FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED
ANNUAL SHAREHOLDERS' MEETING
23 AUGUST 2016

ADDRESS BY TONY CARTER, CHAIRMAN

Introduction

Fisher & Paykel Healthcare is a global leader in medical devices and systems for use in respiratory care, acute care, surgery and the treatment of obstructive sleep apnoea.

Our premium healthcare products are used to improve patient care and outcomes for millions of people around the world every year. In the 2016 financial year, we estimate that our products were used to treat more than 10 million people.

However, this is still only a small percentage of the total potential opportunity in front of us. We believe that by building on our existing expertise and continuing to educate healthcare providers on the benefits that our products provide, we have a clear opportunity to continue to deliver the exceptional levels of growth we have seen over the past 10 years.

Demographics

Supporting this belief are global demographic trends, which indicate that healthcare continues to be a growing sector.

In many countries around the world, populations are ageing. In the US, the population over the age of 65 years is projected to grow by approximately 80% over the next 20 years. This is a significant number as 60% of a person's total lifetime healthcare cost is incurred after this age, usually due to the prevalence of chronic diseases such as cardiovascular disease, cancer, diabetes and Chronic Obstructive Pulmonary Disease, or COPD.

Obesity is another factor that strongly impacts demand for healthcare services. Recent data released in the US by the National Centre for Health Statistics showed that more than one third of adults and 17% of youth in the US were classified as obese in 2011 to 2014. A significant increase in obesity was observed in both adults and youth from 2000 through to 2014.

Older and heavier populations mean that Government spending on healthcare continues to grow. OECD health data indicates that developed countries' spending on healthcare is increasing by 5-7% per year. Developing markets are also affected. While China spends slightly more than 500 billion US dollars annually on healthcare today, some estimates forecast those expenditures to exceed 1 trillion US dollars by 2020.

As healthcare systems grapple with these trends, they are increasingly looking for ways to provide effective care while controlling costs. Healthcare costs increase in relation to the complexity of care, so our devices are designed to reduce a patient's need for treatment in high intensity areas of the hospital and where possible, facilitate patient independence and treatment in the home.

This means that our products can deliver better health outcomes for patients while reducing the most significant costs associated with the provision of healthcare - the cost of people, buildings and other utilities. This focus is driving growth for our business and is reflected in our results for the 2016 financial year.

2016 Financial Snapshot

As reported in May, we delivered excellent financial results this year, with revenue growth of 21% to 815 million dollars and net profit after tax growth of 27% to 143 million dollars.

The strong growth we are achieving across both our major product groups of Hospital and Homecare is due to the increasing adoption of our products by healthcare providers as they strive to manage the demographic trends I have just outlined.

We aim to double our constant currency operating revenue every five or six years. We also have a target to achieve more than NZ$1 billion of annual operating revenue within the next two years. Our performance last year and to date this year means we remain confident that we are well on track to reach that target.

Dividend

The Board approved an increased final dividend for the year of 10 cents per share. The total dividend for the financial year was therefore 16.7 cents per share, an increase of 21% on the previous year.

This brings us closer to our targeted dividend pay-out ratio of approximately 70% of net profit after tax and is aligned with our target gearing ratio of +5% to -5%. We have a strong balance sheet and gearing at the end of the year reduced to just below 7%. While we are planning to spend in the vicinity of 200 million New Zealand dollars over the next four to five years on building projects in New Zealand and Mexico, which Lewis will cover in more detail shortly, we expect the dividend to grow and believe our targeted dividend pay-out ratio of 70% is still appropriate, after considering the planned investment in these projects.

Your Board

Turning now to your Board.

In October we welcomed Scott St John to the Board as an independent director to fill the vacancy left following Roger France's retirement. Scott has a strong business, financial and markets background, which is an excellent complement to the rest of the Board. He is a Director of First New Zealand Capital and Pro Chancellor of the University of Auckland.

The other changes to the Board during the year, as signalled at our ASM last year, was the appointment of Lewis Gradon to the position of Managing Director, and Mike Daniell's appointment as a non-Executive Director following his retirement as Managing Director and CEO. The Board is strongly of the view that given Mike's years of international experience it is very much in the interests of shareholders to retain his expertise as a non-executive director of the company. As I mentioned last year, the board understands there are differing views on former executives becoming non-executive directors when they retire from the company. I have personally discussed his appointment with a number of our larger shareholders and with the NZ Shareholders Association, with their support expressed and no major concerns being raised.

