

26 July 2022



Fisher & Paykel Health Limited (FPH)

The company will hold its Annual Shareholders Meeting at **2.00pm Wednesday 24 August 2022**

The location is **Guineas Ballroom, Ellerslie Racecourse, Auckland.**

You can also join the meeting online [here](#).

Company Overview

The company is a designer, manufacturer and marketer of products and systems for use in respiratory care, acute care, surgery, and the treatment of obstructive sleep apnoea.

It was founded in 1969 and listed on the NZX in 1979. It is also listed on the ASX. It employs over 7,300 people in 53 countries: 3,900 in New Zealand, 2,600 in North America and Mexico, 380 in Europe and 460 across the rest of the world.

Geraldine McBride will retire from the Board at the ASM. She has served since 2013.

Current Strategy

The company works to improve patient care and outcomes through inspired and world-leading healthcare solutions. The needs of their customers and patients drives the company's activities.

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Key

The following sections calculate an objective rating against criteria contained within NZSA policies.

Colour	Meaning
G	Strong adherence to NZSA policies
A	Part adherence or a lack of disclosure as to adherence with NZSA policies
R	A clear gap in expectations compared with NZSA policies
n/a	Not applicable for the company

Governance

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Directors Fees	G	Excellent disclosure.
Director share ownership	G	Directors are encouraged but not required to own shares.
Executive Remuneration	G	See below.
Golden parachutes/handshakes	A	See below.
Director Independence	G	A majority of Directors are independent.
Board Composition	G	See below.
Director Tenure	A	See below.
ASM Format	G	Hybrid meeting. See below.
Independent Advice for the Board	G	See below.

Executive Remuneration: The CEO is paid a base salary and short-term incentive (STI) both in cash and a long-term incentive (LTI) by way of share options and performance share rights.

NZSA encourages fulsome disclosure in relation to any incentive payments made to the CEO, including disclosure of measures (or measure 'groups'), weightings, targets and the level of achievement associated with any awards.

FPH provides thorough disclosure as to the metrics, their weighting and the overall level of achievement for each component of the incentive awards, allowing the calculation methodology to be determined.

We note that STI is 54% of the total target incentives. NZSA prefers a weighting towards LTI to ensure an emphasis on long term performance and align with shareholders' long-term interests.

Golden parachutes/handshakes: In the interests of transparency, NZSA believes there should be explicit disclosure around the severance terms associated with the CEO, including whether specific termination payments are offered.

Board Composition: Excellent disclosure of Board skills and how they relate to the skills required to govern the company. We note that FPH has just appointed another Future Director. NZSA expect NZX50 companies to operate a form of director development as part of a responsibility to develop and mentor the next generation of Directors.

The nature of the company's board indicates a commitment to thought, experiential and social diversity, with relevant experience for FPH.

Director Tenure: NZSA looks for evidence of ongoing succession or 'staggered' appointment dates that reduce the risks associated with effective knowledge transfer in the event of succession. We also prefer a term maximum of 9-12 years, unless there are exceptional circumstances that may apply.

We note one Director, Michael Daniell was appointed in 2001 and served as Managing Director until 2016. Last year, we noted that *"Michael is clearly valued by his fellow Board Members; from a*

shareholder perspective, NZSA would prefer to see some indication of succession plans to minimise the risk of loss of knowledge.”

Other directors have been appointed between 2012-2022, indicating an ongoing commitment to managing director renewal and succession.

ASM Format: NZSA prefers ‘hybrid’ ASM’s (i.e., physical, and virtual) as a way of promoting shareholder engagement while maximising participation.

Independent Advice for the Board: NZSA looks for evidence, through disclosures, that a Board has access to appropriate internal and external expertise to support board assurance activities. We also look for evidence that Boards are across their risk management responsibilities.

The Annual Report describes a ‘whole of Board’ approach to managing risk in the organisation, meeting regularly with assurance staff within the organisation. We also note the existence of a Quality, Safety & Regulatory Committee Board sub-committee, providing additional oversight for key risks.

FPH provides thorough disclosure as to its strategic, operational and financial risks, as well as a materiality matrix based on GRI Sustainability Reporting Standards. The company offers good disclosure as to its risk management framework and processes.

