

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

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

February 2017

NYSE MKT: ELMD



**THE INNOVATION LEADER IN  
AIRWAY CLEARANCE TECHNOLOGIES**

# FORWARD LOOKING STATEMENTS

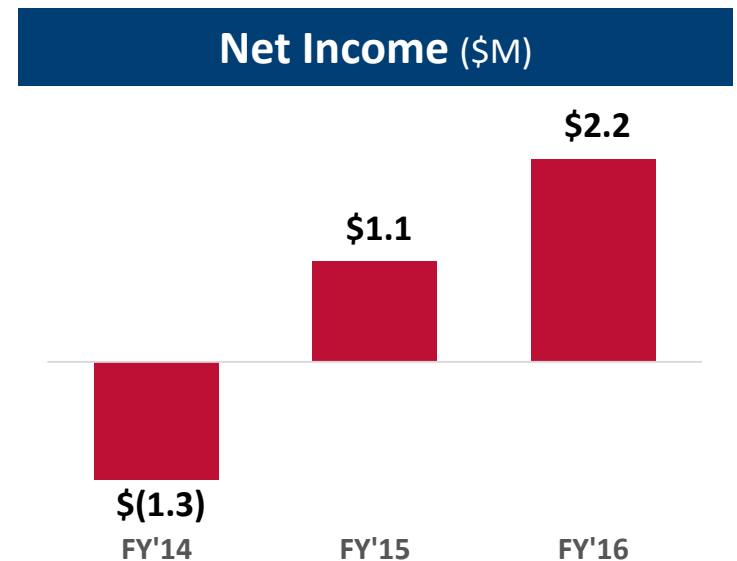
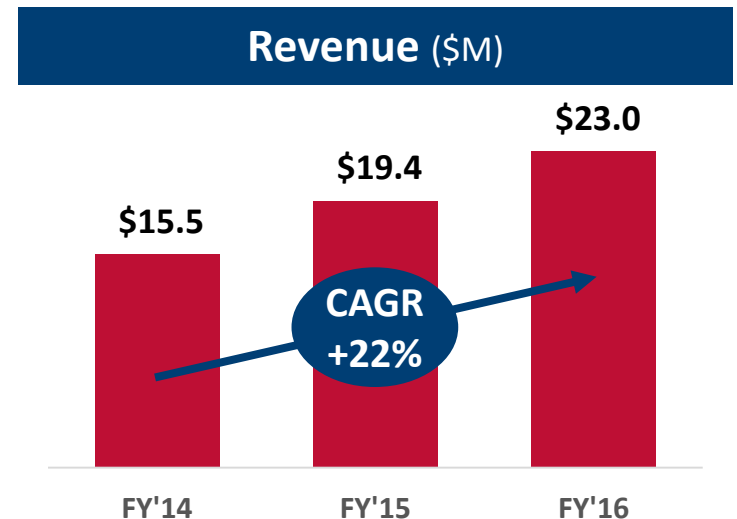
Certain statements in this presentation constitute forward-looking statements as defined in the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements reflect current views with respect to future events and financial performance and include any statement that does not directly 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**?

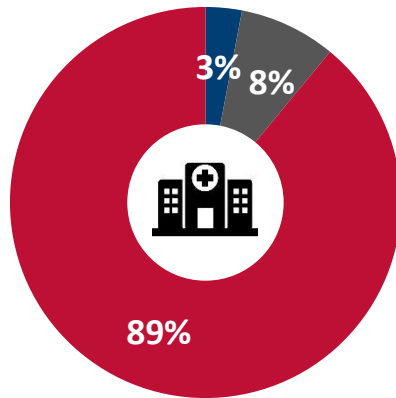
- We are a profitable, growing **medical device company** focused on developing, manufacturing and marketing **innovative airway clearance products**.
- We are the **#3 player** in high frequency chest wall oscillation (“HFCWO”) devices, which help clear mucus from the lungs.
- Our SmartVest® HFCWO System **improves quality of life** and **reduces 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 have **well-established relationships** with clinicians, regulators and payers, and are guided by a “**patient-centric**” culture.

<sup>1</sup>Chronic obstructive pulmonary disease, or the combination of emphysema and chronic bronchitis.

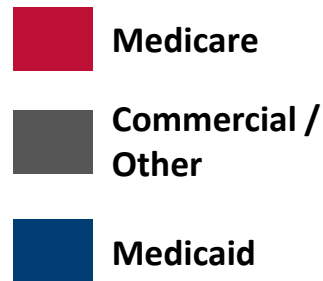
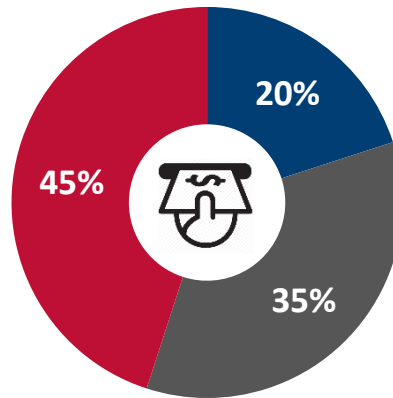


# REVENUE BREAKDOWN – \$23.0M (FY 2016)

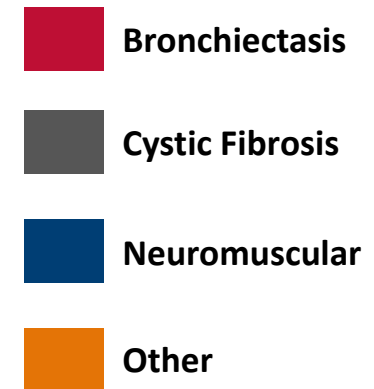
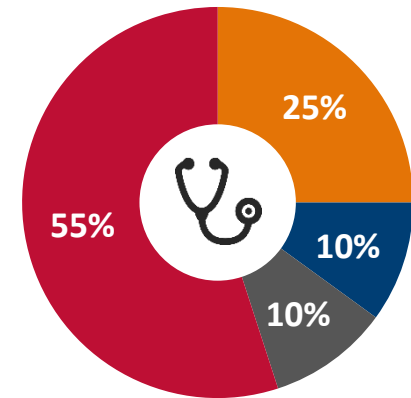
## By Setting



