



Australian Pharmaceutical Industries Limited



**Notice of Meeting 2019**

# NOTICE OF MEETING

**Notice is given that the 2019 Annual General Meeting of shareholders of Australian Pharmaceutical Industries Limited will be held at the Four Seasons Hotel, 199 George Street, Sydney, NSW, 2000 on Wednesday 22nd January 2020 at 2.00 pm (AEDT).**

## BUSINESS

Items 2 to 4 will be proposed as ordinary resolutions.

## ORDINARY BUSINESS

### Reports

1. To receive and consider the Financial Report of the Company and its controlled entities and the reports of the Directors and the Auditor for the year ended 31 August 2019.
2. To adopt the Remuneration Report for the year ended 31 August 2019.

*The vote on this resolution is advisory only and does not bind the Company or its Directors.*

### Election of Director

3. To re-elect a Director. Mr Kenneth W Gunderson-Briggs retires, and being eligible, offers himself for re-election.

### Grant of Performance Rights to Mr Richard Vincent, Chief Executive Officer and Managing Director, under the API Long Term Incentive Plan

4. To consider and, if thought fit, to pass the following resolution:

"That, for the purposes of Listing Rule 10.14, and for all other purposes, the grant of performance rights under the API Long Term Incentive Plan to the Company's Chief Executive Officer and Managing Director, Mr Richard Vincent, on the terms set out in the Explanatory Notes accompanying this Notice of 2019 Annual General Meeting, be approved."

## VOTING EXCLUSION STATEMENT

### Voting restrictions for Item 2 (Adoption of Remuneration Report)

In accordance with the Corporations Act, the Company will disregard any votes cast in any capacity (e.g. as a shareholder, proxy or corporate representative) in favour of Item 2 by or on behalf of:

- a member of the Company's Key Management Personnel, details of whose remuneration are included in the Remuneration Report; and
- closely related parties of those persons.

However, these restrictions do not apply to a vote cast by such person on behalf of a person who is not themselves subject to the restrictions, and:

- the proxy is appointed as proxy by written notice which specifies the way in which the proxy is to vote on Item 2; or
- the person is the Chairman of the Meeting and the proxy appointment expressly authorises the Chairman of the Meeting to vote undirected proxies as the Chairman decides.

### Voting restrictions for Item 4 (Approval of issue of performance rights to Mr Richard Vincent, Chief Executive Officer and Managing Director, under the API Long Term Incentive Plan)

In accordance with the ASX Listing Rules and the Corporations Act, the Company will disregard any votes cast in favour of Item 4:

- by, or on behalf of, Mr Vincent and his associates; and
- as a proxy by a person who is a member of the Company's Key Management Personnel at the date of the Meeting and their closely related parties,

unless the vote is cast by:

- a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- the Chairman of the Meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

There is no share plan in respect of which the Directors (other than Mr Vincent) are entitled to participate. Therefore, under the ASX Listing Rules, each of the Directors (other than Mr Vincent) is able to vote on this resolution.

## UNDIRECTED PROXIES

The Chairman of the Meeting intends to vote undirected proxies (where the Chairman has been appropriately authorised) in favour of all items.

**If you do not wish to appoint the Chairman of the Meeting to vote in favour of all items, it will be important for you to complete the voting directions in respect of each item in Step 2 of the proxy form.**

## NOTICE OF MEETING

CONTINUED

### VOTING ENTITLEMENTS

The Board has determined that, for the purposes of the Meeting (including voting at the Meeting), shareholders are those persons who are the registered holders of the Company's ordinary shares at 7.00 pm (AEDT) on Monday, 20 January 2020.

Holders of the Company's ordinary shares may vote on all items of business, subject to the Voting Exclusion Statement described previously.

### PROXIES

A shareholder has the right to appoint a proxy, who need not be a shareholder of the Company. If a shareholder is entitled to two or more votes they may appoint two proxies and may specify the percentage of votes each proxy is appointed to exercise.

To be effective for the Meeting, the proxy form (and any authority under which it is signed or a certified copy) must be received by the Company no later than 2.00 pm (AEDT) on Monday, 20 January 2020 (48 hours before the commencement of the Meeting).

