

***ELECTROMED, INC.***  
**INVESTOR PRESENTATION**

September 2019

NYSE American: ELMD

**THE INNOVATION LEADER IN  
AIRWAY CLEARANCE  
TECHNOLOGIES**

**smartvest<sup>®</sup>**  
AIRWAY CLEARANCE SYSTEM

***ELECTROMED, INC.***



# 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.

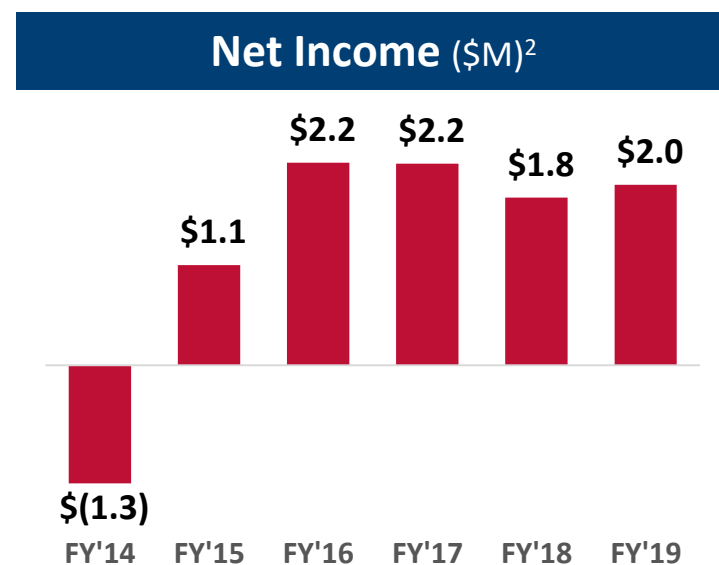
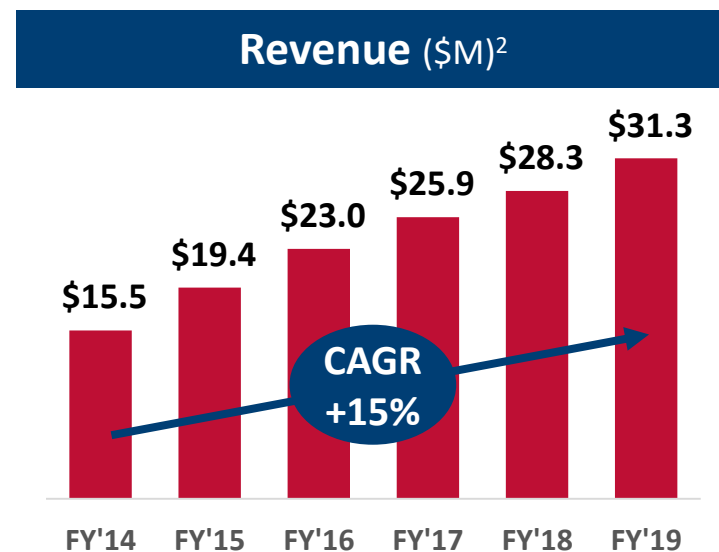
Forward-looking statements cannot be guaranteed and actual results may vary materially due to the uncertainties and risks, known and unknown, associated with such statements. Examples of risks and uncertainties for Electromed include, but are not limited to, the impact of emerging and existing competitors, 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 COPD<sup>1</sup> 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**.

<sup>1</sup>Chronic obstructive pulmonary disease

<sup>2</sup> FY'14 to FY'17 financials under ASC 605; FY'18 & FY'19 under ASC 606



# 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® 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®

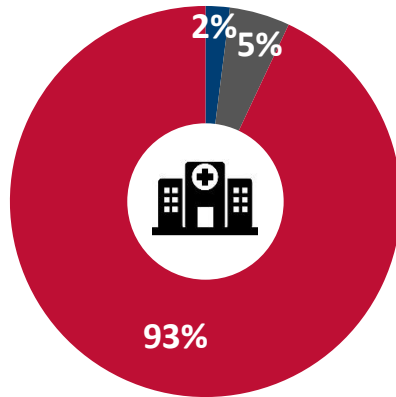
Introduced *Gingko Green* SmartVest®

Introduced Expanded SmartVest® Garment and SmartVest SQL® Generator Colors

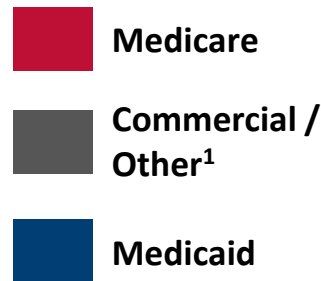
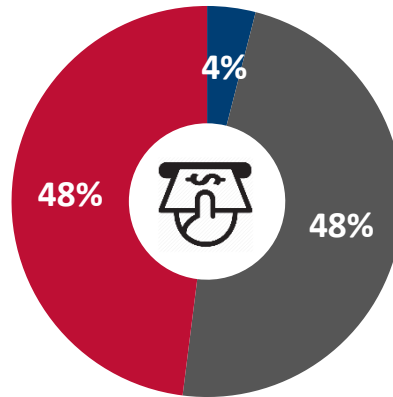


