

**FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED**  
**ANNUAL SHAREHOLDERS' MEETING**  
**24 AUGUST 2017**

**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.

We have a global team of over 4,000 people, united by our purpose of improving care and outcomes through inspired and world-leading healthcare solutions. Assisting healthcare professionals around the world to deliver the best possible patient care through continuous product improvement, pioneering new therapies and changing clinical practice, continues to be key to our success.

This year we estimate that our products were used in the care of over 12 million patients in 120 countries. We are headquartered in New Zealand, and are a truly global company, with around half of our people and 99% of our revenue generated offshore.

**Demographics**

We operate in an industry which is facing unprecedented challenges through changing demographics and accelerated healthcare spending. The World Economic Forum has reported that the costs of healthcare have outpaced economic growth by an average of 2% in OECD countries for the last 50 years. The US alone spends between 16 and 18% of GDP on healthcare.

Around the world, populations are ageing and obesity is on the rise. According to the World Health Organisation, obesity has more than doubled since 1980,

and is now at epidemic proportions. In 2015, excess weight affected 2.2 billion people, which is nearly 30% of the world's population.

Obesity is associated with the global rise in non-communicable diseases. It is estimated that by 2020, these diseases will account for 80% of the global burden of disease. This is contributing to growing healthcare costs. Currently, the global spend on healthcare is estimated to be between five and six trillion dollars and this is anticipated to rise to \$8.7 trillion by 2020 and \$18 trillion by 2040.

As you would expect, this places significant demands on public health systems. Our products have been designed to help address these challenges, specifically through reducing costs to providers and helping patients get better faster.

The majority of healthcare costs are incurred through labour. Costs increase in relation to the increasing complexity of care required – so, the more acute the area of hospital and the longer the patient stay, the greater the cost is to healthcare providers.

Our products are less labour intensive to use, reduce a patient's likelihood of requiring treatment in acute areas of a hospital, and support faster recovery times and treatment outside of the hospital environment if possible.

Technology has been recognised as one of the major ways to contain costs, as it can reduce clinician time per patient, increase accuracy, and allow for better data analysis of patient care. Our products integrate sophisticated technology and design features that help clinicians benefit from these advantages.

These attributes have contributed to the growing adoption of our products around the world.

### **2017 Financial Snapshot**

As reported in May, we delivered excellent financial results for the 2017 financial year, with revenue growth of 10% to 894 million dollars and net profit after tax growth of 18% to 169 million dollars.

The company has a long-standing target of looking to double its constant currency revenue every 5-6 years. We have substantial opportunities in front of us and we will continue to aspire to deliver on those.

To meet the growth in demand for our products, we have commenced a building programme in New Zealand and Mexico that we announced last year. Lewis will update you on progress shortly.

We have been manufacturing in Mexico since 2010 and have enjoyed many advantages, such as access to highly-skilled and well-trained people, employees who have years of experience in the medical device industry, diversification in our manufacturing operations and cost benefits.

The most recent statement from US Republican leaders indicates that they are not in favour of the proposed border adjustment tax. The only major markets which impose tariffs on our products are currently India and Brazil.

**Dividend**

The Board approved an increased final dividend for the year of 11.25 cents per share. The total dividend for the financial year was therefore 19.5 cents per share, an increase of 17% on the previous year. Over the past five years we have returned close to \$420 million NZ dollars to shareholders. We sought feedback from a number of our shareholders this year regarding our dividend policy and the consensus was that they felt that our dividend payout ratio is appropriate. As earnings grow, we expect the dividend to increase while we continue to invest strongly in our growth opportunities.

We have a strong balance sheet and we had no net debt at the end of the year.

**Your Board**

Turning now to your Board.

Today, long-serving director Lindsay Gillanders retires from the Board.

Lindsay was an employee of F&P for 24 years and has been a valuable member of the Board since 1992. He has made a significant contribution to F&P in that time. Originally a member of the legal team for Fisher & Paykel Industries, Lindsay was instrumental in the separation of the Healthcare and Appliances businesses in 2001, a process that required a considerable amount of commercial and legal expertise to enable the smooth restructuring of both businesses.

The business has benefited from Lindsay's vast expertise in legal and intellectual property matters, international business experience and considerable negotiation skills. In fact, it was Lindsay who was the driving force behind the purchase of the 42 hectare site in East Tamaki where our company is now based.

Over the years, Lindsay has served on the Remuneration and Human Resources Committee, Nomination Committee and more recently, the Audit & Risk Committee. He has been an integral member of the Board as our company has evolved into a global leader. On behalf of the rest of the Board, management team, shareholders and wider company, I would like to acknowledge Lindsay for his considerable contribution. Lindsay will give an address later in this meeting.

In June, we were pleased to appoint Pip Greenwood as a non-executive director of the Board. Pip is a leading figure in the field of commercial law. She is a board member and senior partner at Russell McVeagh, with over ten years' experience on its board and has served as the firm's Board Chair. Pip joined Russell McVeagh as a Partner in 2001 and has since advised on many of New Zealand's market-leading transactions that have changed the face of different industries. She served as a member of the New Zealand Takeovers Panel from 2007 to 2011 and is a trustee of the Auckland Writers' Festival.

