

smartvest[®]
AIRWAY CLEARANCE SYSTEM

ELECTROMED, INC.
INVESTOR PRESENTATION

May 2019

NYSE American: ELMD



**THE INNOVATION LEADER IN
AIRWAY CLEARANCE TECHNOLOGIES**

FORWARD LOOKING STATEMENTS

Certain statements in this presentation constitute forward-looking statements as defined in the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements reflect current views with respect to future events and financial performance and include any statement that does not directly relate to a current or historical fact. Such statements can generally be identified by the words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan,” “will” and similar words. Forward-looking statements made in this presentation include, but are not limited to, our plans and expectations regarding the economic environment in which we operate, market opportunities, treatment, referral and approval trends, growth strategies and performance goals.

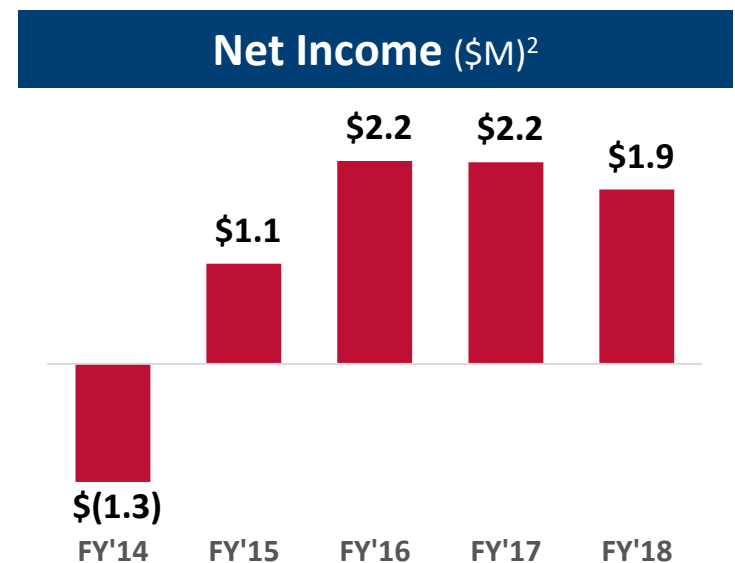
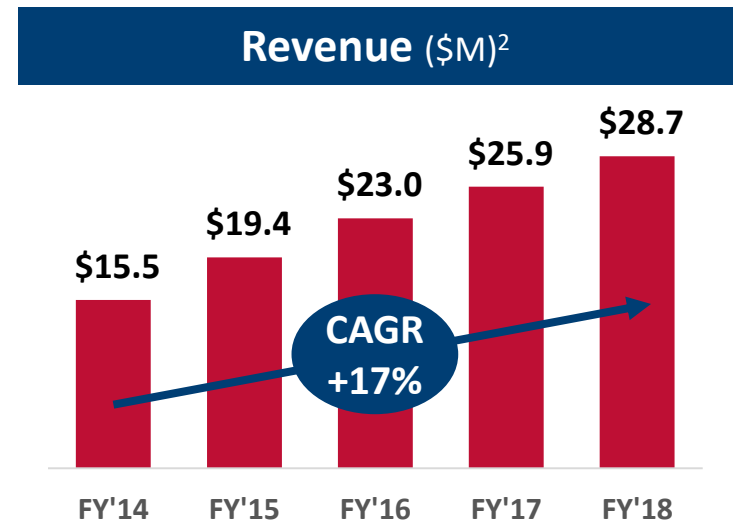
Forward-looking statements cannot be guaranteed and actual results may vary materially due to the uncertainties and risks, known and unknown, associated with such statements. Examples of risks and uncertainties for Electromed include, but are not limited to, the impact of emerging and existing competitors, the effect of new legislation on our industry and business, the effectiveness of our sales and marketing and cost control initiatives, changes to reimbursement programs, as well as other factors described from time to time in our reports to the Securities and Exchange Commission (including our most recent Annual Report on Form 10-K, as amended from time to time, and subsequent reports on Form 10-Q and Form 8-K). Investors should not consider any list of such factors to be an exhaustive statement of all of the risks, uncertainties or potentially inaccurate assumptions investors should take into account when making investment decisions. You should not place undue reliance on “forward-looking statements,” as such statements speak only as of the date of this presentation. We undertake no obligation to update any of these forward-looking statements.

WHO IS **ELECTROMED**?

- We are a profitable, growing **medical device company** focused on developing, manufacturing and marketing **innovative airway clearance products**.
- Our model: **direct** to patient and provider.
- Our SmartVest® High Frequency Chest Wall Oscillation (“HFCWO”) system clears mucus from the lungs.
- **We improve quality of life and reduce risk of infection** for patients with compromised pulmonary function due to **chronic** diseases and conditions such as bronchiectasis and other diseases under the COPD¹ umbrella as well as cystic fibrosis and neuromuscular disorders.
- We are guided by a “patient centric” culture and call on three customers: **physicians, patients and payers**.

¹Chronic obstructive pulmonary disease

²Financials under ASC 605



BENEFITS OF **HFCWO THERAPY**

Studies show that HFCWO therapy is as effective as chest physical therapy (“CPT”) for airway clearance.

Benefits for the Patient

- Lower risk of respiratory infections that can be serious or life-threatening (e.g., pneumonia)
- Independence from a dedicated caregiver
- Consistency, comfort and portability of therapy
- Improved quality of life

Benefits for the Payer

- Eliminates expense of an in-home care provider (required in CPT)
- Reduces likelihood of costly hospital admissions due to infections or other complications

Mini coughs loosen, thin and propel mucus toward major airways



Garment squeezes and releases upper torso of body, creating “mini coughs”



Air pulse generator delivers rapidly repeating pulses of air to an inflatable garment connected via hose

How HFCWO Works

WHY ELECTROMED'S **SMARTVEST**?