# REVENUE BREAKDOWN – \$31.3M (FY 2019)

## By Setting

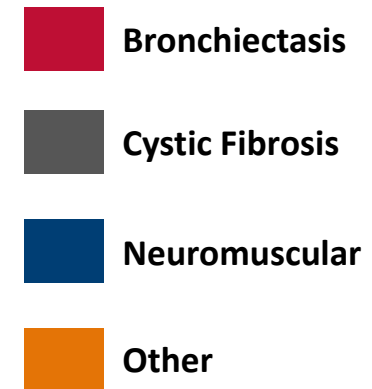
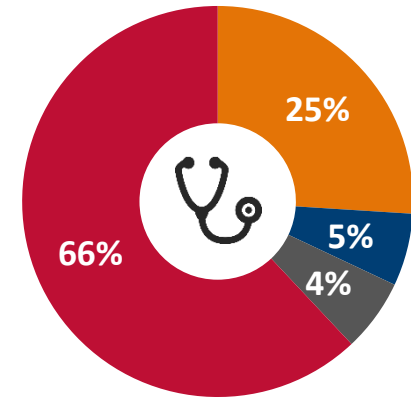


## Homecare By Payer



<sup>1</sup> Includes 13% Managed Medicare and 11% Managed Medicaid

## Homecare By Referral Volume



# BUSINESS MODEL

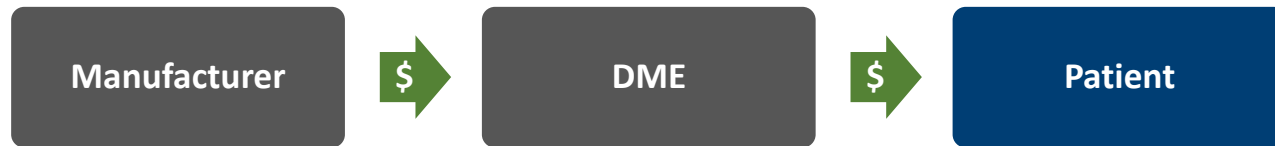
We generate revenue via sales to: patients for home use; institutions for inpatient use; patients when discharged from a hospital; and international distributors.

