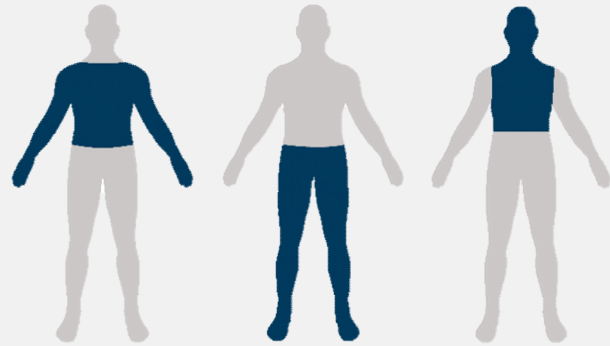


# Investor Presentation

(Nasdaq: TCMD)



*Mission: To help people with chronic diseases live better and care for themselves at home*

August 2020

**Tactile**  
**MEDICAL<sup>®</sup>**  
HEALING RIGHT AT HOME

# Forward-Looking Statements Disclosure

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This presentation contains forward-looking statements. Forward-looking statements are generally identifiable by the use of words like "may," "will," "should," "could," "expect," "anticipate," "estimate," "believe," "intend," "outlook," or "project" or the negative of these words or other variations on these words or comparable terminology. All statements other than statements of historical or current fact are, or may be deemed to be, forward-looking statements. The reader is cautioned not to put undue reliance on these forward-looking statements, as these statements are based upon the current beliefs and expectations of management and are subject to numerous risks and uncertainties outside of the Company's control that can cause actual outcomes and results to differ materially. These risks and uncertainties include, but are not limited to: the adequacy of the Company's liquidity to pursue its complete business objectives; the Company's ability to obtain reimbursement from third party payers for its products; loss or retirement of key executives; adverse economic conditions or intense competition; loss of a key supplier; entry of new competitors and products; adverse federal, state and local government regulation; technological obsolescence of the Company's products; technical problems with the Company's research and products; the Company's ability to expand its business through strategic acquisitions; the Company's ability to integrate acquisitions and related businesses; price increases for supplies and components; the effects of current and future U.S. and foreign trade policy and tariff actions; or the inability to carry out research, development and commercialization plans. In addition, other factors that could cause actual results to differ materially are discussed in the Company's filings with the SEC. Investors and security holders are urged to read these documents free of charge on the SEC's web site at <http://www.sec.gov>. The Company undertakes no obligation to publicly update or revise its forward-looking statements as a result of new information, future events or otherwise.

# Use of Non-GAAP Financial Measures

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This presentation includes the non-GAAP financial measures of Adjusted EBITDA, which differ from financial measures calculated in accordance with U.S. generally accepted accounting principles (“GAAP”). These non-GAAP financial measures are presented because we believe they are useful indicators of our operating performance. Management uses these measures principally as measures of our operating performance and for planning purposes, including the preparation of our annual operating budget and financial projections. We believe Adjusted EBITDA is useful to investors as supplemental information because they are frequently used by analysts, investors and other interested parties to evaluate companies in our industry. We believe these non-GAAP financial measures are useful as measures of comparative operating performance from period to period. In addition, Adjusted EBITDA is used as a performance metric in our compensation program. Set forth in the Appendix to this presentation, we have provided reconciliations of these non-GAAP financial measures to the most directly comparable GAAP financial measures. Investors and other readers are encouraged to review the related GAAP financial measures and the reconciliations of the non-GAAP measures to their most directly comparable U.S. GAAP measures set forth in the Appendix, and investors and other readers should consider non-GAAP measures only as supplements to, and not as substitutes for or as superior measures to, the measures of financial performance prepared in accordance with GAAP.

# Tactile Medical Snapshot

- + Focused on at-home treatment of chronic diseases
  - Therapeutic focus on chronic swelling conditions
- + Q2 2020 revenue of \$35.1M (↓ 22% YoY)
- + 2019 revenue of \$189.5M (↑ 32% YoY); gross margin of 71%; profitable
- + Withdrew 2020 revenue guidance in April due to COVID-19
- + Cost-effective, clinically differentiated products
  - Flexitouch Plus and Entre systems (for lymphedema)
- + Direct-to-patient and -provider model that disintermediates durable medical equipment dealers (DMEs)
- + Significant infrastructure that is difficult to replicate
- + \$5B+ addressable U.S. market opportunity

FLEXITOUCH® PLUS



ENTRE™



# Lymphedema | Condition and Treatment Limitations

## What is Lymphedema?



- + Chronic swelling from damage to the lymphatic system
- + Caused by chronic venous insufficiency, cancer treatment, obesity, infection, trauma, surgery or congenital malformation of the lymphatic system
- + Progressive in nature; no known cure
- + Severely debilitating, both physically and psychologically
- + Often misdiagnosed
- + Standard of care is therapist-delivered manual lymphatic drainage and compression therapies