- Smaller, quieter, lighter and designed to maximize comfort
- Tailored-fit design and user-friendly controls
- Truly portable



SmartVest's Innovative Features Designed to Drive Greater Patient Compliance with Prescribed Treatment Schedules

HISTORY OF INNOVATION



Introduced *Portable* HFCWO Device

Introduced *Programmable* HFCWO Device



Introduced *Reversible Wrap* Garment

Introduced *SmartVest® Colors*



Introduced *SmartVest® SQL®*



Launched *SmartVest Connect®* Wireless Connectivity & Reporting Solution

2000

2002

2004

2006

2008

2010

2011

2013

2014

2016

2017

Introduced *Machine Washable* Vest Garment



Introduced *Multi-Positional* HFCWO Device

Expanded R&D Projects

Introduced *Seriously Pink SmartVest®*

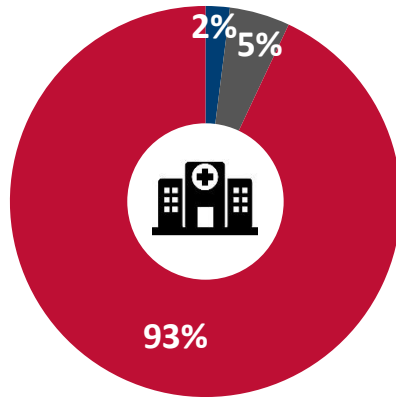
Introduced *Gingko Green SmartVest®*

Introduced *Expanded SmartVest®* Garment and *SmartVest SQL®* Generator Colors

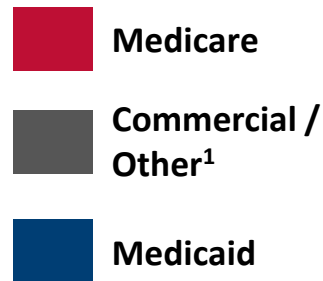
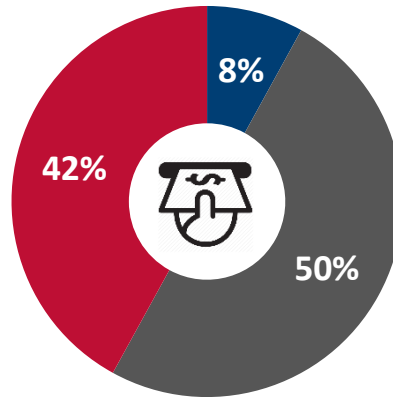


REVENUE BREAKDOWN – \$28.7M (FY 2018)

By Setting

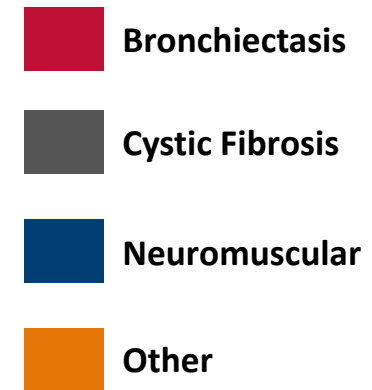
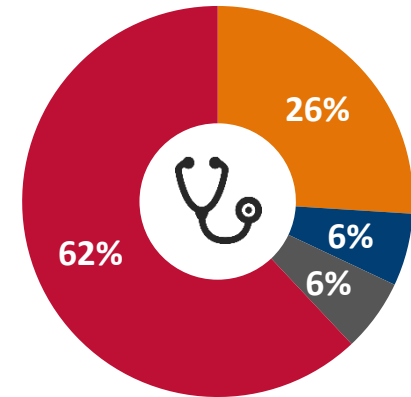


By Payer



¹ Includes 12% Managed Medicare and 11% Managed Medicaid

By Referral Volume



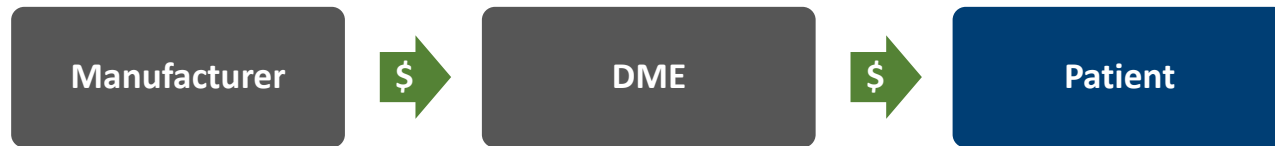
BUSINESS MODEL

We generate revenue via sales to: patients for home use; institutions for inpatient use; patients when discharged from a hospital; and international distributors.

