LifeWatch®
Watching Life™

HALF YEAR 2014 RESULTS

August 20, 2014

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Agenda

1. **HY 2014 Highlights, Operational and R&D Update**
2. Outlook
3. Questions & Answers

1. HY 2014 Highlights

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- Volume growth of 13.1% year-on-year
- Overall sales grew by 10.2% despite 8% price reduction imposed by Medicare in 2014 and reached USD 48.12 million in 1H 2014 vs. USD 42.68 million in 1H 2013
- Gross profit margin at 52.1%; adjusted for one-time effects at 56%
- Market share gains thanks to strong LifeWatch franchise in its primary (US) market
- 19 new or amended contracts signed for Ambulatory Cardiac Telemetry (ACT) and NiteWatch Home Sleep Test services
- Well-received exhibition at Heart Rhythm Society annual meeting in San Francisco in May
- Comprehensive and detailed analysis of LifeWatch's operations resulted in the initiation and implementation of various restructuring and streamlining measures
- Restructuring expenses, one-off charges and reduced Medicare reimbursement affected overall profitability, resulting in an operating loss of USD 4.13 million and a net loss of USD 4.72 million
- Adjusted for one-off charges totaling USD 2.97 million, the operating loss comes in at USD 1.16 million

1. HY 2014 Summary: Key Figures* First Half 2014 vs. First Half 2013

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USD millions	Adjusted** 1H 2014	1H 2014	1H 2013	+/- in %
Revenues	**48.12**	**48.12**	**43.68**	**+10.2%**
Gross profit	**26.93**	**25.09**	**25.92**	**+7.3% ****
GP margin	*56.0%*	*52.1%*	*59.3%*	
EBITDA (LBITDA)	1.45	(1.52)	4.32	-66.4%
EBITDA margin	*3.0%*	*NA*	*9.9%*	
EBIT (LBIT)	**(1.16)**	**(4.13)**	**2.71**	**n.m.**
EBIT margin	*NA*	*NA*	*6.2%*	
Net income (loss)	(1.75)	(4.72)	8.88	n.m.
Earnings per share, basic, in USD		(0.36)	0.68	n.m.
Total fixed assets, net		13.02	7.76	
Total assets		**68.54**	**69.28**	
Total equity		34.82	44.12	
Equity ratio		51%	64%	
Net cash flow		(3.92)	4.97	
Employees		561	535	

* *Unaudited*
*** Adjusted: Adjustments to Gross Profit amount to USD 1.84 million, total adjustments to EBITDA, LBIT and Net loss USD 2.97 million*

1. HY 2014 Operational and R&D update

- Aggressive streamlining activities initiated to bear fruit in 2H 2014 and beyond
- Measures and strategies already implemented:
  a) Restructuring and redefinition of Israeli R&D operation; 36% staff reduction
  b) Realignment of US sales territories and regions to improve efficiency (20% sales rep. reduction) as well as refocusing of the sales commission plan
  c) Implementation of global Governance, Risk and Compliance program
  d) Structural changes including realigning the business along global lines
  e) Establishment of a senior management leadership and training program
- In addition, the financial reporting systems are being updated and standardized
- Vital Signs Patch (VSP) – a potentially game changing technology – "Proof of Concept" studies:
  - Pilot trial at Mount Sinai hospital with half of patients enrolled
  - Pilot trial at Montefiore hospital to commence in September
  - 3rd pilot trial in preparation
  => Expected market launch: 1H 2015 post 510 (K) FDA marketing clearance

1. HY 2014: Review of Operating Expenses

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- Lower R&D charges due to capitalization of development costs for VSP project
  - USD 0.56 million was capitalized; without this, R&D would have been 8.0% of sales
  - As of 2014, partial capitalization of (software) development costs, as is widely done in the industry
- Significantly higher S&M expenses at 25.9% of sales vs. 21.7% in 1H 2013
  - Newly recruited sales reps need time to be fully productive
  - New sales commission plan to refocus sales force
  - Going forward, percentage of revenue ratio is expected to return to 2013 levels
- Higher G&A expenses at 26.4% of sales vs. 23.6% in 1H 2013
  - Higher US labor costs
  - Higher bad debt provision, higher legal and advisor costs, some of which are non-recurring
  - FY G&A ratio expected to be lower than in 2013
- "Operational Efficiency Program" instigated recently to reduce costs starting in 2H 2014. As a result of the various measures taken, EBITDA, EBIT and Net Income are expected to be positive during 2H 2014

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4. Outlook: Solid Basis for the Future

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LifeWatch is poised for profitable growth

- Financial
  - Restructuring and realignment initiatives as well as product development catch-up will impact profits in 2014; benefits to be harvested in 2H 2014 and beyond
  - Over USD 7 million allocated for product development in 2014
  - mHealth to be further analyzed and restructured; partner to be sought
  - Above market growth envisioned
- Organizational
  - Global organization structure in place => market and client focus
  - US Sales realigned and sales commission plan refocused => more focused sales approach
- Operational
  - Operating inefficiencies continue to be further addressed
  - Costs are being scrutinized and reduced where appropriate
- Barring unforeseen events, we expect to exceed our 2014 revenues goal of USD 100 million with an improvement in EBIT and EBITDA. The 2014 fiscal year is, however, a year of transition.

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THANK YOU FOR YOUR INTEREST. WE ARE READY FOR YOUR QUESTIONS.

Calendar:

Oct 1, 2014: Presentation at Investora Zurich 2014 Equity Conference

Apr 29, 2015: Ordinary AGM 2014