With the appointment of Scott and Lewis and the retention of Mike Daniell as a non-executive director, I believe we have a Board that has a variety of relevant skills across a range of disciplines. It is also a board that has a wealth of international business experience – Geraldine has spent almost a decade working in the US and Asia with SAP, Donal spent the majority of his 30-year career working in Europe and the US, and between them Mike and Lewis have spent more than 10 cumulative years travelling to, and working in, our overseas markets.

As part of our corporate governance process, we have just completed an externally facilitated Board review. I believe that the leadership, governance and global experience of your Board will help ensure that we remain a leader in our field.

Nicky Bell, who participated in our Board meetings as part of the New Zealand Future Directors Programme, has since accepted an executive position overseas, which means she is unable to continue with the programme. We are thankful for the contribution Nicky made during her time with us and are strongly supportive of the Future Directors Programme. We have now commenced a search for Nicky's replacement.

Our Team

We employ a diverse workforce of over 3,500 people, based in 36 countries and serving customers in over 120 countries. The company is committed to attracting and retaining excellent people, continuing to ensure a highly engaged and diverse workforce and developing a strong leadership pipeline. Fisher & Paykel Healthcare is a business full of talent and opportunity, and our exceptional results and exciting prospects are a testament to the skills and passion of our team.

During the past financial year, the company won the Supreme Awards at the New Zealand Exporter of the Year awards and the AMCHAM Success and Innovation awards. In the US, we were awarded the AARC Zenith Award, which is the 'People's Choice' accolade of the respiratory care profession. In May this year, we were pleased to receive the First NZ Capital Market Leaders Best Corporate Communicator award for the second year running.

While we don't do what we do for the purpose of winning awards, I think it is an appropriate recognition of the hard work and commitment from all of the team at Fisher & Paykel Healthcare.

Conclusion

Fisher & Paykel Healthcare is a world class business headquartered in New Zealand. It has a global outlook and a strong management team. Our consistent growth strategy has driven excellent results for many years and we have many opportunities for this to continue in the coming years.

We remain committed to corporate governance best practice and maintaining the highest ethical standards. As Chairman of your Board, I believe that we have the necessary experience and skills to continue to deliver excellent results. I would like to thank you, our shareholders, for your continued support and loyalty. We value your contribution and look forward to continuing our joint success.

I will now pass you onto Lewis, our Managing Director and CEO who will provide further commentary on the company's results, an update on our current outlook for the 2017 financial year and outline our opportunities as we look ahead over the next 5 to 10 years.

ADDRESS BY LEWIS GRADON,
MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

Thank you Tony.

The 2016 financial year was very positive for our company. We delivered record financial results, with operating revenue up 21% and net profit after tax up 27%.

We introduced innovative new products to market and successfully completed two major projects during the year.

These projects were the transition to a direct sales model for our hospital products in the US and the implementation of a new enterprise resource planning system, SAP.

We have two major product groups: Hospital and Homecare. Our Hospital group includes respiratory and acute care products used in invasive and non-invasive ventilation, nasal high flow therapy and surgery. Our devices are designed to deliver better clinical outcomes, reduce costs for healthcare providers, and be easy for clinicians to use. This year, our Hospital revenue grew 22% to 436 million New Zealand dollars.

Our Homecare product group includes products that are used in the home, mainly in the treatment of obstructive sleep apnea (OSA) and increasingly, chronic obstructive pulmonary disease (COPD). As in the Hospital, the devices we provide for use in Homecare are designed to be simple and effective to use. This year, product group revenue in Homecare grew 21% to $366 million NZ dollars.

After another year of record results, I am often asked how we see our company continuing to sustain these growth rates over the long-term. In addition to our existing opportunities in invasive and non-invasive ventilation, and in the treatment of patients with OSA, we see at least three further opportunities which will continue to expand our business.

The first is in hospital respiratory support. Our Optiflow system is used to deliver nasal high flow therapy, and can in many instances displace the use of conventional oxygen therapy, which is used extensively in hospitals. We are the global leaders in the provision of nasal high flow therapy, and it has been growing strongly for us, with almost 2 million patients treated in 2016, out of an estimated potential 30 million patients per annum that could benefit.

