

Med Tech

2Q19 HME Oxygen, Sleep, and Complex Rehab Survey

REPORT HIGHLIGHTS: We worked with *HME News* to survey 53 home medical equipment companies (HMEs) about oxygen, sleep, and complex rehab technology products. Over the next 12 months (NTM), respondents expect modest growth in their POC purchases. INGN's private label POCs remain the highest rated but it looks likely to lose market share over the NTM. Over the NTM, respondents expect strong sleep patient volume growth but RMD looks likely to lose market share. Respondents expect only modest declines in oxygen and CPAP reimbursement in Round 2021 of Medicare competitive bidding. IVC's power wheelchairs were tied for the second highest rated but it looks likely to gain market share over the NTM. We think the survey results are negative for INGN's domestic B2B business, mixed for RMD's Americas business, and positive for IVC's North American Mobility & Seating business.

- **Respondents expect modest growth in their POC purchases.** POCs are expected to increase from 21.5% of the ambulatory oxygen market to 31.5% over the next 12 months. However, respondents only expect 2.6% growth in their POC unit purchases over the next 12 months. Applied Home Healthcare's OxyGo (the private label version of INGN's G3) was the highest rated POC at 5.1 out of 7.0, followed by Applied Home Healthcare's OxyGo Fit (the private label version of INGN's G4) and GCE's Zen-O Lite at 4.9. We note that INGN's new G5 was not included in our survey since it has yet not been launched in the B2B channel. INGN looks likely to lose market share. Over the NTM, respondents expect INGN/Applied Home Healthcare's share of their POC purchases to decrease by 4.8%.
- **Respondents expect strong growth in sleep patient volume.** Respondents saw their sleep patient volume increase by 10.0% in the last 12 months (LTM) and expect their sleep patient volume to grow by 11.2% in NTM. Both of these growth rates are above our prior survey results of 6.2% and 9.0%, respectively. RMD looks likely to lose market share. Over the NTM, respondents expect RMD's share of their flow generator purchases to decrease by 1.1% and its share of their mask purchases to decrease by 1.3%.
- **Flow generator pricing worsened slightly while mask pricing improved.** Respondents indicated that flow generator prices declined by 2.0% over the LTM (vs. a 1.5% decline in our prior survey), while mask prices declined by 0.2% over the LTM (vs. a 1.6% decline in prior survey).
- **Respondents expect modest declines in oxygen and CPAP reimbursement in Round 2021.** Contracts for Medicare's latest round of its competitive bidding program (Round 2021) will start on 1/1/21. Respondents expect Medicare oxygen reimbursement to decline by an average of 2.0% and Medicare CPAP reimbursement to decline by an average of 2.8%.
- **IVC looks likely to gain power wheelchair market share.** Quantum/Pride Mobility had the highest rated power wheelchairs (Medicare coded group 3) at 6.7 out of 7.0, followed by IVC and Permobil at 5.6 and Sunrise at 5.3. Over the NTM, respondents expect IVC's share of their power wheelchair purchases to increase by 2.5%.

Topic of Discussion:

Oxygen, Sleep, and Complex Rehab
Technology Equipment Markets

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Sector Chart

S&P 500 Healthcare Index (\$SHLTH) 06/28/19

Companies Mentioned in Report:

- INGN: \$65.49, PT: \$111.00
- IVC: \$4.85, PT: \$15.00

- RMD: \$120.60, PT: NA

Introduction

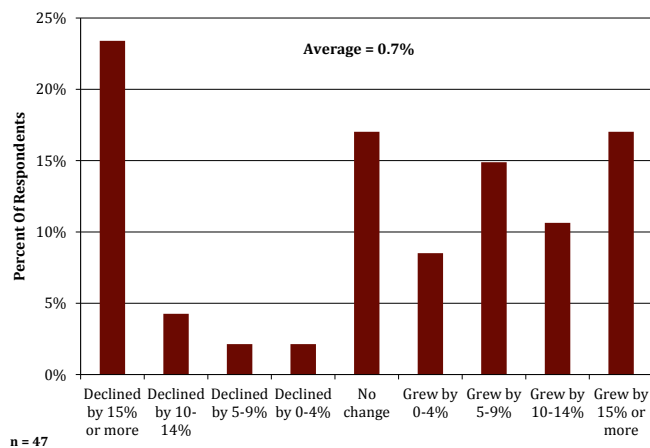
Needham & Company and *HME News* worked together to survey U.S. home medical equipment providers (HMEs) about the sleep and oxygen equipment markets. We received 53 responses to our survey and we note that response rates varied from question to question since none of the questions were mandatory (the response rate for each question is shown on the charts). The survey replies were received between 5/28/18 and 6/12/18.

Part 1: Oxygen Questions

Oxygen patient volume growth is slow but expected to improve somewhat over the next 12 months

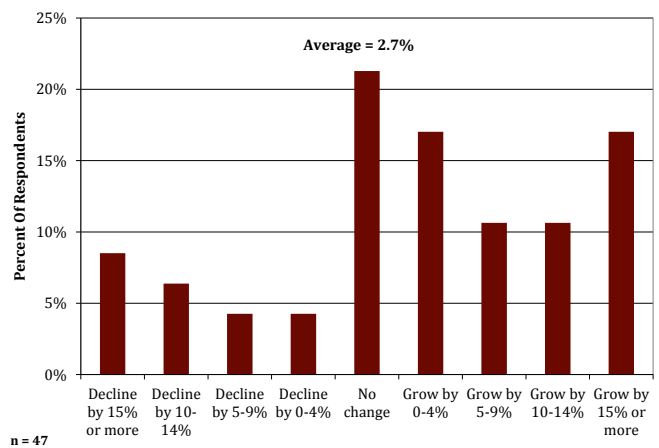
On average, respondents reported 0.7% oxygen patient volume growth in the last 12 months. And respondents expect 2.7% growth in the next 12 months. Of the respondents, 32% saw a decline in their sleep patient volume in the last 12 months and 23% expect a decline in the next 12 months.