## Limitations of Current Treatments

- + Daily in-clinic therapy for 4-6 weeks
  - Therapist-delivered massage
  - Bandaging, skin care
- + Followed by self-performed manual lymphatic drainage
- + Difficult to access skilled therapist care
- + Reimbursement for physical therapy often capped



**Not a Feasible Long-term Solution**

# Lymphedema | Tactile Medical's Solutions

At-home Pneumatic Compression Therapy to Treat Lymphedema and Venous Disorders



Advanced Model

**FLEXITOUCH<sup>®</sup> PLUS**

- + Extends clinic-based therapy with automated self-manual lymphatic drainage at home
- + Reduces swelling, fibrosis and infection risk



Basic Model

**ENTRE<sup>™</sup>**

- + Solution for patients that do not require or do not yet qualify for advanced pneumatic compression therapy

Clinically Effective, Home-based Products in an Era of Cost Containment



# Flexitouch® Plus System

## Overview

- + Programmable controller unit with 18 treatment settings
- + Up to 32 air chambers in the adjustable garments; treats the arms, legs, torso, chest, head and neck

## Clinically Proven Benefits

### Mechanism

- + Stimulates the lymphatic system

### Impact

- + Reduces edema and lymphedema associated with chronic venous insufficiency, cancer and surgery/trauma

### Benefits

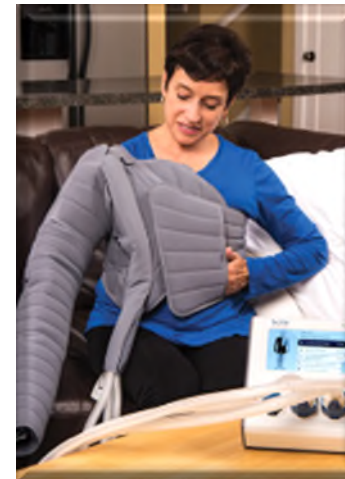
- + Reduction of pain, improvement of skin integrity

### Clinical Outcomes

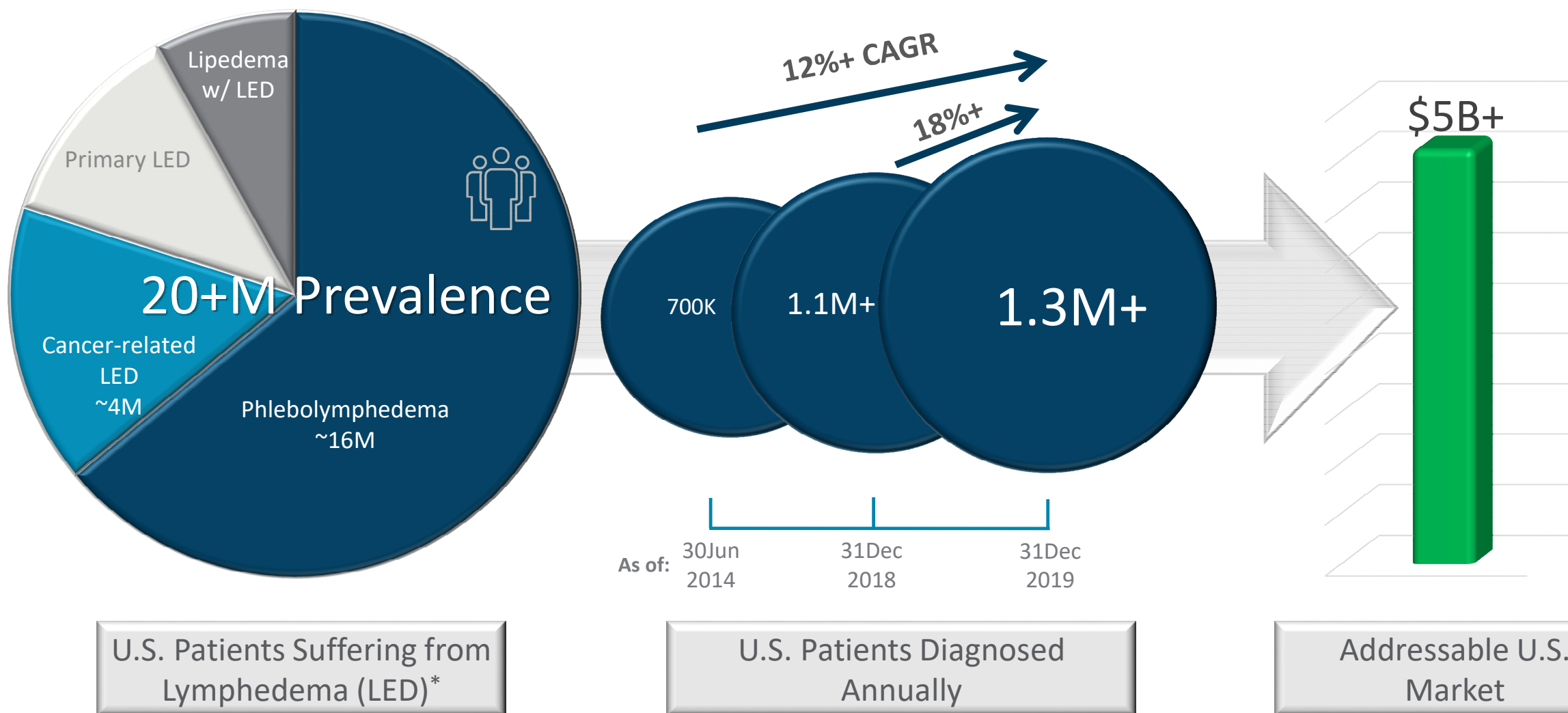
- + Improved clinical outcomes compared to basic pneumatic compression devices