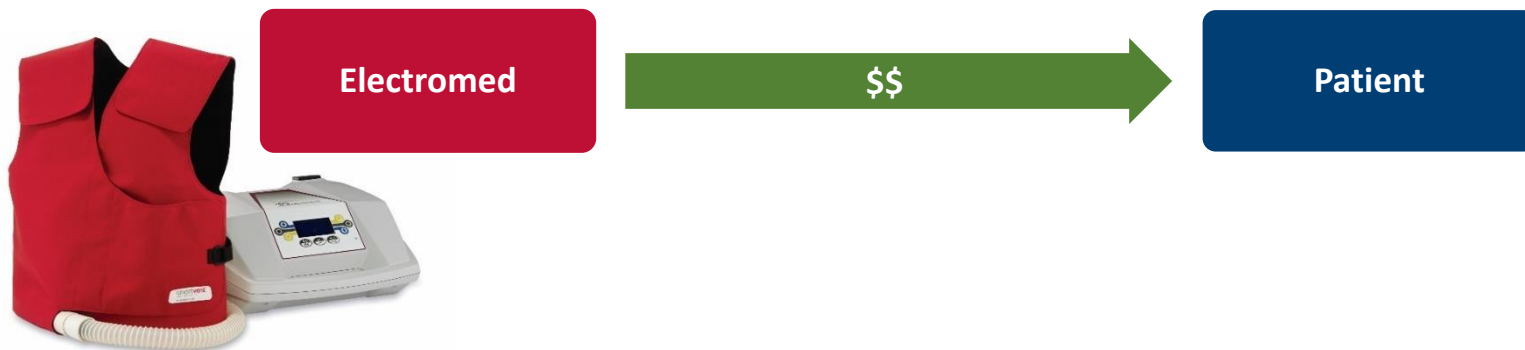
	Home Care	Institutions	International
% of Revenue:	~93%	~5%	~2%
Sales Points:	Direct to physicians Adult pulmonology clinics Cystic fibrosis centers Neuromuscular clinics Hospitals	Individual hospitals; member hospitals of group purchasing organizations (GPOs)	Distributors
Revenue Model:	Third-party reimbursement (Medicare, Medicaid, Commercial)	Payments made directly from the institution for generator sales – capital purchase Single patient use garments – recurring sales	Contracted price with payments made directly from the distributor

