

**ADDRESS BY MICHAEL DANIELL  
CEO FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED  
TO THE ANNUAL SHAREHOLDERS MEETING  
AUGUST 9, 2002**

Thank you Gary. Good afternoon Ladies and gentlemen. Our Chairman has given you an overview of our annual performance, recapping on the fuller details which are in our annual report.

I am pleased now to be able to update you on our first quarter's performance, which we announced to the market this morning.

As Gary has already mentioned our profit from continuing operations for the June quarter was \$30.4 million, including an after-tax foreign currency exchange gain of \$17.5 million.

Our gross profit margin for the quarter increased by 1.6 percentage points against the March quarter to 68.6%. Improving product mix, and our focus on manufacturing efficiency and costs contributed to this improvement.

Operating margin, an important measure of performance, at 36.5%, remained very healthy despite a significant appreciation of the New Zealand dollar. We are carefully controlling our expenses as we adjust to a strengthening dollar, while also ensuring we have sufficient resources to generate future growth.

Our results reflect the sales growth we achieved in the quarter. Revenue for our three core product groups, respiratory humidifiers, CPAP devices for treating obstructive sleep apnea, and neonatal and warming grew 10%, in US dollar terms – a significant lift in growth from the March quarter.

I would like to deal with the performance of these core product groups now. I will be quoting US dollars here because, as you can see from the graph illustrating our split of sales by region, the vast majority of our sales are made outside New Zealand and they are denominated mainly in US dollars and Euros. North America, for example, generated 50% of our revenues for the quarter, with Europe contributing 26% and Asia-Pacific 21%.

### **OSA/CPAP**

Our obstructive sleep apnea product group revenue grew 18% to US\$9.4 million. This growth was driven by the market's strong acceptance of our new integrated flow-generator humidifier which provides humidified continuous positive airway pressure, or CPAP, to treat OSA.

Our model HC221, which you can see here on screen, was released into the US during the March quarter and we were very pleased with the 45% volume growth we saw over the prior comparable quarter. Increasingly, our customers are recognising the advantages of our integrated device with its patented

ambient tracking technology. This keeps track of temperature in the room and adjusts the humidity output to prevent condensation building up in the breathing tube, avoiding the need for the user to awaken and drain water from the tube.

For the first time, our flow generator revenues exceeded CPAP humidifier revenues and as this trend continues we expect to see this favourably impact on our future OSA revenue growth.

Encouraging developments in the US look set to support growth in our OSA treatment products. On the first of July, increased Medicare reimbursement for heated humidification came into effect, and we have already seen increased demand for our flow generators and our CPAP humidifiers. We believe we are well positioned, with our full range of OSA humidification products, to benefit from an increasing use of heated humidification.

Also in the OSA market, we have achieved good results with our mask technologies. On screen here you can see our second-generation nasal mask, the Aclaim 2, released into the US in June and our proprietary oral mask, the Oracle. Oracle was particularly well received at the Associated Professional Sleep Societies' (APSS) meeting in Seattle. We're now in the process of training and accrediting sleep laboratories and homecare dealers in the use and application of Oracle.

Mask revenues have grown significantly since we introduced our first mask this time last year, and masks are becoming increasingly important to our OSA business.

OSA is a very strongly performing product group for us as this annual revenue performance graph shows.

## **Respiratory Humidification**

Turning now to our second core product group, respiratory humidification. Revenues here grew 4% to US\$11.7 million against the same quarter last year.

This was an encouraging return to growth, driven by 20% volume growth in humidifier system consumables, which consist primarily of humidifier chambers and heated breathing circuits. We continued to see softer demand for humidifier controllers from ventilator OEM customers, and in Europe, but we expect demand to improve as hospital ventilator capital expenditure recovers. Revenue growth in the important US market continued to be at a good level, up 9% on the prior year.

The recent introduction of our neonatal breathing circuits, for use with newborn babies, in Australia and Europe has begun to generate additional breathing circuit sales growth. We expect they will drive increased volumes of

our advanced MR850 humidifier system, as the system is now able to address the neonatal respiratory market as well as the adult market.

Again, our Q1 performance builds on a positive yearly trend.

## **Neonatal**

Neonatal care and patient warming revenue grew 23% in US dollar terms for the quarter. We were pleased by this growth after the March quarter's spectacular 71% growth.

This growth was largely driven by continuing gains in the US market, and we have secured a significant neonatal warmer tender in Latin America which we expect to deliver in the second quarter.

The quarter continued a healthy trend of year-on-year growth in this product segment.

Revenue, from distributed products, as expected, declined by 23% in NZ dollars, reflecting last year's exit from the Datex-Ohmeda line in New Zealand.

## **Future Outlook**

We are encouraged by the results achieved in the first quarter and we expect to see our growth rate increase further in the second quarter.

Over the past ten years we have grown the business more than five-fold, and created more than 600 new jobs, most of them in New Zealand. We are very proud of the wide-range of products we offer which are designed to improve the quality of life and care of patients in hospitals and in the home setting. We believe we have the strategy, the people, the technology and the global opportunities to continue to drive strong growth and increase shareholder value as we go forward.

Although most of our revenues are generated outside New Zealand, we are very much a New Zealand company building on the vision of our founders.

Our record of developing new products and taking them successfully to our global markets gives us confidence. Last year, for example, we introduced 10 significant new products, and each year our revenue growth is driven in part by developments such as these.

In the past three years, we have increased the number of US patents we hold by 50% and our growing investment in R&D, which last quarter was 5.2% of revenue, we believe will continue to drive this type of performance.

Our confidence in our research and development teams is shared by the wider research community. The Foundation for Research, Science and

Technology has chosen to provide NZ\$3.6 million in funding to our company over the next four years. The funds are being used to establish a research centre with South Auckland Health that will target breakthrough treatments for chronic obstructive pulmonary disease or -COPD.

The term COPD includes two closely related diseases of the respiratory system: chronic bronchitis and emphysema. It is projected to be the fifth major cause of death worldwide by 2020. The centre will undertake research into the mechanical aspects of the disease and our goal is to develop innovative medical products to treat COPD and improve the quality of life of COPD patients.

As we work to extend our core technologies into new and profitable areas, we will also continue to improve those products already in the market. This commitment to continuous improvement has been very important to our growth and to maintaining our position as a leading company in the respiratory market.

We will also continue to look to opportunities to increase our international presence and to build on our direct sales operations in North America, the UK, France, Germany, Australia and New Zealand. We're also increasing our regional sales support for our distributors who are located in more than 90 countries around the world.

We are very optimistic about our future and our prospects for growth. We have very committed people in all areas of the company, a supportive Board and excellent relationships with our customers, our suppliers, our distributors and our clinical partners. We have all appreciated your support in our first year and we look forward to your continued confidence.

Thank you.