### Patient Satisfaction

- + 90% satisfaction and 95% treatment compliance



# Significant, Accelerating Lymphedema Market Growth



\* Dean S, Valenti E, Hock K, Leffler J, Compston A, Abraham W, The clinical characteristics of lower extremity lymphedema in 440 patients. Jour of Vasc Surg: Venous & Lymph Disorders. ePublished Feb 2020



# Groundbreaking Cost Effectiveness Study Published

## Flexitouch® System Clinical Evidence

*Journal of the American Medical Association (JAMA) Dermatology* – Study Highlights

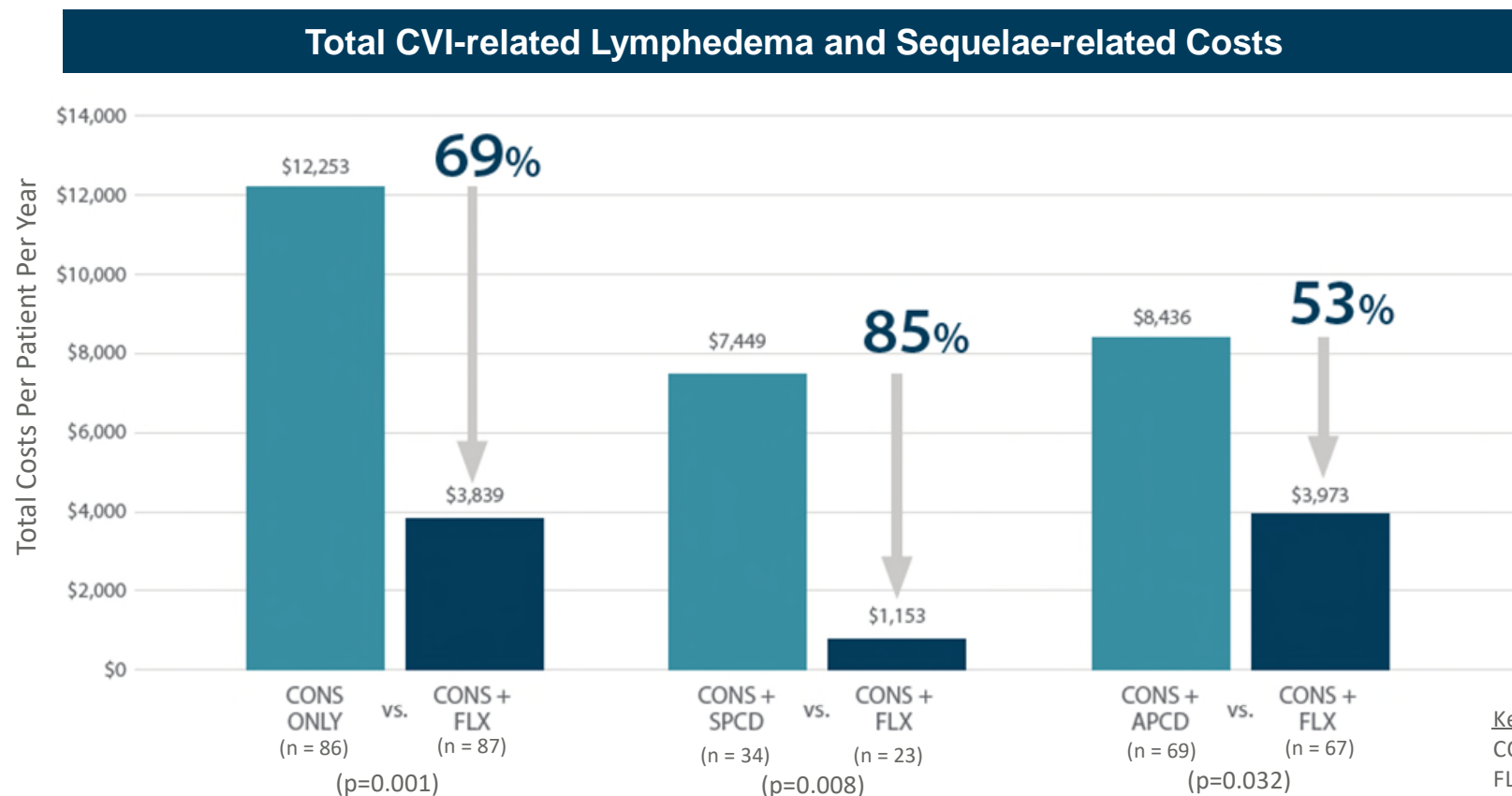
A study of 718 lymphedema patients evaluating patient health outcomes and healthcare costs in cancer and non-cancer cohorts.



