

FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED
ANNUAL SHAREHOLDERS' MEETING
23 AUGUST 2018

**ADDRESS BY TONY CARTER,
CHAIRMAN**

Introduction

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

In the 2018 financial year, we delivered record sales of 980 million New Zealand dollars, an increase of 10%, and a 12% increase in net profit after tax to 190 million dollars.

We estimate that our products were used in the care of over 13 million patients in 120 countries over the 2018 financial year. Our global team of over 4,000 is dedicated to providing high quality, innovative medical devices that assist healthcare providers to deliver outstanding patient care.

Our business is broadly structured into two major product groups: Hospital and Homecare. Products in our Hospital group are used primarily to humidify the gases used in invasive ventilation, non-invasive ventilation, nasal high flow therapy and laparoscopic and open surgery.

In the 2018 financial year, our Hospital revenue grew 14% to 572 million New Zealand dollars.

In our Homecare product group, our systems are used to treat the growing number of people with obstructive sleep apnea, or OSA, and also patients requiring respiratory support in the home. Like our Hospital products, our

products in this group are designed to be effective, simple and comfortable to use and to support patient independence. This year, revenue in the Homecare group was up 4% to 398 million New Zealand dollars.

Market context

Healthcare providers are currently facing unprecedented challenges through changing demographics, which in turn are putting upward pressure on healthcare costs.

Spending on healthcare in OECD countries increased by approximately 3%, on average, in 2016, which is the highest rate of increase since 2009. Health spending as a share of GDP averaged almost 9% in 2016. The United States has the highest expenditure rate at 17% of GDP.

In per capita terms, health spending in 2017 is estimated to have reached over 4,000 US dollars, on average, across the OECD. This is approximately 70% more than OECD countries spend on education for each citizen.

Our products directly respond to these needs through their dual ability to positively impact patient outcomes and reduce costs to healthcare providers.

Most healthcare costs are incurred through labour, which rise in relation to the increasing complexity of care required. The more acute the area of hospital and the longer the patient stay, the greater the cost is to healthcare providers.

Our products can help to prevent a patient's condition escalating, thereby avoiding the need for treatment in more acute areas of a hospital. Our products are less labour-intensive to use, and they support faster recovery times and sometimes even treatment at home.

In light of the market context, these attributes make our products very appealing to our customers.

The team

While great products are of course important to a company's success, so too is its culture. The F&P way is, I think, unique among its peers, established early in a culture of innovation, continuous improvement and collaboration that continues to this day. I am sure that many of the early F&P team continue to support the company as shareholders, and perhaps may even be in the audience here today.

From humble beginnings and a can-do attitude, Fisher & Paykel Healthcare has evolved into a true world leader. Philosophies such as open-plan working, ready access to management, and a resolute focus on always doing what is best for the patient first and foremost, have established a culture of care.

Culture is reflected in many ways, but one obvious example is the profit-sharing bonus that is paid to our employees around the world every six months – and which totalled over 4.5 million dollars in the 2018 financial year. In the past year, the profit sharing bonus equated to more than a week's additional pay for our people. We acknowledge that the results we have attained would not be possible without the collaboration, dedication and commitment of our people in 37 countries around the world.

Your Board

Turning now to your Board.

Today, long-serving director Dr Arthur Morris retires from the Board at the conclusion of this meeting. On behalf of the Board, management team, shareholders and wider company, I would like to acknowledge his significant

contribution over the past 10 years, which has been very much valued. Arthur will give an address later in this meeting.

A search for a new director is underway and we expect an appointment to be announced within the next few months.

We continue to support the New Zealand Future Directors' programme, which provides Board participation opportunities for up and coming directors. This year we welcomed Claudia Wyss, who is currently Chief Executive Officer at Healthvision, a home-based healthcare agency that operates across New Zealand. Claudia has over 25 years' experience across the health industry, and I am sure we will benefit from her industry insights.

Dividend

The Board approved an increased final dividend for the year of 12.5 cents per share. The total dividend for the financial year was therefore 21.25 cents per share, which is an increase of 9% on the previous year. This equates to a dividend pay-out ratio of approximately 65% of net profit after tax for the year.

Conclusion

I would like to thank you, our shareholders, for your continued support and loyalty. We value your contribution and look forward to our joint success.

I will now pass you onto Lewis, our Managing Director and CEO, who will provide further commentary on the company's performance and an update on our current outlook for the 2019 financial year.

Lewis.

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**ADDRESS BY LEWIS GRADON,
MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER**

Thank you Tony.

The year has started well. We are building on the strong growth we achieved last year, and are on track to pass 1 billion NZ dollars in revenue this year, the 50th since development of the first Agee jar humidifier.

We continue to roll out our latest products into new markets around the world, and are making good progress on the construction of our fourth New Zealand building, which we expect to be complete in 2020. Our second manufacturing facility in Mexico is also progressing well, and we expect it will be completed in late 2018. The SAP roll out also continues successfully and we continue to enjoy the benefits of this new system.

Characteristics of our business

Today, I would like to spend some time talking about several of the unique characteristics of our business.

We hold leading positions in respiratory care and obstructive sleep apnea around the world, and generate 99% of our revenue from outside New Zealand.

87% of our revenue is from recurring items, such as consumables and accessories, which generally helps make our revenue relatively reliable.

