



2 December 2021

ASX Market Announcements Office
Australian Securities Exchange
20 Bridge Street
Sydney NSW 2000

Woolworths Group non-binding proposal to acquire Australian Pharmaceutical Industries

Please see attached an announcement regarding a proposal by Woolworths Group to acquire Australian Pharmaceutical Industries.

Authorised by: Kate Eastoe, Group Company Secretary

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Woolworths Group non-binding proposal to acquire Australian Pharmaceutical Industries

Woolworths Group today announces that it has submitted the attached non-binding transaction proposal to Australian Pharmaceutical Industries Limited (API) to acquire 100% of its shares at a cash offer price of \$1.75 per API share¹ (total equity value of \$872 million²) by way of a scheme of arrangement. The proposed offer price represents a premium of 20 cents per share (or 12.9%) over the price agreed between API and Wesfarmers under the scheme implementation deed announced on 8 November 2021.

In conjunction with its due diligence investigations, Woolworths Group 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 Group with the approval of the API directors.

Woolworths Group is pleased to note that the Board of API has determined that the Woolworths Group proposal is, or is reasonably likely to be, a Superior Proposal (as defined in the Wesfarmers Scheme Implementation Deed). Woolworths Group will engage constructively with API to quickly finalise its due diligence enquiries.

API is one of Australia's leading health and beauty retailers and pharmaceutical distributors and is listed on the ASX. API is the parent company of the Priceline Pharmacy, Soul Pattinson Chemist, and Pharmacist Advice brands, and provides a range of retail services to its community pharmacy partners and company-owned Priceline retail stores. API also operates Clear Skincare, a non-surgical skincare clinic business, and Consumer Brands, a health and personal care business.

Strategic rationale and benefits for key stakeholders

Woolworths Group CEO, Brad Banducci, said: "There is a compelling strategic rationale to support Woolworths Group's acquisition of API. Health and wellness is a large, fast-growing category and API would be a fantastic addition to our food and everyday needs ecosystem. If successful, we will continue to support API's community pharmacy partners to deliver

¹ The Woolworths Group proposal, consistent with the Wesfarmers proposal, allows for the payment of fully franked dividends of up to a maximum of 5 cents per API share. This includes the 2 cents per share dividend declared by API for the financial year ended 31 August 2021 and any other dividends or distributions declared or paid by API after 1 December 2021, with the cash consideration of \$1.75 per share to be reduced by the cash component of any dividend.

² Based on 492.7 million API shares and 5.9 million API performance rights on issue as at 8 November 2021.

better experiences for both customers and pharmacists. We will also work to strengthen API's wholesale and distribution business to ensure that all Australians continue to have timely, cost-effective access to a full range of PBS and other medicines, via their community pharmacy, regardless of where they live.

"We are strongly committed to supporting the community pharmacy model including pharmacy ownership and location rules to ensure pharmacies are well represented in all communities, especially in regional and remote parts of Australia.

"We also know that customer expectations across retail are evolving in areas like convenience, innovation, and value. Through our broad range of retail services and capabilities built over many years in areas such as digital; retail media; loyalty; payments; analytics; and supply chain, we can support the industry through this change and help create additional opportunities for community pharmacy partners to deliver further solutions for their customers.

"The combination of the two businesses is expected to lead to material shared benefits and synergies, much of which will be reinvested back into strengthening and growing API and its pharmacy partners. If successful, the transaction is expected to be funded from the Group's existing balance sheet capacity and to deliver attractive returns for Woolworths Group shareholders over the medium term.

"For API shareholders, the proposal represents a meaningful premium relative to the Wesfarmers scheme proposal announced on 8 November 2021."

Woolworths Group notes that the proposal is indicative, incomplete and non-binding and there is no certainty that the proposal, or any transaction, will be agreed or will proceed.

For further information contact:

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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.

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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

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