Source: Karaca-Mandic P, Hirsch AT, Rockson SG, Ridner SH. (2015) The Cutaneous, Net Clinical, and Health Economic Benefits of Advanced Pneumatic Compression Devices in Patients with Lymphedema. *JAMA – Dermatology*, Oct. 2015.

First of its Kind Evidence of Cost Benefits

# Demonstrated Cost Benefits vs. Other Treatment Modalities



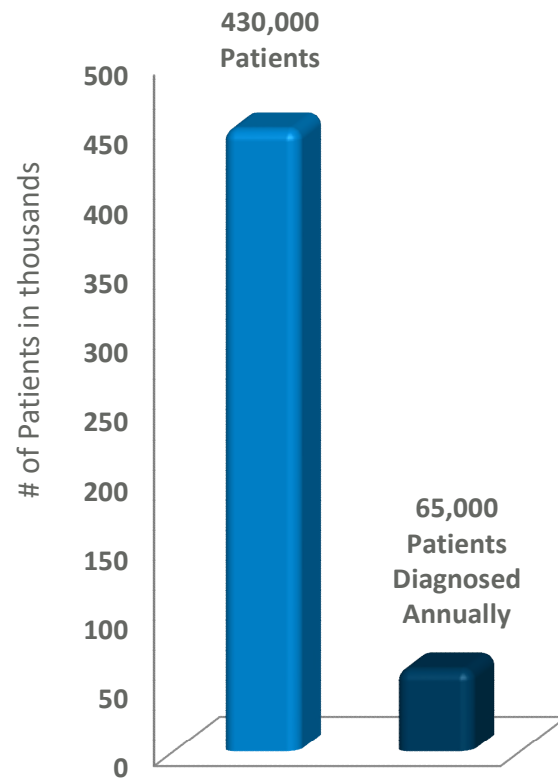
**+ Conservative therapy plus Flexitouch use reduced costs when compared to:**

- Conservative therapy alone
- Conservative therapy and simple PCDs (E0651)
- Conservative therapy and competitive advanced PCDs (E0652)

Source: Health and economic benefits of advanced pneumatic compression devices in patients with phlebolymphe<sup>2</sup> Lerman, Michelle et al., Journal of Vascular Surgery , June 2018 (e-published).

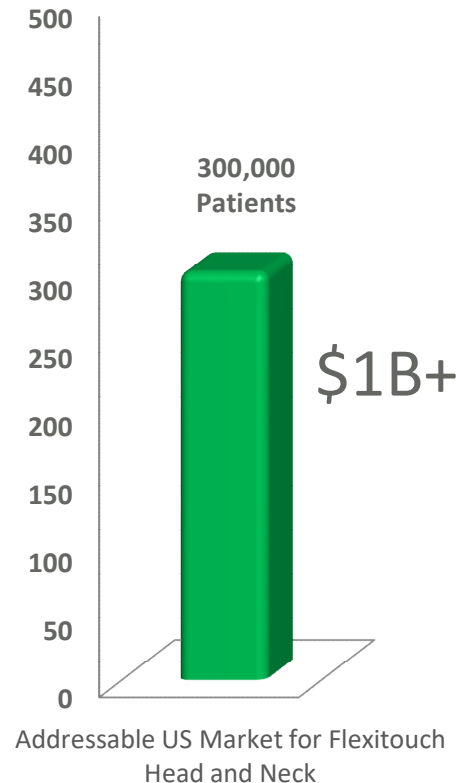
# Head and Neck Cancer Related Lymphedema Market Opportunity

## U.S. H&N Cancer Prevalence and Incidence



- U.S. patients with H&N cancer
- New U.S. patients with H&N cancer diagnosed annually (Both per American Cancer Society)

## H&N Lymphedema



- U.S. patients with post-treatment lymphedema (>75%)

## Flexitouch Head & Neck System

“Provides Significant Symptom Improvement for Head and Neck Cancer-Related Lymphedema”

49 patient randomized wait-list controlled trial (RCT)