Audit

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Audit independence	G	Good disclosure
Audit rotation	A	See below.

Audit Rotation: Whilst the company ensures the Lead Audit Partner is rotated at 5 years as required by the NZX Listing Rules, it does not disclose if the Audit Firm is rotated at 10 years.

Regardless of rotation, NZSA also expects disclosure of the appointment dates of the Lead Audit Partner and Audit Firm to improve transparency for investors.

Ethical and Social

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Whistleblowing	G	Good disclosure.
Political donations	G	No donations were made.

We note FPH’s thorough disclosures on governance, strategic implications, risk & opportunities and metrics associated with the TCFD (Taskforce on Climate-related Financial Disclosures) framework. This positions the company well for the emerging regulatory framework currently being formalised by the NZ External Reporting Board.

NZSA is close to releasing a draft *Environmental Sustainability* policy for consultation and is currently reviewing existing corporate disclosures. Note that NZSA’s policy is likely to consider broader aspects than climate-related disclosures.

Financial & Performance

Policy Theme	Assessment	Notes
Dividends and Imputation	G	Good disclosure
Capital Raise process	n/a	There was no capital raising
Takeover or Scheme	n/a	

Fisher and Paykel Healthcare’s share price fell from \$31.60 to \$20.42 (as of 20th July 2022) over the last 12 months – a 35% decline. This compares unfavourably with the NZX 50 which declined by 12% in the same period. The capitalisation of FPH is \$11.8b placing it 2nd out of 131 companies on the NZX by size and makes it a large company.

Metric	2022 (\$m)	2021 (\$m)	Change
Revenue	\$1,682m	\$1,971m	-15%
NPAT	\$377m	\$524m	-28%
Gross Profit Margin	62.60%	63.19%	-1%
EPS	\$0.653	\$0.909	-28%
PE Ratio	31	33	
Current Ratio	2.92	2.15	36%
Debt Equity	0.25	0.36	-30%
Inventory Turnover	0.50	0.87	-43%
Operating CF	\$324m	\$625m	-48%
NTA Per Share	\$2.76	\$2.50	10%
Dividends Per Share	\$0.395	\$0.38	4%

Last year Fisher and Paykel had an outstanding year when viewing financial metrics, yet the share price performed disappointingly. The market is forward looking and expected a weaker performance in 2022, which eventuated.

Revenue was down 15% to \$1,682m, gross profit margin declined slightly and NPAT fell by 28% to \$377m. EPS came in at \$0.653 placing FPH on a PE of 31. Operating Cashflows were down 48% to

\$324m. Notwithstanding the declining profit and cashflows, the company increased dividends by 4% to \$0.395. Dividends are fully imputed.

Inventory levels have been rising steadily over the last 2 years, from \$146.5m in 2020, \$270.6m in 2021 and \$358.9m in 2022. Inventory turnover declined from 0.87 to 0.50.

The company remains in a very stable financial position with a high current ratio at 2.92 and low debt with the debt-equity ratio at 0.25.

NTA per share is 2.76 and the shares trade at a 640% premium to NTA.

Alongside their [annual results announced to market](#) on 25th May, FPH also announced the launch of 2 new products: *“During the 2022 financial year, we invested \$154 million into research and development and we brought a number of exciting new products to the market. “Today, we announced the launch of Optiflow Switch™ and Optiflow Trace™ nasal high flow interfaces, two new products that allow easier use of our Optiflow therapy in anesthesia. We have accelerated our investment in a specialist sales force to take advantage of this opportunity, and we plan to continue investing in this area in the coming years”.*

Resolutions

1. To re-elect Lewis Gradon as a Non-Independent Director.

Lewis Gradon was appointed to the Board in April 2016. He is the Managing Director and Chief Executive Officer. Prior to that, he spent 15 years as Senior Vice President – Products & Technology, and six years as General Manager – Research and Development. During his 39-year tenure with Fisher & Paykel Healthcare he has held various engineering positions overseeing the development of the range of products as well as the development of the manufacturing, quality, intellectual property, supply chain and clinical research functions.