DIRECT-TO-PATIENT DISTRIBUTION MODEL DRIVES HOME CARE GROSS MARGIN

Traditional Medical Equipment Channel

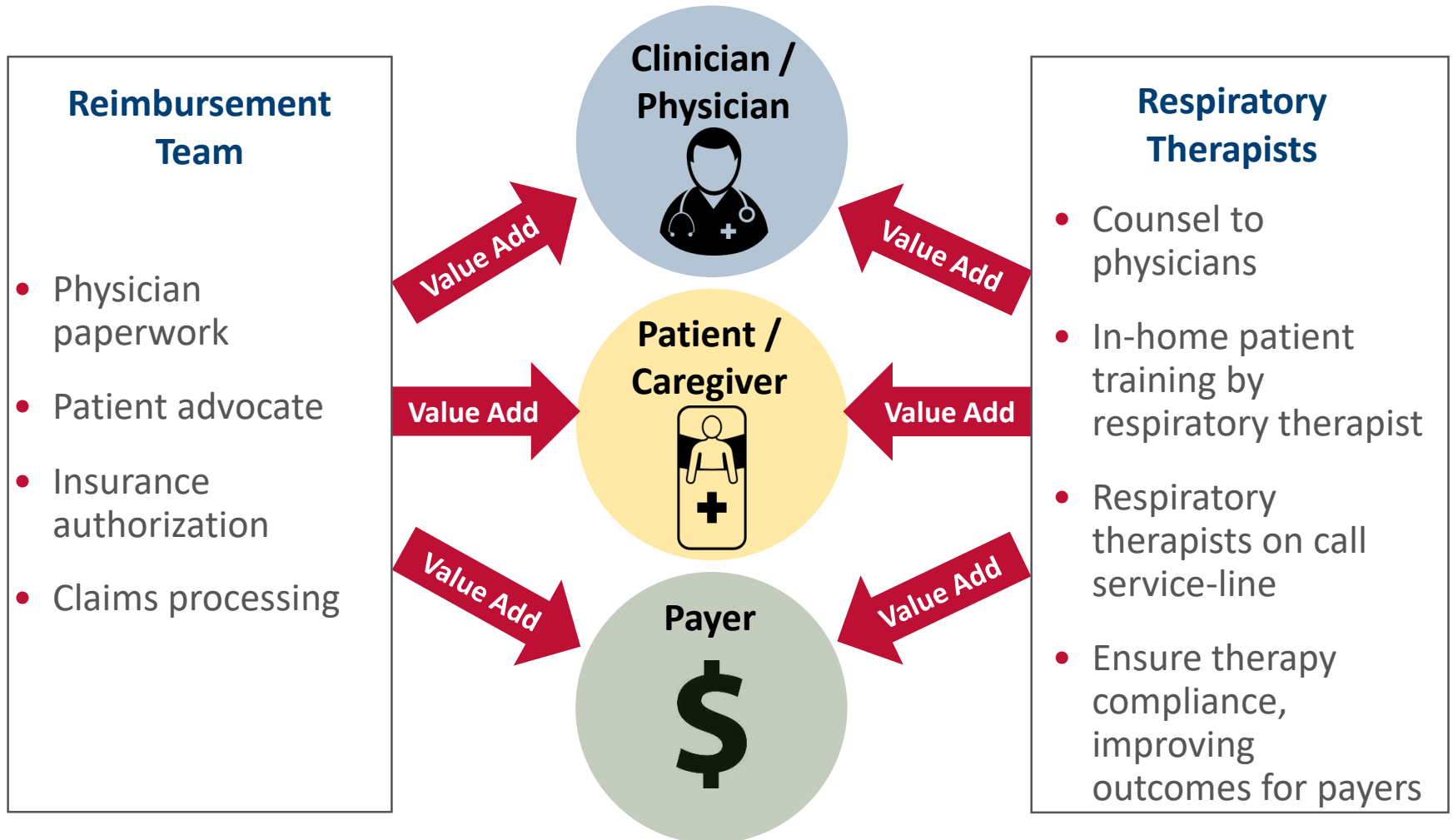


Direct to Patient Distribution



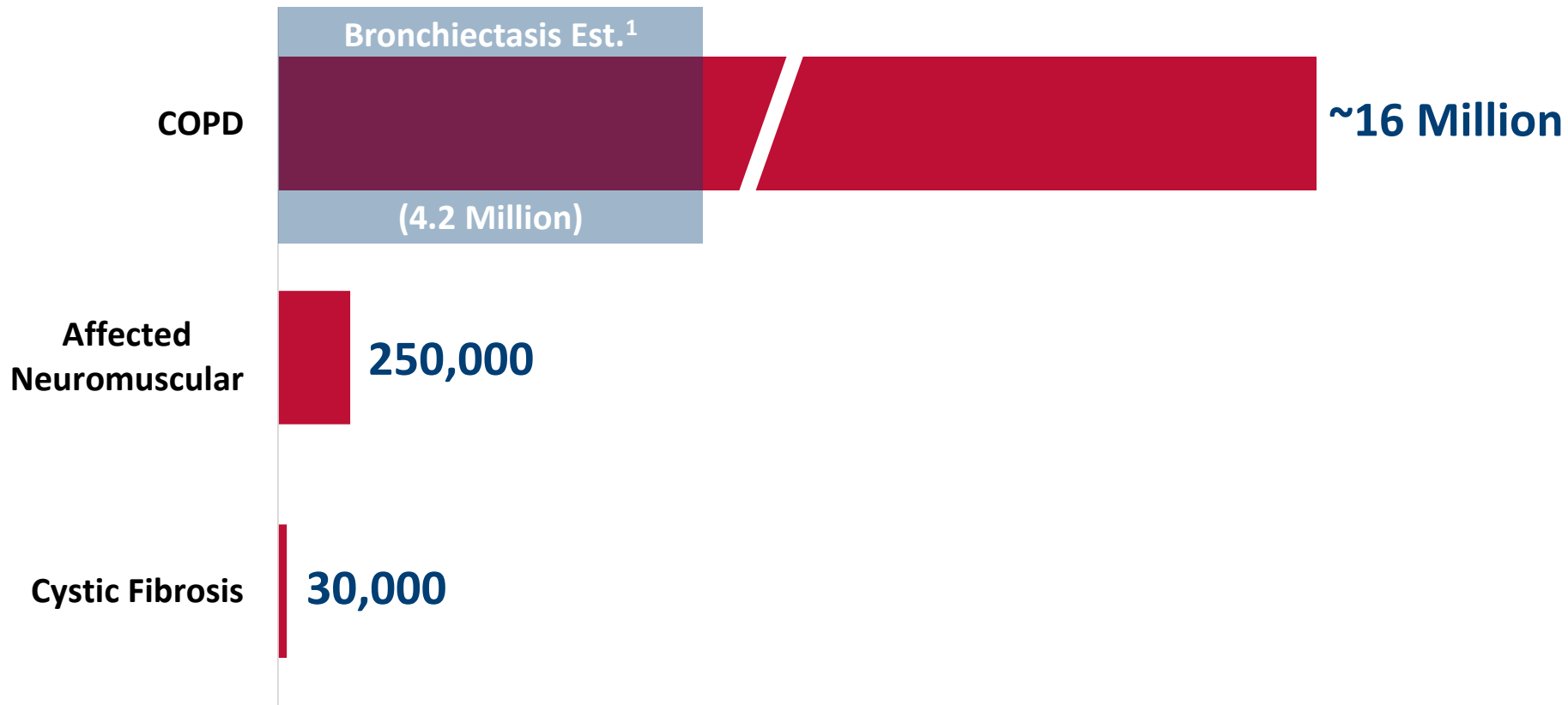
We believe our long-term gross margins can be sustained in the mid-70s

VALUE ADDED SERVICES TO OUR HOME CARE CUSTOMERS



DISEASES AND CONDITIONS FOR WHICH HFCWO THERAPY IS **ROUTINELY PRESCRIBED**

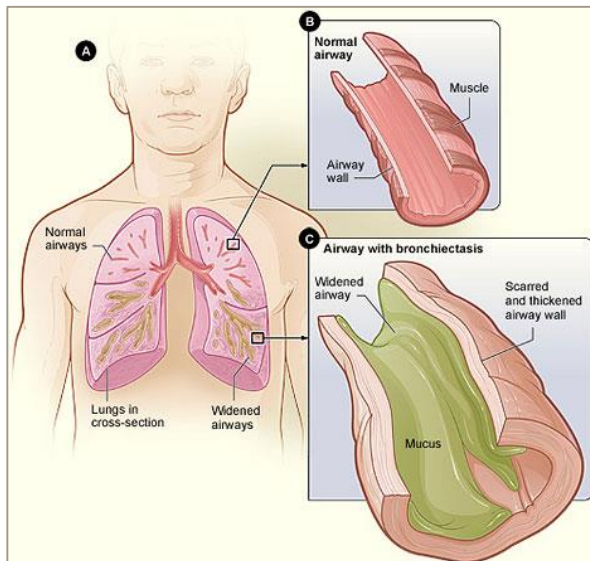
Estimated U.S. Populations:



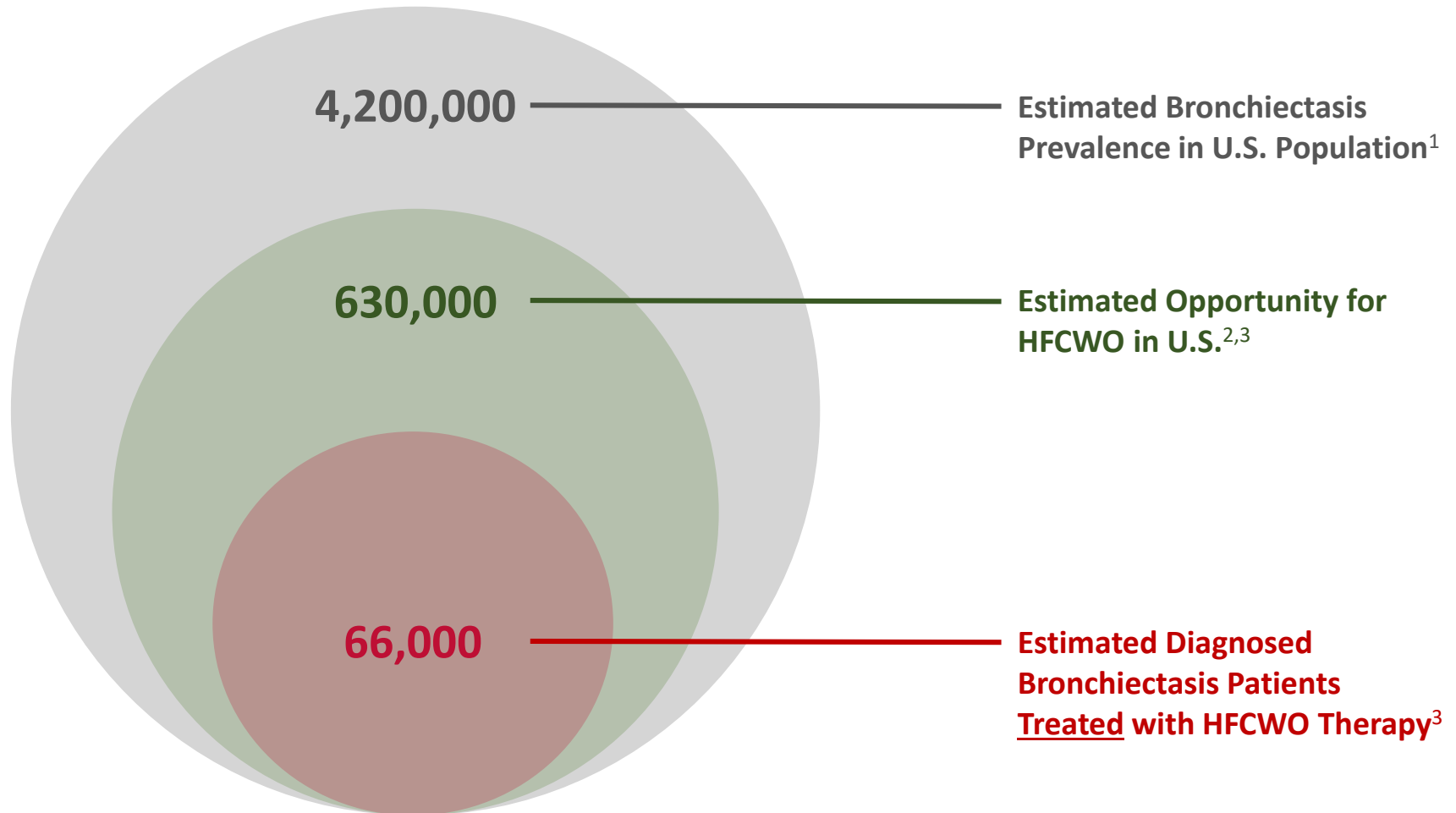
¹ Weycker D, Hansen G, Seifer F. Prevalence and incidence of non-cystic fibrosis bronchiectasis among US adults in 2013. Chronic Respiratory Disease. 2017; 14(4):377-384.

THE BRONCHIECTASIS MARKET OPPORTUNITY

- Bronchiectasis: an irreversible lung condition characterized by abnormal widening of one or more of the bronchi (airways)
- End result of repeated episodes of pulmonary inflammation and infection
- Damaged airways allow excess mucus to accumulate, increasing risk of infection



GROWING, UNDERPENETRATED U.S. MARKET



The bronchiectasis market is growing an estimated 9% per year, driven by an aging U.S. population developing higher incidences of chronic lung diseases.

¹ Weycker D, Hansen G, Seifer F. Prevalence and incidence of non-cystic fibrosis bronchiectasis among US adults in 2013. *Chronic Respiratory Disease*. 2017; 14(4):377-384.

² Estimate for 2016, extrapolated from "Trends in Bronchiectasis-Among Medicare Beneficiaries in the United States, 2000 to 2007" (Amy E. Seitz, MPH, et al. 2012).

