Australian Shareholders' Association Limited
ABN 40 000 625 669
Suite 11, Level 22
227 Elizabeth Street, Sydney NSW 2000
PO Box A398, Sydney South NSW 1235
t (02) 9252 4244 | f (02) 9071 9877
e share@asa.asn.au

"A tough year for some"

Company/ASX Code	Australian Pharmaceutical Industries (API)
AGM date	Wednesday 20 January 2021
Time and location	2:00pm AEDT, online via https://web.lumiagm.com/317403142
Registry	Boardroom Pty Ltd
Webcast	No
Poll or show of hands	Poll on all items
Monitor	Stewart Burn assisted by Mike Robey
Pre AGM Meeting?	Yes with Chair – Kenneth Gunderson-Briggs, Director Jennifer Macdonald and the company secretary

Please note any potential conflict as follows: The individual(s) (or their associates) involved in the preparation of this voting intention have no shareholding in this company.

Item 1	**Consideration of accounts and reports**
ASA Vote	No vote required

Summary of ASA Position

Well, what a tough year API has had. It suffered the sudden death of its chairman – Mark Smith, the resignation of two directors, Robert Millner and Gerard Masters and the appointment of a new chair and two new directors. It closed 14 stores, wrote down $37.5m associated with Soul Pattinson stores, had restructuring costs of $12.3m, had to close many of its Priceline and Clear Skin stores due to COVID-19 and consequently had a large reduction in NPAT to record a loss of $7.9m vs a $56.6m profit last year. It did however manage to pay a 2 cent dividend in December 2020.

API is one of two major distributors of pharmaceutical, medical, health, beauty and lifestyle products to pharmacies throughout Australia. It purchases and sells various health, beauty and lifestyle products within the retail industry and also provides retail services to pharmacies. It is predominately an Australian business with a small New Zealand operation. Priceline and Soul Pattinson are the two well-known company brands, with an emerging interest in the area of skin care.

Company performance for the year ended 31 August 2020 was well behind the previous year. Revenue was up slightly 1.6%, Net profit After Tax (NPAT) fell to a loss of $7.9m from $56.6M, Earnings per Share (EPS) fell to a loss of 1.7 cents and dividends reduced from 7.75 cents to 2 cents. Net debt reduced significantly from $181m to $18m. The number of stores decreased by 14 down to 474. The board still sees "Clear Skincare" as the major growth opportunity for the company and a major differentiator between it and the other major chemist chain and it opened

15 new clinics for a total of 67. Revenues of $40.3m compared to last year of $45.6M is a very good outcome considering all stores were closed at some stage throughout the year.

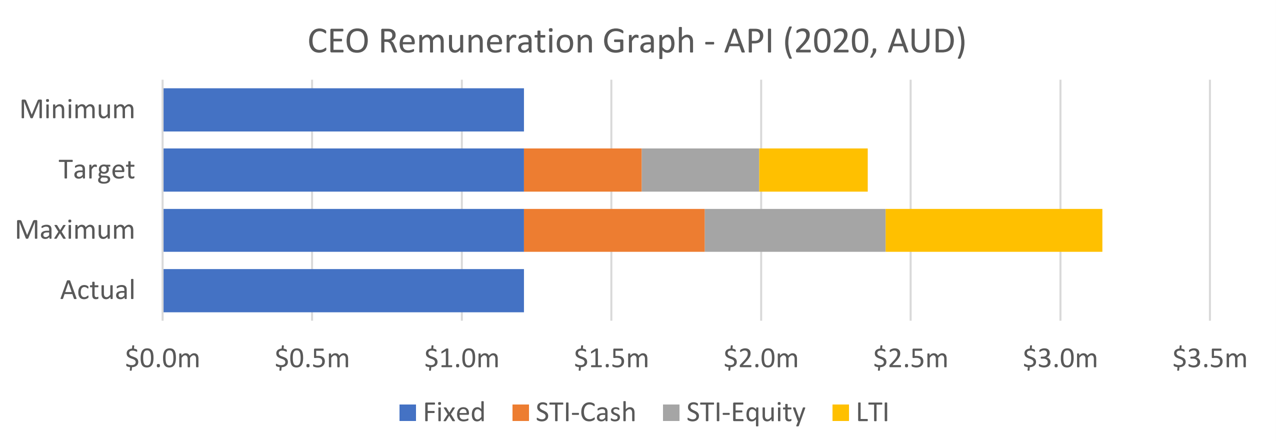
Summary

(As at FYE)	**2020**	**2019**	**2018**	**2017**	**2016**
NPAT ($m)	(7.9)	56.6	48.2	52.4	51.7
UPAT ($m)	32.5	55.1	48.05	54.2	51.4
Share price ($)	1.08	1.32	1.85	1.47	1.77
Dividend (cents)	2 cents	7.75 cents	7.5 cents	7 cents	6 cents
TSR (%)	(18.2)	(28.6)	25.9	(15.8)	9.9
EPS (cents)	(1.7) cents	11.2 cents	9.8 cents	10.7 cents	10.6 cents
CEO total remuneration, actual ($m)	1.208	1.119	1.044	1.091	1.41

For the 2020, the CEO's total actual remuneration was 13.1 **times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).