Completed proxy forms can be:

- hand delivered during normal business hours to the Company's Share Registry, Boardroom Pty Limited, located at Grosvenor Place, Level 12, 225 George Street, Sydney NSW 2000;
- returned by post to Boardroom Pty Limited, GPO Box 3993, Sydney NSW 2001; or
- sent by facsimile to Boardroom Pty Limited on +61 2 9290 9655.

Alternatively, shareholders may complete and lodge the proxy form online by following the instructions on the proxy form, so that the instructions are received no later than 48 hours before the commencement of the Meeting.

### CORPORATE REPRESENTATIVES

A body corporate which is a shareholder, or which has been appointed as a proxy, may appoint an individual to act as its representative at the Meeting. The appointment must comply with the requirements of section 250D of the Corporations Act. The representative should bring to the Meeting evidence of his or her appointment, including any authority under which it is signed or a certified copy, unless it has previously been given to the Company. Shareholders can download the "Appointment of Corporate Representative" form from the Share Registry's website: [www.boardroomlimited.com.au/investor-forms](http://www.boardroomlimited.com.au/investor-forms).

By order of the Board



**Anne Mustow**  
Company Secretary

10 December 2019

## EXPLANATORY NOTES

### ITEM 1 – CONSIDERATION OF FINANCIAL REPORT, DIRECTORS' REPORT AND AUDITOR'S REPORT

In accordance with the Corporations Act, the Financial Report, the Directors' Report and the Auditor's Report of the Company and its controlled entities for the year ended 31 August 2019 (together, the **Reports**) will be put before the Annual General Meeting.

The Reports are contained in the Company's 2019 Annual Report, which can be obtained by contacting the Company's Share Registry or by visiting the Company's website [www.api.net.au](http://www.api.net.au), clicking on the "Investors" tab and following the links to the 2019 Annual Report.

Shareholders may elect to receive by mail, free of charge, the Company's 2019 Annual Report. Shareholders who wish to receive a hard copy of the Annual Report should contact the Company's Share Registry to obtain the necessary election form.

### ITEM 2 – ADOPTION OF THE 2019 REMUNERATION REPORT – NON-BINDING ADVISORY VOTE

As required by the Corporations Act, the Board is presenting the Remuneration Report for the year ended 31 August 2019 to shareholders for consideration and adoption by a non-binding vote. The Remuneration Report contains:

- an explanation of the Company's policy for determining the remuneration of the Company's Key Management Personnel;
- a description of the relationship between the remuneration policy and the Company's performance;
- a summary of the approach to remunerating the Company's Key Management Personnel, including performance related remuneration; and
- remuneration details for each Director and for each of the Company's Key Management Personnel.

The Remuneration Report forms part of the Company's Annual Report.

Section 250R(3) of the Corporations Act provides that the vote on Item 2 is for advisory purposes only and will not bind the Directors or the Company. The Board will take the outcome of the vote into consideration when reviewing remuneration practices and policies of the Company.

### Board Recommendation

The Board considers that the remuneration policies adopted by the Company are appropriately structured to provide rewards that are appropriate having regard to the performance of the Company.

On this basis, the Board recommends that shareholders vote in favour of Item 2.

## NOTICE OF MEETING

CONTINUED

### ITEM 3 - RE-ELECTION OF DIRECTOR

Rule 3.6 of the Company's Constitution requires a Director to retire from office at the third annual general meeting after the Director was elected or last re-elected.

Mr Kenneth W Gunderson-Briggs has decided to retire at the end of the Meeting notwithstanding that it is the second annual general meeting after his last re-election (in 2017). Mr Gunderson-Briggs offered to retire and stand for re-election early in order to allow the Board to stagger the retirement and re-election of directors over the period of their respective tenures. Being eligible, Mr Kenneth W Gunderson-Briggs offers himself for re-election as a Director.

The profile of Mr Gunderson-Briggs is set out below.

#### Mr Kenneth W Gunderson-Briggs

B. Bus, FCA, MAICD

Mr Gunderson-Briggs has been a Director of the Company since 6 May 2014. He was appointed a member of the Audit and Risk Committee on 6 May 2014 and its Chair on 25 January 2017. He was appointed a member of the Remuneration Committee on 8 April 2015 and was the Senior Independent Non-Executive Director from 2 September 2015 until 29 January 2019.

