

Diagnostic services for  
physicians and their patients.  
Always. Everywhere.

# Introduction to LifeWatch

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# LifeWatch Overview

## A few significant dates:

- 1993: Incorporated in Israel as Card Guard Scientific Survival Ltd
- 1999: Quoted on the Swiss stock exchange
- 2001: Became a Swiss company (flip-up); Card Guard Scientific Survival Ltd purchases LifeWatch Inc. and Instromedics Inc.
- 2009: Name change to LifeWatch AG

## A few significant facts / accomplishments:

- Subsidiaries in the US, India, Japan, Israel, Macedonia and Turkey
- A leader in remote cardiac monitoring services
- January 2014: new Board of Directors and management team
- Turnaround well underway (with a few setbacks)
- April 2016: Board of Directors expanded and capital increase approved
- Legacy legal cases settled in 2016
- Capital increase completed in July 2016

# Arrhythmia



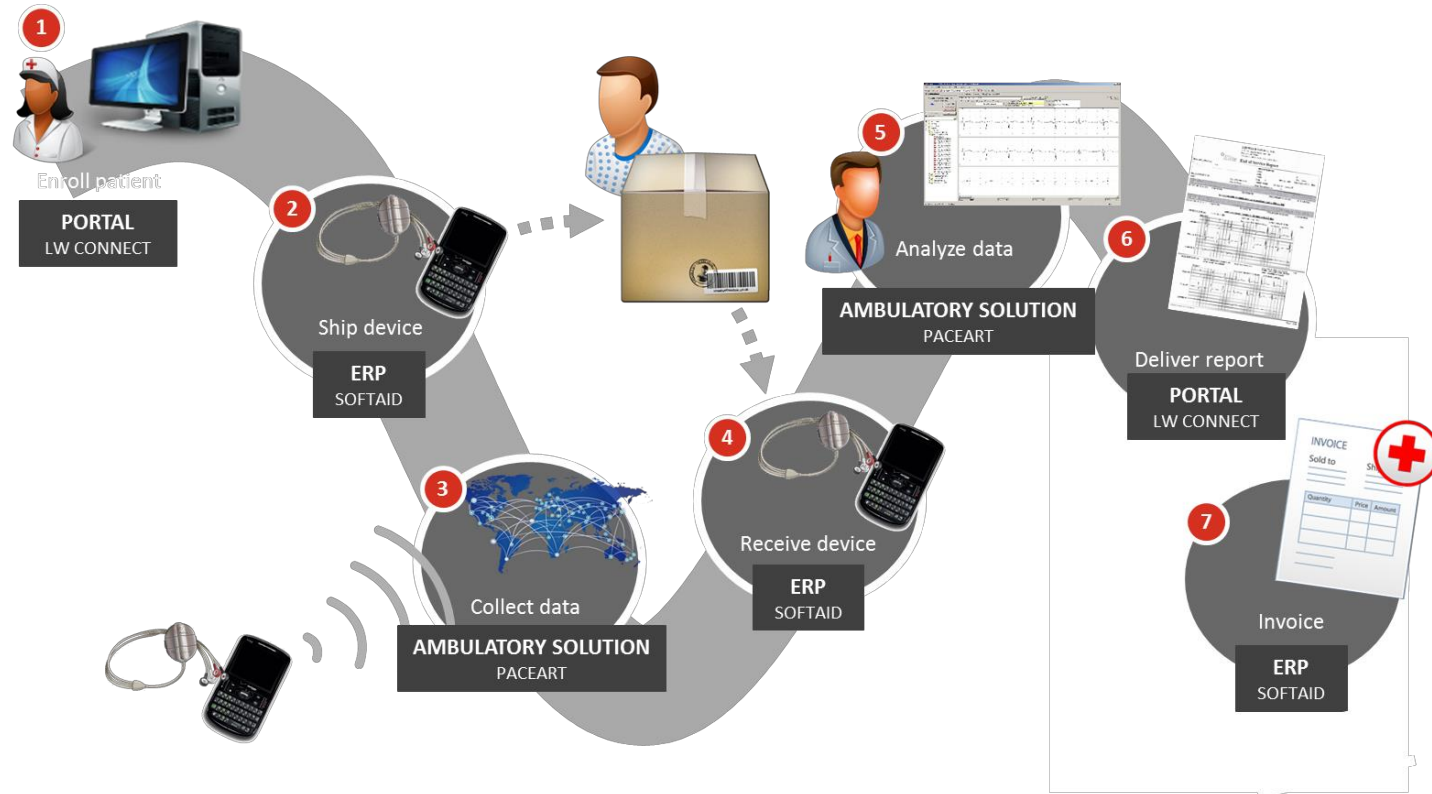
- Irregular heartbeat (too fast / too slow)
- $> 100$  = tachycardia;  $< 60$  = bradycardia
- Affects millions of people (5% of US population)
- Symptoms: palpitations, dizziness, syncope  
infrequent, frequent or continuous  
absent (asymptomatic)
- Risks: embolization, stroke, heart failure, sudden cardiac death
- Diagnostic approach: ECG or long-term monitoring (for arrhythmias that happen briefly and unpredictably)
- Treatment: drugs, electricity (cardioversion), defibrillation, pacemaker, electric cautery (ablation), blood thinners (anticoagulation)
- Co-morbidities: stroke, sleep apnea, hypertension, diabetes etc.