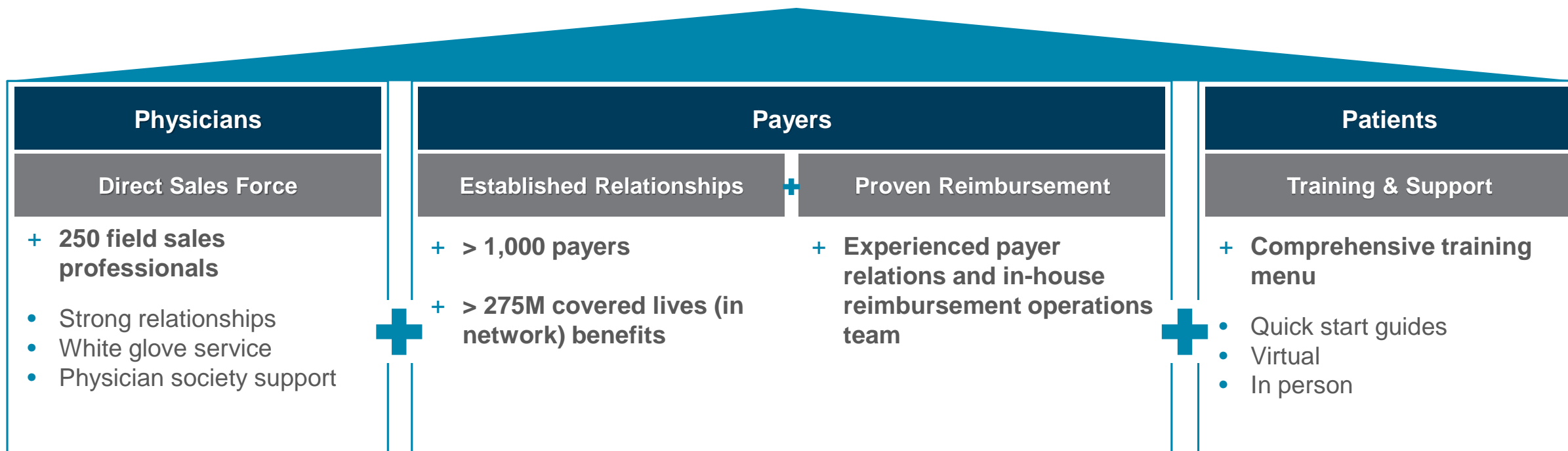
Demonstrated statistically significant improvements:

- Ability to control lymphedema at home
- Swallowing solids
- Pain management
- Soft tissue and neurological symptoms
- Visible external swelling

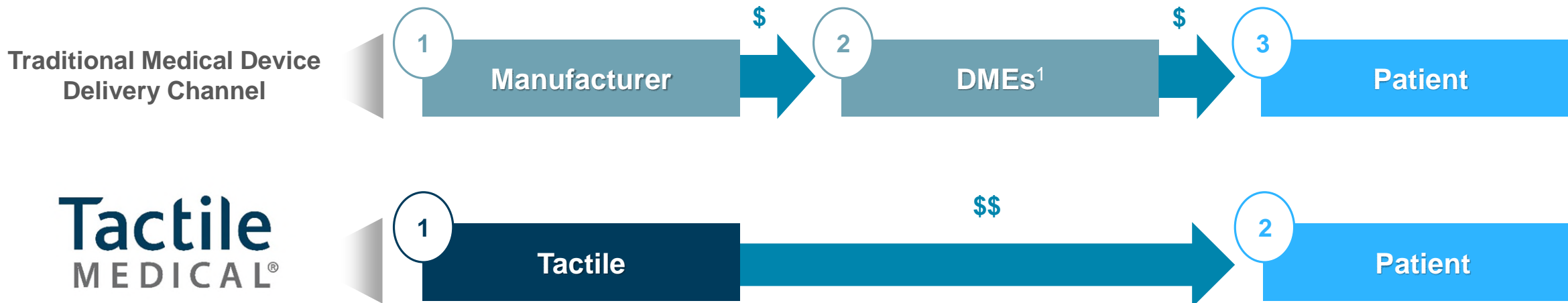
*Supportive Care in Cancer, May 2020*

**Flexitouch is the Only PCD FDA Cleared to Treat Head and Neck Lymphedema**

# Invested to Build a Strong Distribution Infrastructure



# Differentiated Distribution Model



## Overview of Direct Sales Platform

- + **Model bypasses conventional DMEs channel**
  - Bill and collect directly from payers and patients (co-pay)
  - Appeal denials, advocate for patient
- + **250 field sales professionals**
  - Control of clinical call point; message, service, workload
- + **Quick Start, Virtual and In person training options**

## Target Call Points

- + **Call points**
  - Lymphedema clinics
  - Vascular and venous care clinics
  - Oncology
  - Wound care clinics
  - VA hospitals
- + **Deep relationships with physicians, nurses and therapists**

<sup>1</sup> Durable Medical Equipment dealers (DMEs)

# Operational Excellence in Reimbursement and Payer Relations

## Strategic Expertise and Operational Proficiency

### + In-house reimbursement operations group

- Streamlined process — initial order to final bill
- Insurance verification and authorization
- Billing and collections
- Customer support services

### + Payer Relations group

- Health plan, DME and clinical backgrounds
- Payer messaging, coverage policies, contracting
- Develop relationships and coverage policies with payers
- Manage Medicare strategy and patient claims
- Advocacy liaison

## High Payer Approval Rates

Approval Rate (since 2007)