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

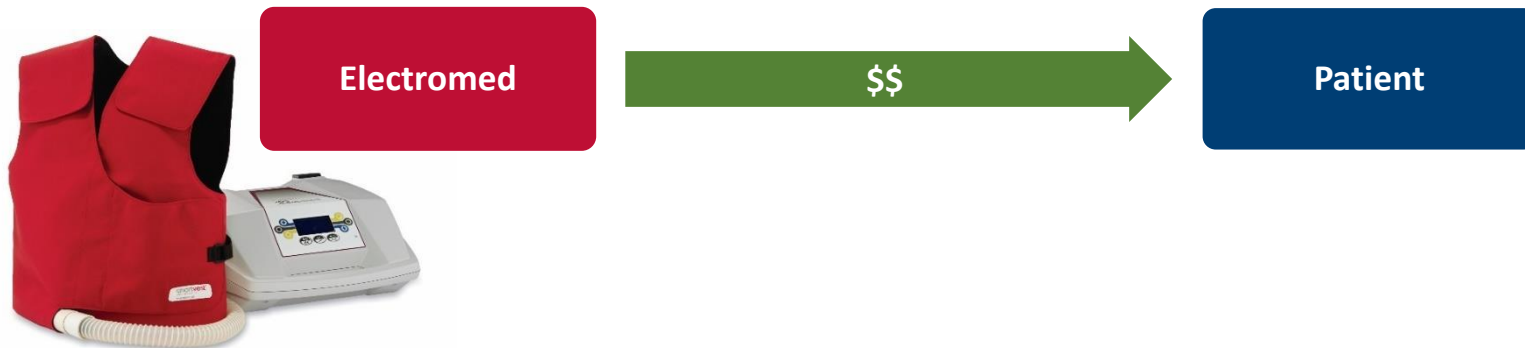


# **DIRECT-TO-PATIENT** DISTRIBUTION MODEL DRIVES HOME CARE GROSS MARGIN

## Traditional Medical Equipment Channel

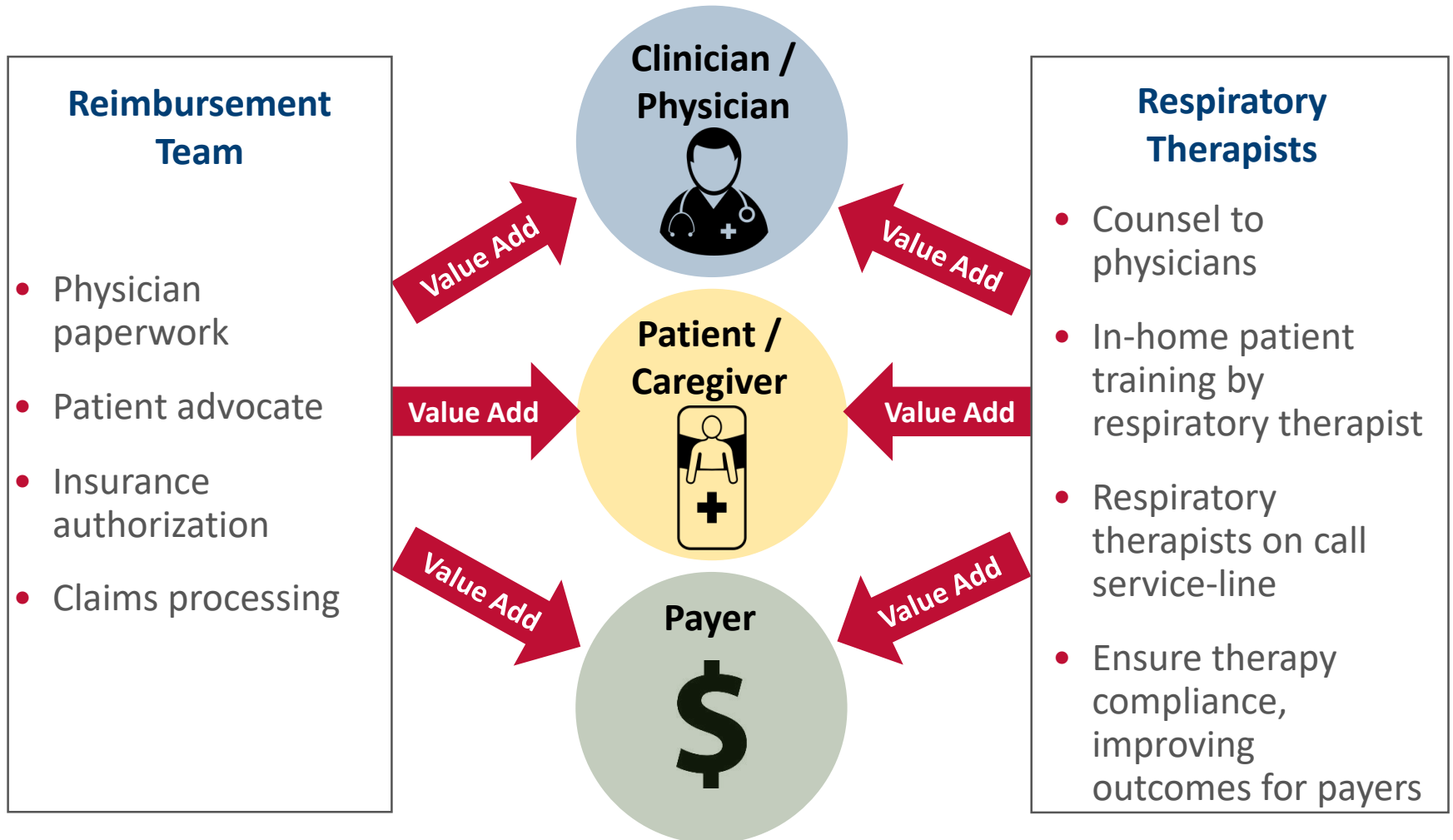


## Direct to Patient Distribution



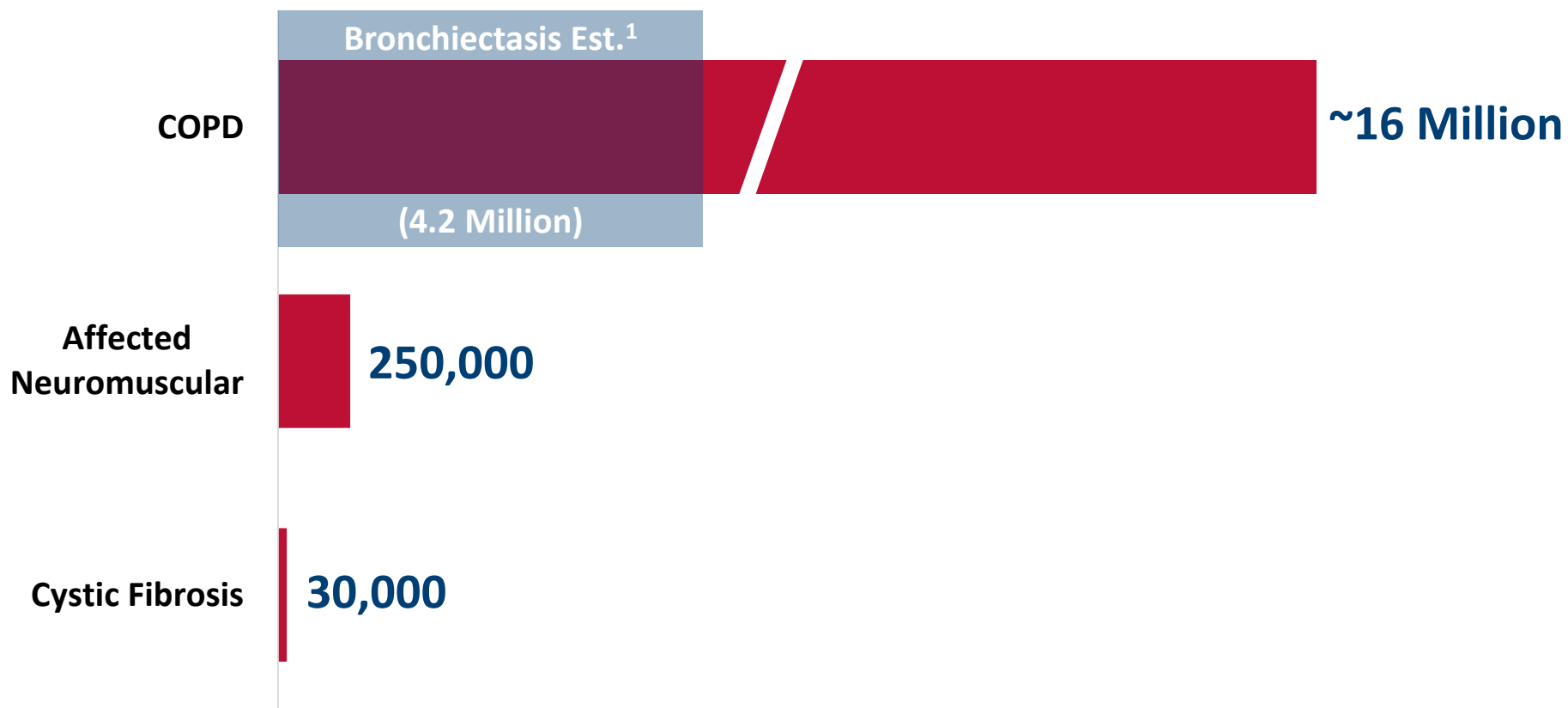