Figure 1 Oxygen patient volume growth (LTM)



Source: Needham & Company 2Q19 HME Survey

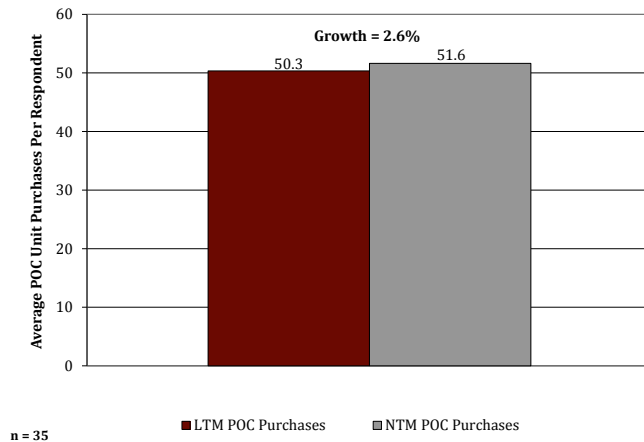
Figure 2 Oxygen patient volume growth (NTM)



Source: Needham & Company 2Q19 HME Survey

Respondents expect only low single digit growth in POC unit purchases over the next 12 months

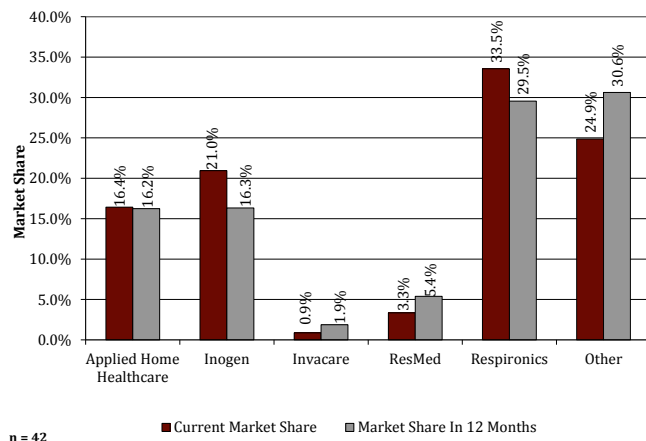
We asked survey respondents how many POCs they purchased in the past 12 months and how many they expect to purchase in the next 12 months to try to predict what POC unit volume growth in Inogen's domestic B2B channel. Respondents report purchasing an average of 50.3 POC units in the last 12 months and expect to purchase 51.6 POC units in the next 12 months which implies growth of 2.6%.

Figure 3 Expected POC volume growth

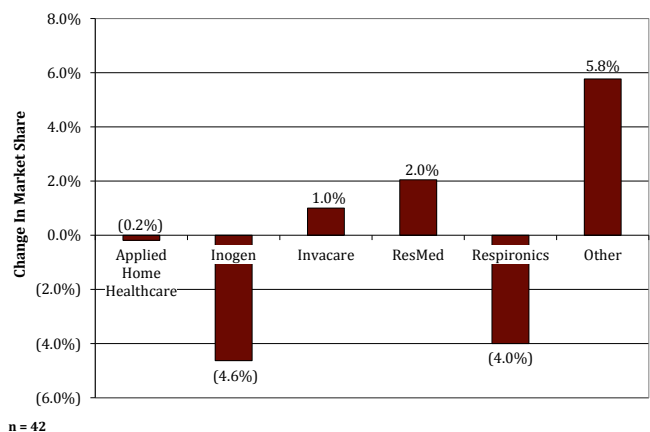
Source: Needham & Company 2Q19 HME Survey

Inogen looks likely to lose some POC market share in the next 12 months

Inogen's POC market share may decline by 4.6% (not including changes in its Applied Home Healthcare/private label market share) over the next 12 months. Respondents indicated that Inogen's POCs currently make up 21.0% of their purchases and expect this to decrease to 16.3% in the next 12 months. Respiration's and Applied Home Healthcare POC market share may also decrease by 4.0% and 0.2%, respectively, over the next 12 months. ResMed's and Invacare's POC market share may increase by 2.0% and 1.0%, respectively, over the next 12 months while the other smaller manufacturers' market share may increase by 5.8% over the next 12 months.

Figure 4 POC market share

Source: Needham & Company 2Q19 HME Survey

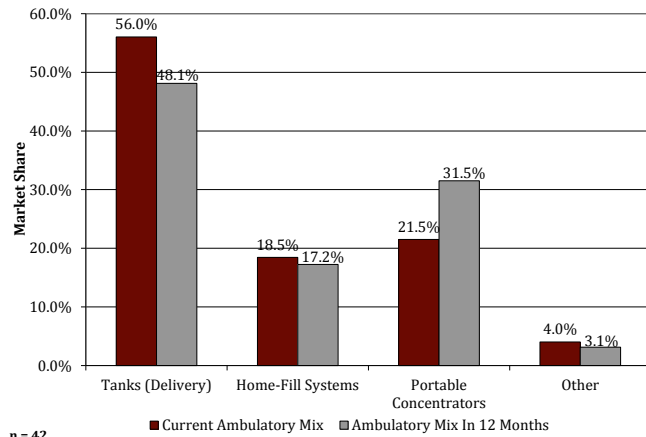
Figure 5 Change in POC market share

Source: Needham & Company 2Q19 HME Survey

Survey results indicate that HMEs continue to transition from oxygen tanks to portable oxygen concentrators (POCs)

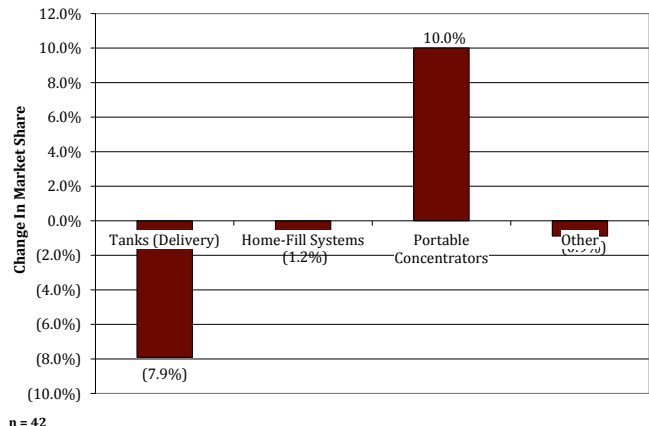
While delivered tanks currently represent 56.0% of the ambulatory oxygen market, HMEs expect these to see the biggest decline, by 7.9%, to 48.1% of the market over the next 12 months. Delivered tanks are mostly expected to be replaced by POCs, which are expected to increase by 10.0% from 21.5% of the market to 31.5% over the next 12 months.

