

Med Tech

1Q21 HME Oxygen and Sleep Survey

We worked with *HME News* to survey 36 home medical equipment companies (HMEs) about oxygen and sleep products. Over the next 12 months (NTM), respondents expect a slight decline in their POC purchases. Inogen's (INGN - Hold) private label (OxyGo) POCs were the highest rated and it looks likely to gain some market share over the NTM. Over the NTM, respondents expect faster sleep patient volume growth and ResMed (RMD - Hold) looks likely to gain some market share. And respondents have seen a neutral impact to their sleep resupply business decline due to COVID-19. We think that the survey results are mixed for INGN's domestic B2B business (~30% of its total sales) and positive for RMD's domestic sleep business (~50% of its total sales).

- **Respondents expect a slight decline in their POC purchase volumes over the NTM.** Respondents saw their oxygen patient volume increase by 3.1% in the last 12 months (LTM) and expect their oxygen patient volume to grow by 5.6% in next 12 months (NTM). These rates are mixed from our prior survey results of 3.4% and 3.9%, respectively. However, respondents expect a 0.7% decline in their POC unit purchases over the NTM (which is down from 3.5% growth expected in our prior survey). OxyGo (which offers private label versions of INGN's POCs) had the highest rated POCs followed by INGN and Precision Medical. INGN looks likely to gain market share and respondents expect INGN/OxyGo's share of their POC purchases to increase by 0.8% over the NTM.
- **Respondents expect high-single digit growth in sleep patient volume.** Respondents saw their sleep patient volume increase by 0.8% in the LTM and expect their sleep patient volume to grow by 7.6% in the NTM. These rates are mixed from our prior survey results of 5.5% and 5.0%, respectively. On average, respondents indicated that their sleep resupply business has seen a neutral impact from the COVID-19 pandemic. And RMD looks likely to gain market share; over the NTM, respondents expect RMD's share of their flow generator purchases to increase slightly by 0.1% and its share of their mask purchases to increase by 1.5%.
- **Both flow generator and mask pricing continued to improve.** Respondents indicated that flow generator prices increased by 2.6% over the LTM (vs. a 1.3% increase in our prior survey), while mask prices increased by 0.6% over the LTM (vs. a 0.5% increase in prior survey).

Topic of Discussion

Oxygen and Sleep Markets

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MENTIONED COMPANIES

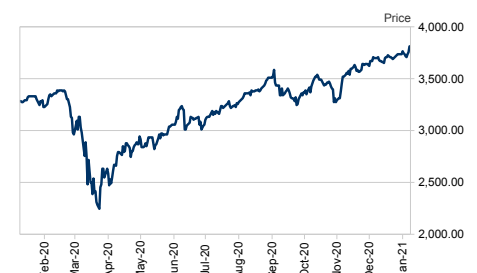
INGN: \$49.11, PT: NA

RMD: \$215.26, PT: NA

SECTOR CHART

S&P (SP50)

01/08/21



INTRODUCTION

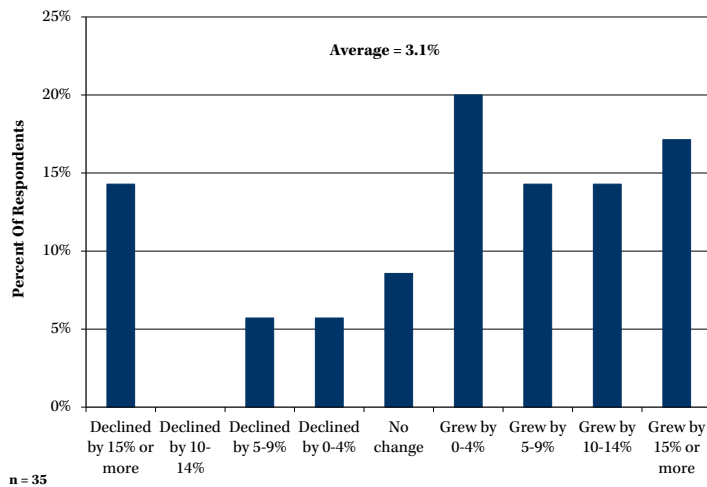
Needham & Company and *HME News* worked together to survey U.S. home medical equipment providers (HMEs) about the sleep and oxygen equipment markets. We received 36 responses to our survey and we note that response rates varied from question to question since none of the questions were mandatory (the response rate for each question is shown on the charts). The survey replies were received between 11/19/20 and 12/4/20.

PART 1: OXYGEN QUESTIONS

RESPONDENTS EXPECT OXYGEN PATIENT VOLUME GROWTH TO IMPROVE FROM OUR PRIOR SURVEY

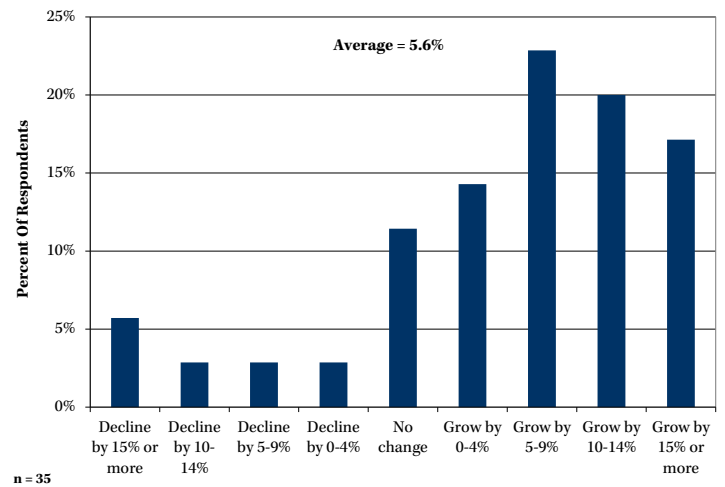
On average, respondents reported 3.1% oxygen patient volume growth in the last 12 months, which is a slight worsening from the 3.4% growth reported in our 2Q20 survey. And respondents expect 5.6% growth in the next 12 months, which is an improvement from the 3.9% growth expected in our 2Q20 survey. Of the respondents, 26% saw a decline in their oxygen patient volume in the last 12 months and 14% expect a decline in the next 12 months.