Item 2	**Adoption of Remuneration Report**
ASA Vote	**For**

Summary of ASA Position



Source: Australian Shareholders' Association and company 2020 Annual Report

The company tightly manages remuneration and both NED and KMP rewards are at the lower end of comparable companies. The KMP short term incentive Plan (STIP) is based on a STIP pool which is calculated as a percentage of target earnings before interest and tax (EBIT). It is a requirement that company performance must pass an acceptable minimum gateway of net profit after tax (NPAT) before any payment is earned. The minimum STIP pool is established if 90% of the group performance gateway is met and the maximum STIP opportunity is 100% of fixed remuneration for the CEO and 40% for other KMP. The STIP is paid as 50% cash and 50% performance rights. The number of STIP rights to be issued is calculated by dividing the value of the deferred component of the award by the VWAP of shares over the 10 days following the announcement of final results. For 2020 no STIP awards were granted.

The long-term incentive plan (LTIP) is for three years with no re-testing. Market value is used to determine how many rights are to be issued using the same 10 day VWAP approach as for the STIP. The LTIP uses both ROE (50%) and EPS growth (50%) in its calculation. The LTIP provides for performance rights equivalent in value to 60% of fixed remuneration for the CEO and 30% for KMP. None of the performance rights issues in 2017 vested in 2020 because the aggregate ROE was only 18.78%, whilst the EPS CAGR was (153.2%).

The actual remuneration is included in the report, but the table is still difficult to understand and the company has been asked again to provide better detail in 2020. No policy is in place requiring directors and KMP to hold a minimum level of shares, although the company does encourage this. However, some of the newer directors do not meet ASA guidelines and the ASA will continue to raise this with the board and ask that such a policy be implemented.

The TSR for the year declined due to a falling share price and continues to fluctuate over a longer period, this year shareholder returns in the form of dividends decreased due to the impact of COVID-19. However, with the expansion of "Clear Skincare" the board anticipates that TSR will increase as the added value to the company is recognised.

Item 3	**Re-election of Lee Ausburn as a Director**
ASA Vote	**For**

Summary of ASA Position

Ms Lee Ausburn has been a Director of the Company since 2008 and thus is close to breaching ASA's 12 year tenure guideline. We raised this with the chairman, who indicated that this would be the last time Ms Ausburn would stand for election as a director. Ms Ausburn has qualifications in pharmacy and currently owns 83,334 shares. She has experience in retail, hospital pharmacy and in academia. She has a long career in the pharmaceutical industry with Merck Sharp and Dohme (Australia) Pty Ltd and was previously Vice President, Asia, for Merck and Co. Inc with responsibility for the company's operations across Asia. Ms Ausburn was the President of the Pharmacy Faculty Foundation, University of Sydney until December 2017. Ms Ausburn is also a director of NIB Holdings Limited and was a director of SomnoMed Limited from September 2011 to August 2020.

The ASA believes that Ms Ausburn is not overworked, has an appropriate skillset for API and thus supports her re-election.

Item 4	Re-election of Jennifer MacDonald as a Director
ASA Vote	For

Summary of ASA Position

Ms Jennifer Macdonald has been a Director of the Company since 2017 and currently holds 50,000 shares. She indicated that she is currently trying to purchase more in the timing windows that are available to her. She has a strong background in financial and general management roles across a range of industry sectors including fast moving consumer goods, travel and digital media. Ms Macdonald was previously Chief Financial Officer and Interim Chief Executive Officer of Helloworld Travel and Chief Financial Officer and General Manager International at REA Group. She is currently a director of Redbubble Limited, Bapcor Limited and Healius Limited.

The ASA believes that Ms MacDonald is not overworked, has an appropriate skillset for API and thus supports her re-election.

Item 5	Election of Janine Allis as a Director
ASA Vote	For

Summary of ASA Position

Ms Janine Allis was appointed an Independent Non-executive Director in October 2020. Ms Allis is a successful businesswoman with extensive experience in retail and franchising. She founded Boost Juice Bars and the Retail Zoo group of food retail brands and has led innovation in digital marketing and customer engagement. Ms Allis has won numerous retail and franchise awards and has been appointed an Ambassador to United Nations High Commission for Refugees. She is currently a director of the Olivia Newton-John Foundation and until October was a director of Michael Hill International Limited. Ms Allis currently has no shareholding in API and we are a little unsure as to the skill set she brings to the board. We did ask the board about a skills matrix and where she sat in it, but we are still unclear as to her fit.