## By Payer



## By Referral Volume



# BENEFITS OF **HFCWO THERAPY**

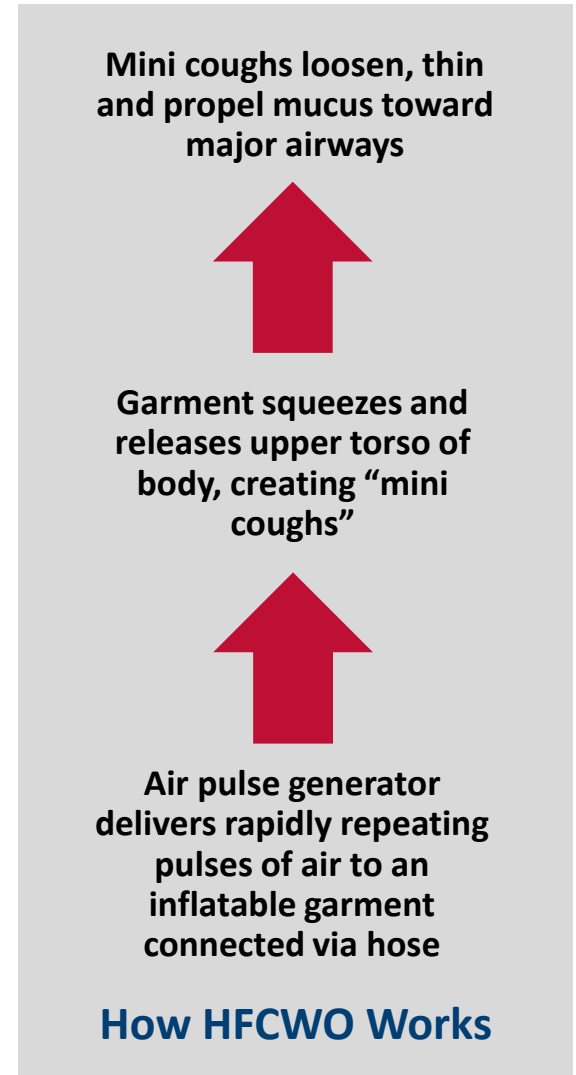
Studies show that HFCWO therapy is as effective as chest physical therapy (“CPT”) for airway clearance.

## 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



# WHY ELECTROMED'S **SMARTVEST**?

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



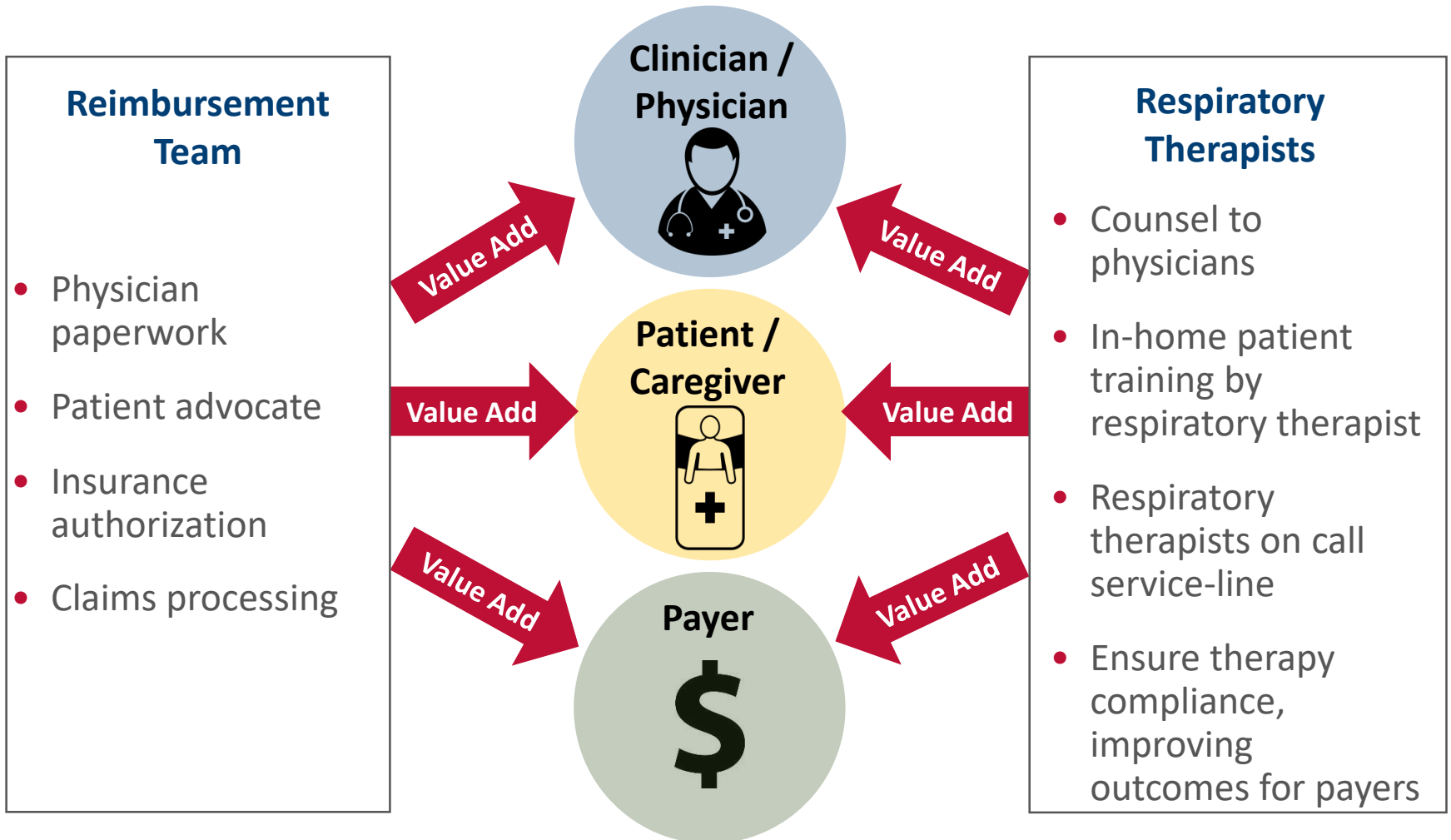
**SmartVest's Innovative Features Designed to Drive Greater Patient Compliance with Prescribed Treatment Schedules**

# 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>	~89%	~8%	~3%
<b>Sales Points:</b>	Direct to physicians Adult pulmonology clinics Cystic fibrosis centers Neuromuscular clinics Hospitals	Individual hospitals; member hospitals of group purchasing organizations (GPOs)	Distributors
<b>Revenue Model:</b>	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

# VALUE ADDED SERVICES TO OUR HOME CARE CUSTOMERS





# INVESTMENT HIGHLIGHTS

## **Innovation and Service Track Record**

- History of innovation, leading the way in new product features for HFCWO devices
- Unparalleled patient care, reimbursement support and clinician/prescriber services

## **Large, Growing Addressable Market**

- #3 player in total served domestic HFCWO market
- Underserved patient population: a significant market opportunity (e.g., bronchiectasis)
- Favorable industry growth drivers (e.g., Affordable Care Act, aging population, etc.)