0% 25% 50% 75% 100%

88%

90%+










■ Commercial Payers

■ Medicare

**85+% Approval Rate**



# Competitive Positioning

|                                     |  |  |  | Others:<br>AIROS Medical,<br>NormaTec   |  |
|-------------------------------------|---|--|---|---|---|
| HQ                                  |  |  |  |  |  |
| Business Presence                   | United States   | United States  | United States & OUS   | United States   | OUS   |
| Ownership                           | Public<br>(Nasdaq: TCMD)  | Family Owned   | Israeli Co-op   | Privately Owned   | Public<br>(OM: ARJO B)  |
| Direct Sales Channel                | ✓   | —  | —   | —   | —   |
| Clinical & Economic Benefits Proven | ✓   | —  | —   | —   | —   |
| Reimbursement Expertise             | ✓   | —  | —   | —   | —   |

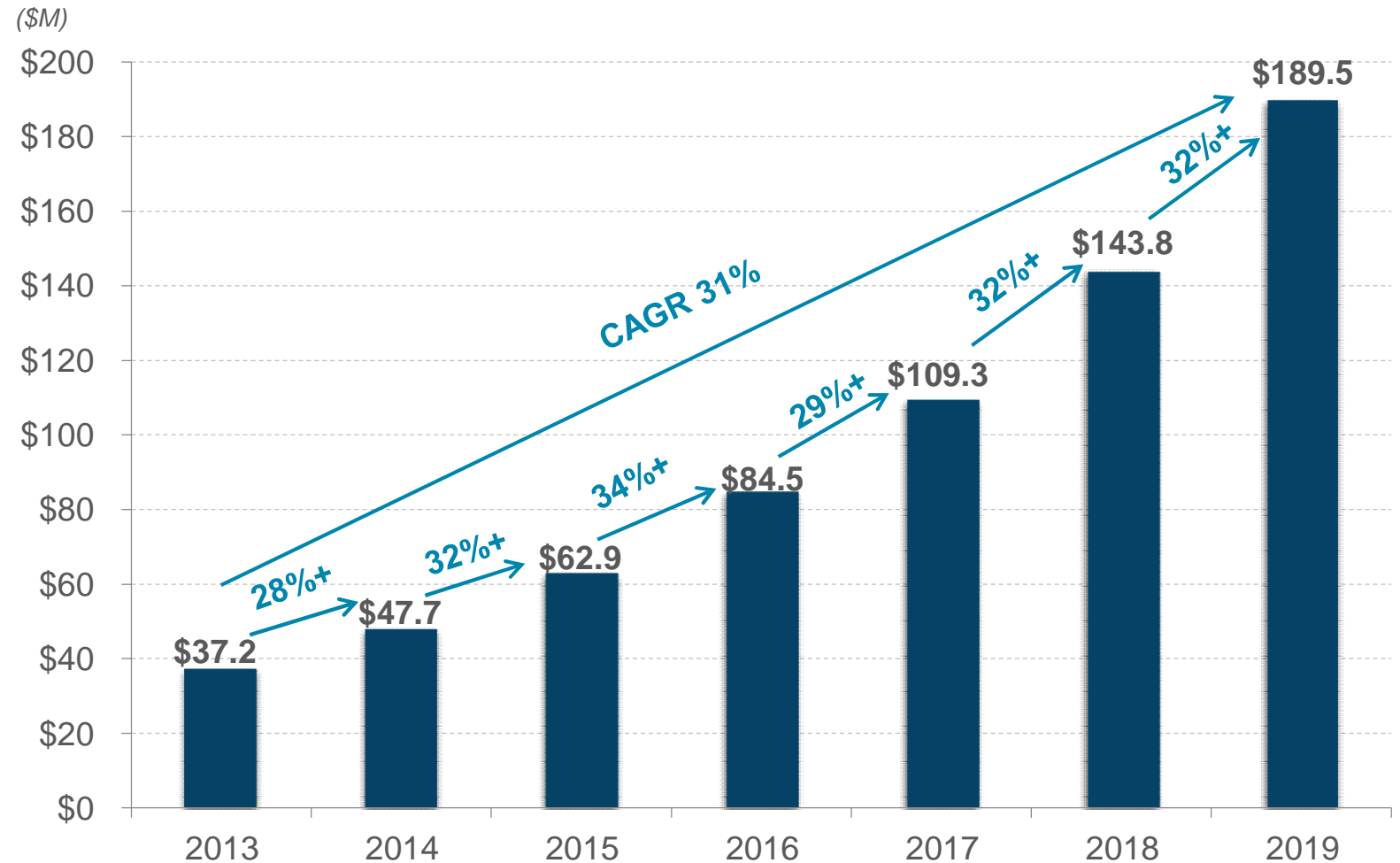
Note: Outside United States (OUS)

# FINANCIAL OVERVIEW

# Annual Revenues

## Growth Drivers

- + Field team expansion
- + New product introductions
- + Expanding call points / VA
- + Increased number of payer contracts