**We believe our long-term gross margins can be sustained in the mid-70s**

# VALUE ADDED SERVICES TO OUR HOME CARE CUSTOMERS



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

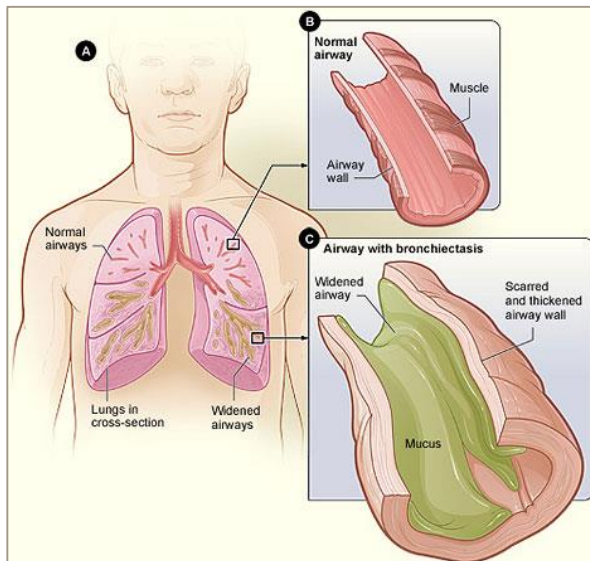
## Estimated U.S. Populations:



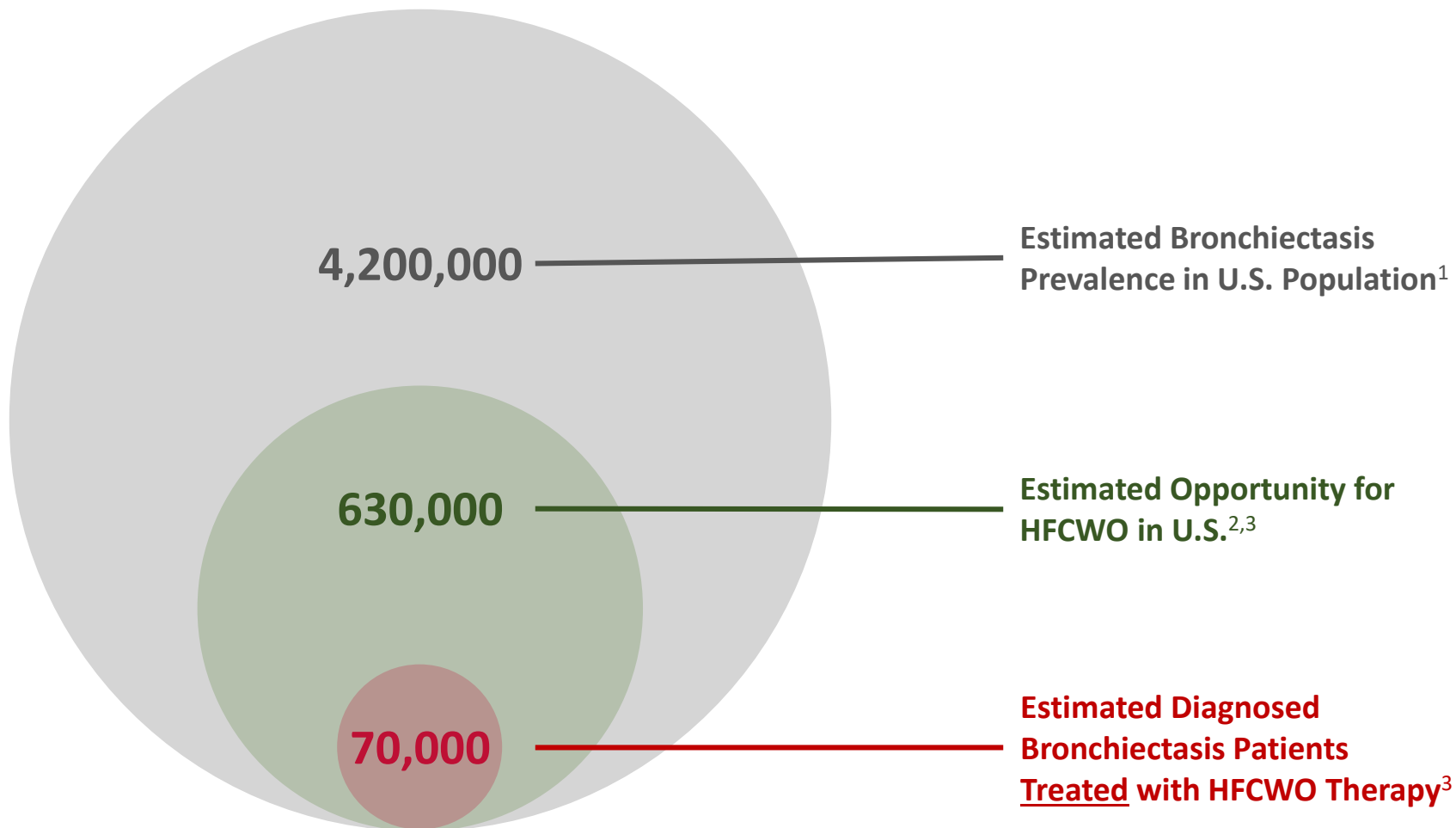
<sup>1</sup> Weycker D, Hansen G, Seifer F. Prevalence and incidence of non-cystic fibrosis bronchiectasis among US adults in 2013. Chronic Respiratory Disease. 2017; 14(4):377-384.

# 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



# LARGE, UNDERPENETRATED U.S. MARKET



**Estimated total addressable market opportunity: \$5 billion<sup>4</sup>**

<sup>1</sup> 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.

<sup>2</sup> 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).

