

## Fisher & Paykel Healthcare:

Design, manufacture, supply and support of innovative products for respiratory care

**Background:** Headquartered in Auckland, NZ, Fisher & Paykel Healthcare entered the respiratory care market in 1971 with the development of a unique respiratory humidifier system for use in critical care: now a leading designer, manufacturer and marketer of products and systems for use in respiratory care, acute care, surgery and the treatment of obstructive sleep apnea (OSA).

The company manufactures its products in NZ and Mexico selling them in more than 120 countries worldwide. It employs over 3,500 people around the world including more than 500 staff dedicated to R&D representing around 9% of total sales.

It has two main product groups, one focussing on hospital services (respiratory and acute care—RAC) and the other on homecare (OSA).

Hospital services (57% of revenue): Respiratory humidifiers, single-use and reusable chambers and breathing circuits and accessories. These products are designed to humidify and deliver the gases that a patient receives during mechanical ventilation, non-invasive ventilation, oxygen therapy, humidity therapy and laparoscopic and open surgeries. They also provide neonatal respiratory care products.

Homecare (42% of revenue): CPAP therapy products and masks used in the treatment of OSA and chronic respiratory conditions in the home.

Also other products such as infant warmers.

The company estimates that 10 million patients are treated using its products each year but has its sights on lifting this to 50 million.

**Strategy:** The company benefits from:

- Aging populations: 60% of US healthcare cost is incurred after age 65 years and the US population 65 years+ is expected to grow ~80% over the next 20 years. Expenditure on respiratory services for the aged is high impact for a comparatively low cost
- Older first-time mothers: correlates with more premature births; FPH are the world-leader in respiratory support for neonates with respiratory distress syndrome

- Increasing wealth: populations are likely to spend more on healthcare, particularly in developing countries
- Smoking rates: increasing in developing countries. Collectively, smoking is responsible for 5-6% of all ill health globally according to the Global Burden of Disease study and its share is rising over time. Smokers are much more likely to have chronic respiratory problems as they age, often requiring respiratory treatment in hospitals
- Increasing obesity levels: obesity is associated with an increased prevalence of OSA: FPH provides required therapy products and masks

**Success Drivers:** Focus on improved customer outcomes with lower costs. Aims to double revenue every 5-6 years.

**Member Meeting:** When we asked CEO, Lewis Gradon, what was special about FPH, he replied: *"We are focussed on doing what is best for the patient and we have the conviction that, if we do that, everything else will follow."*

**Economic Moats:** Recurring items, consumables and accessories make up 86% of revenue. Their hospital products used through wide range of departments including Intensive care, Neonatal intensive care, Paediatric intensive care, High dependency, Emergency and General ward. Respected name with barriers to entry. Healthy expenditure on R&D. Sales spread around world.

**Future Risks:** A key risk is that a completely different approach to the treatment of OSA will be developed.

Dividend Yield	ROE	5 Year Growth	
		SPS	EPS
1.5%	28.7%	16.4%	26.7%

- M't Cap: \$7.1b • 5-yr Total Return: 45.8% pa

**Conclusion:** FPH is a savvy market leader in hospital respiratory care (including neo-natal), an area with a strong tail wind. Also global name in homecare OSA therapy and masks (Apr 2018)

*This report is prepared for members of the Conscious Investor Fund. It does not take into account anyone's personal circumstances. Remember, what happened in the past is not always what will happen in the future.*

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