Figure 1 - Oxygen Patient Volume Growth (LTM)



Source: Needham & Company 1Q21 HME Survey

Figure 2 - Oxygen Patient Volume Growth (NTM)

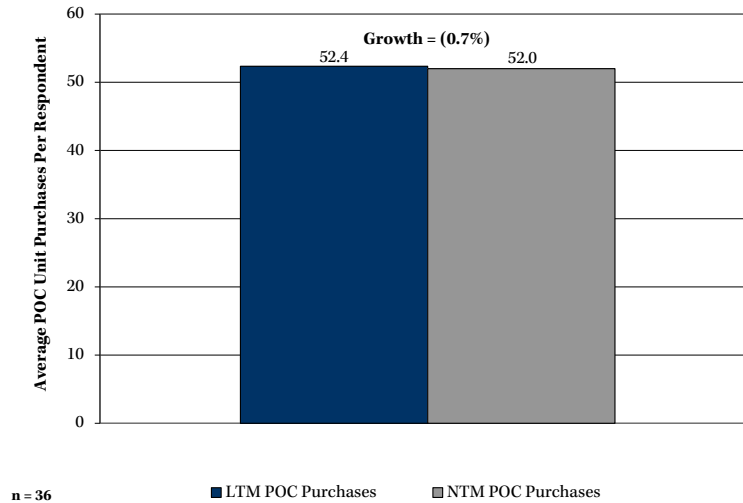


Source: Needham & Company 1Q21 HME Survey

RESPONDENTS EXPECT A DECLINE IN POC UNIT PURCHASES OVER THE NEXT 12 MONTHS

We asked survey respondents how many POCs they purchased in the past 12 months and how many they expect to purchase in the next 12 months to try to predict what POC unit volume growth in Inogen's domestic B2B channel. Respondents report purchasing an average of 52.4 POC units in the last 12 months and expect to purchase 52.0 POC units in the next 12 months which implies a decline of 0.7% (down from 3.5% growth in our 2Q20 survey).

Figure 3 - Expected POC Volume Growth

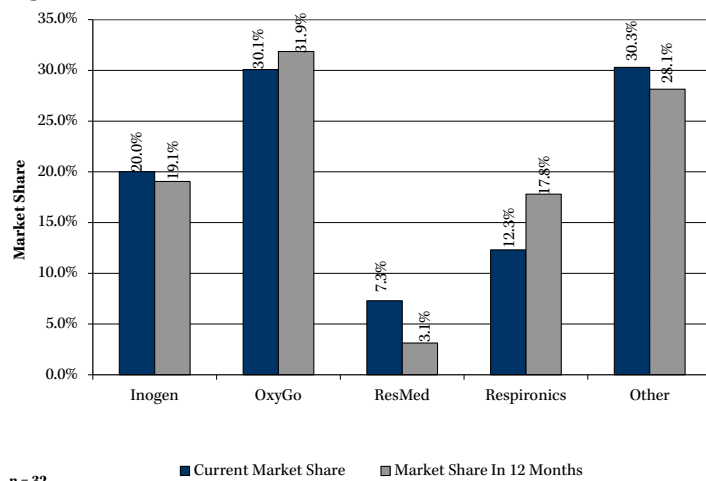


Source: Needham & Company 1Q21 HME Survey

INOGEN LOOKS LIKELY TO GAIN SOME POC MARKET SHARE IN THE NEXT 12 MONTHS

Inogen's POC market share may decrease by 1.0% over the next 12 months while its private label partner OxyGo's POC market share may increase by 1.8% over the next 12 months for a net increase of 0.8%. Respondents indicated that Inogen's and OxyGo's POCs currently make up a combined 50.1% of their purchases and expect this to increase to 50.9% in the next 12 months. ResMed's and Respiration's market shares may decrease by 4.2% and increase 5.5% over the next 12 months, respectively. And the other smaller manufacturers' market share may decrease by 2.1% over the next 12 months.

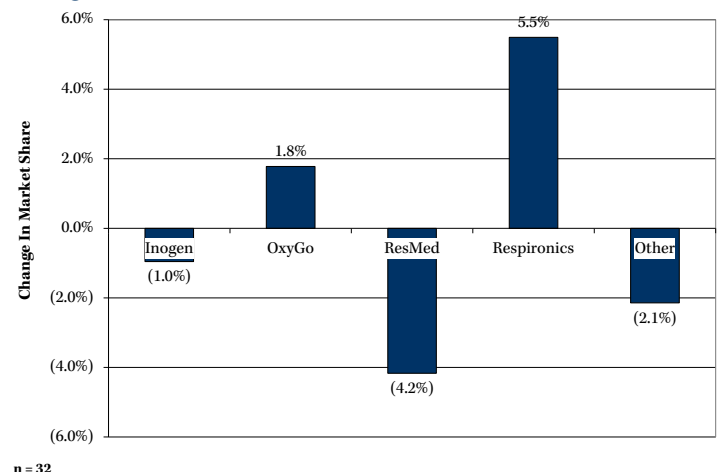
Figure 4 - POC Market Share



n = 32

Source: Needham & Company 1Q21 HME Survey

Change in POC Market Share



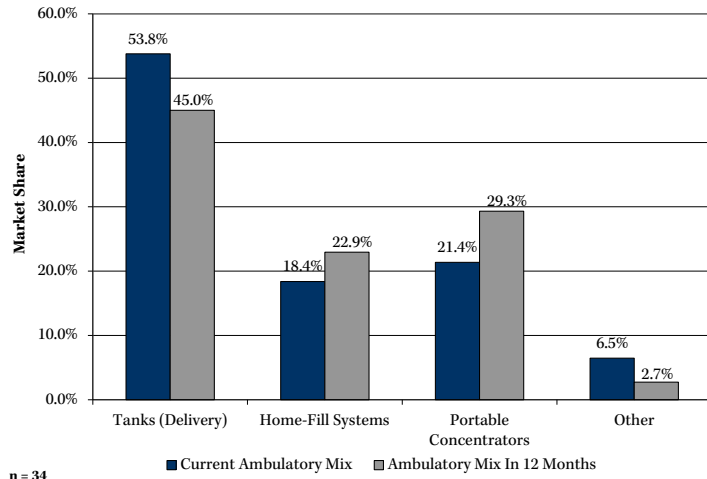
n = 32

Source: Needham & Company 1Q21 HME Survey

HMEs CONTINUE TO SHIFT FROM OXYGEN TANKS TO NON-DELIVERY MODES

While delivered tanks currently represent 53.8% of the ambulatory oxygen market, HMEs expect these to see the biggest decline, by 8.8%, to 45.0% of the market over the next 12 months. Delivered tanks are expected to be replaced by POCs, which are expected to increase by 8.0% from 21.4% of the market to 29.3% over the next 12 months, and home-fill systems, which are expected to increase by 4.6% from 18.4% of the market to 22.9% over the next 12 months.