<sup>3</sup> 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

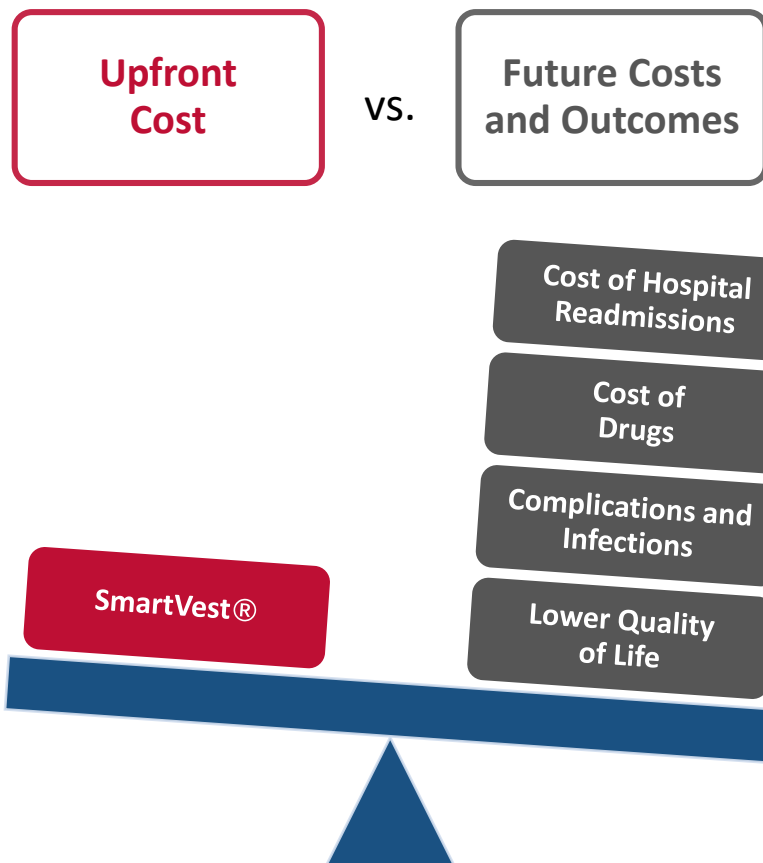
<sup>4</sup> Assuming an average selling price between \$8,000 and \$10,000

# INDUSTRY DRIVERS FOR AN EXPANDING HFCWO MARKET

- Aging population
- Higher incidences of **chronic lung diseases**
- Growing **physician awareness** of diseases and conditions, such as 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)

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

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



- **\$9,300** – average cost per hospitalization for pneumonia
- **\$10,900** – average cost per COPD readmission (national readmission rate: 17.7%)

**SmartVest Lowers the Comprehensive Cost of Health Care and Improves Outcomes**

# EVIDENCE-BASED SALES APPROACH

**Electromed is the only HFCWO company with multiple published studies showing that bronchiectasis exacerbation rates drop significantly when using HFCWO therapy**

*BMC Pulmonary Medicine* published an independent outcomes study that concluded therapy with SmartVest significantly decreases exacerbations requiring hospitalization, antibiotic use, and stabilizes lung function among non-CF bronchiectasis patients. Powner (2018).

Therapy with SmartVest demonstrated an improvement in symptom scores and quality of life. Chakravorty (2011).

**59%**

Exacerbations requiring hospitalization reduced with SmartVest. Sievert (2016).

