

20 July 2023



## **Fisher & Paykel Healthcare Corporation Limited (FPH)**

The company will hold its Annual Shareholders Meeting at **2.00pm Tuesday 29 August 2023**.

The location is **15 Maurice Paykel Place, East Tamaki, 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 6,500 people in 53 countries: 3,500 in New Zealand, 2,100 in North America and Mexico, 379 in Europe and 500 across the rest of the world.

### ***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. See below.
Independent Advice for the Board and Risk Management	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 55% 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 FPH participates in the IoD's Future Director Programme. 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, Sir 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 Board renewal and succession.

***Independent Advice for the Board & Risk Management:*** 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. NZSA also expects disclosure of the appointment dates of the Lead Audit Partner and Audit Firm to improve transparency for investors.

**Environmental Sustainability**

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment
Approach	G
Sustainability Governance	G
Strategy and Impacts	G
Risk and Opportunity	G
Metrics and Targets	G
Assurance	A

***Overall approach:*** Fisher & Paykel Healthcare (FPH) has prepared its fourth sustainability section, contained in its annual report for 2023, since introducing it in their 2020 Annual Report. Here, they recognise their responsibility to care for the natural environment while pursuing their business goals.

They say it is important to continuously strive for improvement as climate change is a growing concern for their stakeholders and environmental legislation is emerging in their key markets. From the NZSA’s perspective, FPH are in a good position towards being able to meet climate-related disclosures in FY24.

**Sustainability Governance:** Fisher & Paykel Healthcare disclose a skills matrix showing their Board members capability in 7 areas of expertise. They also have a Carbon Committee and an ESG Group.

**Strategy and Impact:** In 2022 FPH updated their Environmental & Social Responsibility policy and established a governance group to provide strategic direction with regards to ESG matters. They are developing a long-term carbon reduction plan and are progressing various environmental initiatives.

**Risk and Opportunity:** Fisher & Paykel Healthcare provides a good level of disclosure of their potential climate-related risks and opportunities across the short- and long-term.

**Metrics and Targets:** FPH has been measuring their carbon footprint since 2012 and have disclosed their Scopes 1-3 GHG emissions. They have had Science Based Targets set since 2020 and are making progress against them.

**Assurance:** While Fisher & Paykel Healthcare has engaged Toitū Envirocare to conduct third-party carbon footprint audits, there is not external assurance provided for their entire sustainability reporting.

***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.

***Financial & Performance***

Policy Theme	Assessment	Notes
Capital Management	G	Appropriate capital management
Takeover or Scheme	n/a	<i>n/a if no takeover</i>

Fisher and Paykel Healthcare’s share price rose from \$19.80 to \$24.60 (as of 4<sup>th</sup> July 2023) over the last 12 months – a 24% increase. This compares favourably with the NZX 50 which rose by 10% in the same period. The capitalisation of FPH is \$14.3b placing it 2<sup>nd</sup> out of 128 companies on the NZX by size and makes it a large company.

Metric	2021	2022	2023	Change
Revenue	\$1,971m	\$1,682m	\$1581m	-6%
NPAT	\$524m	\$377m	\$250m	-34%
Gross Profit Margin	63.19%	62.60%	59.35%	-5%
EPS	\$0.909	\$0.653	\$0.432	-34%
PE Ratio	33	31	57	
Current Ratio	2.15	2.92	2.67	-9%
Debt Equity	0.36	0.25	0.26	1%
Inventory Turnover	0.87	0.50	0.44	-11%
Operating CF	\$625m	\$324m	\$238m	-27%
NTA Per Share	\$2.50	\$2.76	\$2.88	4%
Dividends Per Share	\$0.38	\$0.395	\$0.405	3%

Fisher and Paykel continue to disappoint on the metrics as most declined in FY23. Yet the share price appreciated strongly and outperformed the general market. Markets are forward looking, and this may be a harbinger of better things to come.

Revenue was down another 6% to \$1,581m, gross profit margin declined slightly and NPAT declined a further 34% to \$250m. EPS came in at \$0.432 placing FPH on a very high PE of 57.

Operating Cashflows were down 27% to \$238m. Notwithstanding the declining profit and cashflows, the company increased dividends by 3% to \$0.405. Dividends are fully imputed.

Inventory levels have been rising steadily over the last 3 years, but the large rise seems to have plateaued at \$365.8m. Inventory turnover continues to decline from 0.50 to 0.40.

The company remains in a very stable financial position with a high current ratio at 2.67 and low debt with the debt-equity ratio at 0.26. The balance sheet of FPH is not complex, there are limited intangible assets, very little debt, and the company has healthy cashflows.

NTA per share is 2.88 and the shares trade at huge premiums to NTA.

FPH is a globally held company with NZ shareholders holding 34% of shares on issue, Australian shareholders 32% and North American shareholders hold 15%. The remainder are held in other jurisdictions.

The company provided a comprehensive [investor presentation](#) released in conjunction with their annual results. This presentation does not provide forward looking statements.

## Resolutions

### 1. To re-elect Pip Greenwood as an Independent Director.

Pip Greenwood was appointed to the Board in June 2017. She is also chair of Westpac New Zealand Limited, the chair elect of The a2 Milk Company Limited and a trustee of the Auckland Writers Festival. Pip has previously been a Director of Spark Limited and Vulcan Steel Limited and has served as a member of the New Zealand Takeovers Panel.

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

**2. 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.

**3. To increase the Directors Fee Pool by \$295,000 (20.2%) from \$1,455,000 to \$1,750,000.**

The Board reviews the Fee Pool annually. Shareholders approved the current Fee Pool at the 2020 ASM. In March 2023, the Board engaged Mercer Consulting (Australia) Pty Ltd to prepare an independent Report benchmarking Fees. The Mercer Report is included with the Notice of Meeting.

The Mercer report indicates that the fees are currently positioned at the 25th percentile of the comparator group and recommends an increase that would place the fees at the median of the comparator group to align with the company’s revenue and market capitalisation in relation to the comparator group. The Board has largely adopted Mercers recommendations in the proposed Fees set out in the resolution.

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

**4. To approve the issue of Performance Share Rights to the Managing Director and Chief Executive.**

This relates to the issue of up to 100,000 performance share rights to a total value of \$577,200 under the Fisher & Paykel Healthcare 2022 Performance Share Rights Plan. Details are set out in the Notice of Meeting.



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

**5. To approve the issue of Options to the Managing Directors and Chief Executive.**

This relates to the issue of up to 190,000 options to a total value of \$577,200 under the Fisher & Paykel Healthcare 2022 Share Option Plan. Details are set out in the Notice of Meeting.

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

***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 Sunday 27 August 2023**.

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

**The Team at NZSA**