We have been fortunate in having Pip join us in June, which will give us a seamless transition from Lindsay's retirement today. Pip will give her election address shortly.

We continue to support the New Zealand Future Directors' programme, which provides Board participation opportunities for up and coming directors. This year we welcomed Rachael Newsome, who is currently General Counsel and Strategist at Icebreaker, and we are valuing the perspective her international background and experience has brought to our discussions.

As you will see from the Notice of Meeting, I will be seeking your support for re-election at this meeting. I thought it appropriate to make a few comments now in support of my re-election.

I have been privileged to be on the Board of this iconic company since December 2010 and I have been Chairman since April 2012.

I am really proud of the way Fisher & Paykel Healthcare has evolved over that time. As shareholders know, our sales have grown considerably during that time, as have our profits and our dividends to our shareholders. But much more importantly to me is that our innovative products have made a huge difference to the patients we help treat.

We have a great Board and I am lucky to be able to lead them. I think my biography is well known so I won't repeat it here. However, I ask that shareholders support my re-election to the Board, so we can continue to work together to grow sales and profits while assisting with the treatment of even more patients.

### **Our Team**

Fisher & Paykel Healthcare is a world class business headquartered in New Zealand. It has an excellent and experienced management team with considerable global healthcare experience. Globally, we have over 4,000 people in 35 countries who are driven by our company purpose to improve care and outcomes through inspired and world-leading healthcare solutions. We have a resolute focus on doing the best for patients, and this commitment to care and continuous improvement is what sets us apart. Looking forward, there are significant, exciting opportunities ahead of us. We are a long-term growth company with a bright future, focused on growing organically by delivering excellent healthcare solutions for patients.

**Conclusion**

We are committed to corporate governance best practice and maintaining the highest ethical standards, and to growing the business into the future. I am confident that the Board and management team have the necessary experience and skills to fully capture the opportunities ahead of us and 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 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 2018 financial year and outline our opportunities as we look ahead over the next 10 to 20 years.

**ENDS**

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

Thank you Tony.

The 2017 financial year was another positive year for our company. We delivered record financial results, with operating revenue up 10% and net profit after tax up 18%.

We introduced innovative new products to market and began a significant building programme in Auckland and Tijuana, Mexico.

Our business is structured around 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.

Our systems 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 19% on a constant currency basis to 500 million New Zealand dollars.

In Homecare, our systems are used for the treatment of obstructive sleep apnea – OSA, and patients requiring home respiratory support. Like our Hospital products, our systems in this group are designed to be simple and effective to use and to support patient independence in the home. For the year, revenue in the Homecare group grew 8% on a constant currency basis, to \$381 million NZ dollars.

## **Products & Technology**

In the last year, we released several new products. In the Hospital product group, the F&P 950 heated humidification system is now available throughout Australasia and is performing very well. Some hospital units in Australia have already upgraded their entire fleets of humidifiers to the 950. Key to its adoption by clinicians has been its intuitive to use touch screen and easy to use features of the consumables, as well as other technology advances. The 950 will be rolled out progressively in Europe and North America over the next year.

The F&P Nivairo mask, used for non-invasive ventilation support in the hospital, is now available in Australasia, the UK, Canada, parts of Europe, India and a selection of other countries. We expect to have it available in the US later this year. We have received encouraging feedback from our early users of this mask, and are excited about its potential.

In our Homecare product group, the F&P Brevida mask for treating OSA is now available in most countries around the world. We have been very pleased with the response to this mask, with patients and homecare dealers enjoying its performance, innovative seal and small, unobtrusive frame size.

Earlier this year, we released two additional new products – Optiflow Junior 2, which is an innovative nasal cannula range for young children and babies. It has revolutionary new features and builds on the success of our existing Optiflow Junior range, which is the market-leading product in this category, and has changed the way respiratory support is delivered in neonatal and pediatric care.

In May, we released SleepStyle, which is a continuous positive airway pressure – CPAP - system for OSA patients. SleepStyle incorporates numerous technological improvements, such as cellular and Bluetooth connectivity options for patients to track and report their sleep performance.

I would now like to show you the video we used when we launched our SleepStyle system earlier this year in Australia.

## **SLEEPSTYLE VIDEO**

The SleepStyle and other products, including Optiflow Junior 2, 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 members. They have been involved in the concept, design, production or marketing stages of these exciting products and will be happy to answer any questions you may have.

As you know, we run a significant R&D programme that we have grown consistently over the past 47 years. In the 2017 financial year, we invested 86 million NZ dollars, which is almost 10% of our operating revenue. This year, our number of people employed in research, clinical or engineering roles increased from 500 to over 550, all based at our Auckland campus.