³ Aksamit T.R., et al. Bronchiectasis Research Registry C. Adult Patients With Bronchiectasis: A First Look at the US Bronchiectasis Research Registry. *Chest*. 2017;151:982-92

EVIDENCE-BASED SALES APPROACH

- **December 2016** – Published a **clinical outcomes study** of 59 SmartVest® Patients with non-cystic fibrosis bronchiectasis:¹

57%

Fewer Antibiotic
Prescriptions

60%

Decrease in
ER Visits

58%

Decrease in # of
Hospitalizations

68%

Patients Reported
Improved
Quality of Life

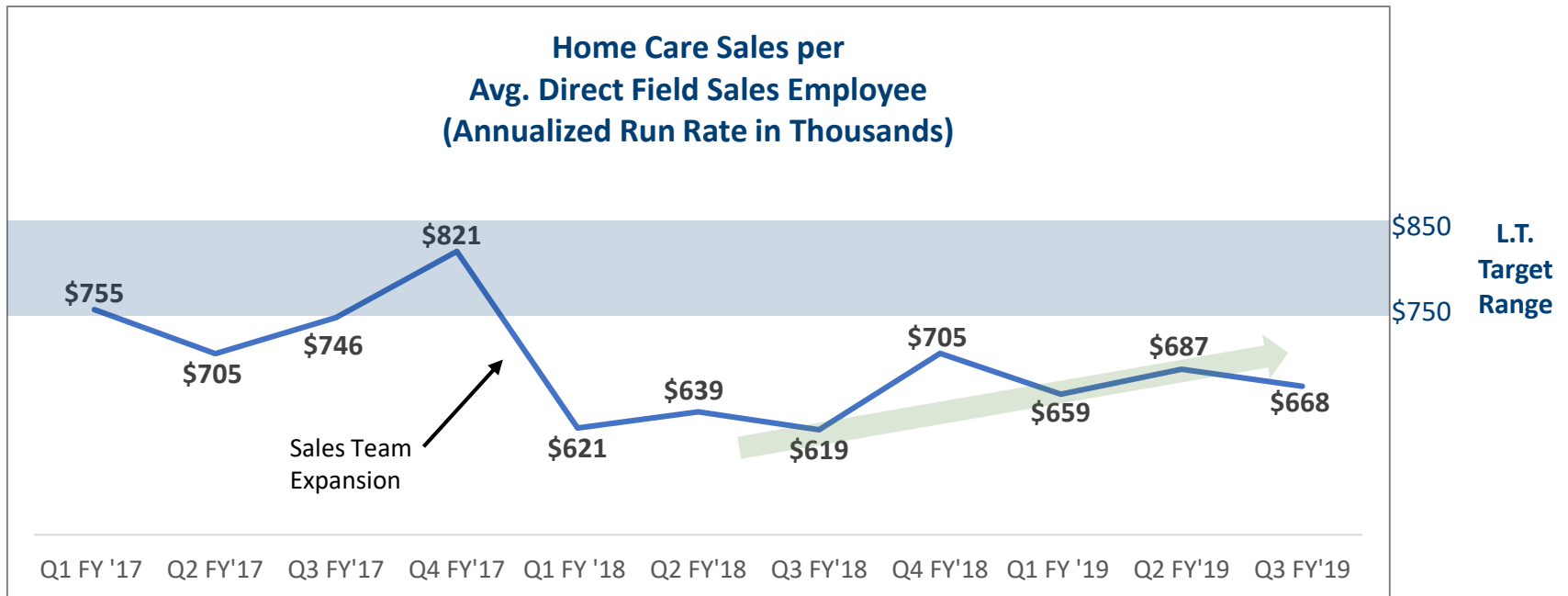
prevention



¹ Sievert CE et al. Respiratory Therapy Journal. 2016;11(4): 34–38.

EMPHASIS ON **SALES FORCE PRODUCTIVITY**

- **March 2019** - Sales restructuring; realigned sales regions from 5 to 4
- **April 2019** - Hired new VP of Sales, Bud Reeves, an accomplished industry veteran
- Focus on strategic high-prescribing clinics and home care referrals from hospitals
- Sales training programs, account planning tools and CRM utilization
- Increased sales leadership co-travel with new field sales employees
- Pause on sales force expansion



ORGANIC GROWTH STRATEGY

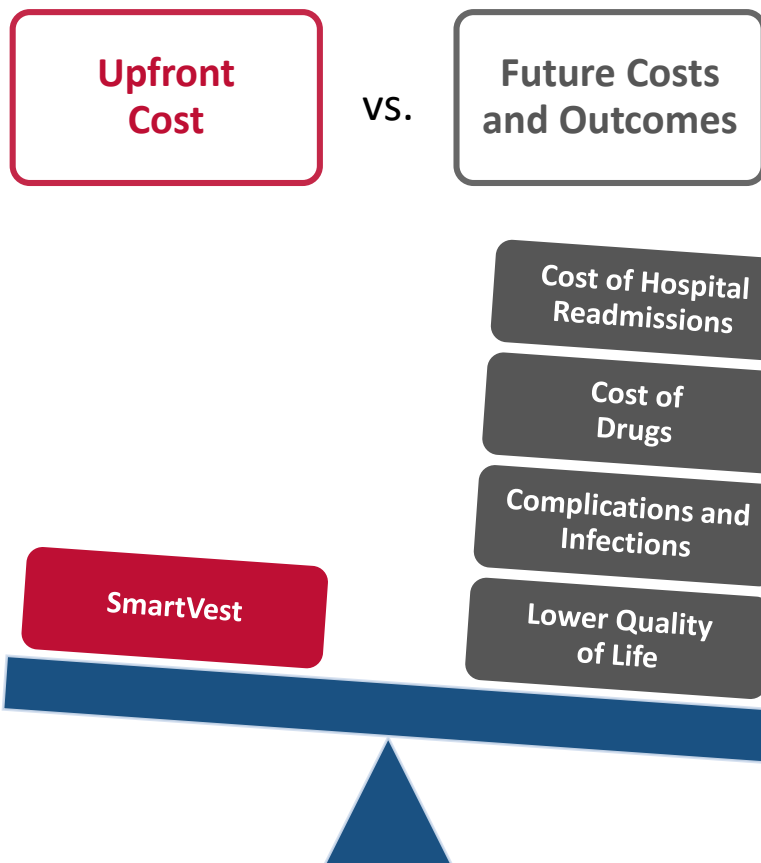
- Increase sales team productivity
- Increase referrals in largest, fastest growing segment: adult pulmonology / bronchiectasis
- Enhance reimbursement support to provide best-in-class customer care
- Expand and promulgate the body of clinical evidence to increase utilization of SmartVest for patients with bronchiectasis
- Continue to develop innovative device features that appeal to patients
- Grow institutional market share to support home care growth

We are committed to delivering long-term profitable growth.