Figure 6 What portion of your firm's ambulatory oxygen patients uses the following modes?



Source: Needham & Company 2Q19 HME Survey

Figure 7 Change in ambulatory oxygen market modes

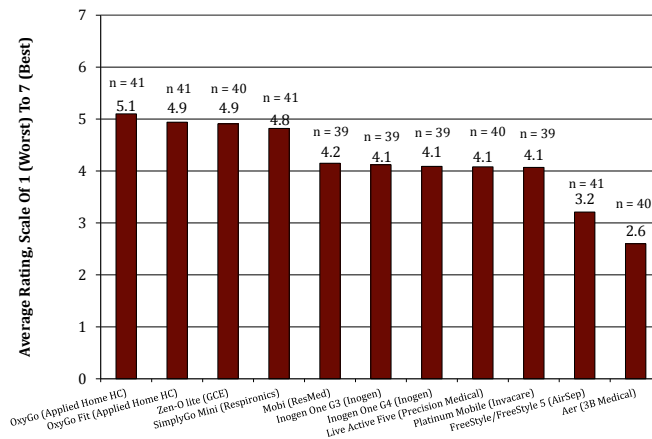


Source: Needham & Company 2Q19 HME Survey

Applied Home Healthcare's OxyGo POCs (which are private label versions of Inogen's G3 and G4) received the highest ratings

Applied Home Healthcare's OxyGo (the private label version of Inogen's G3) was the highest rated POC at 5.1 out of 7.0, followed by Applied Home Healthcare's OxyGo Fit (the private label version of Inogen's G4) and GCE's Zen-O life both at 4.9, and Respironics' SimplyGo Mini rated 4.8. We note that Inogen announced the launch of its new G5 POC on 4/3/19 (see [here](#)). The G5 will replace the G3 and is expected to be smaller, lighter, and offer connectivity. We did not include the G5 in our survey since Inogen has not yet launched it in its B2B channel.

Figure 8 Portable oxygen concentrator ratings

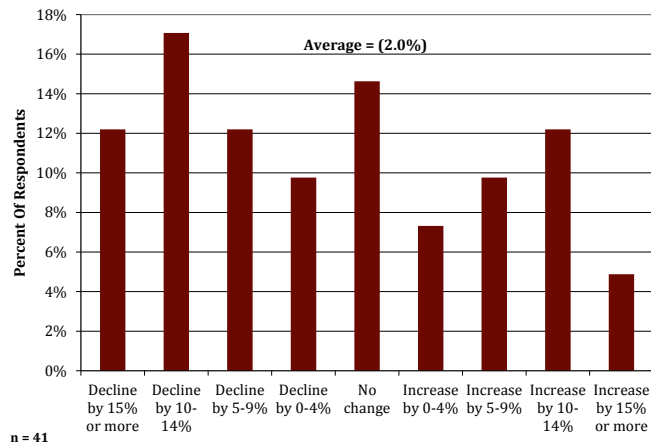


Source: Needham & Company 2Q19 HME Survey

Oxygen reimbursement is expected to see only a small decline in Round 2021 of Medicare competitive bidding

Respondents indicated that they expect oxygen reimbursement to decline by an average of 2.0% following the next round of Medicare competitive bidding in 2021.

Figure 9 Expected reimbursement impact of round 2021 of Medicare's competitive bidding



Source: Needham & Company 2Q19 HME Survey

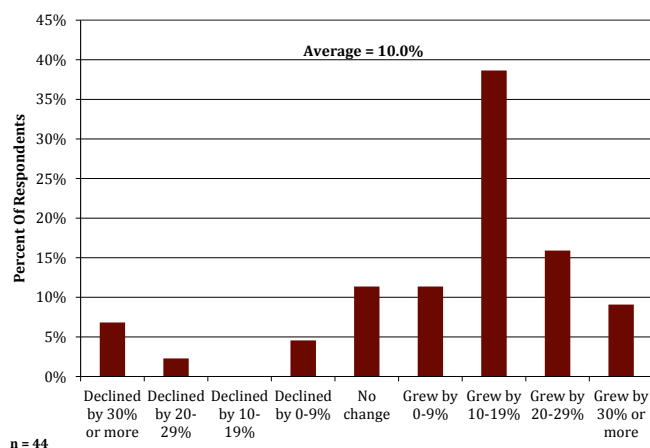
Part 2: Sleep Questions

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 3.

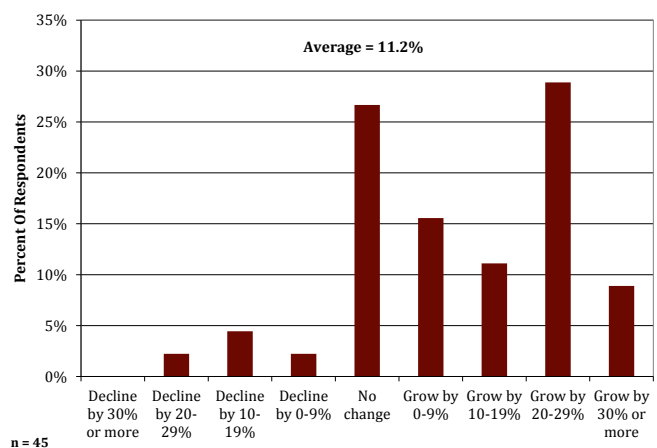
On average, respondents reported 10.0% sleep patient volume growth in the last 12 months, which is an improvement from the 6.2% growth reported in our 4Q18 survey. And respondents expect 11.2% growth in the next 12 months, which is an improvement from the 9.0% growth expected in our 4Q18 survey. Of the respondents, just 14% saw a decline in their sleep patient volume in the last 12 months and just 9% expect a decline in the next 12 months.