## **Leadership Execution**

- Experienced, talented and proven management team
- Successfully executing a turnaround-to-growth story

## **High Gross Margins and Strong Cash Flow**

- FY'16 gross margin of 78% and cash flow from operations of \$2.2M
- Operating leverage upside as revenue increases

## **Compelling Organic Growth Strategy**

- Drive core organic growth through product innovation and world-class services
- Expand the market opportunity, focusing on adult pulmonology and bronchiectasis
- Add payer contracts, grow institutional market share and enhance sales productivity

# HISTORY OF INNOVATION



# HISTORY OF **INNOVATION**

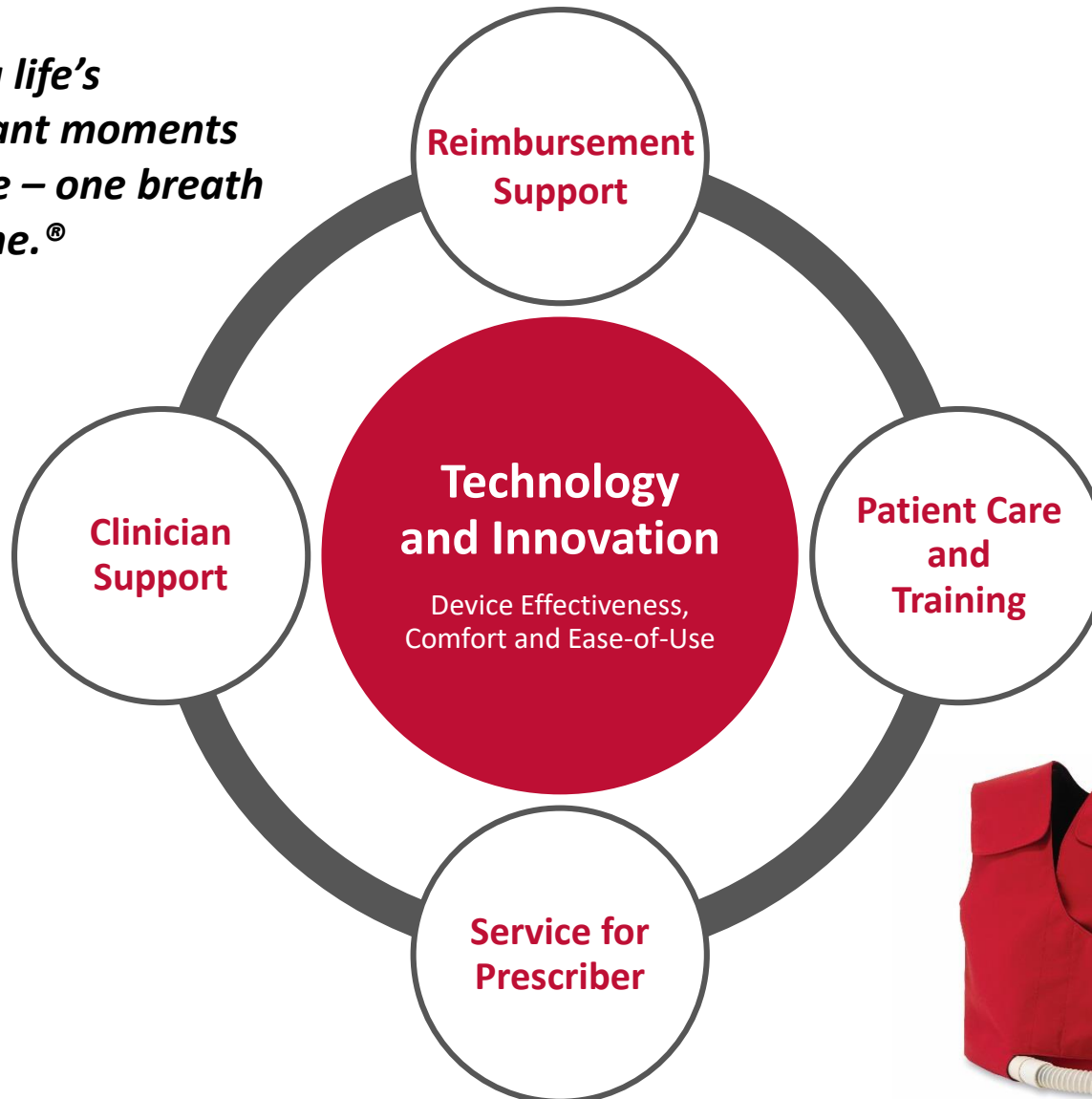
- “Internet of Medical Things” (IoMT) – better collaboration in making patient-centric decisions
- Commenced development of a wireless connectivity solution
  - **data connection** between **physicians** and **patients** with impaired airway clearance
  - **real-time visibility** to HFCWO treatment information
- Integration with **interactive dashboard** application to encourage:
  - **Patient engagement** with HFCWO therapy
  - **Promote adherence** to prescribed treatment

Wireless  
Connectivity  
Project  
Timeline:



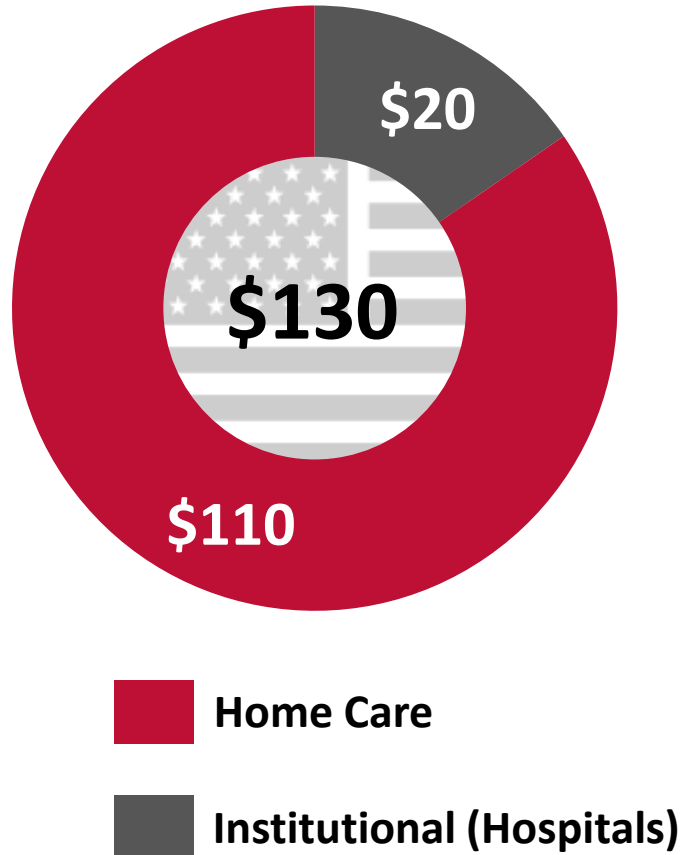
# ELECTROMED'S **FORMULA FOR SUCCESS**

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



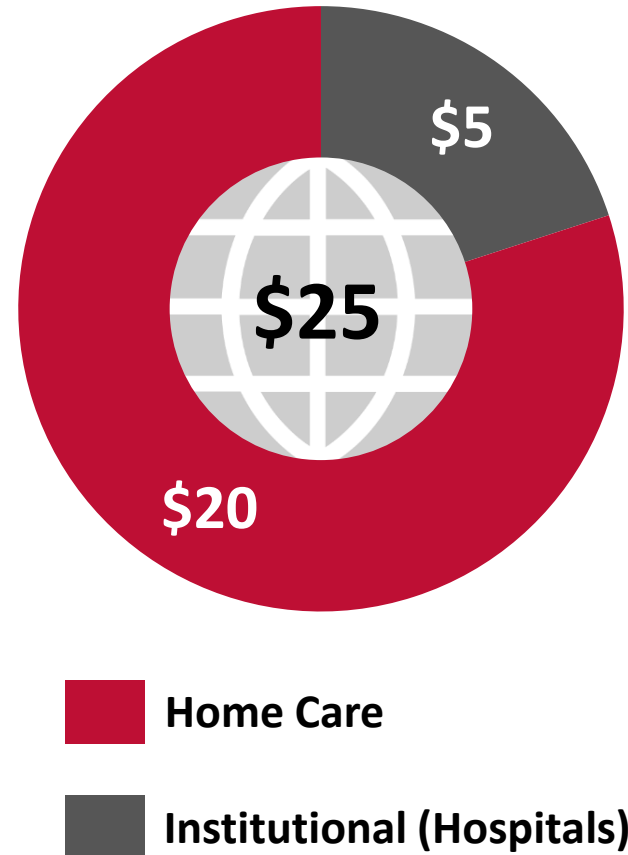
# TOTAL SERVED MARKET

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



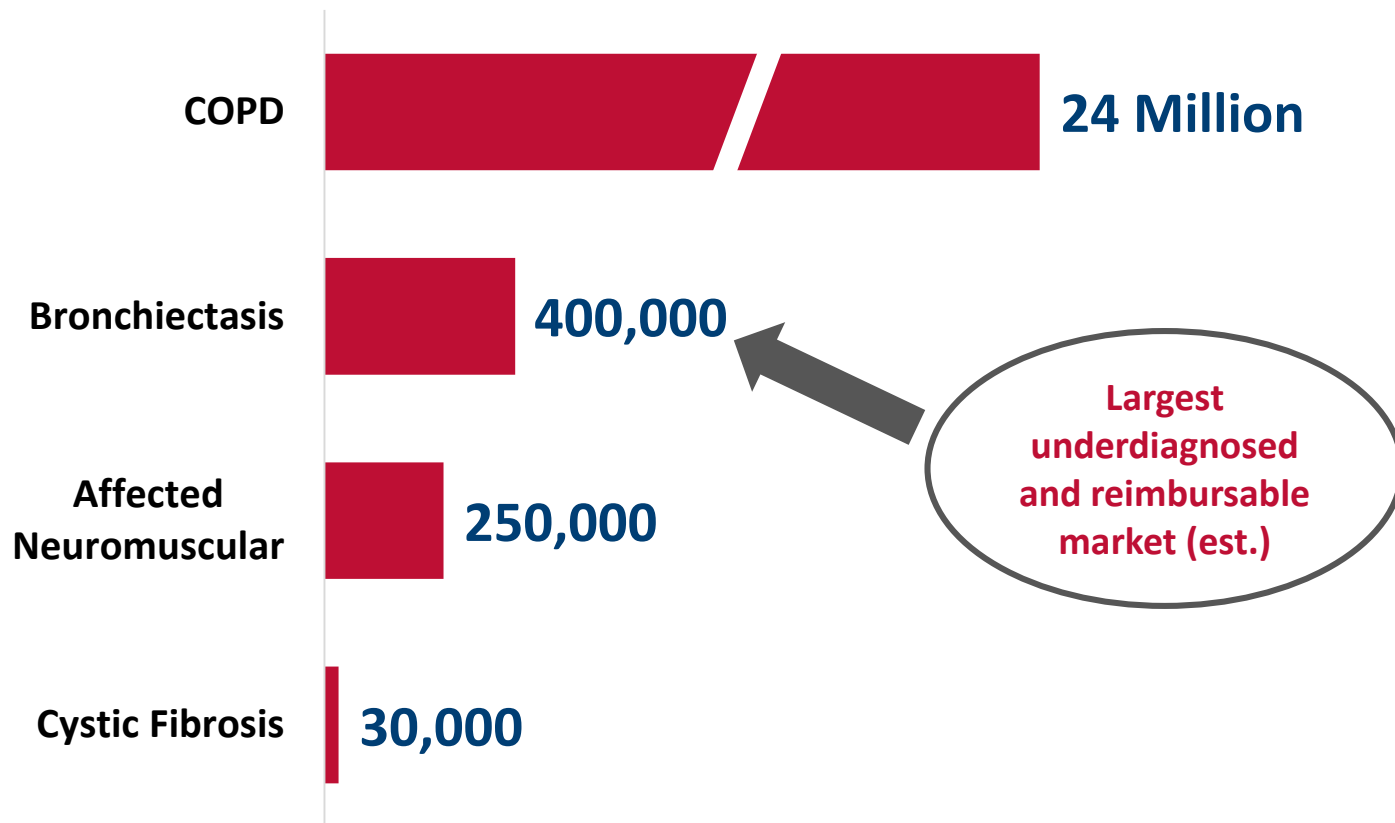
**Electromed is the #3 player in the US market.**

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



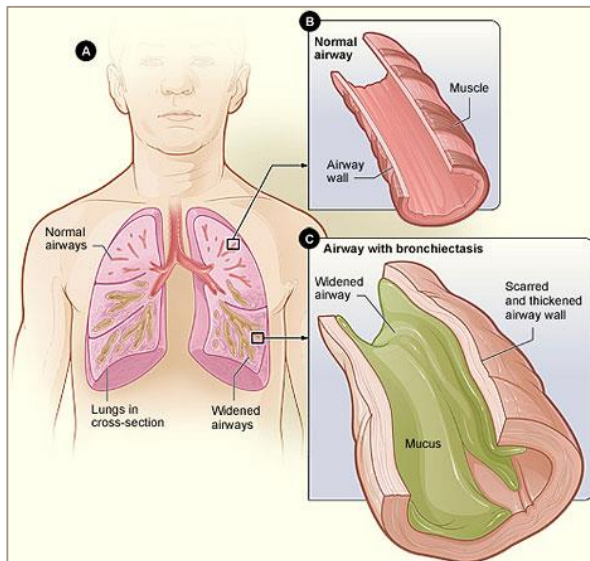
# UNDERSERVED PATIENT POPULATION: A SIGNIFICANT **MARKET OPPORTUNITY**

- Over **24 million** people in the United States have diseases and conditions for which HFCWO therapy is routinely prescribed:

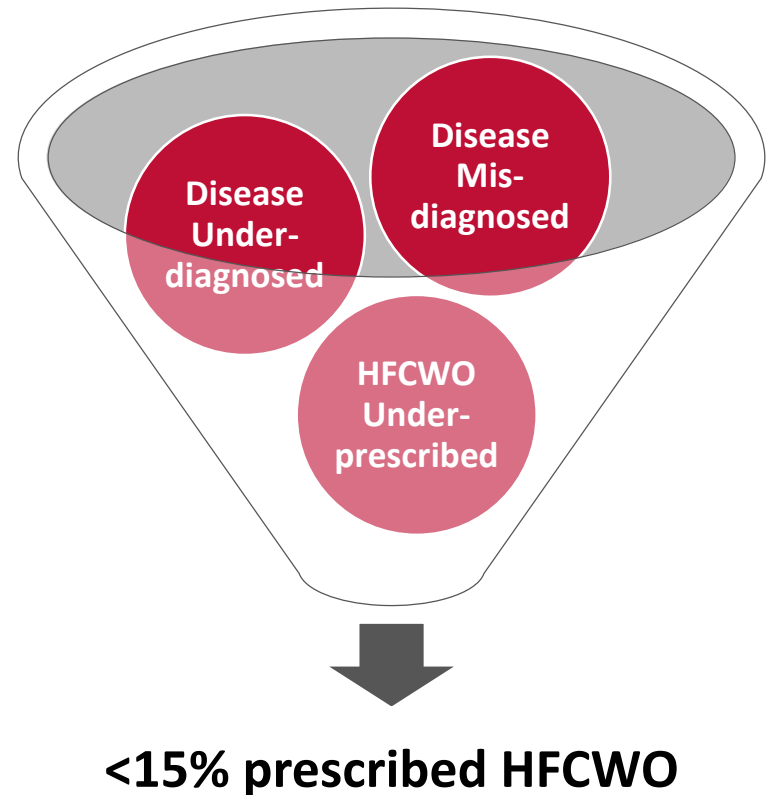


# THE BRONCHIECTASIS OPPORTUNITY

- 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

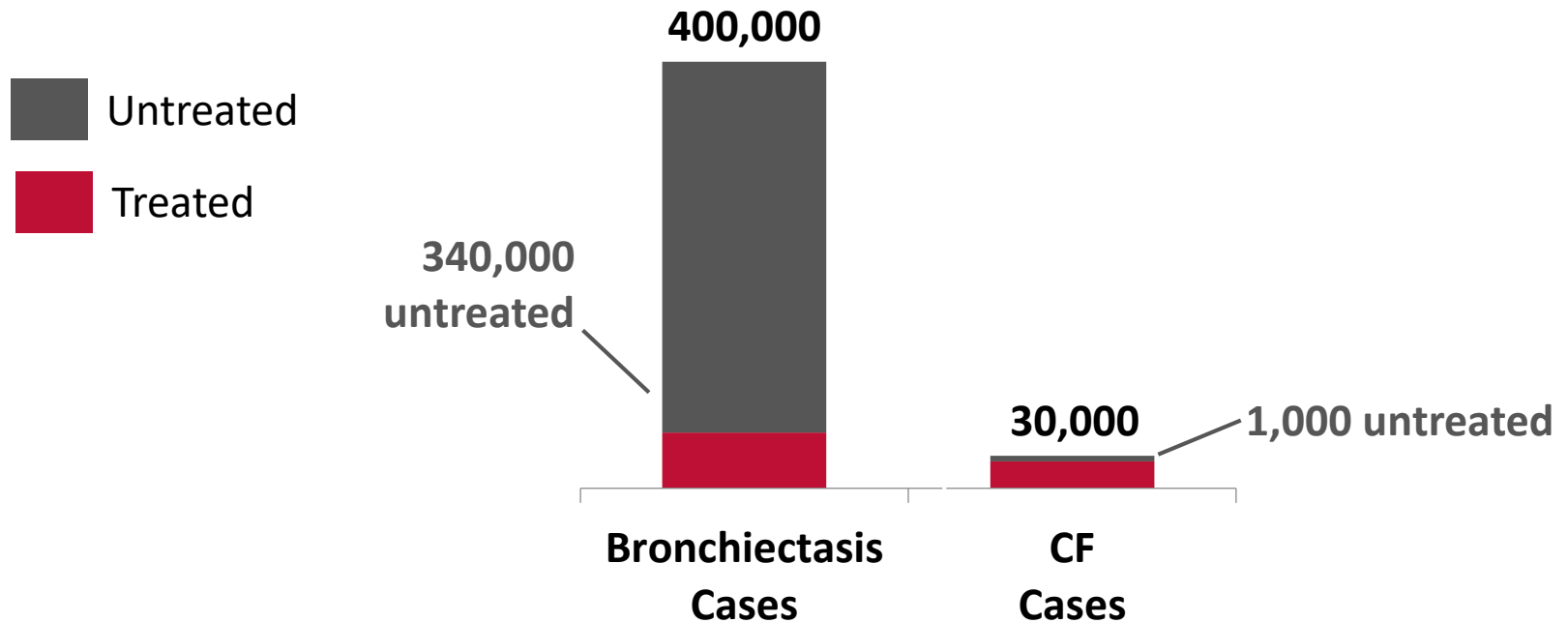


**400,000** people with  
Bronchiectasis in US (est.)



# GROWING, UNDERPENETRATED 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.
- 2016 estimated bronchiectasis and cystic fibrosis patients treated with HFCWO therapy:



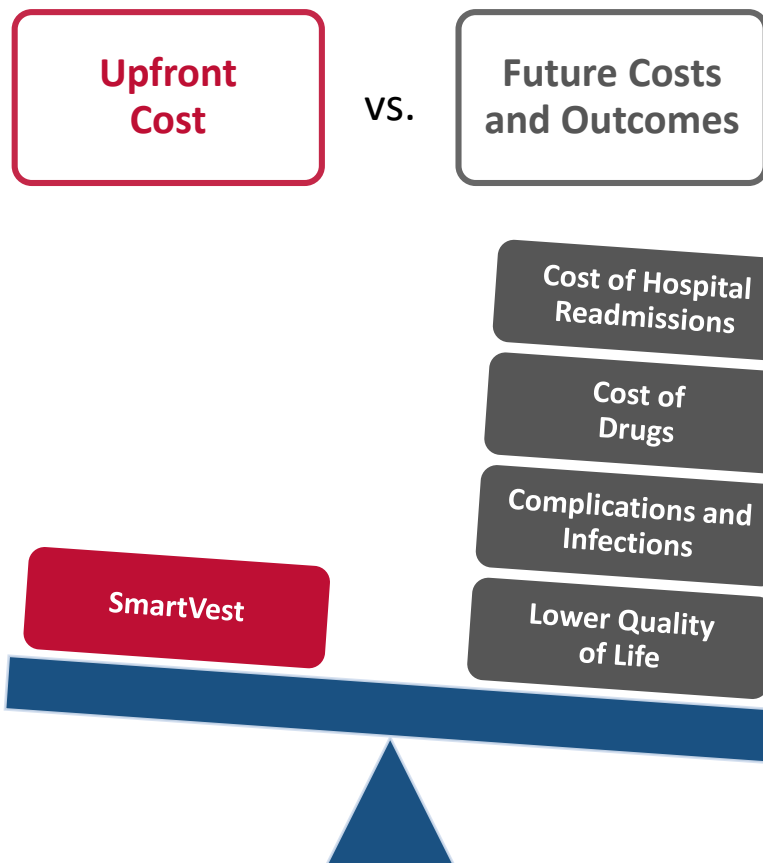
**The bronchiectasis market opportunity is significantly greater than cystic fibrosis.**



# INDUSTRY DRIVERS FOR AN EXPANDING HFCWO MARKET

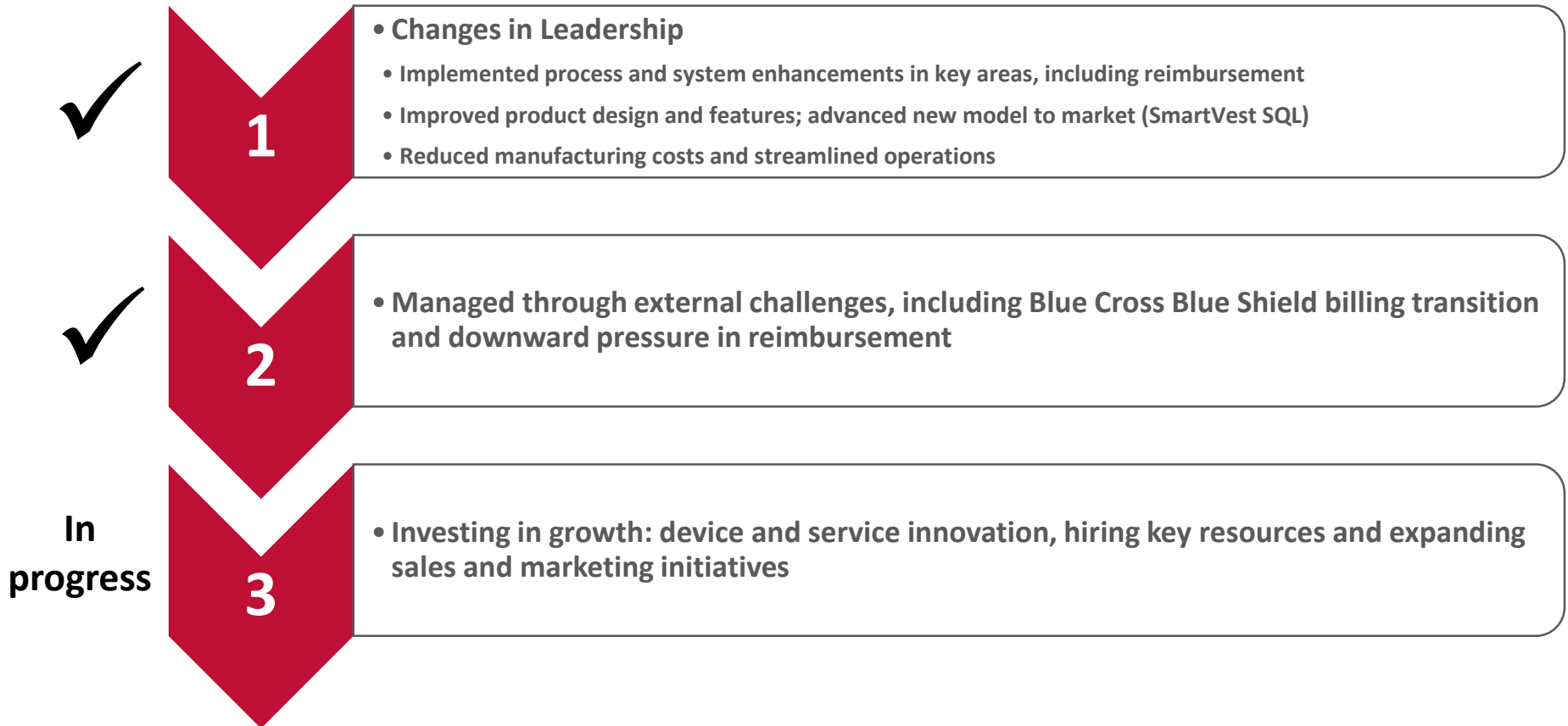
- **Aging population**
- Higher incidences of **chronic lung diseases**
- Growing **physician awareness** of diseases and conditions (e.g., bronchiectasis)
- The **Affordable Care Act** penalties for readmission of patients within certain timeframes after discharge
- Healthcare reform driving greater 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



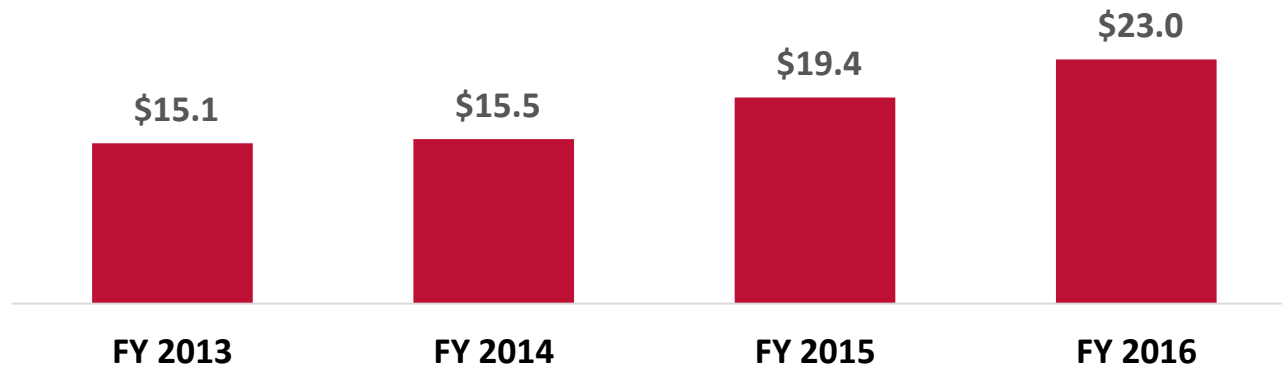
**SmartVest Lowers the Comprehensive Cost of Health Care and Improves Outcomes**