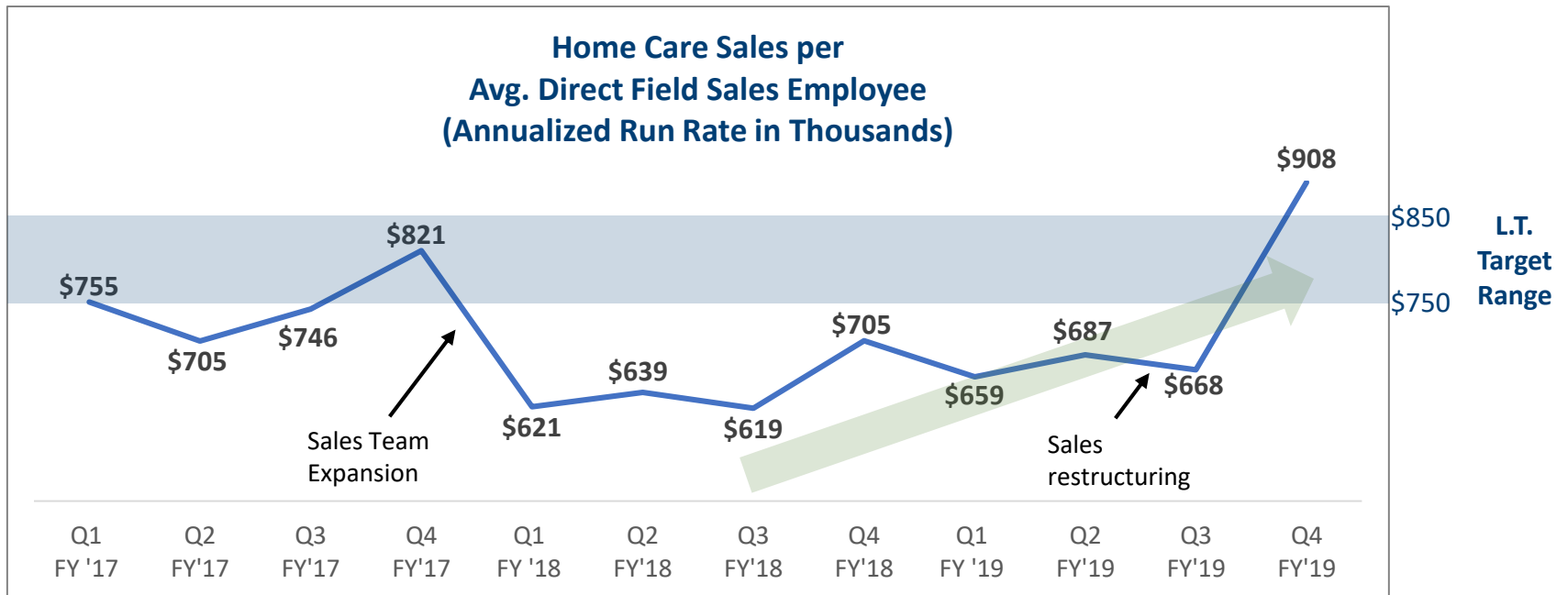
**75%**

Longitudinal outcome-based study: ED visits significantly reduced with SmartVest. Sievert (2018).



# EMPHASIS ON **SALES FORCE PRODUCTIVITY**

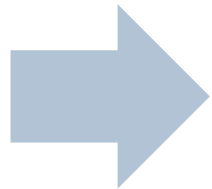
- Focus on strategic high-prescribing clinics and home care referrals from hospitals
- Sales training programs, account planning tools and CRM utilization
- Increased sales leadership co-travel with new field sales employees
- Pause on sales force expansion



# ORGANIC **GROWTH STRATEGY**

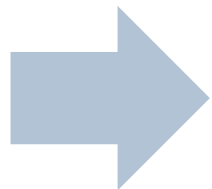
- Increase referrals in largest, fastest growing segments: adult pulmonology / bronchiectasis
- Improve sales productivity through deeper clinic penetration and market share growth
- Enhance patient and provider support to provide best-in-class customer care
- Expand and promulgate the body of clinical 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

# LONG-TERM OBJECTIVES



## Low double-digit revenue growth

- Growth in quality referrals
- Increased rate of reimbursement on referrals through clinic and hospital call points



## Operating margin improvement

- Focus on cost-containment
- Operating leverage as revenue increases

**We are committed to delivering long-term profitable growth, while maintaining the highest standards of integrity, respect and privacy.**

# 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**

# ***ELECTROMED, INC.***

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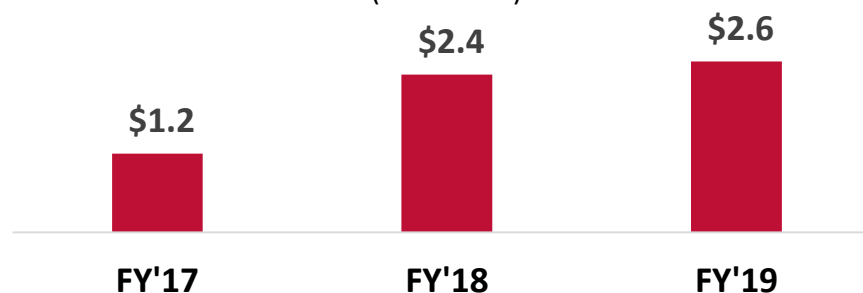
# APPENDIX

# FINANCIAL HIGHLIGHTS AND BALANCE SHEET SNAPSHOT

| Financial Summary<br>(in \$ millions, except shares amounts) | Fiscal Year Ended <sup>1</sup> |               |               | 3 Months Ended <sup>2</sup> |               |
|--|--------------------------------|---------------|---------------|-----------------------------|---------------|
|  | June 30, 2017                  | June 30, 2018 | June 30, 2019 | June 30, 2018               | June 30, 2019 |
| Net revenue  | 25.9                           | 28.3          | 31.3          | 7.9                         | 8.6           |
| Gross Profit   | 20.6                           | 21.8          | 23.8          | 6.2                         | 6.7           |
| <i>Gross margin</i>  | <i>80%</i>                     | <i>77%</i>    | <i>76%</i>    | <i>78%</i>                  | <i>78%</i>    |
| Operating income   | 3.6                            | 2.7           | 2.8           | 1.3                         | 1.5           |
| <i>Operating margin</i>                                      | <i>14%</i>                     | <i>10%</i>    | <i>9%</i>     | <i>16%</i>                  | <i>17%</i>    |
| Net income   | 2.2                            | 1.8           | 2.0           | 1.0                         | 1.1           |
| Diluted EPS  | \$0.26                         | \$0.21        | \$0.23        | \$0.11                      | \$0.13        |
| Diluted shares   | 8,461,120                      | 8,620,102     | 8,631,469     | 8,578,295                   | 8,615,207     |
| Cash provided by operations                                  | 1.2                            | 2.4           | 2.6           | 0.6                         | 1.4           |

| Balance Sheet (in \$ millions) <sup>2</sup> | June 30, 2019 |
|---|---------------|
| Cash  | 7.8           |
| Current assets                              | 24.5          |
| Total assets                                | 29.4          |
| Current liabilities                         | 3.6           |
| Total debt                                  | -             |
| Total stockholders' equity                  | 25.7          |

