal is attached to this announcement.

Having reviewed the Woolworths Proposal, and after taking advice from its financial and legal advisers, the API Board considers that the Woolworths Proposal is reasonably capable of being valued, implemented and completed in accordance with its terms, and, if completed substantially in accordance with its terms, be more favourable to API shareholders as a whole than the Wesfarmers Scheme. For these reasons the API Board has determined that the Woolworths Proposal is, or is reasonably likely to be, a Superior Proposal as defined in the Wesfarmers SID.

Accordingly, the API Board has determined to allow Woolworths to undertake confirmatory due diligence to facilitate a binding offer, subject to entering into an appropriate confidentiality agreement and agreeing a focused confirmatory due diligence process.

At this stage, API shareholders do not need to take any action in relation to the Indicative Proposal from Woolworths.

The Board notes that there is no certainty that the engagement between API and Woolworths will result in a change of control transaction or an offer capable of acceptance by API shareholders. The API Board has not agreed with Woolworths a binding process or timetable and intends to discuss these aspects further with Woolworths. The Board also notes that the Wesfarmers SID includes a matching right in favour of Wesfarmers which is exercisable by Wesfarmers before API enters into any binding agreement in respect of a Competing Proposal.

API will continue to keep the market informed in accordance with its continuous disclosure obligations.

This announcement is authorised for release by the Board of Directors of API.

For further information:

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Confidential (unless waived)

Indicative, Incomplete and Non-Binding Proposal

1 December 2021

Kenneth Gunderson-Briggs
Chairman of the Board of Directors
Australian Pharmaceutical Industries Limited
250 Camberwell Rd
Camberwell Victoria 3124

Via email

Dear Kenneth,

PROPOSAL TO ACQUIRE 100% OF THE SHARES IN AUSTRALIAN PHARMACEUTICAL INDUSTRIES

Woolworths Group Limited (**Woolworths Group**) is pleased to provide this transaction proposal (**Proposal**) to acquire 100% of the shares in Australian Pharmaceutical Industries Limited (**API**) for A\$1.75 per API share, and otherwise on terms substantially consistent with the terms proposed by Wesfarmers Limited (**Wesfarmers**) and API in the Scheme Implementation Deed between Wesfarmers and API, dated 8 November 2021 (**Wesfarmers SID**).

1 Strategic Rationale

In recent years, Woolworths Group has been evolving into a food and everyday needs retail ecosystem with the aim of providing our customers their food and everyday needs through convenient stores, services and a leading loyalty program. The ecosystem is supported by retail services, capabilities and platforms built over many years in areas like digital, data and supply chain.

Health and wellness is a large, attractive and fast growing category and the acquisition of API would be an attractive extension to our food and everyday needs ecosystem. We will continue to support API's community pharmacy partners to deliver better experiences for customers, pharmacists, and the team. We are confident that our experience in loyalty will enable us to further develop and enhance Priceline's Sister Club program to ensure that it remains Australia's leading health and beauty loyalty Program. We will also work to strengthen API's wholesale and distribution business to ensure that all Australians continue to have timely access to a full range of PBS and other medicines, via their community pharmacy, regardless of where they live.

Customer expectations across retail are evolving in areas like convenience, innovation, and value and we believe an acquisition of API by Woolworths Group will strengthen API's existing model of community pharmacy. It would retain the high quality service and strong health focus already provided by API's community pharmacy partners while providing them with access to our platforms and services capabilities in areas such as eCommerce; retail media, loyalty and payments; data and analytics; and supply chain.

Woolworths Group supports the current ownership provisions and location rules which ensure that community pharmacies are well distributed throughout the community, especially in regional and remote parts of Australia. We are not seeking to change – now or in the future – the pharmacy ownership rules requirements or location rules.

2 Transaction Proposal

Consideration

Woolworths Group's Proposal is to acquire 100% of the shares in API for A\$1.75 per API share in cash, less the cash amount of any "Permitted Dividends" (being fully franked dividends of up to a maximum of 5 cents per API share, including the 2 cents per share final dividend declared by API for the financial year ended 31 August 2021) and any other dividends or distributions declared or paid by API after the date of this letter (**Offer Price**) subject to the assumptions and conditions outlined in this letter.

The Offer Price represents compelling value for API shareholders, and we believe the Proposal represents a superior proposal to the Wesfarmers' scheme of arrangement which is offering API shareholders cash consideration of \$1.55 per API share less the cash amount of any "Permitted Dividends".