INDUSTRY DRIVERS FOR AN EXPANDING HFCWO MARKET

- **Aging population**
- Higher incidences of **chronic lung diseases**
- Growing **physician awareness** of diseases and conditions (e.g., bronchiectasis)
- The **Affordable Care Act** penalties for readmission of patients within certain timeframes after discharge
- Healthcare reform driving greater accountability through moving from fee-for-service to **fee-for-outcomes**
- Treatment moving to **lower cost settings** (i.e., in-home care)

HEALTH CARE REFORM IS FOCUSED ON THE **COMPREHENSIVE COST** OF CARE



SmartVest Lowers the Comprehensive Cost of Health Care and Improves Outcomes

INVESTMENT CONCLUSIONS

**Growing market,
driven by aging
population and
increasing
bronchiectasis
and COPD
prescriptions**

**Electromed
provides superior
HFCWO devices
and services**

**Differentiated
Direct-to-Patient
Distribution
Model**

**Strong gross
margins and
positive operating
cash flow**

**Compelling
organic growth
strategy**

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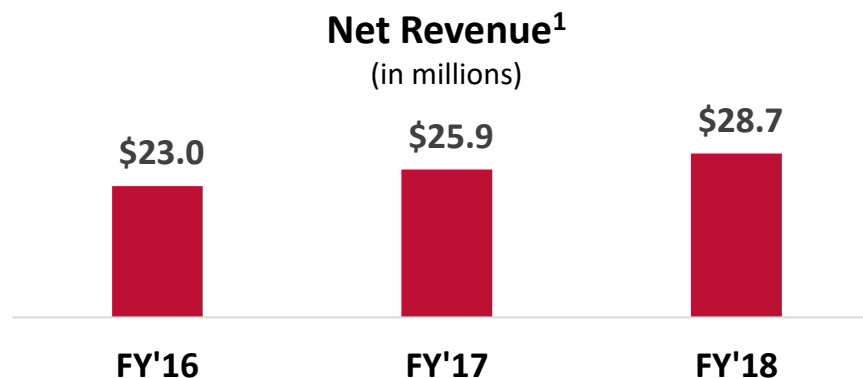
dsullivan@equityny.com

APPENDIX

FINANCIAL HIGHLIGHTS AND BALANCE SHEET SNAPSHOT

Financial Summary (in \$ millions, except shares amounts)	Fiscal Year Ended ¹			9 Months Ended ²	
	June 30, 2016	June 30, 2017	June 30, 2018	Mar. 31, 2018	Mar. 31, 2019
Net revenue	23.0	25.9	28.7	20.4	22.7
Gross Profit	17.9	20.6	22.9	15.6	17.2
<i>Gross margin</i>	78%	80%	80%	76%	76%
Operating income	3.1	3.6	3.0	1.4	1.3
<i>Operating margin</i>	14%	14%	10%	7%	6%
Net income	2.2	2.2	1.9	0.9	0.9
Diluted EPS	\$0.27	\$0.26	\$0.22	\$0.10	\$0.10
Diluted shares	8,248,391	8,461,120	8,620,102	8,634,452	8,637,414
Cash provided by operations	2.2	1.2	2.4	1.9	1.2

Balance Sheet (in \$ millions) ²	Mar. 31, 2019
Cash	7.5
Current assets	24.0
Total assets	27.7
Current liabilities	3.2
Total debt	-
Total stockholders' equity	24.5



¹ Financials under ASC 605

² Financials under ASC 606

SENIOR LEADERSHIP



Kathleen Skarvan – President & Chief Executive Officer

- CEO of Electromed since December 2012
- 30+ years of experience in executive leadership, operations, sales, marketing & strategic planning
- Track record of transforming organizations through innovation, quality and productivity initiatives
- Former President of Hutchinson Technologies’ Disk Drive Components division (\$300M+ annual revenues)
- Former Vice President of Operations of OEM Fabricators
- Bachelor’s degree, Mass Communication with minor in Finance and Business – St. Cloud State University



Jeremy Brock, CPA – Chief Financial Officer

- CFO of Electromed since October 2011
- 16+ years of experience in leadership, financial management, reporting, planning, forecasting & auditing
- Former Auditor, CliftonLarsonAllen LLP; focused on manufacturing, distribution and technology sectors
- Expertise in strategic business planning, risk assessment, and internal controls
- Served in the United States Marine Corps from 1998 to 2002
- Bachelor’s degree, Accounting and Finance – University of Northern Iowa