Figure 5 - What Portion of your Firm's Ambulatory Oxygen Patients Use the Following Modes?



Source: Needham & Company 1Q21 HME Survey

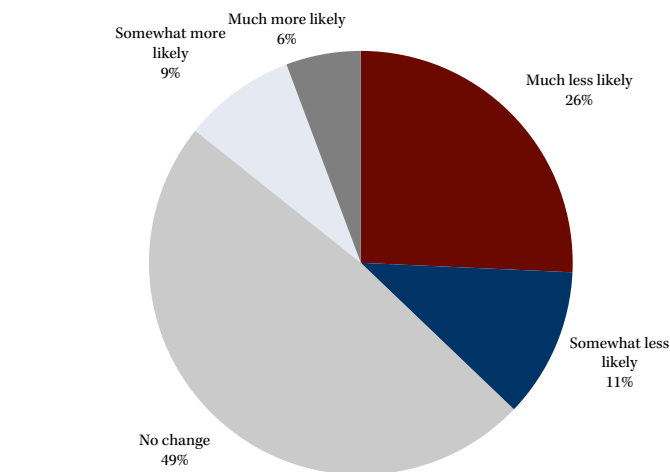
OXYGO'S POCS (WHICH ARE PRIVATE LABEL VERSIONS OF INOGEN'S POCS) RECEIVED THE HIGHEST RATINGS

OxyGo (the private label version of Inogen's G3) was the highest rated POC at 5.7 out of 7.0, followed by OxyGo Fit (the private label version of Inogen's G4) at 5.5. This was followed by Inogen's G5 at 5.3 and Precision Medical's Live Active Five and Inogen's G4 both at 5.1.

COVID-19 IS EXPECTED TO HAVE A SLIGHTLY NEGATIVE IMPACT ON RESPONDENTS' POC PROVIDER TRENDS

We asked respondents if the COVID-19 pandemic might impact their willingness to provide POCs to new oxygen rental patients. About half of respondents (49%) indicated that the pandemic would have no impact. And 37% indicated that they would be either much less or somewhat less likely to provide POCs to new oxygen rental patients while 14% answered that they would be either much more or somewhat more likely to provide POCs to new oxygen rental patients. We believe this is neutral to negative for Inogen's DTC Rental business.

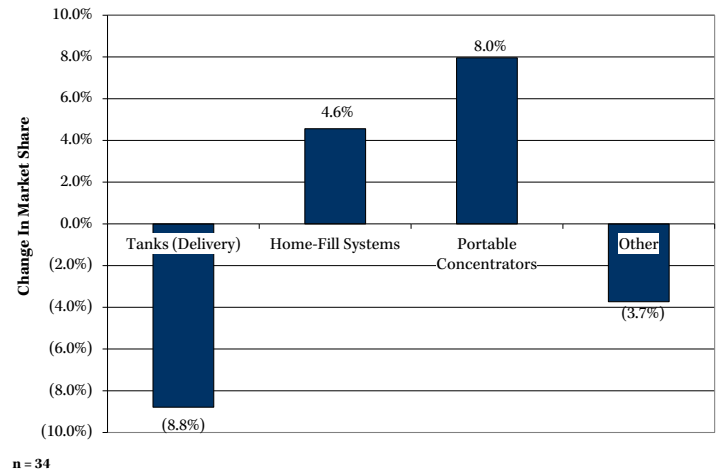
Figure 7 - Expected Change in POC Provider Trends for New Oxygen Rental Patients Due to the COVID-19 Pandemic



n = 35

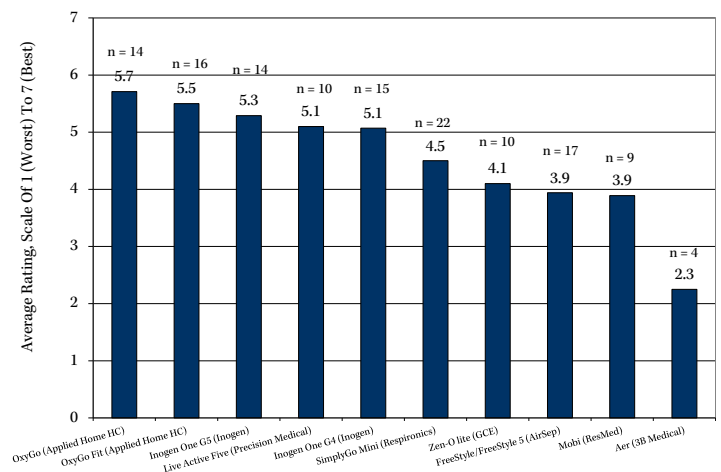
Source: Needham & Company 1Q21 HME Survey

Figure 6 - Change in Ambulatory Oxygen Concentrator Modes



Source: Needham & Company 1Q21 HME Survey

Figure 8 - Portable Oxygen Concentrator Ratings



Source: Needham & Company 1Q21 HME Survey

PART 2: SLEEP QUESTIONS

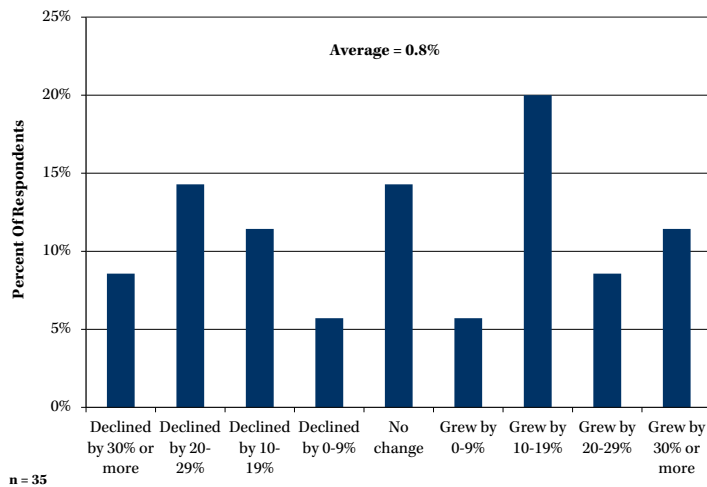
RESPONDENTS EXPECT FASTER SLEEP PATIENT VOLUME GROWTH COMPARED TO OUR PRIOR SURVEY

In our earlier surveys, we asked HMEs about their sleep revenue growth. However, we switched to asking about patient volume growth instead, starting with our 4Q13 survey, since revenue growth is affected by reimbursement changes and since we think that patient volume growth is more important for ResMed. As a result of this change, the responses to this question are not directly comparable to our prior surveys, although we have added these results to our time series chart in Figure 11.