Woolworths Group believes there is the potential to improve the Offer Price and enhance the terms of this Proposal with the benefit of due diligence.

Transaction Structure

Subject to the assumptions and conditions outlined in this letter, Woolworths Group proposes to acquire 100% of the shares in API by way of a scheme of arrangement (**Woolworths Scheme**) for the Offer Price and otherwise on substantially the same terms as the scheme of arrangement proposed by the Wesfarmers SID (**Wesfarmers Scheme**).

In conjunction with its due diligence investigations, Woolworths is also willing to explore potential alternative control transaction structure options, such as a takeover bid with a minimum acceptance condition of 50.1% and/or other transaction structures that would be subject to receiving 50.1% API shareholder support, in order to deliver more value and/or certainty for API shareholders.

Any such alternative transaction structure option would only be pursued by Woolworths with the approval of the API directors.

It is intended that any alternative transaction structure would facilitate the implementation of the Proposal on terms that are substantially equivalent to the Woolworths Scheme (other than for required differences to accommodate the alternative transaction structure with 50.1% API shareholder support).

Conditions to be Satisfied Prior to Announcement of a Binding Transaction

Woolworths Group has received necessary Board approvals to submit this Proposal.

Implementation of the Proposal will be subject to the terms of a binding Implementation Deed, which would set out the terms of an agreed transaction to effect the Proposal and provide for co-operation between Woolworths Group and API (**Woolworths Group ID**). We anticipate the Woolworths Group ID would be based on the Wesfarmers SID other than for required amendments to accommodate any alternative transaction structuring.

Entry into the Woolworths Group ID by Woolworths Group will be subject to the following conditions being met in the period commencing on the date of this letter and ending on the date that the Woolworths Group ID is executed:

- Satisfactory completion by Woolworths Group of due diligence on API and its business and operations (as outlined below);
- The parties agreeing the terms of an ASX announcement which includes a unanimous API Board recommendation in favour of the proposed transaction and a statement of intention by all API Directors to vote in favour, and/or to otherwise support, of the proposed transaction (each in the absence of a superior proposal and subject to an Independent Expert concluding that the proposed transaction is in the best interests of API shareholders); and
- Woolworths Group receiving final board approval to execute the Implementation Deed.

In addition to the above conditions, implementation of the Proposal would be subject to conditions, including approval from the Australian Competition and Consumer Commission, API directors and API shareholders.

3 Financing

We intend to finance the transaction using available liquidity. The Proposal will not be conditional on financing.

4 Due Diligence

Having already reviewed publicly available information about API and consulted with industry experts, we believe that our due diligence can be completed within four weeks (taking into account public holidays) after receipt of the requested due diligence information .

We will separately provide you with a proposed form of confidentiality agreement and a list of additional priority due diligence requests, following a review of the existing data room information.

5 Indicative Timetable

We envisage the following indicative timetable:

Step	Timing
Commencement of due diligence	By 6 December, 2021
Completion of due diligence process	By 7 January, 2022 ¹
Finalisation of draft binding transaction documents	By 7 January, 2022 ¹
Execution and announcement of binding transaction	Mid January, 2022

¹ Woolworths is supportive of agreeing a short pause in due diligence and negotiation of transaction documentation over the Christmas / New Year holiday period to provide the API team with a break.



Distribution of Scheme Booklet and any other material necessary to implement the proposed transaction	Mid February, 2022
Scheme meeting	1Q, 2022
Completion	2Q, 2022

6 Next Steps

Woolworths Group and its advisers are in a position to commence due diligence and discussions in respect of the Woolworths Group ID immediately.

We look forward to commencing this process with you and will work to agree binding transaction documents as quickly as possible.

7 Nature of the Transaction Proposal

The Proposal set out in this letter is indicative, incomplete and non-binding. It is not an offer capable of acceptance, nor does it give rise to a binding contract. Any legally binding obligations would be subject to, among other things, the execution of definitive documentation and final Board approvals.

Unless and until a binding Implementation Deed is entered into, Woolworths Group will not be under any obligation to API with respect to the Proposal or anything set out in this letter. We reserve the right to terminate discussions immediately at any time and not to pursue the Proposal (for any reason or for no reason), without any obligation on our part.

For the avoidance of doubt, this letter is not, and cannot be considered to be, notification or a public announcement of an intention to make a takeover offer pursuant to section 631 of the Corporations Act.

We look forward to your response.

Yours sincerely

Gordon Cairns

Chairman

Woolworths Group Limited