Figure 10 Sleep patient volume growth (LTM)

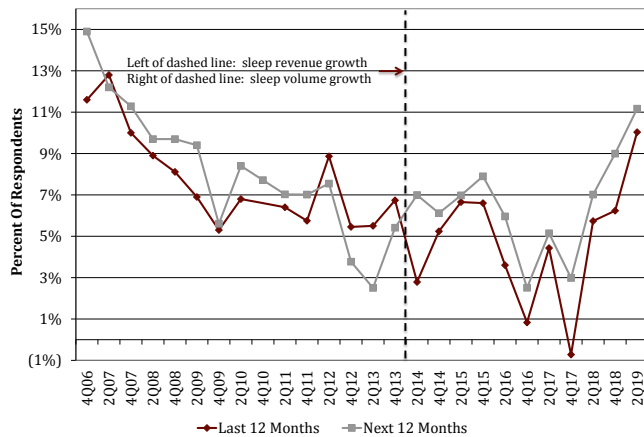


Source: Needham & Company 2Q19 HME Survey

Figure 11 Sleep patient volume growth (NTM)



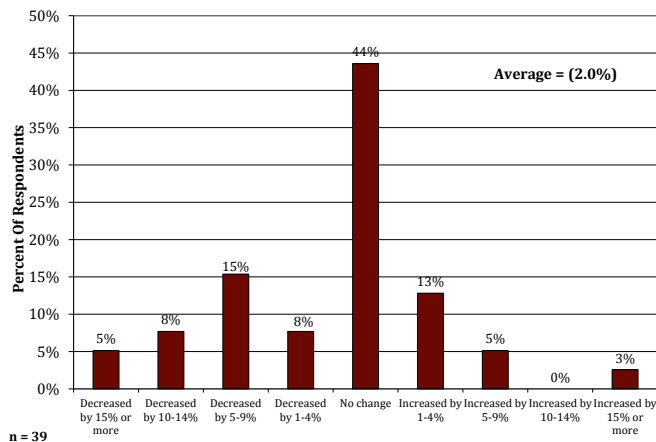
Source: Needham & Company 2Q19 HME Survey

Figure 12 Sleep revenue/volume growth (time series)

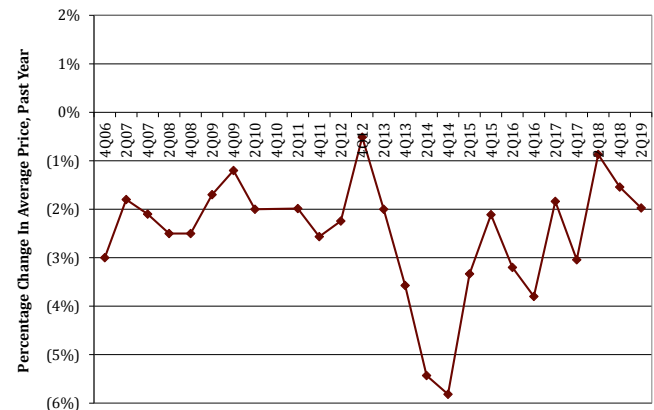
Source: Needham & Company 2Q19 HME Survey and prior surveys

Flow generator pricing worsened slightly from our prior survey

Respondents indicated that flow generator prices declined by 2.0% in the last 12 months versus a 1.5% decline in our 4Q18 survey. While the price decline increased slightly from our prior survey, the longer term trend has been improving since 2014.

Figure 13 Change in flow generator prices (LTM)

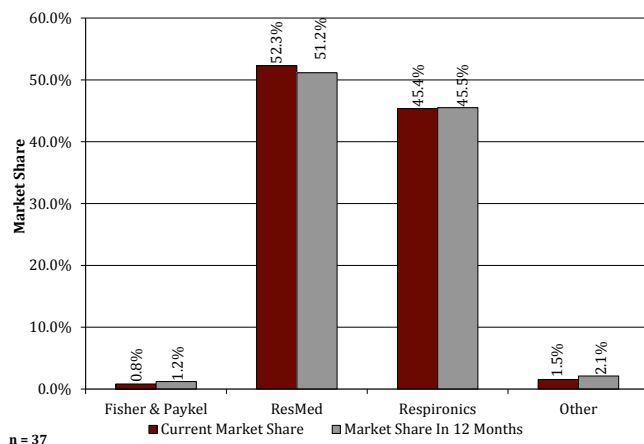
Source: Needham & Company 2Q19 HME Survey

Figure 14 Change in flow generator prices (time series)

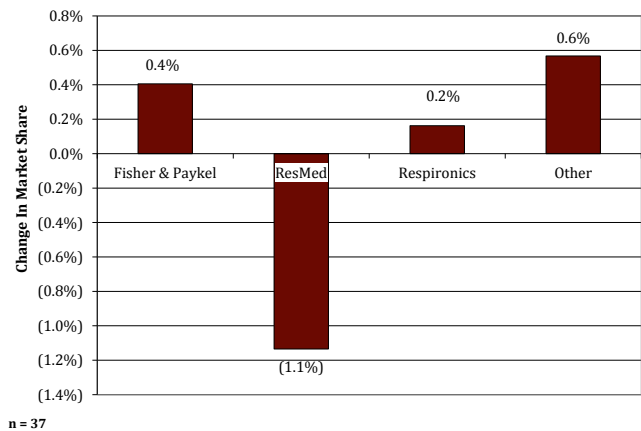
Source: Needham & Company 2Q19 HME Survey and prior surveys

ResMed looks likely to lose some flow generator market share in the next 12 months

ResMed's flow generator market share may decrease by 1.1% over the next 12 months. Respondents indicated that ResMed's flow generators currently make up 52.3% of their purchases and expect this to decrease to 51.2% in the next 12 months. Respironics' and Fisher & Paykel's flow generator market share may increase by 0.2% and 0.4%, respectively, over the next 12 months while the other smaller manufacturers' market share may increase by 0.6% over the next 12 months.