Bud Reeves – Vice President of Sales

- VP of Sales at Electromed since April 2019
- 20+ years of sales and marketing leadership experience in the healthcare industry
- Former Director of Sales with Philips Healthcare, Specialty Business Channels; led the distribution, business to business and LTAC hospital sales activities
- Former Director of Sales, Corporate and Strategic Accounts with Respironics; oversaw all GPO, IDN, and distribution management
- Bachelor’s degree, Biology – North Carolina Central University; MBA in Executive Management – Ohio University

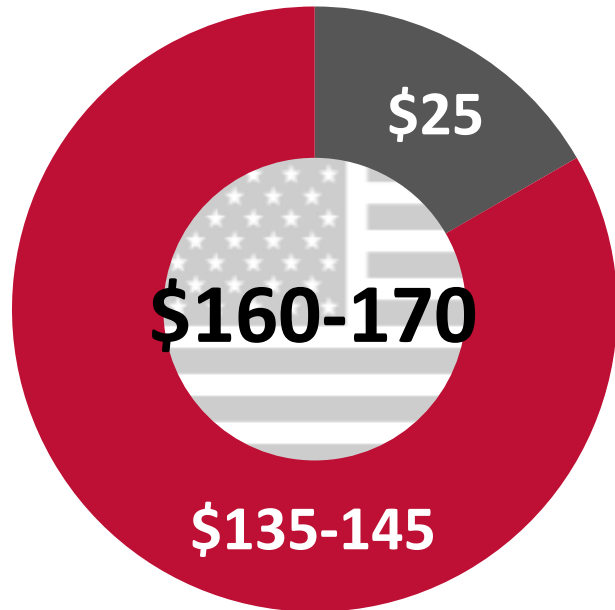




Kathryn Thompson – Vice President of Reimbursement

- VP of Reimbursement at Electromed since October 2017
- 20+ years of experience in the healthcare industry with a proven track record in the reimbursement revenue cycle, as well as operations and finance
- Former Revenue Cycle Director at Fairview Health Services/University of Minnesota MHealth
- Former Senior Manager of Revenue Cycle at Virtual Radiologic, where she managed the billing and reimbursement function, and improved revenue cycle processes.
- Bachelor’s degree, Strategic Leadership, Metropolitan State University; Bachelors’ degree, Journalism, University of Montana

TOTAL SERVED MARKET – HFCWO DEVICES

Total Served Domestic Market
(est. in millions)



-  Home Care
-  Institutional (Hospitals)

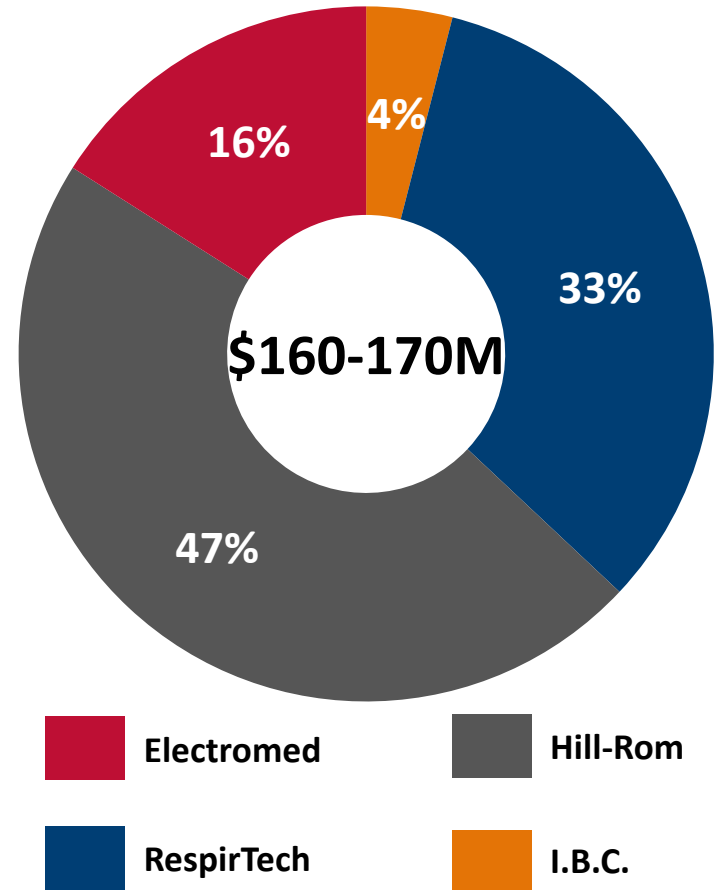
Total Served International Market
(est. in millions)



COMPETITIVE LANDSCAPE

- Hill-Rom the Vest[®]
 - Well established
 - Deep pockets
 - Hospital bundle option
 - Large domestic sales force
- RespirTech inCourage[®]
 - Strong focus on pediatric market
 - Triangle-wave theory
- I.B.C. – AffloVest[®]
 - Patient truly mobile during therapy
 - Selling through DME

Estimated Domestic Market Share



ADDITIONAL **BARRIERS TO ENTRY**

Established Relationships

- With Physicians
- With Clinicians
- With Institutions
- With Payers

Regulatory & Reimbursement

- FDA device approval
- Clearance to use the Conformité Européenne mark, or CE mark, in Europe
- Deep understanding of health care reimbursement and reform
- State licensing

Intellectual Property / R&D

- 17 U.S. and 23 foreign-issued patents
- 14 pending U.S. and foreign patent applications
- R&D spend of approximately 2% to 4% of sales per year

Manufacturing

- 10,000 square foot owned facility in New Prague, Minnesota
- Fully meets FDA's manufacturing standards and Quality System Regulation
- Compliant with ISO 13485 and ISO 9001 quality system standards