## Cash Provided by Operations (in millions)



<sup>1</sup> FY'17 financials under ASC 605; FY'18 and FY'19 under ASC 606

<sup>2</sup> 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



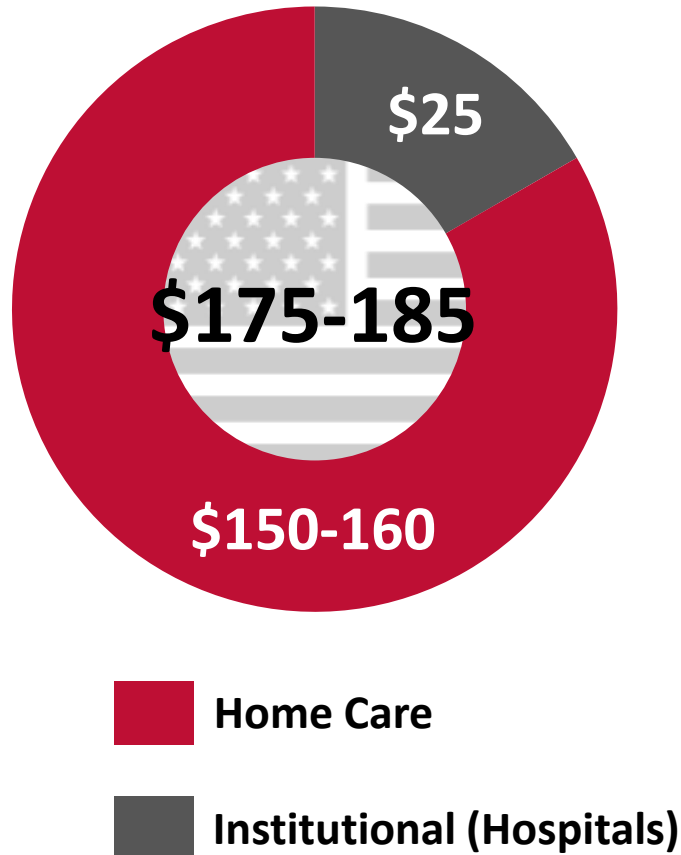
## **Kathryn Thompson – Vice President of Reimbursement**

- 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)



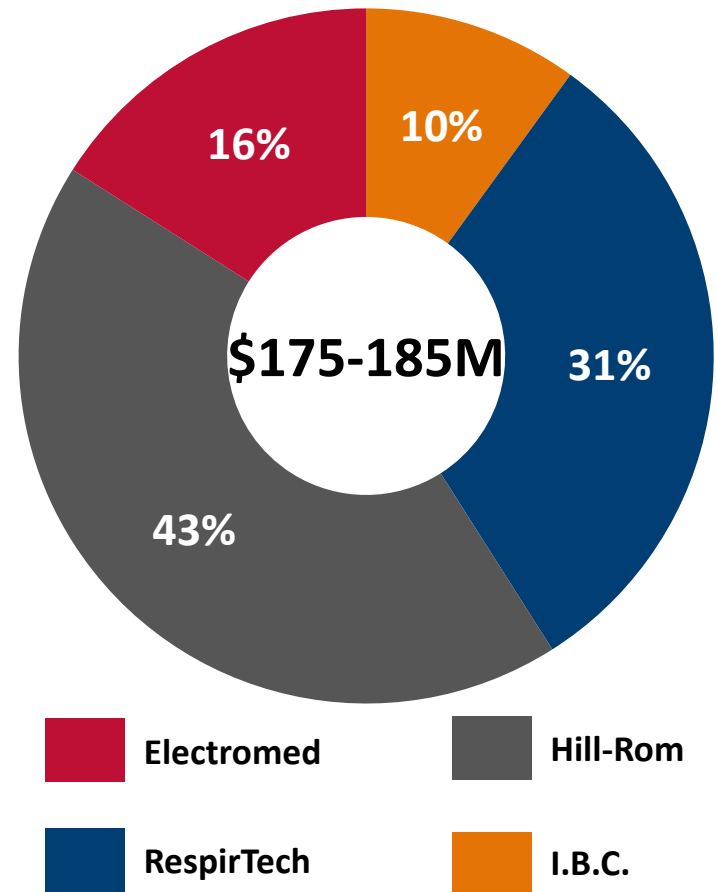
**Total Served International Market**  
(est. in millions)



# 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 25 foreign-issued patents
- 19 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