Field  
Headcount

51

66

91

131

>160

>200

>240

# Quarterly Revenue Detail

**Q2 Revenue of \$35.1M, decreased 22% y/y; 20% y/y operational decrease**

+ Flexitouch Q2 revenue decreased 24% y/y to \$31.1M

+ Entre™ and Other Q2 revenue decreased 6% y/y to \$4.0M

(\$ in Thousands)

|                               | FY'19            |                  |                  |                  |                   |
|-------------------------------|------------------|------------------|------------------|------------------|-------------------|
|                               | Q1               | Q2               | Q3               | Q4               | Total             |
| <b>Revenue</b>                |                  |                  |                  |                  |                   |
| Flexitouch                    | 34,109           | 40,959           | 44,699           | 51,556           | 171,323           |
| Entre/Other                   | 3,508            | 4,241            | 4,913            | 5,507            | 18,169            |
| <b>Total</b>                  | <b>\$ 37,617</b> | <b>\$ 45,200</b> | <b>\$ 49,612</b> | <b>\$ 57,063</b> | <b>\$ 189,492</b> |
| <b>Percent of Total</b>       |                  |                  |                  |                  |                   |
| Flexitouch                    | 91%              | 91%              | 90%              | 90%              | 90%               |
| Entre/Other                   | 9%               | 9%               | 10%              | 10%              | 10%               |
| <b>Total</b>                  | <b>100%</b>      | <b>100%</b>      | <b>100%</b>      | <b>100%</b>      | <b>100%</b>       |
| <b>Y/Y Revenue Growth, \$</b> |                  |                  |                  |                  |                   |
| Flexitouch                    | 9,579            | 9,603            | 11,369           | 8,837            | 39,388            |
| Entre/Other                   | 1,190            | 1,464            | 1,921            | 1,778            | 6,353             |
| <b>Total</b>                  | <b>\$ 10,769</b> | <b>\$ 11,067</b> | <b>\$ 13,290</b> | <b>\$ 10,615</b> | <b>\$ 45,741</b>  |
| <b>Y/Y Revenue Growth, %</b>  |                  |                  |                  |                  |                   |
| Flexitouch                    | 39%              | 31%              | 34%              | 21%              | 30%               |
| Entre/Other                   | 51%              | 53%              | 64%              | 48%              | 54%               |
| <b>Total</b>                  | <b>40%</b>       | <b>32%</b>       | <b>37%</b>       | <b>23%</b>       | <b>32%</b>        |

| FY'20<br>Q1      | FY'20<br>Q2        |
|------------------|--------------------|
| 38,586           | 31,127             |
| 5,089            | 3,993              |
| <b>\$ 43,675</b> | <b>\$ 35,120</b>   |
| 88%              | 89%                |
| 12%              | 11%                |
| <b>100%</b>      | <b>100%</b>        |
| 4,477            | (9,832)            |
| 1,581            | (248)              |
| <b>\$ 6,058</b>  | <b>\$ (10,080)</b> |
| 13%              | (24)%              |
| 45%              | (6)%               |
| <b>16%</b>       | <b>(22)%</b>       |

# Q2 2020 Financial Results

(In thousands)

|                                 | Three Months Ended<br>June 30, |                 | Six Months Ended<br>June 30, |                 |
|---------------------------------|--------------------------------|-----------------|------------------------------|-----------------|
|                                 | 2020                           | 2019            | 2020                         | 2019            |
| <b>Revenues, Net</b>            | <b>\$35,120</b>                | <b>\$45,200</b> | <b>\$78,795</b>              | <b>\$82,817</b> |
| Cost of Goods Sold              | 10,208                         | 13,695          | 22,810                       | 25,054          |
| <b>Gross Profit</b>             | <b>24,912</b>                  | <b>31,505</b>   | <b>55,985</b>                | <b>57,763</b>   |
| <i>Gross Margin</i>             | <i>71%</i>                     | <i>70%</i>      | <i>71%</i>                   | <i>70%</i>      |
| <b>Total Operating Expenses</b> | <b>32,875</b>                  | <b>28,463</b>   | <b>68,399</b>                | <b>56,529</b>   |
| <b>Operating (Loss) Income</b>  | <b>(7,963)</b>                 | <b>3,042</b>    | <b>(12,414)</b>              | <b>1,234</b>    |
| <i>Operating Margin</i>         | <i>(23)%</i>                   | <i>7%</i>       | <i>(16)%</i>                 | <i>2%</i>       |
| <b>Other Income</b>             | <b>36</b>                      | <b>165</b>      | <b>302</b>                   | <b>332</b>      |
| Income Tax Expense (Benefit)    | 5,923                          | 422             | 3,045                        | (2,691)         |
| <b>Net (Loss) / Income</b>      | <b>(13,850)</b>                | <b>2,785</b>    | <b>(15,157)</b>              | <b>4,257</b>    |
| <b>Adjusted EBITDA*</b>         | <b>(746)</b>                   | <b>6,317</b>    | <b>(1,216)</b>               | <b>8,425</b>    |
| <i>Adjusted EBITDA Margin*</i>  | <i>(2.1)%</i>                  | <i>14.0%</i>    | <i>(1.5)%</i>                | <i>10.2%</i>    |