There is a large and growing body of clinical evidence demonstrating Optiflow's ability to positively influence patient outcomes and reduce hospital costs. Given that we are less than 10% penetrated in this therapy we aim to grow revenue at over 20% each year.

I would like to share with you a short video showing the impact that our Optiflow nasal high flow therapy is having in treating paediatric patients in a new, state-of-the art hospital in Brisbane.

Our second major opportunity is with respiratory support in the home - taking our expertise in nasal high flow therapy from the hospital and applying it in the home with the ultimate aim of improving quality of life and reducing hospital admissions. The MyAirvo product has been received extremely favourably by customers. Used for patients that have chronic respiratory conditions, such as COPD or bronchiectasis, MyAirvo delivers high flows of humidified air through an Optiflow nasal cannula. While this is still very early days, we anticipate the total addressable market is at least 10 million patients each year.

Our third opportunity is in surgery, where we have been able to leverage our core expertise of respiratory heated humidification into laparoscopic or open surgery applications. Again, this is a change in clinical practice, and currently our products are being used to treat slightly more than 30,000 patients each year out of a potential 20 million patients.

We currently have well developed global sales networks into respiratory applications in hospitals and into homecare. We are in the process of building a global sales channel for the surgical products concurrently with growing clinical evidence. We anticipate that over the longer term this third sales channel will open up further new opportunities.

Last year, we released our HumiGard system, which is used to deliver warm, humidified CO_2 during open and laparoscopic surgery. I would now like to play a short video which shows the impact HumiGard is making.

These three opportunities – hospital respiratory support, homecare respiratory support and surgery – all combine to present layered short, medium and long-term prospects that will continue to support our growth. With each product range and opportunity building on the next, we are confident that we have a future of sustainable, cumulative growth in front of us.

Products & Technology

Of course, each of these opportunities is supported by a significant R&D programme. In the 2016 financial year we invested 73 million NZ dollars, or 9% of our operating revenue in research and development.

We hold more than 1,400 issued and pending patents, and take the protection of our intellectual property very seriously. Last week, we filed patent infringement proceedings against ResMed, as we believe that several of their OSA products infringe some of our patents. They have also filed allegations of patent infringement against us in respect to our Simplus and two Eson masks, which we will vigorously contest. We have invested substantial resources in our R&D over 45 years, and intend to protect that investment. As this matter is now subject to litigation, we are limited from making any further comment than what has already been provided.

Our R&D is centred on doing what is best for patients and we employ over 500 engineers and scientists.

We take a long-term view of R&D, which means that we are working on product designs and ideas many years before they are released to market. This coming year, we are anticipating one of our most exciting periods of new product releases across both our Homecare and Hospital product groups.

Just this month, we have announced the release of the F&P 950 humidification system, the Nivairo non-invasive ventilation mask, and the Brevida, a nasal pillows mask used in the home for treatment of OSA.

F&P 950

I will start with the F&P 950 as this is a flagship product. It’s a heated humidification system that provides respiratory support across the care continuum of invasive, non-invasive and Optiflow nasal high flow therapies.

The F&P 950 features integrated temperature probes, a touch screen, usage guidance, and other sensing technologies that create simplicity for the user as a result of many hours of careful design work.

Prior to product launch, we had already completed 50,000 hours of clinical trials, and usability data has shown meaningful results, particularly in the ease of set up for clinicians. Customer feedback has been very positive with

81% rating it as better than, and 99% rating it the same as or better than, their usual F&P 850 humidifier, which is the gold standard.

The F&P 950 is the next generation of our heated humidification systems, and will help us build on the leading position established by our F&P 850 system.

Nivairo

Moving on to Nivairo. The Nivairo is a hospital mask for non-invasive ventilation therapy.

A large proportion of patients receiving non-invasive ventilation will also require nasogastric feeding through a tube that goes into the nose. Currently, the tube is squeezed under the facemask seal, which causes leaks and discomfort for the patient, and work for the nurse, compromising the therapy. The Nivairo has TubeFit zones, which allow the nasogastric tube to pass underneath without compromising the seal. The mask can be used with or without the tube, while still achieving an effective seal in both cases. This is unique to Niviaro, and has been received very positively by clinicians during our product validation trials.