Mr Gunderson-Briggs is a chartered accountant in public practice, registered company auditor and public company Director, with broad experience in finance and the retail franchise sectors.

Mr Gunderson-Briggs finished his tenure as Chairman of Glenaeon Rudolf Steiner School Limited in May 2018, having been a Director since 2009 and Chair since 2013.

Other listed company directorships at any time during the last 3 years:

- Harvey Norman Holdings Limited (June 2003 - current).

#### Board Recommendation

The Board (excluding Mr Gunderson-Briggs) recommends that shareholders vote in favour of the re-election of Mr Gunderson-Briggs.

Mr Gerard J Masters will retire at the conclusion of the Meeting and has decided not to offer himself for re-election.

### ITEM 4 - GRANT OF PERFORMANCE RIGHTS TO MR RICHARD VINCENT, CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR

It is proposed that Mr Richard Vincent, the Company's Chief Executive Officer and Managing Director, be granted performance rights under API's Long Term Incentive Plan (**Plan**).

#### Number of performance rights to be granted to Mr Vincent

Subject to shareholder approval, it is intended that Mr Vincent be granted a total of 495,711 performance rights under the Plan. Upon vesting, the performance rights will provide him with the right to be provided with up to 495,711 fully paid ordinary shares in the Company.

The number of performance rights to be granted was derived by calculating a value representing 60% of Mr Vincent's fixed remuneration, and dividing that value by a unit value per performance right. This unit value was determined by calculating the 10 day volume weighted average closing price of API shares immediately after announcement of the 2019 full year results which was \$1.3622.

#### API's Long Term Incentive Plan

The Plan is designed to:

- focus senior management on medium to long-term performance outcomes and shareholder returns;
- align the interests of senior management with API shareholders;
- attract and retain experienced and capable key personnel; and
- reward senior managers for improvements in the Company's performance on factors underlying shareholder value.

The Board is responsible for awards granted under the Plan and for overseeing administration of the Plan. The Remuneration Committee is responsible for making recommendations to the Board in determining specific awards to individuals and overseeing the administration of the Plan.

The material terms of the Plan, which apply to the grant of performance rights to Mr Vincent, as well as to other participants under the Plan, are summarised below.

The Rules of the Plan prevent the Company from offering performance rights to an employee if the number of shares which could be issued in respect of all outstanding performance rights plus the number of shares issued during the previous 5 years under any employee share plan would exceed 3% of the total number of shares on issue on that day.



## NOTICE OF MEETING

CONTINUED

### What is a performance right?

A "performance right" is a right to acquire a fully paid ordinary share in API (Share) for no consideration, subject to performance conditions being satisfied. Under the Plan, the Shares can either be purchased on-market, or new Shares issued by the Company.

If a performance right is satisfied through the achievement of a performance condition (as described below), the performance right vests and then converts into one Share upon exercise of the right. If conversion is due to occur at a time which is not in a trading window under the Company's Securities Trading Policy, the exercise of the right is deferred until the first day of the next trading window. Upon exercise, Mr Vincent will be provided with one Share for each vested and exercised performance right.

The sale of Shares following vesting of a performance right can occur only in accordance with the terms of the Company's Securities Trading Policy.

Award	Details
<b>2019-2022 Tranche</b>	495,711 performance rights, with a performance period from 1 September 2019 to 31 August 2022.  Half the performance rights are subject to the Return on Equity performance condition and the other half are subject to the Earnings Per Share performance condition (as described below).

No amount is payable by Mr Vincent for the grant of the performance rights or on exercise of the performance rights and conversion into Shares.

### Performance conditions

Mr Vincent will only be entitled to receive Shares if at least threshold performance is achieved under either or both of the performance conditions. One half of the performance rights are dependent on satisfaction of the Return on Equity (**ROE**) performance condition, and the other half of the performance rights are dependent on satisfaction of the Earnings Per Share (**EPS**) performance condition. The performance conditions are assessed once only after the end of the relevant performance period (set out above). No re-testing will occur. If a performance condition is not satisfied, the performance rights subject to that performance condition will lapse.

