

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 6,500 people around the world including more than 800 staff dedicated to R&D representing around 11% of total sales.

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

Hospital services (65% 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 (35% 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 20 million patients, in over 120 countries, 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.

COVID Effects: In the COVID-19 pandemic, starting in 2020, FPH sold about 10 years' worth of hospital hardware in 2 years. Together with stockpiling of consumables has meant a recent decrease in sales. FPH appears to be recovering from this in the recent annual report.

Economic Moats: Recurring items, consumables and accessories make up majority 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
1.7%	14.3%	12.5%	10.2%

• M't Cap: \$12.6b • 5-yr Total Return: 11.6% 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 (Jul 2023)

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. Questions? Contact us: Conscious Capital AFSL 427 216, Suite G02, 23 Ryde Road, Pymble NSW 2073, ph: 02 9955 9540