Figure 15 Flow generator market share

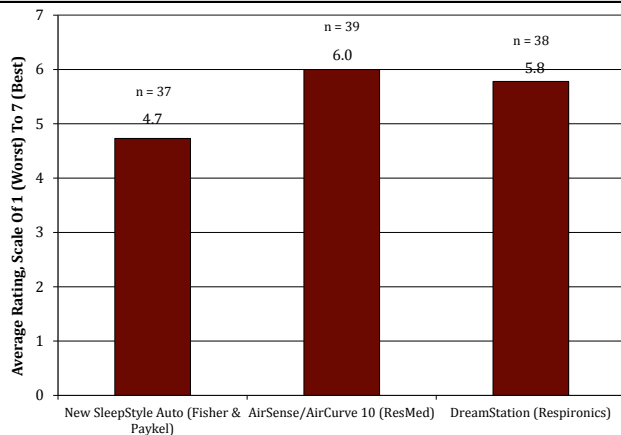
Source: Needham & Company 2Q19 HME Survey

Figure 16 Change in flow generator market share

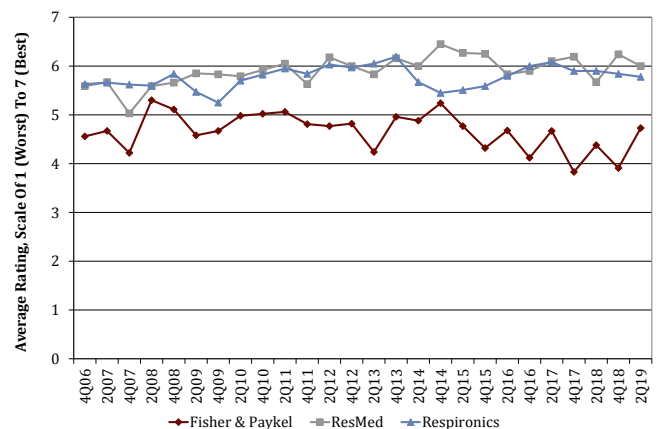
Source: Needham & Company 2Q19 HME Survey

ResMed's flow generators remain the highest rated

ResMed's AirSense 10 flow generator platform was rated 6.0 out of 7.0, above Respirationics' DreamStation flow generator platform, which was rated 5.8 and well above Fisher & Paykel's Icon+ flow generator platform at 4.7. This survey is similar to our 4Q18 survey where ResMed's flow generator platform also held the top-rated spot.

Figure 17 Flow generator platform ratings

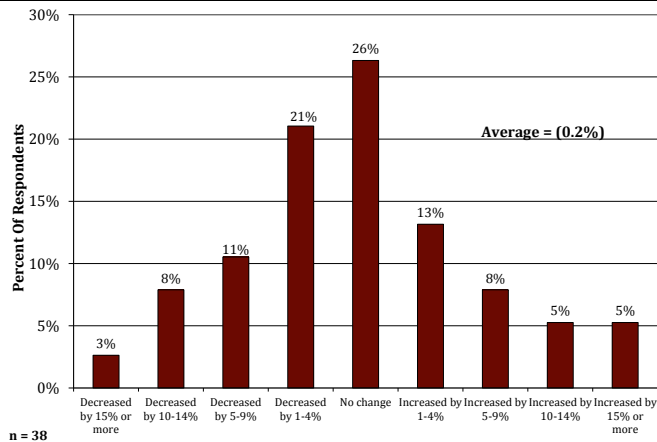
Source: Needham & Company 2Q19 HME Survey

Figure 18 Flow generator platform ratings (time series)

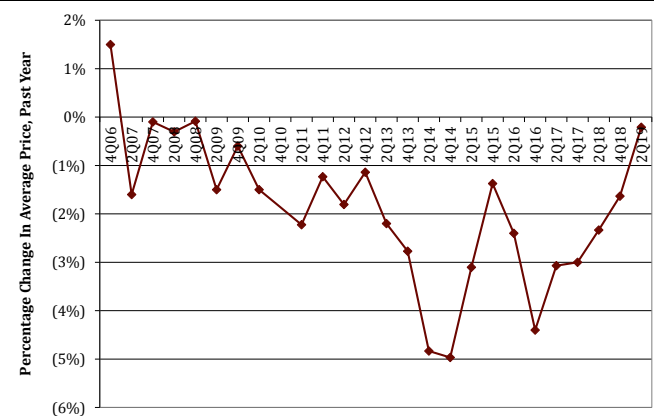
Source: Needham & Company 2Q19 HME Survey and prior surveys

Mask pricing improved from our prior survey

Respondents indicated that mask prices declined by 0.2% in the last 12 months versus a 1.6% decline in our 4Q18 survey. This represents the fifth consecutive improvement in mask pricing.