R&D is a consistent area of investment and we currently have 572 people in R&D roles, based in our Auckland offices. Last year we invested 95 million NZ dollars in R&D. The proven quality of the R&D team that we have here in New Zealand is as good as or better than anything you would find anywhere else in the world.

We generate significant barriers to entry due to the technological and intellectual property advantages we have built up over our nearly 50 years of research and development. The regulatory environment we operate in, the relationships we have built with customers around the world, and our unique access to healthcare environments offer us a key advantage.

These factors help put us in a strong position to continue to deliver the growth rates and success we have seen in recent years.

Products & Technology

One example that clearly demonstrates our technological leadership is the F&P 950 heated humidification system. Following the launch of the adult system in 2016, we recently released the neonatal version in New Zealand and Australia.

Driving much of the design process behind this product is a commitment to better usability and performance. The first example of this is a feature called Thermadapt. In a neo-natal intensive care unit, or NICU, babies may be in warmers, incubators, or just in the room, which means that there are different temperature environments affecting our equipment. Our system incorporates a control centre that automatically adjusts to manage the different conditions the baby is in, without the need for nurses to manually modify the therapy, which is the current practice. This ensures the patient is receiving their therapy at the ideal temperature and humidity, whatever environment they might be in.

Another key innovation enabled by better technology is much longer delivery tubing. Parents are able to move around the room more, and not be restricted to a single chair close to the cot and the bundle of equipment that is common in these areas. This facilitates kangaroo care, which is important for babies and their parents.

Sometimes it is what appears to be the simplest, or most obvious ideas that are the most complex to implement. These innovations are the results of deep, ongoing relationships between our sales representatives and healthcare providers, as well as observations made by our R&D people while in these hospital environments.

Overall, the feedback we have received from nurses so far is overwhelmingly positive, and we look forward to rolling this product out around the world in the coming years.

Changing Clinical Practice

We talk a lot about changing clinical practice. It is a key focus for us and instrumental to our success and our opportunities. Clinical change takes a long time, and requires a specialist sales force with a focus on customer support, care, education and clinical data.

On the Hospital side of our business, a paper was recently published of a large multi-centre randomised controlled trial on the use of nasal high flow therapy for infants with bronchiolitis. The study, which used our Optiflow Junior system, found that significantly fewer patients required escalation of care. This study is a major addition to the growing body of strong evidence supporting the use of nasal high flow therapy in both adults and children.

In Homecare, this year we also saw the publication of a major long-term study that clearly demonstrates the effectiveness of Optiflow nasal high flow therapy in the home. This research was the first of its kind and was conducted in Denmark in 200 patients with COPD, chronic obstructive pulmonary disease. Like the hospital study, it too showed statistically significant results, with the primary outcome being a significant reduction in patients' exacerbation rate for those receiving nasal high flow therapy with our myAirvo device.

This research is an important addition to the small but growing body of evidence beginning to influence how patients with COPD are treated in the home. Over time, we expect to see this growing body of work drive clinical change and the adoption of our myAirvo system.

Progress to date this financial year

Turning now to the current financial year. Both our Hospital and Homecare product groups have started well.

In the Hospital, our Airvo and Optiflow products continue to grow strongly on the back of that growing body of clinical evidence into the benefits of nasal high flow therapy.

As we sell respiratory products, our revenue can be sensitive to the strength of the northern hemisphere flu season. The 2017-18 northern hemisphere flu season was the strongest flu season since the 2009-10 season. Given that nobody knows how strong the upcoming northern hemisphere flu season will be, we have assumed a moderate 2018-19 flu season for the purposes of our forecasting. We continue to expect similar constant currency revenue growth in our Hospital product group for the FY19 year to what we delivered last year.

In our Homecare product group, we have had a very positive response from customers to our newly released SleepStyle CPAP device in NZ, Australia, Japan, Canada and certain countries in Europe where it has been released. We expect to expand our range of innovative and popular OSA masks later this year but as we have said previously, we expect contribution from new products in the FY19 year will be muted.

Revenue from our “Distributed & Other” business, which includes infant warmer sales, was 10 million NZ dollars in the last financial year. As we took last time orders for infant warmers in September last year, we expect a reduction in revenue in this category in the current financial year.

Outlook

On to outlook.

The full year guidance provided in May, based on an NZ:US exchange rate of 69.5 cents, was for operating revenue to be approximately 1.05 billion NZ dollars and net profit after tax to be approximately 210 million NZ dollars.

There has been a weakening of the NZ dollar since May.

Assuming an NZ:US exchange rate of approximately 67 cents for the balance of the year, we expect full year operating revenue to be approximately 1.07 billion NZ dollars and net profit after tax to be approximately 215 million NZ dollars.

At current exchange rates, we expect operating revenue for the first half of the 2019 financial year to be approximately 510 million NZ dollars and net profit after tax to be approximately 95 million NZ dollars.

Conclusion

During the year we farewelled our long-standing CFO, Tony Barclay, who retired at the end of May. Tony was a key member of the business for over

22 years and he has left big shoes to fill. Tony is currently in a consulting role with us until the end of May 2019, and we expect to announce his successor in the coming months. I would like to thank Tony for his long, valued contribution and his commitment and wish him all the very best.

In closing, I would like to thank our customers, clinical partners, suppliers, employees and shareholders for their continued support of the company. Our results are testament to the care and commitment of our global team and the support of all those who interact with us. We are on a journey of continued improvement to patient care and outcomes, and it is a privilege that with your support, we are able to effect such positive change around the world every day.

Thank you.