### ROE performance condition

The ROE performance condition compares the actual return on equity achieved by the API Group during the three year performance period, against the target ROE set by the Board for the same period (**Target ROE**). The ROE is expressed as a percentage created by dividing net profit after tax for the relevant financial years by total shareholder equity at the end of each relevant financial year (as reported in the Statement of Financial Position in the Annual Report for the relevant financial year). The Target ROE may be varied by the Board in its absolute discretion, to adjust for unforeseen circumstances, having regard to shareholders' best interests, relevant circumstances at the time and appropriate independent advice, to ensure that Mr Vincent is neither penalised nor provided with a windfall benefit arising from unusual items which inappropriately impact ROE.

The ROE performance requirement and associated vesting scale is set out below.

ROE achieved over the three year performance period	% of performance rights the subject of the ROE performance condition (being one half of the total performance rights granted) that will vest
Less than 26.48 %	0%
Equal to 26.48 %	20%
Between 26.48 % and 43.03%	On a straight line basis between 20% and 100%
Greater than or equal to 43.03%	100%

### EPS performance condition

The EPS performance condition compares the compound annual growth rate (**CAGR**) in earnings per share achieved by the API Group during the three year performance period commencing on 1 September 2019 against the Target EPS CAGR set by the Board for the same period (**Target EPS**). EPS is the basic earnings per share disclosed in the Income Statement of the Financial Statements of API for each financial year during the performance period. The Target EPS may be varied by the Board in its absolute discretion, to adjust for unforeseen circumstances having regard to shareholder best interests, relevant circumstances at the time and appropriate advice, to ensure that Mr Vincent is neither penalised nor provided with a windfall benefit arising from unusual items which inappropriately impact EPS.

The basic EPS to serve as the initial benchmark to measure CAGR will be an EPS based on the underlying NPAT, as at 31 August 2019. This was 11.2 cents per share.

## NOTICE OF MEETING

CONTINUED

The EPS performance requirement and associated vesting scale is set out below.

EPS CAGR achieved over the three year performance period	% of performance rights the subject of the EPS performance condition that will vest (being one half of the total performance rights granted)
Less than 3.65%	0%
Equal to 3.65%	20%
Between 3.65% and 5.92%	On a straight line basis between 20% and 100%
Greater than or equal to 5.92%	100%

### Leaving Employment

If Mr Vincent leaves the employment of the Company before the end of a relevant performance period, the treatment of the performance rights will depend on the reasons for departure.

If Mr Vincent resigns or is dismissed for cause, his performance rights will lapse. If Mr Vincent leaves the employment of the Company as a result of redundancy, death, permanent disability or illness, the treatment of the performance rights is set out below.

In each case, if Mr Vincent ceases employment within one year of the start of the relevant performance period, the relevant performance rights lapse.

If Mr Vincent leaves the employment of the Company after the first year of the performance period as a result of redundancy, death, permanent disability or illness, the number of performance rights will be reduced pro rata to reflect the length of time during the performance period for which Mr Vincent has been employed. The Board may determine to test the performance conditions (over a shortened period) at the time Mr Vincent leaves employment with API or at the end of the performance period. If the performance conditions are satisfied at the time of testing, the number of performance rights that vest can be exercised by Mr Vincent. Upon exercise of the performance rights, the Board retains a discretion to provide the participant with either Shares or a cash payment equal to the value of Shares the participant would have received calculated by reference to the closing price of Shares on ASX on the last trading day before the end of the performance period.

The Board retains a discretion to vary the above, including by treating an executive who leaves the Company as a "good leaver" who is entitled to retain some performance rights, depending on the circumstances at the relevant time.

There is also a power for the Board to decide to "claw back" any award if, during the 12 month period after the offer is made, issues relating to performance arise which, if known at the time of the award, would have resulted in no award having been made.

### Change of Control

On a change of control of the Company, the Board has a discretion to assess the performance conditions at that time. In doing so, the Board will have regard to shareholder best interests, the relevant circumstances at the time and appropriate independent advice. If the Board determines that the performance conditions measured and assessed at that date have been satisfied (in respect of some or all of the performance rights), those performance rights will vest and can be exercised at that time.

### Variations of Share Capital

Under the rules of the Plan, the Board may (having regard to the ASX Listing Rules) make adjustments to the number of Shares to be provided to a participant upon the exercise of performance rights if there are changes in the capital structure through, for example, a rights issue or bonus entitlement.