Figure 19 Change in mask prices (LTM)

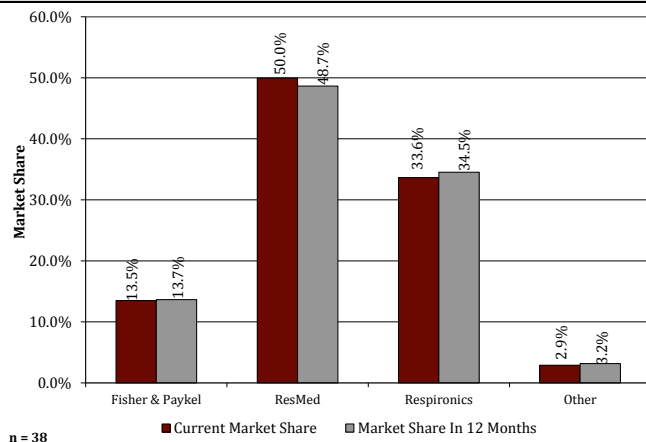
Source: Needham & Company 2Q19 HME Survey

Figure 20 Change in mask prices (time series)

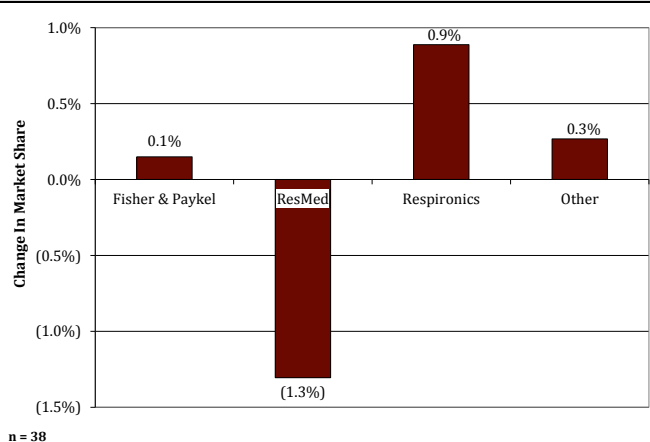
Source: Needham & Company 2Q19 HME Survey and prior surveys

ResMed looks likely to lose some mask market share in the next 12 months

ResMed's mask market share may decline by 1.3% over the next 12 months. Respondents indicated that ResMed's masks currently make up 50.0% of their purchases and expect this to decrease to 48.7% in the next 12 months. Respirationics' and Fisher & Paykel's mask market share may increase by 0.9% and 0.1%, respectively, over the next 12 months while the other smaller manufacturers' market share may increase by 0.3% over the next 12 months.

Figure 21 Mask market share

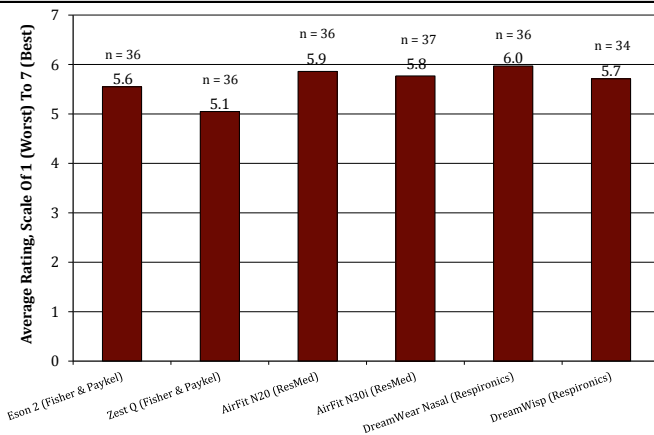
Source: Needham & Company 2Q19 HME Survey

Figure 22 Change in mask market share

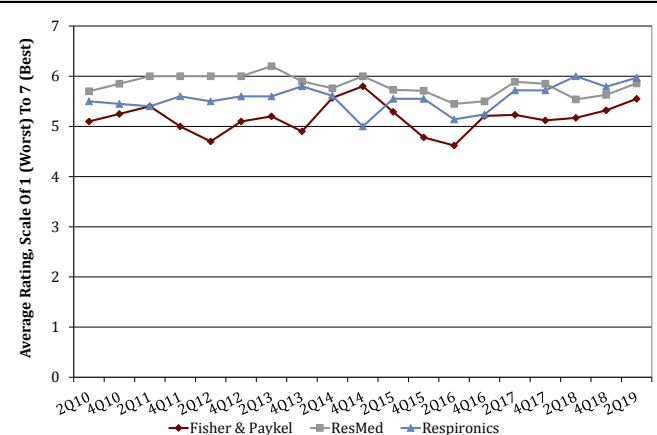
Source: Needham & Company 2Q19 HME Survey

ResMed had the second highest rated nasal mask...

Respirationics' nasal masks were the highest rated for the third 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 6.0 out of 7.0, followed by ResMed's AirFit N20 and AirFit N30i at 5.9 and 5.8, respectively, Respirationics' DreamWisp at 5.7, and Fisher & Paykel's Eson 2 and Zest Q at 5.6 and 5.1, respectively.

Figure 23 Nasal mask ratings

Source: Needham & Company 2Q19 HME Survey

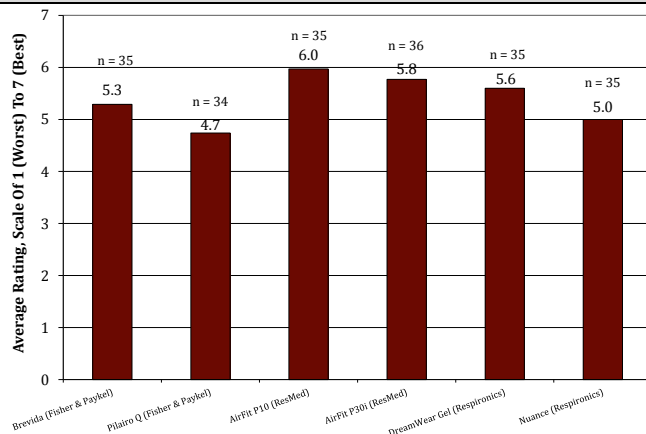
Figure 24 Nasal mask ratings (time series)

Note: Uses highest rated mask if more than one was rated

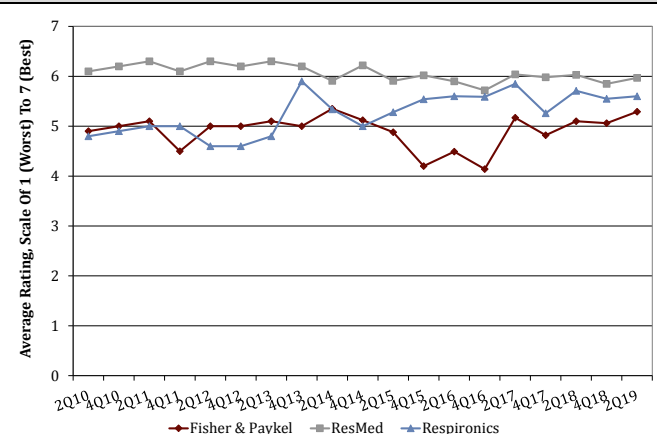
Source: Needham & Company 2Q19 HME Survey and prior surveys

...the highest rated nasal pillow mask...