We will vote undirected proxies **IN FAVOUR** of this resolution.

2. To re-elect Neville Mitchell as an Independent Director.

Neville Michell was appointed to the Board in November 2018. He was Chief Financial Officer and Company Secretary of Cochlear Limited between 1995 and 2017. He is a non-executive director of Sonic Healthcare and Q’Biotics Group and a former director of The Board of Tax, South East Sydney Local Health District, Osprey Medical and Sirtex Limited. Previously, he served on the New South Wales Medical Devices Fund, was Chairman of the Group of 100, and Chairman, Standing

Committee (Accounting and Auditing), for the Australian Securities and Investments Commission. He is based in Sydney Australia.

We will vote undirected proxies **IN FAVOUR** of this resolution.

3. To re-elect Donal O'Dwyer as an Independent Director.

Donal O'Dwyer was appointed to the Board in December 2012. He is a director of nib Holdings Limited. From 1996 to 2003, he was with Cordis Cardiology (a division of Johnson & Johnson), initially as its president (Europe) and from 2000 to 2003 as its worldwide president. Prior to joining Cordis, he worked for 12 years with Baxter Healthcare, rising from plant manager in Ireland to president of the Cardiovascular Group, Europe (now Edwards Lifesciences). Previously he served on the boards of Cochlear Limited and Mesoblast Limited. He is based in NSW Australia.

We note that should he be re-elected he will have served almost 13 years at the end of that term. We would expect some indication of his future tenure as part of the Boards succession planning during his next term.

We will vote undirected proxies **IN FAVOUR** of this resolution.

4. To elect Lisa McIntyre as an Independent Director.

Lisa McIntyre was appointed to the Board in September 2021 and is therefore required to offer herself for election. She is a director of HCF Group, The University of Sydney, Studiosity, and Nanosonics. In addition to her current directorships, Lisa has previously been a director of a range of health entities, including those in healthcare insurance, clinical service delivery and medical research and innovation. She spent 20 years as a senior strategy partner with LEK Consulting providing advice to companies in North America, Asia, and Australia. She is based in Sydney Australia.

We will vote undirected proxies **IN FAVOUR** of this resolution.

5. To elect Cather Simpson as an Independent Director.

Cather Simpson was appointed to the Board in June 2022 and is therefore required to offer herself for election. She is a Professor of Physics and Chemical Sciences at the University of Auckland and a Partner at Pacific Channel, with expertise in lasers and photonics. She is a Director of SPIE, the International Society for Optics & Photonics and Founder Director for Orbis Diagnostics. She serves on the Advisory Boards of the Paihau-Robinson Research Institute at Victoria University and the New Zealand Product Accelerator. In 2010, Cather founded and directed The Photon Factory at the University of Auckland. She is a founder of three hard-tech start-ups, including Engender Technologies, where she served as Chief Science Officer from 2011 to 2021.

We will vote undirected proxies **IN FAVOUR** of this resolution.

6. That the Board is authorised to fix the auditor’s remuneration for the coming year.

This is an administrative resolution.

We will vote undirected proxies **IN FAVOUR** of this resolution.

7 and 8. These resolutions relate to the Long-Term Variable Remuneration issued to the Managing Director and Chief Executive Officer.

Whilst shareholder approval is not required under the NZX Listing Rules the company has resolved to seek approval and NZSA acknowledges the transparency in doing so. The details are set out in the Notice of Meeting.

We will vote undirected proxies **IN FAVOUR** of these resolutions.

9,10 and 11. These resolutions relate to the North America Stock Purchase Plan and Long-Term Variable Remuneration Issue for North America Employees.

These resolutions require shareholder approval under the US Code of Federal Regulations The details are set out in the Notice of Meeting.



We will vote undirected proxies **IN FAVOUR** of these resolutions.

Proxies

You can vote online or appoint a proxy at <https://vote.linkmarketservices.com/FPH/>

Instructions are on the Proxy/voting paper sent to you.

Voting and proxy appointments close **2.00pm Wednesday 22 August 2022.**

Please note you can appoint the Association as your proxy. We will have a representative attending the meeting.

The Team at NZSA