

2017 CEO Letter to Shareholders

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

To Our Fellow Shareholders



Electromed's relentless pursuit of supporting individuals with chronic airway clearance conditions and diseases helped us deliver improved quality of life to thousands of patients this year and, in turn, produced strong organic growth, improved profitability and value to our shareholders. Our patient-centric mission of *making life's important moments possible—one breath at a time*® lies at the heart of Electromed's strength and success, and is woven into the fabric of our entire organization.

Fiscal 2017 financial highlights:

- > Net revenue increased 12.5% to \$25.9 million from \$23.0 million in fiscal 2016;
- > Gross profit rose 15.1% to \$20.6 million, or 79.5% of net revenue, from \$17.9 million, or 77.7% of net revenue, in fiscal 2016;
- > Net income totaled \$2.2 million, compared to \$2.2 million in fiscal 2016;
- > Diluted earnings per share equaled \$0.26, compared \$0.27 in fiscal 2016; and
- > Cash flow from operations totaled \$1.2 million.

In fiscal 2017, year we made significant strides executing our strategic plan:

- > **We delivered profitable organic growth**, higher referrals, and increased approvals, while maintaining the highest standards of integrity, respect and privacy.
- > **We continued to develop innovative device features** designed to drive greater patient compliance with prescribed treatment schedules, highlighted by our June 2017 launch of the SmartVest Connect™ wireless technology and reporting solution for SmartVest® SQL®. SmartVest Connect enables patients to track progress of their therapy plan in real-time along with their healthcare teams, fostering personalized case management, greater therapy adherence leading to improved quality of life and reduced healthcare utilization. We have rolled out SmartVest Connect to patients in the pediatric and cystic fibrosis categories and plan to start making it available to adult patients at select adult pulmonology clinics in fiscal 2018. SmartVest Connect has been lauded by patients and physicians for its ease-of-use and intuitive design.

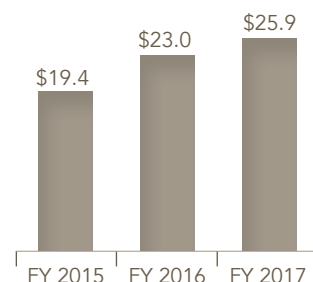
"I love the fact that we're able to log on and stay connected with the patient."

-Cheryl Torres, RRT

- > **We made significant investments in our field sales team**, which expanded from 30 at the end of fiscal 2016 to 40 at the end of fiscal 2017, helping us penetrate larger U.S. metropolitan areas, develop deeper relationships in key markets and enhance service levels to our clinicians. We also improved our onboarding and training processes, increasing the productivity of our sales force.

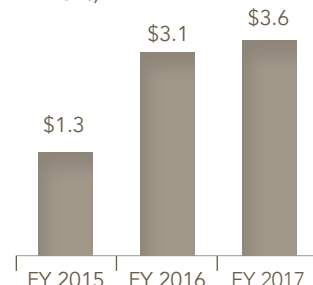
Revenue

(in millions)



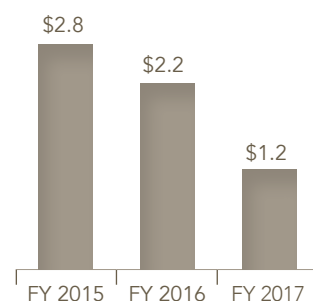
Operating Income

(in millions)



Operating Cash Flow

(in millions)



2017 CEO Letter to Shareholders, continued

- > **We formed a bronchiectasis advisory board**, comprised of three renowned experts in pulmonary medicine: Chad Marion, DO, PhD; Peadar Noone, MD, FCCP, FRCPI, DCH, MRCGP; and Anne O'Donnell, MD. Our bronchiectasis advisory board will serve as a key strategic resource to advance bronchiectasis awareness and the effectiveness and value of SmartVest and airway clearance therapy. Additionally, they will help guide the development of clinical research plans and future airway clearance therapy innovations.
- > **We began distributing and selling the Aerobika® Oscillating Positive Expiratory Pressure (OPEP) device** in the United States home care market through an agreement with Monaghan Medical Corporation. The Aerobika® OPEP device is a best-in-class portable airway clearance solution for patients with compromised pulmonary function that may not need SmartVest or qualify for High Frequency Chest Wall Oscillation ("HFCWO") reimbursement. With both Aerobika® OPEP and SmartVest, Electromed now offers a continuum of airway clearance devices for patients to use in their home.
- > **Finally, our increase in approvals was driven by superior service**, world class reimbursement support and initiatives to increase covered lives through additional payer contracting. Although our institutional revenue remained flat this year, we believe there is a clear opportunity to expand our footprint through our GPOs and growing sales force in the coming year.