On average, respondents reported 0.8% sleep patient volume growth in the last 12 months, which is a slowdown from the 5.5% growth reported in our 2Q20 survey. And respondents expect 7.6% growth in the next 12 months, which is an improvement from the 5.0% growth expected in our 2Q20 survey. Of the respondents, 40% saw a decline in their sleep patient volume in the last 12 months and 17% expect a decline in the next 12 months.

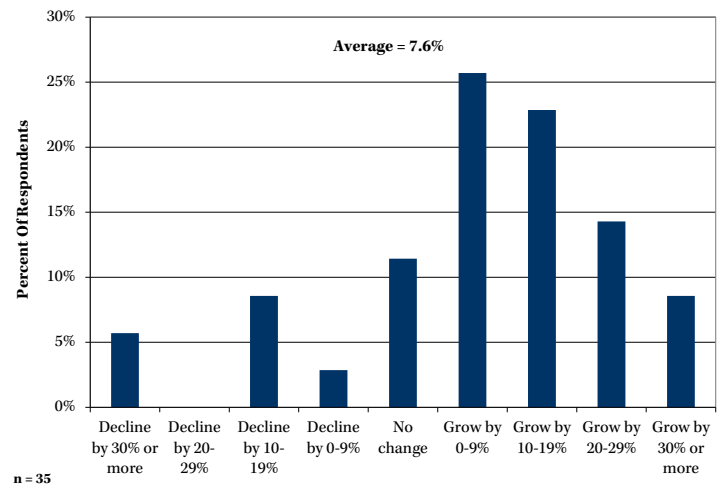
On average, respondents indicated that their sleep resupply business has seen a neutral impact (0.0%) from the COVID-19 pandemic. Specifically, 31% indicated that it has caused their resupply business to decline. In contrast, 37% saw no change and 31% saw an increase.

Figure 9 - Sleep Patient Volume Growth (LTM)



Source: Needham & Company 1Q21 HME Survey

Figure 10 - Sleep Patient Volume Growth (NTM)



Source: Needham & Company 1Q21 HME Survey

Figure 11 - Sleep Revenue/Volume Growth (Time Series)

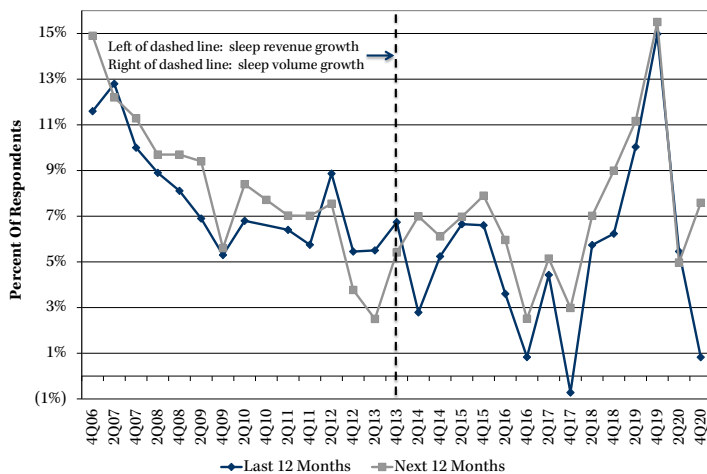
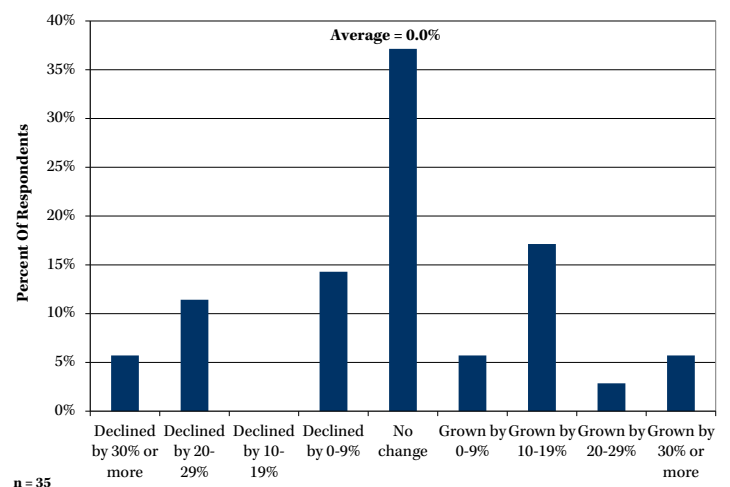


Figure 12 - COVID-19 Impact on Respondents' Sleep Resupply Businesses

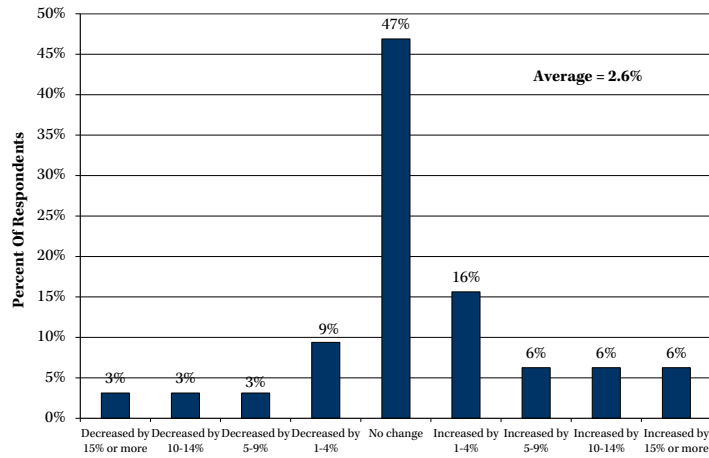


Source: Needham & Company 1Q21 HME Survey

FLOW GENERATOR PRICING IMPROVED FROM OUR PRIOR SURVEY

Respondents indicated that flow generator prices increased by 2.6% in the last 12 months versus 1.3% growth in our 2Q20 survey. This represents a continuation of recent price improvement and is the second survey in a row that respondents reported increasing flow generator prices.