### Additional Information

In accordance with Listing Rule 10.15, the following information is provided in relation to the performance rights to be granted to Mr Vincent under the Plan:

- Mr Vincent falls within the category of persons in Listing Rule 10.14.1 as he is a Director of the Company. As set out in the Remuneration Report, the Board considers that performance rights granted under the Plan are the appropriate form of incentive because they reward executives for achievement of financial and non-financial business objectives over a three year period.
- As set out in the Company's Remuneration Report, a value has been attributed to performance rights which have previously been granted using the aggregated fair value of each performance right, which is adjusted to reflect the actual and/or likely number that will vest, based upon an assessment of non-market based performance vesting conditions. This valuation method uses the Black-Scholes option pricing model which is described in more detail in Note 23 to the Company's Consolidated Financial Statements (which are available in the 2019 Annual Report). As an example, Note 23 explains that the fair value of performance rights granted under the Plan on 12 February 2019 was \$1.167 per right (although this does not take into account non-market performance conditions). That Note also explains that the valuation model depends on a number of metrics, including the API share price as at the date on which the performance rights are granted, and accordingly, it is not currently possible to value the performance rights which will be granted to Mr Vincent if approval is given.
- As a performance right entitles Mr Vincent to one Share, assuming the maximum number of performance rights vest, the maximum number of securities to be acquired by Mr Vincent in respect of this item is 495,711 Shares.

## NOTICE OF MEETING

CONTINUED

- Apart from Mr Vincent, no Director is entitled to participate in the Plan and no Director has previously participated in the Plan (other than former Chief Executive Officer and Managing Director, Mr Stephen Roche).
- There is no loan applicable in relation to the acquisition of performance rights under the Plan or the Shares which are awarded upon their vesting.
- If approval is given, the date by which the Company will issue the securities the subject of this approval to Mr Vincent under the Plan is no later than 3 years after the Meeting.
- Hedging of unvested performance rights is not permitted.
- No voting rights or entitlements to dividends are received on performance rights. After the vesting of any performance rights and their conversion into Shares, a cash payment may be paid equivalent to the value of any declared and paid interim and full year dividend during the performance period and calculated by reference to the number of Shares converted.
- If approval is given under Listing Rule 10.14 (which relates to shareholder approval for the issue of securities to directors under employee share schemes) for the issue of securities to Mr Vincent, approval is not required under Listing Rule 7.1 (which relates to shareholder approval for issues of capital).
- At the date of this Notice, Mr Vincent's total current remuneration package (which relates to the year commencing 1 November 2019) comprises fixed annual remuneration (including superannuation) of \$1,125,430 per annum; an opportunity to receive a short term incentive of up to 100% of fixed remuneration if certain performance hurdles are met (the overall plan structure of this short term incentive is the same as that which is described in respect of the prior year in the Remuneration Report) and opportunities to acquire shares if relevant performance conditions are met in respect of performance rights granted to him under the 2017 and 2018 Plan offers (which were each approved by shareholders at the relevant annual general meetings).
- Mr Vincent was granted 416,954 performance rights under the Plan on 12 February 2019 at no cost to him, as approved by shareholders at the 2018 Annual General Meeting, which was held on 23 January 2019.

Details of any securities issued under the Plan will be published in the Company's annual report relating to the period in which they were issued, along with a statement that approval for the issue was obtained under Listing Rule 10.14.

Any additional persons covered by Listing Rule 10.14 who became entitled to participate in an issue of securities under the Plan after the resolution is approved and who were not named in this Notice, will not participate until approval is obtained under Listing Rule 10.14.

### ASX Listing Rules

Listing Rule 10.14 provides that a listed company must not permit a director of the company to acquire equity securities under an employee incentive scheme without the approval of the holders of its ordinary securities. The notice of meeting to obtain approval must comply with Listing Rule 10.15. If shareholders do not grant approval, it is intended that awards will be provided to Mr Vincent in the form of an equivalent cash payment in lieu of performance rights, subject to performance, service and other conditions to be determined by the Board.

### Board Recommendation

The Directors consider that the proposed award of performance rights described above aligns Mr Vincent's long term incentive with the interests of shareholders because the performance conditions set challenging hurdles which must be met before Mr Vincent can receive Shares. The Board (excluding Mr Vincent because of his interest) recommends that the shareholders vote in favour of Item 4.



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