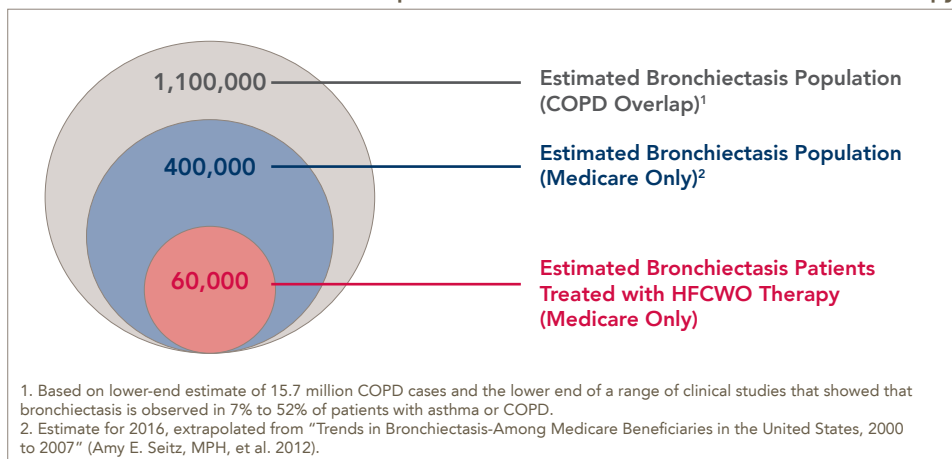
Looking Ahead

We remain focused on the significant opportunity to serve the aging U.S. population, which is experiencing higher incidences of chronic lung diseases, including approximately 16 million to 24 million cases of chronic obstructive pulmonary disease ("COPD") per third-party sources.

Bronchiectasis – A Growing, Underpenetrated Market

We believe that bronchiectasis, which is observed in a subset of patients with COPD, represents the fastest growing diagnostic category and greatest potential for expansion of HFCWO therapy in the United States. Conservative estimates suggest that 1.1 million individuals diagnosed with asthma or COPD may also have undiagnosed bronchiectasis. Based on a separate clinical study of Medicare patients, we estimate that the number of bronchiectasis cases in the Medicare population alone exceeded 400,000 in 2016 and is growing at approximately 9% per year. We believe that roughly 60,000 individuals, or only 15% of total Medicare patients with bronchiectasis, have been prescribed HFCWO therapy to date.

Figure 1
Estimates of U.S. Bronchiectasis Population vs. Patients Treated with HFCWO Therapy



Stepping Up Investment in the Business

Reflecting our increasingly optimistic view of the significant, underpenetrated bronchiectasis market, we plan to increase our level of investment in the business during fiscal 2018, which we expect to fund with cash flow from operations and cash on hand. This investment will contribute to increased SG&A expense beginning in the first quarter of fiscal 2018 but also drive enhanced revenue growth as we proceed through the back half of the year.

2017 CEO Letter to Shareholders, continued

This coming fiscal year, we will:

- expand and continue to upgrade our sales force,
- add new leadership in support of our preeminent reimbursement platform,
- build on the strengths of our customer care group with a renewed focus on the patient,
- invest in innovative device features, introducing new services that make it easier for clinicians to prescribe HFCWO therapy,
- launch additional marketing initiatives to increase physician and patient awareness to drive a higher number of quality referrals, and
- strengthen our home care business by growing SmartVest's institutional market share and leveraging our distribution of the complementary Aerobika® OPEP device.

While we plan to emphasize revenue growth activities in the near term, we remain committed to profitability over the next fiscal year. We believe these strategies will enhance shareholder value as we continue to strive to improve quality of life for a greater number of patients with compromised pulmonary function and reduce overall healthcare utilization through SmartVest® Airway Clearance therapy.

At the core of our success are our employees and their commitment to helping more people receive SmartVest and I would like to thank them for their focus on our patients. I also would like to thank the clinicians who have played a key role in identifying an increasing number of patients who can benefit from HFCWO therapy. Finally, I thank you, our shareholders, for your continued support and look forward to updating you on our progress in the coming year.

Sincerely,



Kathleen S. Skarvan
President and CEO

Forward-Looking Statements

Certain statements contained in this letter that are not statements of historical fact should be considered forward-looking statements within the meaning of 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, including, but not limited to, statements regarding the future challenges and uncertainties we may face, our resulting performance, our market opportunities, delivery and market recognition of our value proposition, and goals for fiscal 2018. Forward-looking statements can generally be identified by words such as "believe," "estimate," "expect," "may," "plan," "potential," "should," "will," and similar expressions, including the negative of these terms, but they are not the exclusive means of identifying such statements. Forward-looking statements cannot be guaranteed and actual results may vary materially due to the uncertainties and risks, known or unknown associated with such statements. Examples of risks and uncertainties for the Company 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; new drug or pharmaceutical discoveries; 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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