Figure 13 - Change in Flow Generator Prices [LTM]



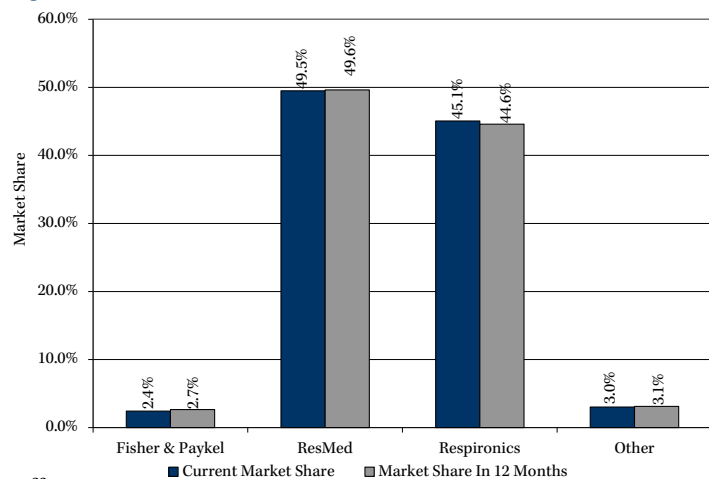
n = 32

Source: Needham & Company 1Q21 HME Survey

RESMED LOOKS LIKELY MAINTAIN ITS FLOW GENERATOR MARKET SHARE IN THE NEXT 12 MONTHS

ResMed's flow generator market share may increase by 0.1% over the next 12 months. Respondents indicated that ResMed's flow generators currently make up 49.5% of their purchases and expect this to increase slightly to 49.6% in the next 12 months. Respiroics' and Fisher & Paykel's flow generator market share may decrease by 0.5% and increase by 0.2%, respectively, over the next 12 months while the other smaller manufacturers' market share may increase by 0.1% over the next 12 months.

Figure 15 - Flow Generator Market Share



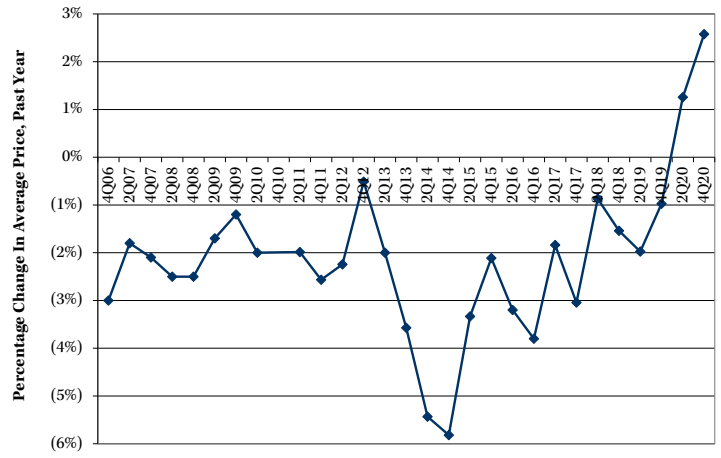
n = 32

Source: Needham & Company 1Q21 HME Survey

RESPIRONICS' FLOW GENERATOR PLATFORM RECEIVED THE HIGHEST RATING

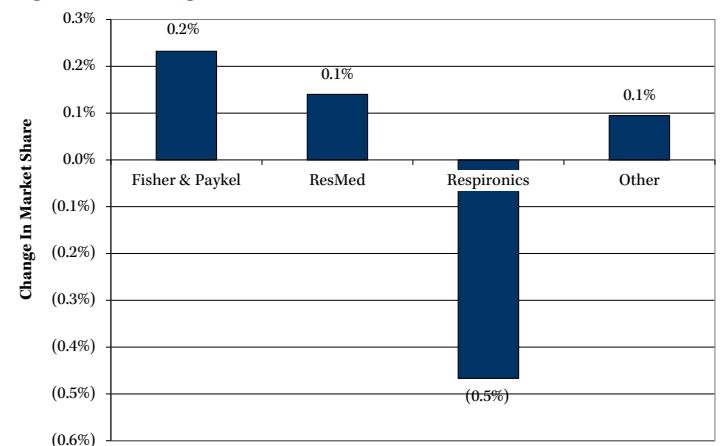
ResMed's AirSense 10 flow generator platform was rated 5.9 out of 7.0, below Respiroics' DreamStation flow generator platform, which was rated 6.2 but above Fisher & Paykel's New SleepStyle Auto flow generator platform at 4.8. This survey is consistent with our 2Q20 survey where ResMed's flow generator platform was rated behind Respiroics.

Figure 14 - Change in Flow Generator Prices [Time Series]



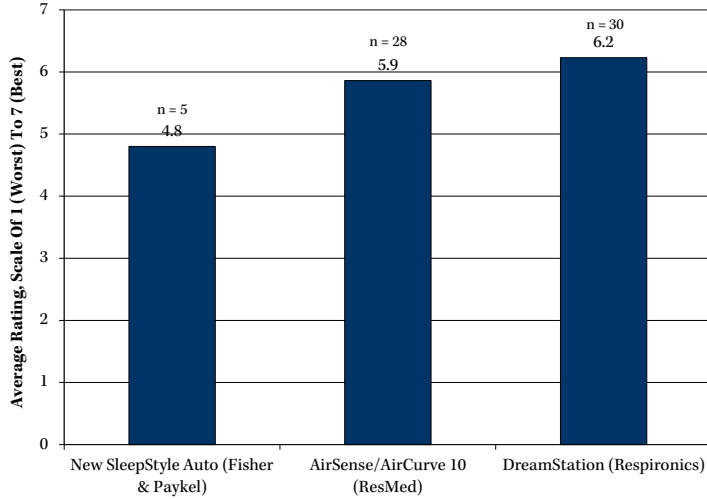
Source: Needham & Company 1Q21 HME Survey