Brevida

Our third new product release this month is the Brevida, a nasal pillows mask for OSA. It complements our other highly successful masks – the Simplus – a full-face mask, and Eson 2, which is a nasal mask.

The Brevida features an AirPillow seal which inflates to form a ‘pillow’ of air in and around the nose for a gentle and effective seal. It also incorporates VisiBlue highlights, which are subtle colour cues to help patients with mask orientation, use and assembly.

These new products are here on display today, and after the meeting I would encourage you to take some time to look at the products and talk to our team. They have been involved in the concept, design, production or marketing stages of these exciting products and will be happy to answer any further questions you may have.

Sales & Marketing

In the last financial year we took the important step of transitioning from a distributor to a direct sales force for our hospital products in the US. This was well received by our customers, and we have not experienced loss of market share during the transition.

Changing clinical practice requires a skilled and extensively trained sales team. We believe that the direct sales approach allows us to invest in developing those skills for our people, gives us control of the sales process, and will enable accelerated growth in the future.

We are also pleased with the progress we have made in other countries over the year. Brazil and Norway were both opened according to plan by April. We now have people in 36 countries and distributors in approximately 90 countries around the world.

Of course, with growth comes operational considerations for supply chain and distribution, which I will touch on now.

Supply chain

As previously announced, we have established a larger distribution facility in California, USA. This facility is progressing well. We recently received approval for our Foreign Trade Zone license. This will enable us to bring products into the US from New Zealand and Mexico for consolidation and then re-export them globally from this distribution hub.

We have also begun planning for the construction of a fourth building on our Auckland site, of around 25-30,000 square metres in size to accommodate future growth. We expect to begin earthworks this summer, with an aim to have the building complete around the end of 2020.

The new building will follow a similar layout to the others on our site. We believe the co-location of R&D, pilot manufacturing, marketing and clinical cross-functional teams gives us great flexibility and a competitive advantage.

We are also expanding our manufacturing facilities in Mexico. We have identified a greenfields site within an industrial park close to our existing premises. While we are still in the very early stages of planning, we anticipate that the new facility will be operational in two and a half to three years' time.

Mexico has performed exceptionally well as a location for us. Key benefits include proximity to our largest market and the California distribution hub, and being situated within a very strong medical device business region, which helps us to attract skilled employees. We expect that this new facility will accommodate manufacturing growth over the next decade.

Outlook

On to outlook.

The year has started very well. At current exchange rates we expect operating revenue for the first half of the 2017 financial year to be approximately 420 million NZ dollars and net profit after tax to be approximately 76 million NZ dollars, or about 23% above the first half last year.

The full year guidance we provided in May, based on an exchange rate of 68 cents for the NZ dollar to the US dollar, was for operating revenue to be approximately 900 million NZ dollars and net profit after tax to be approximately 165 to 170 million dollars.

There has been a firming of the NZ dollar since May. If we now assume an NZ:US exchange rate of approximately 72 cents for the balance of the year, we expect full year net profit after tax to be approximately 165 million NZ dollars, at the lower end of our previous guidance range. We expect operating revenue to be approximately 880 million NZ dollars.

We are the global leader in respiratory humidification. We started in invasive ventilation and have expanded into non-invasive ventilation, OSA, nasal high flow therapy and surgical humidification markets. Each of these new applications has built on the core expertise and capability developed earlier. We have global reach into hospital respiratory applications and into homecare. We are developing global reach into surgical applications.

World demographics point to ageing populations and increased healthcare investment in emerging countries. The impetus for all healthcare systems is to reduce or contain costs. Our products – by delivering improved and more effective care are ideally placed to meet the world's healthcare needs.

Our strategic direction remains consistent as we continue to develop new, innovative products, serve more patient groups and grow our international presence.

As you are aware, I am standing for election as Managing Director. I have been with Fisher & Paykel Healthcare for 33 years now and I believe that my experience and knowledge of the company and our industry will be a valued complement to the Board. I am committed to the success of your company, and to delivering results for shareholders. With your support, I look forward to delivering on this commitment.

In closing, I would like to thank our customers, clinical partners, suppliers and shareholders for their continued support of the company. I would also like to thank our Board for their guidance and advice. I am confident that our skilled team and our consistent long-term growth strategy will continue to deliver excellent results into the future.