• 2020 revenue guidance not published due to uncertainty of COVID-19 impact

# Balance Sheet Summary

| <i>(In thousands)</i>                                | June 30,<br>2020 | December 31,<br>2019 | June 30,<br>2019 |
|--|------------------|----------------------|------------------|
| <b>Cash, Cash Equivalents, Marketable Securities</b> | \$37,354         | \$45,234             | \$45,464         |
| <b>Working Capital</b>                               | \$84,090         | \$86,907             | \$75,421         |
| <b>Total Assets</b>                                  | \$141,530        | \$151,752            | \$121,836        |
| <b>Total Debt</b>                                    | –                | –                    | –                |
| <b>Retained Earnings</b>                             | \$5,519          | \$20,676             | \$13,962         |
| <b>Total Stockholders' Equity</b>                    | \$103,385        | \$112,595            | \$99,008         |

- \$10M (with \$25M accordion) credit facility in place with Wells Fargo Bank, N.A.



# Reconciliation of GAAP Net (Loss) Income to Non-GAAP Adjusted EBITDA

|                                  | Three Months Ended June 30, |                 | Six Months Ended June 30, |                 |
|----------------------------------|-----------------------------|-----------------|---------------------------|-----------------|
|                                  | 2020                        | 2019            | 2020                      | 2019            |
| <i>(In thousands)</i>            |                             |                 |                           |                 |
| <b>Net (Loss) Income</b>         | <b>\$ (13,850)</b>          | <b>\$ 2,785</b> | <b>\$ (15,157)</b>        | <b>\$ 4,257</b> |
| Interest income, net             | (25)                        | (78)            | (80)                      | (176)           |
| Income tax expense (benefit)     | 5,923                       | 422             | 3,045                     | (2,691)         |
| Depreciation and amortization    | 720                         | 914             | 1,450                     | 1,978           |
| Stock-based compensation expense | 2,396                       | 2,274           | 5,124                     | 5,057           |
| Impairment Charges               | 4,025                       | 0               | 4,025                     | 0               |
| CEO transition costs             | 65                          | 0               | 377                       | 0               |
| <b>Adjusted EBITDA</b>           | <b>\$ (746)</b>             | <b>\$ 6,317</b> | <b>\$ (1,216)</b>         | <b>\$ 8,425</b> |

|                                  | Three Months Ended June 30, |              | Six Months Ended June 30, |              |
|----------------------------------|-----------------------------|--------------|---------------------------|--------------|
|                                  | 2020                        | 2019         | 2020                      | 2019         |
| <b>Net (Loss) Income Margin</b>  | <b>(39.4)%</b>              | <b>6.2%</b>  | <b>(19.2)%</b>            | <b>5.1%</b>  |
| Interest income, net             | (0.1)%                      | (0.2)%       | (0.1)%                    | (0.2)%       |
| Income tax expense (benefit)     | 16.9%                       | 0.9%         | 3.9%                      | (3.2)%       |
| Depreciation and amortization    | 2.1%                        | 2.0%         | 1.8%                      | 2.4%         |
| Stock-based compensation expense | 6.8%                        | 5.0%         | 6.5%                      | 6.1%         |
| Impairment Charges               | 11.5%                       | 0.0%         | 5.1%                      | 0.0%         |
| CEO transition costs             | 0.2%                        | 0.0%         | 0.5%                      | 0.0%         |
| <b>Adjusted EBITDA Margin</b>    | <b>(2.1)%</b>               | <b>14.0%</b> | <b>(1.5)%</b>             | <b>10.2%</b> |

# Growth Strategy

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## **Proven, Scalable Direct Sales Model Enables Further Penetration of U.S. Market**

Expand Salesforce | Leverage New Clinical Data | Target High Volume Call Points

## **Improve Clinical & Economic Outcomes Data to Expand Reimbursement**

Grow Clinical Support from Opinion Leaders and Societies | Expand Reimbursement Coverage

## **Expand Indications and Introduce New Features and Products**

Expand Addressable Patient Populations | Enter New Clinical Adjacencies

## **Build Awareness and Disease Recognition to Expand Patient Access**

Educate Physicians and Therapists | Establish Practice Guidelines | Publish Evidence

# Investment Highlights

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- ✓ Large, growing and under-penetrated end markets
- ✓ Market leader in treatment of lymphedema
- ✓ High top-line growth profile with attractive margins and profitability
- ✓ Clinically proven and cost-effective treatment solutions
- ✓ Scalable, direct sales platform to drive continued, profitable growth
- ✓ Core competency in reimbursement and payer relations
- ✓ Experienced leadership team executing profitable growth

# Tactile MEDICAL®

HEALING RIGHT AT HOME

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