In the absence of her exact fit into a detailed skills matrix, the ASA gives the benefit of the doubt to the remuneration committee and will support her election.

Item 6	Election of Clive Stiff as a Director
ASA Vote	For

Summary of ASA Position

Mr Clive Stiff served as Chief Executive Officer of Unilever Australia and New Zealand from April 2012 to March 2020. Prior to that, he held senior leadership roles at Goodman Fielder and Procter & Gamble. Mr Stiff is currently an external advisor to Bain & Company and a member of the Advisory Board of Quantium, one of the World’s leading data science and artificial intelligence companies. Mr Stiff was formerly the Chair of the Australian Food & Grocery Council, the Chair of T2 Tea and a non-executive Director of Foodbank NSW & ACT.

Mr Stiff currently does not have a shareholding in API, but we believe he has a valuable skill set that will benefit the future directions of the company. The ASA thus supports his election.

Item 7	**Approval of LTI grant to CEO/Managing Director - Mr Vincent**
ASA Vote	**For**

Summary of ASA Position

It is intended to grant Mr Vincent 825,400 performance rights as part of his long-term Incentive plan. This represents 80% of Mr Vincent's fixed remuneration calculated using the 10 day VWAP at announcement of the 2020 full year results, compared to the 60% used in 2019.

The company stated that this maximum LTIP increase from 60% of annual fixed remuneration to 80% is to provide a greater reward for the delivery of improved shareholder outcomes and to increase the alignment of the opportunity to earn an incentive award with similar opportunities available to senior executives in the market generally. It also considers the challenging targets to achieve the Groups budgeted growth. Since no rights vested in the last 2 years, the ASA recognises the challenges the company faces, and in any event, we are comfortable with this increase, as long as the targets are appropriate and the hurdles adequately high. The rights are subjected to a 3-year performance period and will vest on the 31 August 2023.

Half of the performance rights are subject to a return on equity and the other half to Earnings per Share performance. Previously the ROE component of the rights, for any rights to be granted a return on equity (ROE) of not less than 26.48% over the period needed to be achieved with 100% being granted if a ROE of 43.03% is achieved. The board is proposing to change the ROE component so that the ROE Performance Condition compares the aggregate ROE achieved by the API Group during the three-year Performance Period against the aggregate ROE targets set by the Board for each financial year during that period (target ROE). This is literally a moving target and may be varied by the Board annually at its absolute discretion. The ASA does not support the retesting of long-term targets, since this in effect makes them medium or short-term. We discussed this issue with management, and we are assured that it is a short-term arrangement due to COVID-19 and that the method of awarding the LTI will be reappraised in the future. We did discuss other options for the LTI including the use of restricted shares. The ASA thus support this change in the short-term.

For the EPS rights, the previous performance condition required a CAGR of 3.65% over the three years for any reward and a 5.92% rate to earn 100%. Noting that these performance conditions had already been reduced to those required in previous years. The board is now proposing that the EPS Performance Condition compares the aggregate EPS achieved by the API Group during the three-year Performance Period against the aggregate EPS targets set by the Board for each financial year during the same period. The target EPS may be varied by the Board at its absolute discretion, much as the ROE above. For the same reasons as mentioned above, the ASA supports this change until "normality" returns.

ASA Disclaimer

This document has been prepared by the Australian Shareholders Association Limited ABN 40 000 625 669 ("ASA"). It is not a disclosure document, it does not constitute investment or legal advice and it does not take into account any person's particular investment objectives. The statements and information contained in this document are not intended to represent recommendations of a particular course of action to any particular person. Readers should obtain their own independent investment and legal advice in relation to the matters contemplated by this document. To the fullest extent permitted by law, neither ASA nor any of its officers, directors, employees, contractors, agents or related bodies corporate:

- *makes any representations, warranties or guarantees (express or implied) as to the accuracy, reliability, completeness or fitness for purpose of any statements or information contained in this document; or*
- *shall have any liability (whether in contract, by reason of negligence or negligent misstatement or otherwise) for any statements or information contained in, or omissions from this document; nor for any person's acts or omissions undertaken or made in reliance of any such statements, information or omissions.*

This document may contain forward looking statements. Such statements are predictions only and are subject to uncertainties. Given these uncertainties, readers are cautioned not to place reliance on any such statements. Any such statements speak only to the date of issue of this document and ASA disclaims any obligation to disseminate any updates or revisions to any such statements to reflect changed expectations or circumstances.