Figure 16 - Change in Flow Generator Market Share



n = 32

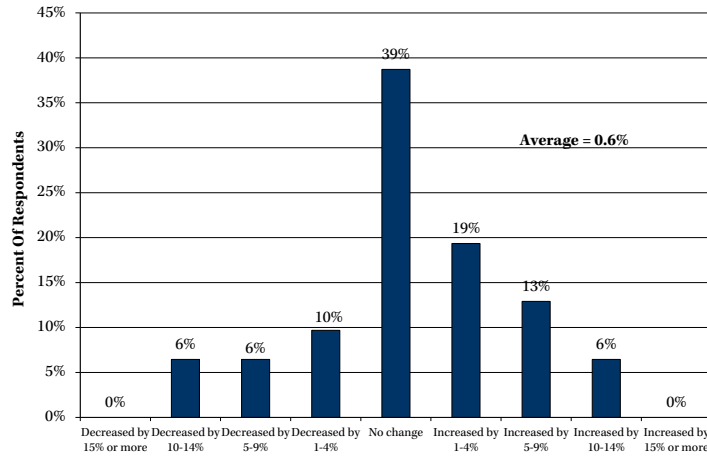
Source: Needham & Company 1Q21 HME Survey

Figure 17 - Flow Generator Platform Ratings


Source: Needham & Company 1Q21 HME Survey

MASK PRICING IMPROVED FROM OUR PRIOR SURVEY

Respondents indicated that mask prices increased by 0.6% in the last 12 months versus 0.5% growth in our 2Q20 survey. Similar to flow generator pricing, this represents a continuation of recent price improvement and is the second survey in a row that respondents reported increasing mask prices.

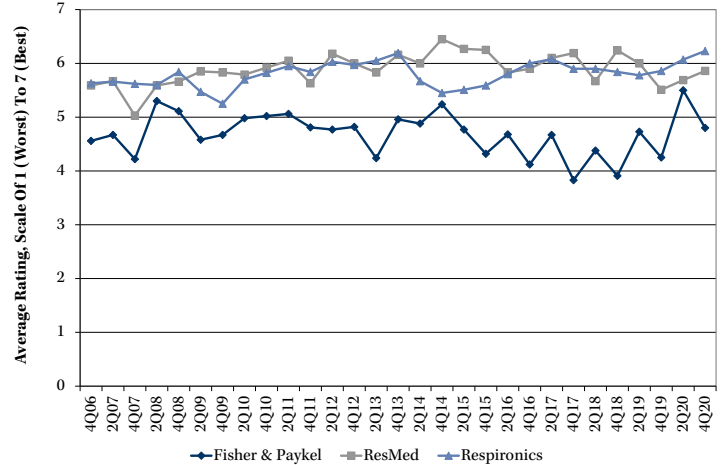
Figure 19 - Change in Mask Prices (LTM)


n = 31

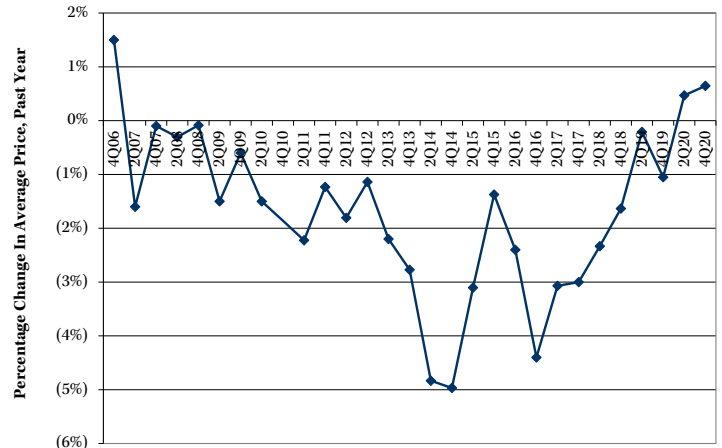
Source: Needham & Company 1Q21 HME Survey

RESMED LOOKS LIKELY TO GAIN SOME MASK MARKET SHARE IN THE NEXT 12 MONTHS

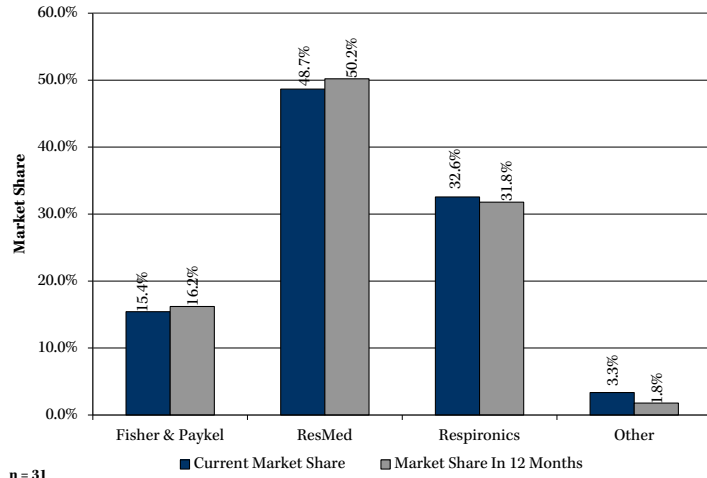
ResMed's mask market share may increase by 1.5% over the next 12 months. Respondents indicated that ResMed's masks currently make up 48.7% of their purchases and expect this to increase to 50.2% in the next 12 months. Fisher & Paykel's mask market share may increase by 0.8% over the next 12 months while Respironics' market share may decrease by 0.8% over the next 12 months. And the other smaller manufacturers' market share may decrease by 1.6% over the next 12 months.

Figure 18 - Flow Generator Platform Ratings (Time Series)


Source: Needham & Company 1Q21 HME Survey

Figure 20 - Change in Mask Prices (Time Series)


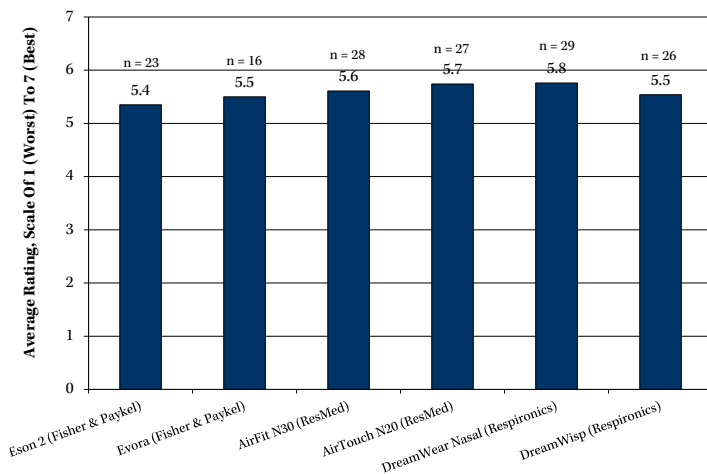
Source: Needham & Company 1Q21 HME Survey

Figure 21 - Mask Market Share


Source: Needham & Company 1Q21 HME Survey

RESMED HAD THE SECOND HIGHEST RATED NASAL MASK...