This consistent investment in R&D has led to a very busy period of new product releases, as we have just seen. Continuing to innovate in a way that supports our customers is one of our competitive advantages and is crucial to achieving and extending our leading positions in the markets in which we operate. In the 2017 financial year, we estimate that 41% of our revenue was derived from products that had been introduced within the last five years.

Our ability to understand what patients and caregivers need, and to respond through the development of innovative and high quality products, has played

a significant role in the record operating revenue we have achieved every year now over the past decade, and contributed to our doubling of constant currency revenue in our core product groups over the last six years.

We have a strong pipeline of new products due for release within the next few years, and feel confident that the opportunities we have identified will support this growth into the future.

### **Changing Clinical Practice**

This is a business based on changing clinical practice, and that requires a long term view as clinical data is generated, expanded and improved to demonstrate improved clinical outcomes over diverse patient groups for our therapies.

For example, our Optiflow nasal high flow therapy and surgical humidification systems, which have been in the market for more than 10 years, are still only at the early stages of adoption. Optiflow, is currently being used in the treatment of more than 2 million patients annually out of what we estimate to be an addressable market of more than 30 million patients each year. In Surgical humidification, our products are currently used in the treatment of almost 40,000 patients out of a possible 20 million patients globally.

In our Homecare markets, more than 100 million people suffer from obstructive sleep apnea and chronic respiratory conditions and we estimate our products are used in the treatment of more than 3 million patients each year.

When you take into account that our products are only being used in the treatment of 12 million patients each year in total, across our full product range, you can see we have a very large opportunity.

To achieve greater market share, we not only require world-class products, but also the clinical data that will support their acceptance by healthcare providers and drive clinical adoption.

Interest in our therapies continues to grow, particularly in nasal high flow therapy, where there have been over 970 studies published since 2003 – with 203 of those published in 2016 alone. This supports the feedback we are getting directly from clinicians of the potential for nasal high flow therapy to change long-established clinical practices.

It is clear that we have ample opportunity for growth. Our goal is to ensure that we continue to grow in a profitable way that is sustainable for the long-term.

## **People**

A key aspect of capturing this opportunity is ensuring that we have the right people to make this happen. We have a ‘care by design’ philosophy – which extends not only to the way we care about patients and the healthcare professionals we work with, but also to the people we recruit and retain.

I would now like to show a video that we use in-house at our employee induction sessions that describes this philosophy in a little more detail.

## **CARE BY DESIGN VIDEO**

As that video shows, we have a common goal and culture of always doing what’s best for the patient. This approach determines the way we do business, and we believe that is unique to Fisher & Paykel Healthcare.

I would now like to discuss patent litigation.

## **Patent Litigation**

You may be aware that in August 2016 we entered into legal proceedings with one of our competitors in OSA, ResMed. Both parties have filed patent infringement proceedings in various jurisdictions around the world. In December last year, we announced that we had overturned two preliminary injunctions granted in Germany to ResMed. Three months ago, ResMed withdrew its complaint in the US International Trade Commission, saying it would file again shortly, but this has not occurred to date. Various court hearings have been held in Germany over the past month and we are awaiting the outcome of those decisions. To date we have been pleased with how the litigation has progressed. The Board and Management believe that it is in the best interests of the company to assert our patent rights and vigorously defend the allegations made against us.

## **New buildings**

Moving on now to our building programme.

The construction of the fourth building on our Auckland site is progressing well. We are on track to have the building complete by the end of 2020, and it will have a similar layout to other buildings on site by co-locating R&D, pilot manufacturing, marketing and clinical cross-functional teams.

In Mexico, the earthworks for our second building are now complete and we will begin the design and construction phases shortly. We anticipate that the facility will be operational in mid-2018, and will provide us with additional manufacturing capacity. Once this facility is complete, we will begin to look into the possibility of manufacturing in a third location outside of both New Zealand and Mexico, in order to further diversify our manufacturing operations.

## **Outlook**

On to outlook.

Trading has been in-line with expectations for the first five months of the financial year. The full year guidance provided in May, based on an NZ:US exchange rate of 69 cents, was for operating revenue to be approximately \$1 billion NZ dollars and net profit after tax to be approximately \$180 to \$190 million NZ dollars.

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

Assuming an NZ:US exchange rate of approximately 72.5 cents for the balance of the year, we expect full year operating revenue to be approaching \$1 billion NZ dollars and net profit after tax to be in the range of approximately \$180 to \$190 million NZ dollars.

At current exchange rates the company expects operating revenue for the first half of the 2018 financial year to be approximately \$460 million NZ dollars and net profit after tax to be approximately \$80 million NZ dollars. Our guidance for growth in first half reported profit accommodates the adverse movement in currency since May and a full half of patent litigation costs.

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 acknowledge that our results are only possible due to the care and commitment of our global team. We are driven by our purpose of improving care and outcomes through inspired and world-leading healthcare solutions. We have a positive outlook and I am confident that we are well positioned to deliver sustainable, profitable growth over the long-term.

Thank you.