

# 2015 CEO Letter to Shareholders

Making life's important moments possible — one breath at a time®.

## To our Shareholders



The strength and success of Electromed is built on improving the quality of life of each patient we serve and is captured in our core purpose: making life's important moments possible — one breath at a time. We are especially pleased that our customer-driven focus combined with our efforts to align our company to the many challenges in the healthcare industry resulted in significant improvement in our financial results. We believe our success in fiscal 2015 is reflective of the potential our business has to deliver

sustained revenue and earnings growth.

### Fiscal 2015 financial highlights:

- > Profit of \$1.1 million or \$0.13 per basic and diluted share, compared to a net loss of \$1.3 million or \$0.16 per share in fiscal 2014,
- > Revenue growth of 25% to \$19.4 million, compared to revenue of \$15.5 million in fiscal 2014,
- > Gross profit of \$13.6 million or 70.1% of sales, compared with \$10.6 million or 68.7% of sales the previous fiscal year.

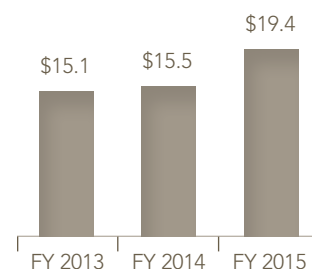
The full results for fiscal 2015 show clear progress for the company and reflect the Electromed team's hard work, focus and determination to return the company to profitable growth.

Our financial success in fiscal 2015 is primarily attributable to stronger sales in the domestic home care and institutional markets, which rose 28% and 22%, respectively, compared with the previous year. During fiscal 2015, 86% of revenue was derived from the home care market. Home care revenues benefitted from continued improvements in the company's reimbursement operations, including new third party payer contracts, a higher percentage of referrals receiving approval and higher average selling prices. Additionally, we grew our total number of referrals, which are prescriptions for our device from physicians and clinicians for use by a patient. This was accomplished by improving our sales training, time and territory management and hiring more experienced sales people through the replacement of low performers. The institutional market, while a smaller percentage of revenue, is an important sales opportunity as it is often the first place a patient receives high frequency chest wall oscillation (HFCWO) therapy and the device used in a hospital is often the device prescribed upon patient discharge for home care use.

A year ago, I outlined three objectives for fiscal 2015: (1) deliver profitable growth, (2) reduce the manufacturing cost of SmartVest® SQL®, our newest generation device, and (3) grow referrals and approvals year-over-year. I am very pleased to report we accomplished all three objectives.

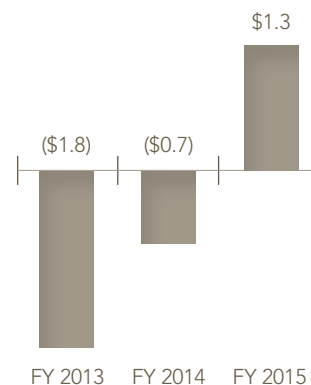
## Revenue

(in millions)



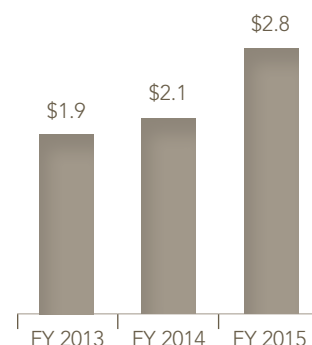
## Operating Income

(in millions)



## Operating Cash Flow

(in millions)



## 2015 CEO Letter to Shareholders, continued

As we look to the future, there is still more to do. We face challenges and uncertainty, including physician access, complex reimbursement criteria and downward pricing pressures from third party payers, and additional licensing requirements with payer organizations and individual states. With the improvements we have implemented across the company during the past two years, we are better positioned to proactively plan and execute through these challenges and uncertainties.

I am optimistic about Electromed's future for a number of reasons.

- **The market opportunity** is growing as the aging U.S. population develops higher incidences of chronic lung diseases including over 15 million suffering from COPD. Although COPD as a diagnosis alone is not a reimbursable condition for HFCWO, according to Medicare, we work with physicians to identify those patients with COPD that may require further testing to diagnose additional diseases or conditions, such as bronchiectasis, that qualify for HFCWO reimbursement.
- **Focus on bronchiectasis**, a disease with a high rate of reimbursement approval for HFCWO therapy. Bronchiectasis is a permanent enlargement of the airways and affects a patient's ability to clear mucus from their lungs. The potential domestic market for bronchiectasis was estimated at 340,000 people in 2014, growing approximately 9% annually. Based on our estimates of total HFCWO prescriptions in that same year, less than 1% of bronchiectasis patients are being prescribed HFCWO, a clear opportunity.
- **Our value proposition**, a compelling "one-two punch" consists of our SmartVest SQL and our best-in-class service. The SQL offers added features that encourage therapy adherence, thus improving patient outcomes and reducing the likelihood of respiratory complications. These benefits may help lower overall healthcare costs, making HFCWO an attractive alternative for patients with compromised airway clearance. Our service provides a competitive differentiator and consists of:
  - Advocating for the patient and efficiently coordinating their benefits,
  - Working to minimize clinicians' paperwork burden when providing patient medical documentation, and
  - Partnering with clinicians to provide essential patient related information to help ensure improved patient outcomes.

We are laser-focused on continuing profitable growth in fiscal 2016 and our strategies reflect that goal: growing and strengthening our core business by offering the most innovative HFCWO therapy solutions and service for home care and institutional markets, focusing sales efforts on growing both the bronchiectasis HFCWO market and our share of the total market, expanding third party payer contracts, driving continuous improvement throughout the organization, and treating our customers and patients with integrity and respect. I look forward to updating you throughout the year on our progress!

Sincerely,



Kathleen S. Skarvan  
President and CEO

### Forward-Looking Statements

Statements contained in this letter that are not statements of historical fact should be considered forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, but are not limited to, the future challenges and uncertainties we may face and our resulting performance, our market opportunities, delivery and market recognition of our value proposition, and goals for fiscal 2016. Words such as "anticipate," "believe," "continuing," "estimate," "expect," "future," "may," "will" and similar expressions, including the negative of these terms, are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. Although we believe these forward-looking statements are reasonable, they involve risks and uncertainties that may cause actual results to differ materially from those projected by such statements. Such statements involve known and unknown risks, uncertainties and other factors that may cause our actual results or our industry's actual results, levels of activity, performance or achievements to be materially different from the information expressed or implied by the forward-looking statements.

Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to: the competitive nature of our market; risks associated with expansion into international markets; changes to Medicare, Medicaid, or private insurance reimbursement policies; changes to health care laws; changes affecting the medical device industry; our need to maintain regulatory compliance and to gain future regulatory approvals and clearances; our ability to protect and expand our intellectual property portfolio; our ability to renew our line of credit or obtain additional credit as necessary; and general economic and business conditions, as well as other factors described from time to time in our reports to the Securities and Exchange Commission. 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. Shareholders and other readers should not place undue reliance on "forward-looking statements," as such statements speak only as of the date on which they are made.

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