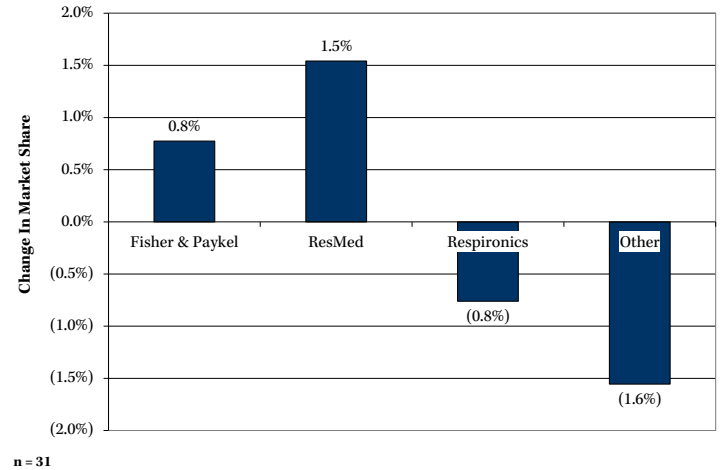
Respirationics' nasal masks were the highest rated for the sixth consecutive survey, according to our survey's respondents, followed by ResMed in second place and Fisher & Paykel in third place. In standard nasal masks, Respirationics' DreamWear Nasal was rated 5.8 out of 7.0, followed by ResMed's AirFit N20 at 5.7, ResMed's AirFit N30 at 5.6, Fisher & Paykel's Evora and Respirationics' DreamWisp both at 5.5, and Fisher & Paykel's Eson 2 at 5.4.

Figure 23 - Nasal Mask Ratings


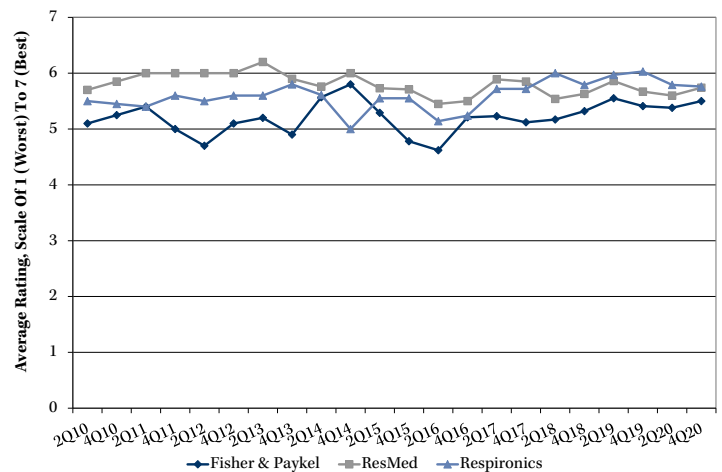
Source: Needham & Company 1Q21 HME Survey

...WAS TIED FOR THE HIGHEST RATED NASAL PILLOW MASK...

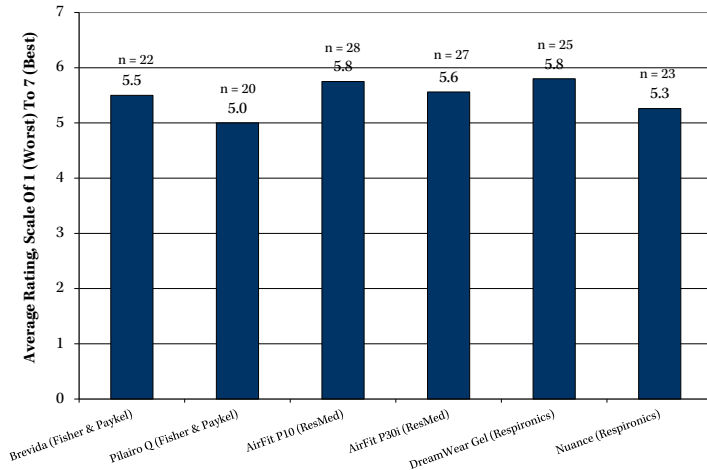
ResMed and Respirationics were tied for the highest ratings in the nasal pillow category followed Fisher & Paykel in third place. ResMed's AirFit P10 and Respirationics' DreamWear Gel were both rated the highest at 5.8 out of 7.0, with ResMed's P30i rated 5.6, Fisher & Paykel's Brevida at 5.5, Respirationics' Nuance and Fisher & Paykel's Pilairo Q rated 5.0.

Figure 22 - Change in Mask Market Share


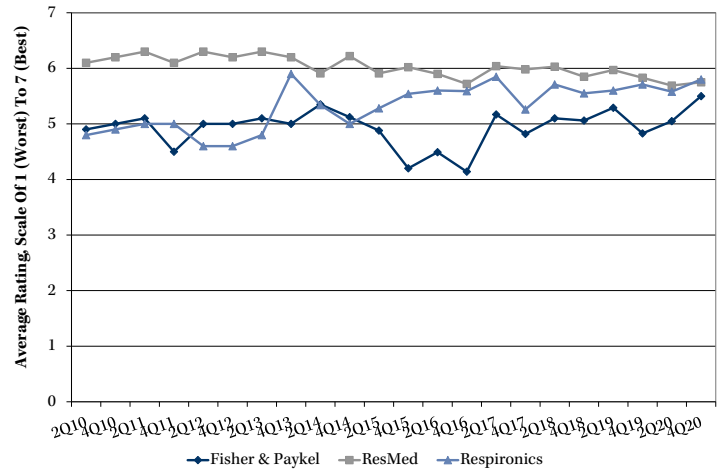
Source: Needham & Company 1Q21 HME Survey

