Electromed, Inc.

NYSE American: ELMD | MODERATE BUY | Price $27.85 | Base-case value ~$62 | Bear ~$33 | Buy below ~$37

> **How it came up:** Electromed came up in a screen for consistent micro-cap compounders. Revenue has risen every year for ten years, compounding at 12.4% a year from $23.0m in FY16 to $73.8m in FY26. It grew 10% or more in each of the last six years, 15.6% a year over five. Operating margin more than doubled over FY23–FY26, from 8.3% to 18.8%.

KEY STATS

Recommendation	MODERATE BUY · ~$62 base · ~$33 bear · ~$91 bull · buy below ~$37 (40% MoS)
Price / Market Cap	$27.85 (Oct 2026) · ~$231m market cap · ~8.6m diluted shares
Net Cash / EV	$20.5m net cash, no debt since FY19 · EV ~$219m · EV/EBIT 15.8x · P/E 21.4x
FY26 (to June)	Revenue $73.8m (+15.3%) · gross margin 78.5% · operating margin 18.8% · ROIC 22.5%

THE BUSINESS

Electromed makes one product, the SmartVest, an airway clearance vest that shakes mucus loose from the lungs; 76% of homecare referrals are for bronchiectasis. It sells direct to patients and bills insurers itself; Medicare and its supplemental plans are 48% of homecare revenue and allow ~$16,000 per vest, paid over 13 months. It is one of four US vest suppliers and billed 24% of traditional Medicare vest spending in 2024, the most of any single supplier.

INVESTMENT THESIS

- **Market perception:** the shares fell more than 18% on a slower Q4 and the CEO's retirement, and the market fears Insmed's new pill, Brinsupri, will replace the vest. A reverse DCF at $27.85 implies revenue shrinking ~3% a year, for a company that has grown every year for a decade.
- **Why the fear is overdone:** Brinsupri treats inflammation, not mucus; Insmed's own brochure tells patients to take it alongside their existing routine, and Medicare does not require trying the drug before a vest.
- **Margin of safety:** the base case of ~$62 assumes ~10% growth and a 19.5% margin; even the bear case (5% growth, margin down to 14%) is worth ~$33, above today's price.

VALUATION

	Bear	Base	Bull
Revenue growth FY27 / FY28–31	4% / 5%	10% / 10%	12% / 14%
Operating margin by FY31	14%	19.5%	23%
Per share (DCF)	**~$33**	**~$62**	**~$91**
Buy price (40% margin of safety)	~$20	~$37	~$55

DCF at the 10-year Treasury yield (5.21%), 2% long-run growth; risk is taken through the 40% margin of safety. Cross-checks (EV/EBIT on FY26 EBIT plus net cash): peers 13.7x ~$24; ELMD's five-year low 17.1x ~$30; median 21.2x ~$37.

Versus the sell side: my growth assumptions are more conservative: 10% FY27 revenue growth against consensus of 12.7% (~$83m), with even my bull case (12%) below it. My base value is above the two published targets ($47 and $50) only because I discount at the Treasury rate rather than apply a market multiple; my ~$37 buy price is well below them.

WHY NOW

- **FY27's growth is largely hired:** 62 homecare reps were in seat at June 2026 against a FY26 average of 58, and Q4 FY26 homecare volume still grew ~15%.
- **First test in weeks:** Q1 FY27 results (~12 Nov) show revenue per rep against management's $1.05m–$1.15m range.
- **Succession creates options:** the CEO retires ~2 April 2027 with change-of-control terms in place: a new leader or a buyer.

KEY RISKS · WHAT WOULD CHANGE THE THESIS

- **No differentiation, no product moat:** the four US vests do the same job about as well as each other, no clinical evidence favours one, and all are billed under one Medicare code at about the same ~$1,180 a month. Electromed's edge is service and reimbursement, which rivals can copy; it has no answer to Tactile's portable AffloVest.
- **Payer step therapy:** insurers requiring Brinsupri before a vest, or referrals falling at the clinics that prescribe it most.
- **Rep productivity:** revenue per rep below $1.05m in H1 FY27, with no price-and-mix boost left to cover slow-ramping reps.
- **People and revenue quality:** a new CEO by April 2027; insiders sold ~$16.4m since Nov 2024 without buying; the insurer recoupment reserve rose every quarter of FY26.

Full report on request. Sources: Electromed, Insmed and Tactile filings and calls; CMS Medicare data; NEJM. Values are my estimates. AI tools assisted in document preparation; all research and analysis is my own.