# FROM **TURNAROUND** TO GROWTH STORY

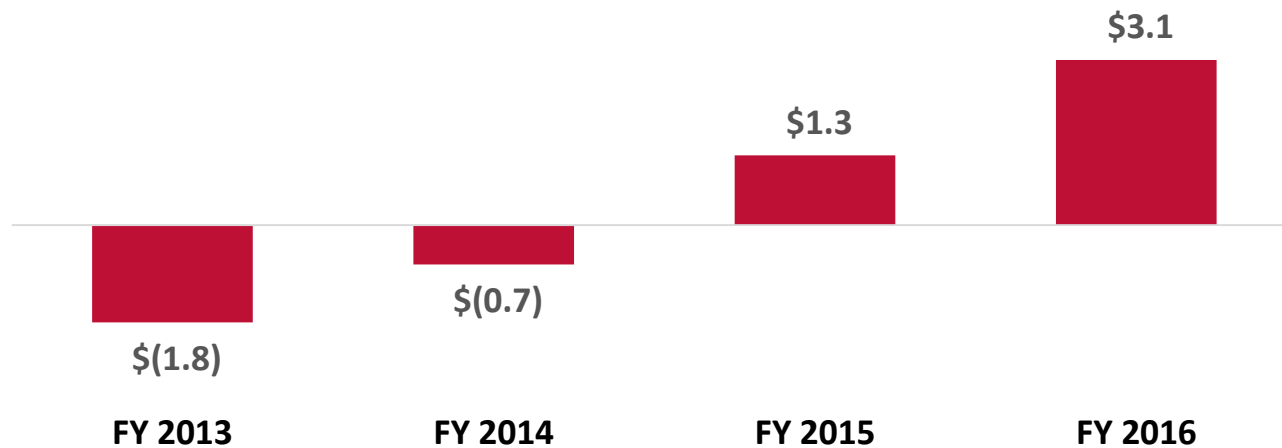


# THE RESULTS DEMONSTRATE OUR PROGRESS

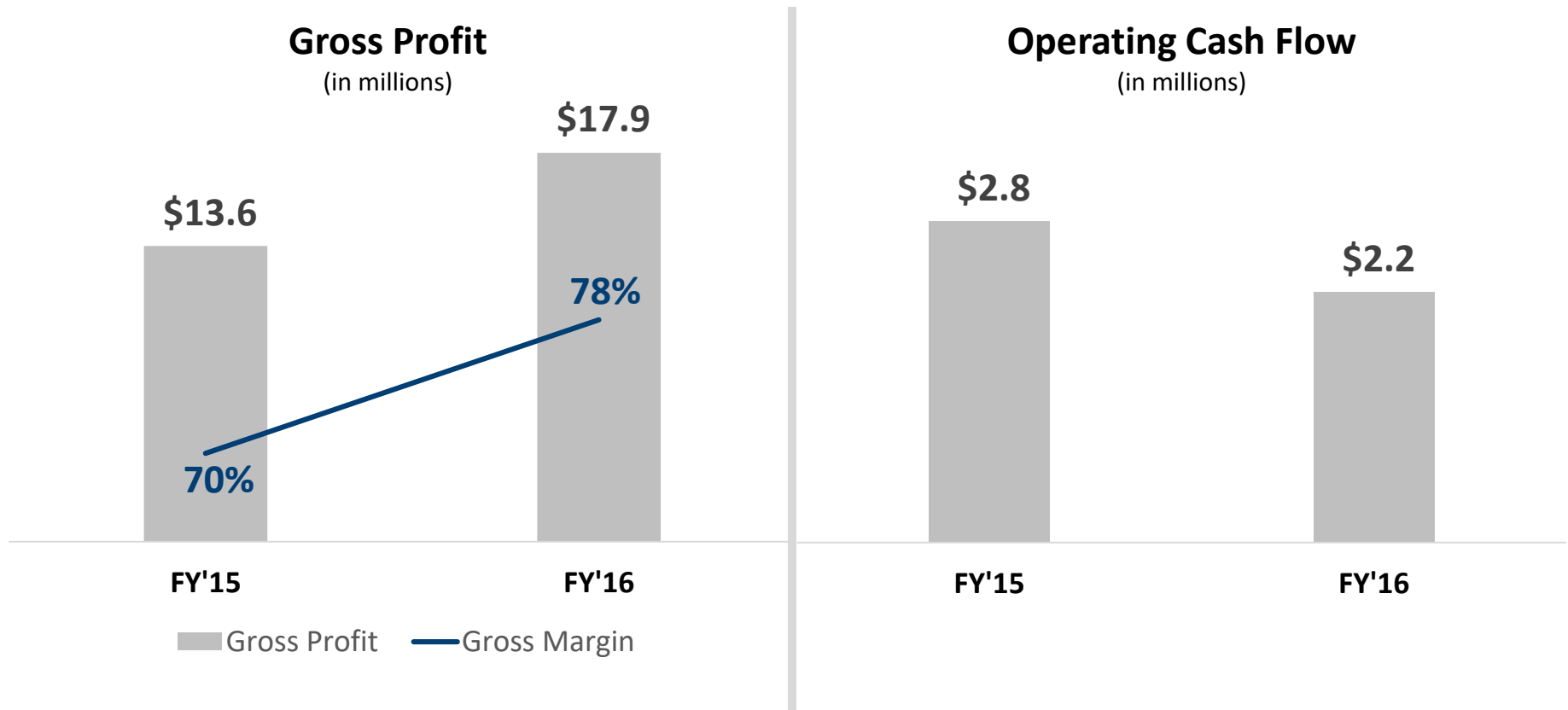
## Revenue (in millions)



## Operating Income (in millions)



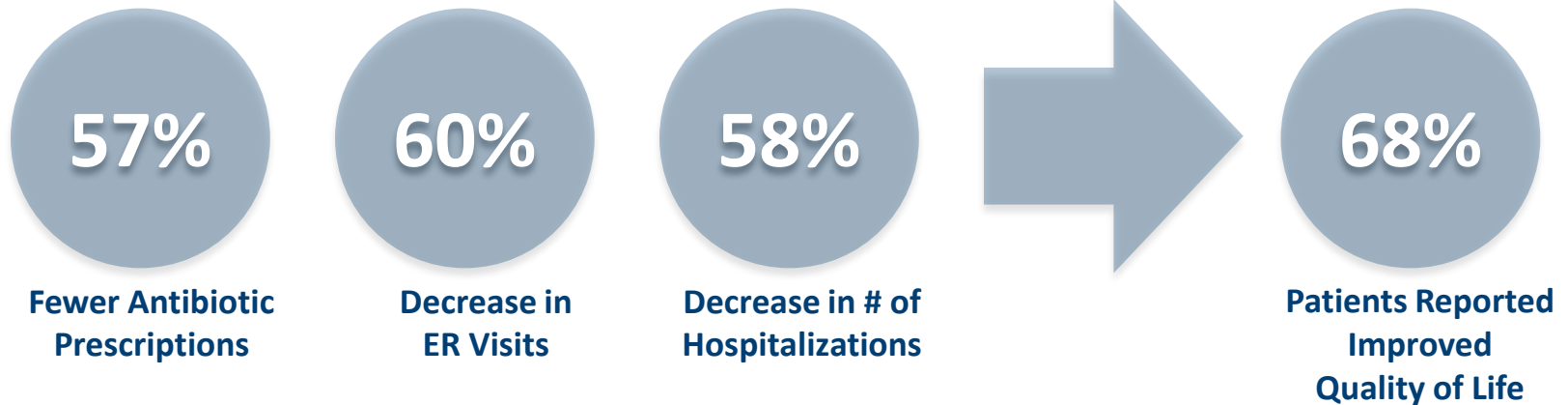
# STRONG **GROSS MARGINS** AND **CASH FLOW**