ResMed maintained the highest ratings in the nasal pillow category followed by Respironics in second place and Fisher & Paykel in third place. ResMed's AirFit P10 was rated the highest at 6.0 out of 7.0, with ResMed's P30i rated 5.8, Respironics' DreamWear Gel rated 5.6, Fisher & Paykel's Brevida rated 5.3, Respironics' Nuance rated 5.0, and Fisher & Paykel's Pilairo Q rated 4.7.

Figure 25 Nasal pillow mask ratings

Source: Needham & Company 2Q19 HME Survey

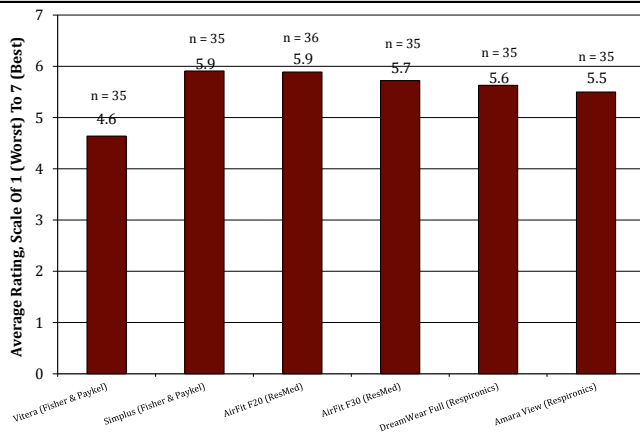
Figure 26 Nasal pillow mask ratings (time series)

Note: Uses highest rated mask if more than one was rated

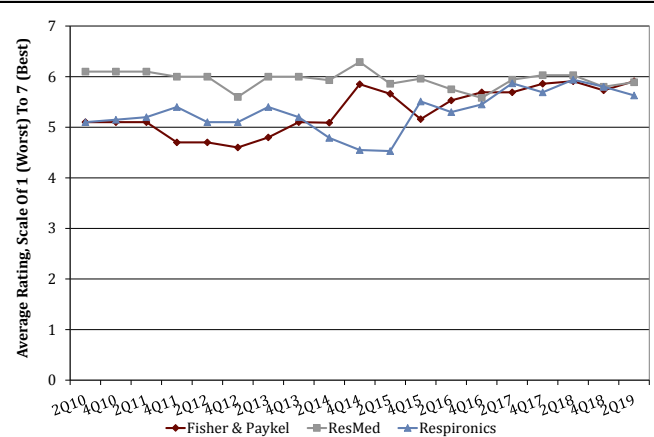
Source: Needham & Company 2Q19 HME Survey and prior surveys

...and tied for the highest rated full face mask

ResMed tied with Fisher & Paykel for the highest rating in the full face mask category followed by Respironics. ResMed's AirFit F20 and Fisher & Paykel's Simplus were both rated 5.9 out of 7.0, while ResMed's AirFit F30 was rated 5.7 followed by Respironics' DreamWear Full and Amara View rated at 5.6 and 5.5, respectively, and Fisher & Paykel's Vitera at 4.6.

Figure 27 Full face mask ratings

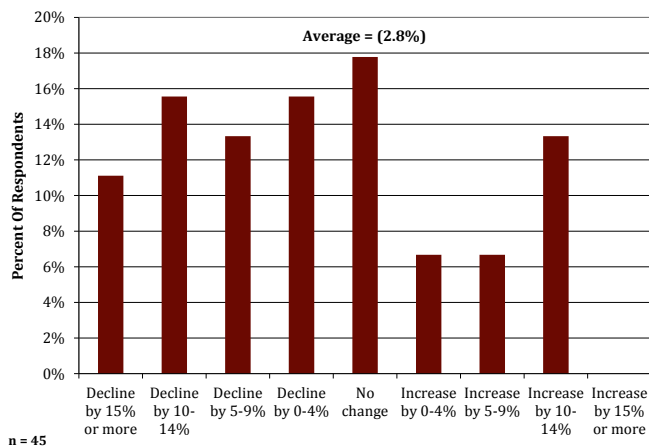
Source: Needham & Company 2Q19 HME Survey

Figure 28 Full face mask ratings (time series)

Note: Uses highest rated mask if more than one was rated
 Source: Needham & Company 2Q19 HME Survey and prior surveys

CPAP reimbursement is expected to see only a small decline in Round 2021 of Medicare competitive bidding

Respondents indicated that they expect CPAP reimbursement to decline by an average of 2.8% following the next round of Medicare competitive bidding in 2021.