Figure 24 - Nasal Mask Ratings (Time Series)


Source: Needham & Company 1Q21 HME Survey

Figure 25 - Nasal Pillow Mask Ratings


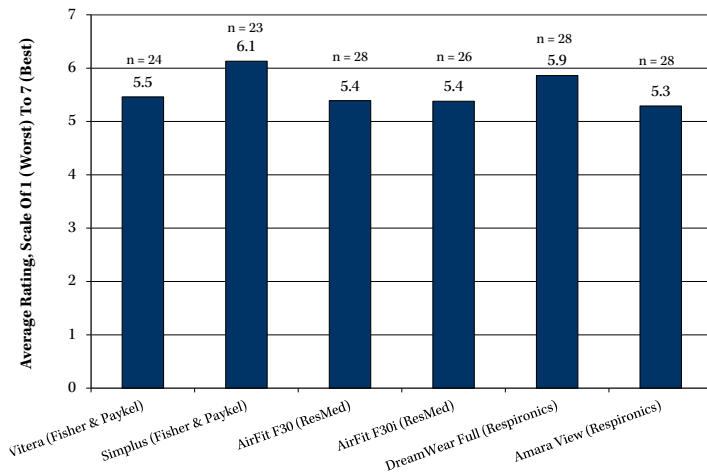
Source: Needham & Company 1Q21 HME Survey

Figure 26 - Nasal Pillow Mask Ratings (Time Series)


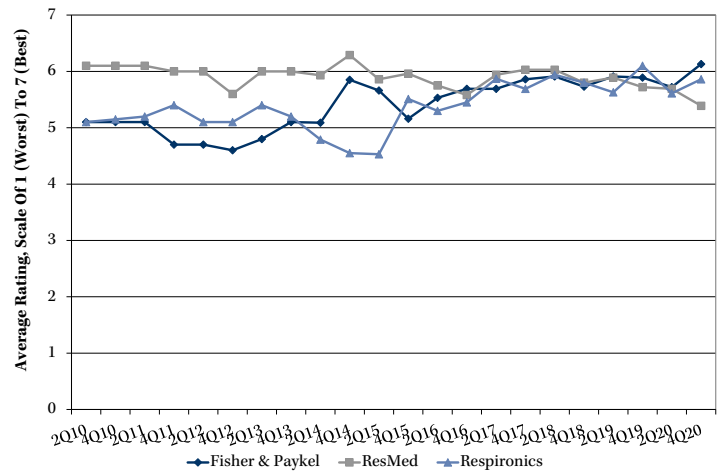
Source: Needham & Company 1Q21 HME Survey

...AND HAD THE LOWEST RATED FULL FACE MASK

ResMed received the lowest rated full face mask which is a reversal from our prior survey where ResMed's full face masks were tied for first. Fisher & Paykel's Simplus was rated 6.1 followed Respironics' DreamWear Full at 5.9, Fisher & Paykel's Vitera at 5.5, ResMed's AirFit F30 and ResMed's AirFit F30i both at 5.4, and Respironics' Amara View at 5.3.

Figure 27 - Full Face Mask Ratings


Source: Needham & Company 1Q21 HME Survey

Figure 28 - Full Face Mask Ratings (Time Series)


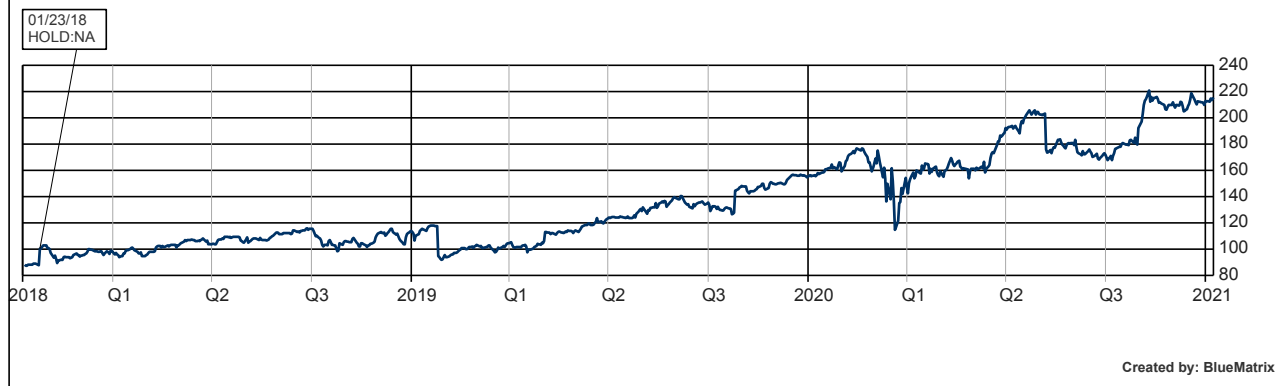
Source: Needham & Company 1Q21 HME Survey

RISKS

Inogen (INGN): Risks include slower business-to-business (B2B) growth due to Round 2021 of Medicare Competitive Bidding, market share loss to POC competitors, and tender losses in the international business.

ResMed (RMD): Risks include slower growth due to Round 2021 of Medicare Competitive Bidding, market share loss to competitive product launches (particularly new masks and/or a new flow generator platform from Philips Respironics), and weaker than expected margins.

Rating and Price Target History for: Inogen, Inc. (INGN) as of 01-07-2021

Rating and Price Target History for: ResMed Inc. (RMD) as of 01-07-2021

ANALYST CERTIFICATION

We, Mike Matson and David Saxon hereby certify that the views expressed in this research report accurately reflect our personal views about the subject company (ies) and its (their) securities. We, also certify that we, have not been, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

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| | % of companies under coverage with this rating | % for which investment banking services have been provided for in the past 12 months |
|-------------------------|--|--|
| Strong Buy | 2 | 29 |
| Buy | 73 | 28 |
| Hold | 25 | 1 |
| Underperform | < 1 | 0 |
| Rating Suspended | < 1 | 100 |
| Restricted | < 1 | 0 |

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The research analyst and research associate have received compensation based upon various factors, including quality of research, investor client feedback, and the Firm's overall revenues, which includes investment banking revenues for the following: Inogen, Inc. and ResMed Inc.

The Firm, at the time of publication, makes a market in the subject company Inogen, Inc. .

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