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

# EVIDENCE-BASED SALES APPROACH

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



- **January 2017** – Published a **cost-effective analysis** showing that consistent use of SmartVest significantly reduces bronchiectasis-related healthcare utilization and cost:<sup>2</sup>



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

<sup>2</sup> Respiratory Therapy Vol. 12 No. 1 n Winter 2017

# COMPELLING **ORGANIC GROWTH STRATEGY**

- **Continue to develop innovative device features that appeal to patients**
- **Maintain leadership in reimbursement support and customer care**
- **Focus on increasing referrals in largest, fastest growing segments**
  - Adult pulmonology / Bronchiectasis
  - Market development (evidence-based sales approach)
- **Sales force expansion**
- **Maximize therapy adherence**
- **Expand third-party payer coverage**
- **Grow institutional market share to support home care growth**

# INVESTMENT CONCLUSIONS

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

**Electromed  
provides superior  
HFCWO devices  
and services**

**Turnaround  
complete, growth  
story well  
underway**

**Strong gross  
margins and  
operating cash  
flow**

**Compelling  
organic growth  
strategy**



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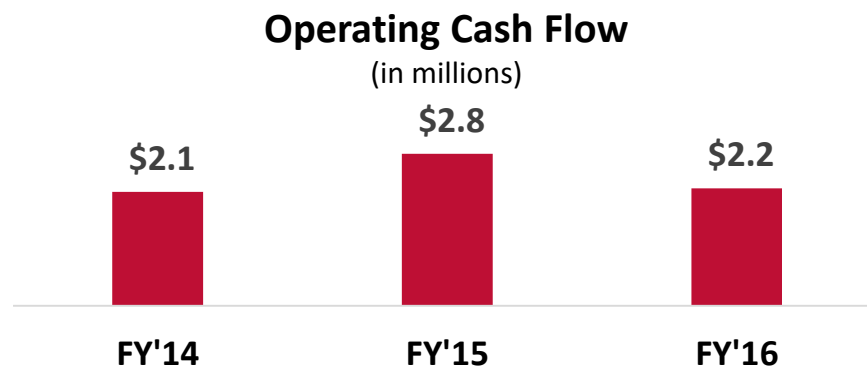
[dsullivan@equityny.com](mailto:dsullivan@equityny.com)

# APPENDIX

# FINANCIAL HIGHLIGHTS AND BALANCE SHEET SNAPSHOT

Financial Summary (in \$ millions, except shares amounts)	Fiscal Year Ended			6 Months Ended	
	June 30, 2014	June 30, 2015	June 30, 2016	Dec. 31, 2015	Dec. 31, 2016
Net revenues	15.5	19.4	23.0	11.3	11.9
Gross Profit	10.6	13.6	17.9	8.8	9.3
<i>Gross margin</i>	<i>69%</i>	<i>70%</i>	<i>78%</i>	<i>78%</i>	<i>78%</i>
Operating (loss) income	(0.7)	1.3	3.1	1.8	1.0
<i>Operating margin</i>	<i>-5%</i>	<i>7%</i>	<i>14%</i>	<i>16%</i>	<i>9%</i>
Net (loss) income	(1.3)	1.1	2.2	1.4	0.6
Diluted EPS	\$(0.16)	\$0.13	\$0.27	\$0.17	\$0.08
Diluted shares	8,114,252	8,153,703	8,248,391	8,185,196	8,440,698
Cash provided by operations	2.1	2.8	2.2	1.2	-

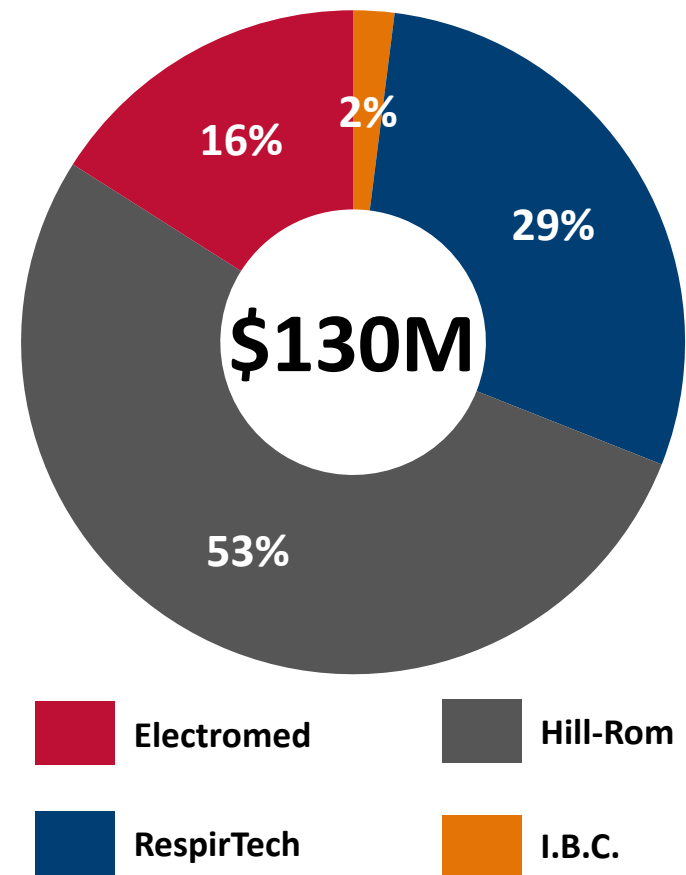
Balance Sheet (in \$ millions)	Dec. 31, 2016
Cash	4.8
Current assets	16.1
Total assets	20.7
Current liabilities	2.4
Long-term debt	1.1
Total stockholders' equity	17.2



# 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**

- 19 U.S. and 12 foreign-issued patents
- 30 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