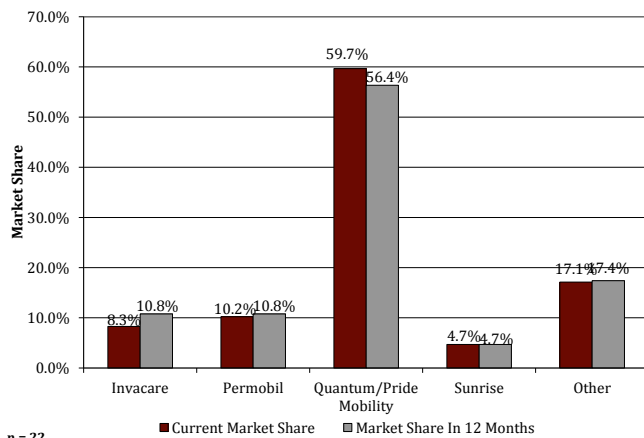
Figure 29 Expected reimbursement impact of round 2021 of Medicare's competitive bidding

Source: Needham & Company 2Q19 HME Survey

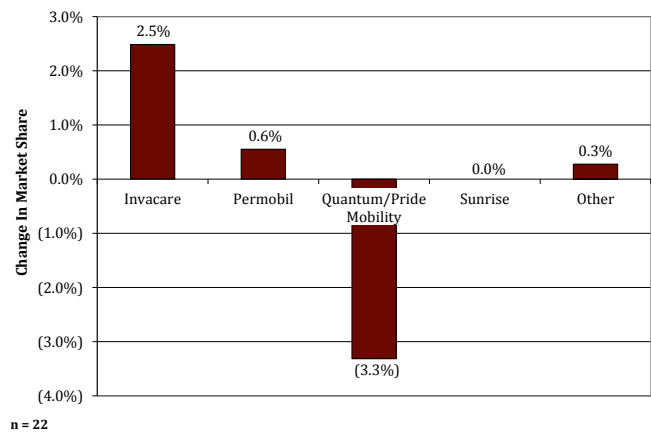
Part 3: Complex Rehab Technology Questions

Invacare looks likely to gain power wheelchair market share in the next 12 months

Invacare's power wheelchair market share may increase by 2.5% over the next 12 months. Respondents indicated that Invacare's power wheelchairs currently make up 8.3% of their purchases and expect this to increase to 10.8% in the next 12 months. Quantum/Pride Mobility's power wheelchair market share may decrease by 3.3% while Permobil's power wheelchair market share may increase by 0.6% and Sunrise's power wheelchair market share is expected to remain flat. And the other smaller manufacturers' market share may increase by 0.3% over the next 12 months.

Figure 30 Power wheelchair market share

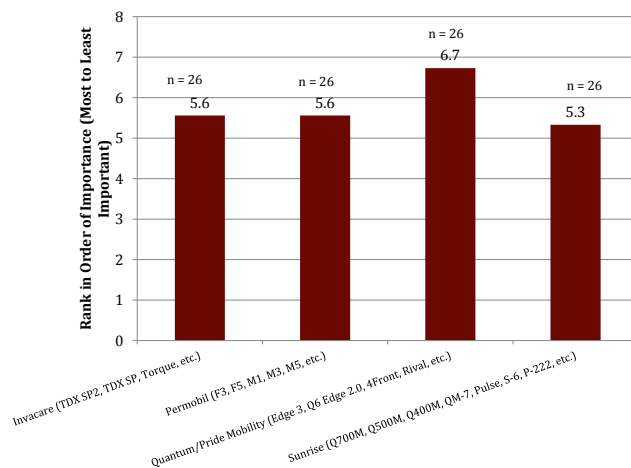
Note: Only Medicare coded group 3 power wheelchair product lines
 Source: Needham & Company 2Q19 HME Survey

Figure 31 Change in power wheelchair market share

Note: Only Medicare coded group 3 power wheelchair product lines
 Source: Needham & Company 2Q19 HME Survey

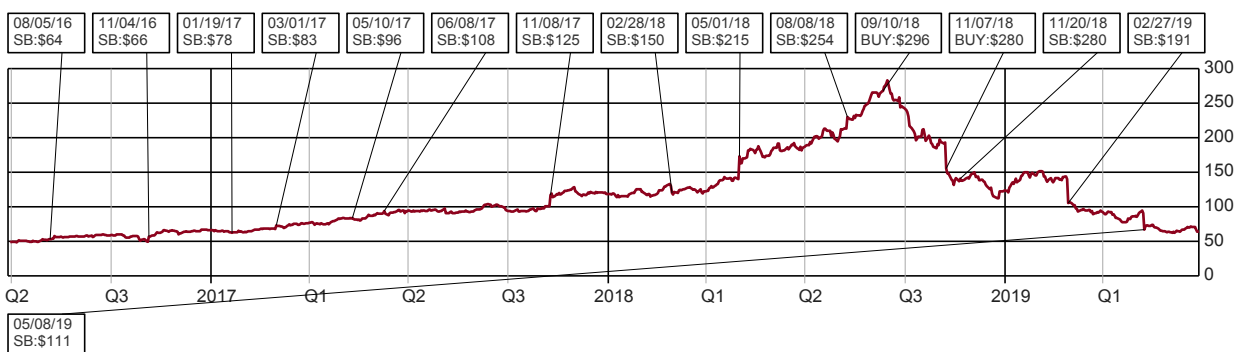
Quantum/Pride Mobility have the highest rated power wheelchairs

According to our survey's respondents, Pride Mobility has the highest rated power wheelchairs followed by Invacare and Permobil. Pride Mobility's power wheelchairs (e.g. Edge 3, Q6 Edge 2.0, 4Front, Rival, etc.) were rated 6.7 out of 7.0 followed by Invacare's (e.g. TDX SP2, TDX SP, Torque, etc.) and Permobil's (e.g. F3, F5, M1, M3, M5, etc.) power wheelchairs which were both rated 5.6, trailed by Sunrise's (e.g. Q700M, Q500M, Q400M, QM-7, Pulse, S-6, P-222, etc.) power wheelchairs at 5.3.

Figure 32 Power wheelchair product line ratings

Note: Only Medicare coded group 3 power wheelchair product lines
 Source: Needham & Company 2Q19 HME Survey

Rating and Price Target History for: Inogen, Inc. (INGN) as of 06-27-2019



Created by: BlueMatrix

Rating and Price Target History for: Invacare Corporation (IVC) as of 06-27-2019



Created by: BlueMatrix

Rating and Price Target History for: ResMed Inc. (RMD) as of 06-27-2019



Created by: BlueMatrix

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Underperform	1	0
Rating Suspended	< 1	0
Restricted	< 1	0

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

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