# LifeWatch's Business Model

Prescription → Enrollment → Analysis → Report → Invoice



# Evolution of Cardiac Monitoring Devices



		Digital holter	King of Hearts Express	MicroER	Explorer	LifeStar AF Express	MCT ACT III	ACT Ex	ACT Elite	MCT 1- Lead Patch
Launch year		-	1994	1996	1999	2001	2008	2009	2012	2016
Discontinuation year		-	2016	2016	-	-	-	-	-	-
Format		Monitor	Monitor	Monitor	Monitor	Monitor	Monitor + gateway	Monitor + gateway	Monitor + gateway	Patch + brain + gateway
Auto-detect	Tachycardia Bradycardia AF	×	×	×	×	✓	✓	✓	✓	✓
	Pause	×	×	×	×	×	✓	✓	✓	✓
Max recording time		48h	5m	6 x 30s	5m	10m	1 month			
Data transmission		Manual upload	Via landline				Via GSM			
Data type		ECG								
Auto-detect/auto-send		×	×	×	×	×	✓	✓	✓	✓

Low Frequent ← Diagnostic Yield Symptoms → High Infrequent

Launched Q3 / 2016

# Remote Monitoring Solutions

## INR Self-Test Plus



Patient INR test results delivered wirelessly

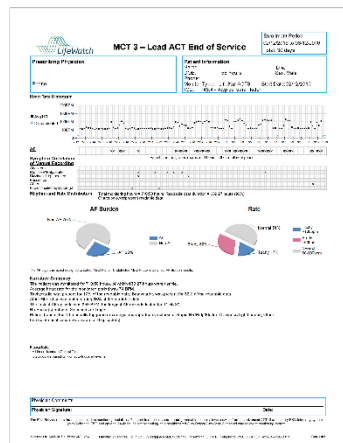
Physician views results on INR portal and adjusts doses

Convenient for patient and physician

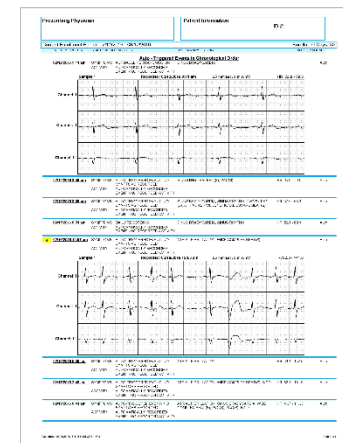


# Remote Monitoring Solutions

## LifeWatch Deliverable Reports



Processing Physician	Patrol Information	IP
<b>Device Information</b>		
Device ID	Device Name	Device Type
Device Status	Device Location	Device History
Device Settings	Device Alerts	Device Events
Device Summary	Device Details	Device Notes
Device Footer		



MCT Daily Summary



MCT as Holter



MCT Event



Holter



MCT Event Meeting MD Criteria



ARR Event



MCT End of Service



ARR End of Service



# Legal and Reimbursement Landscape

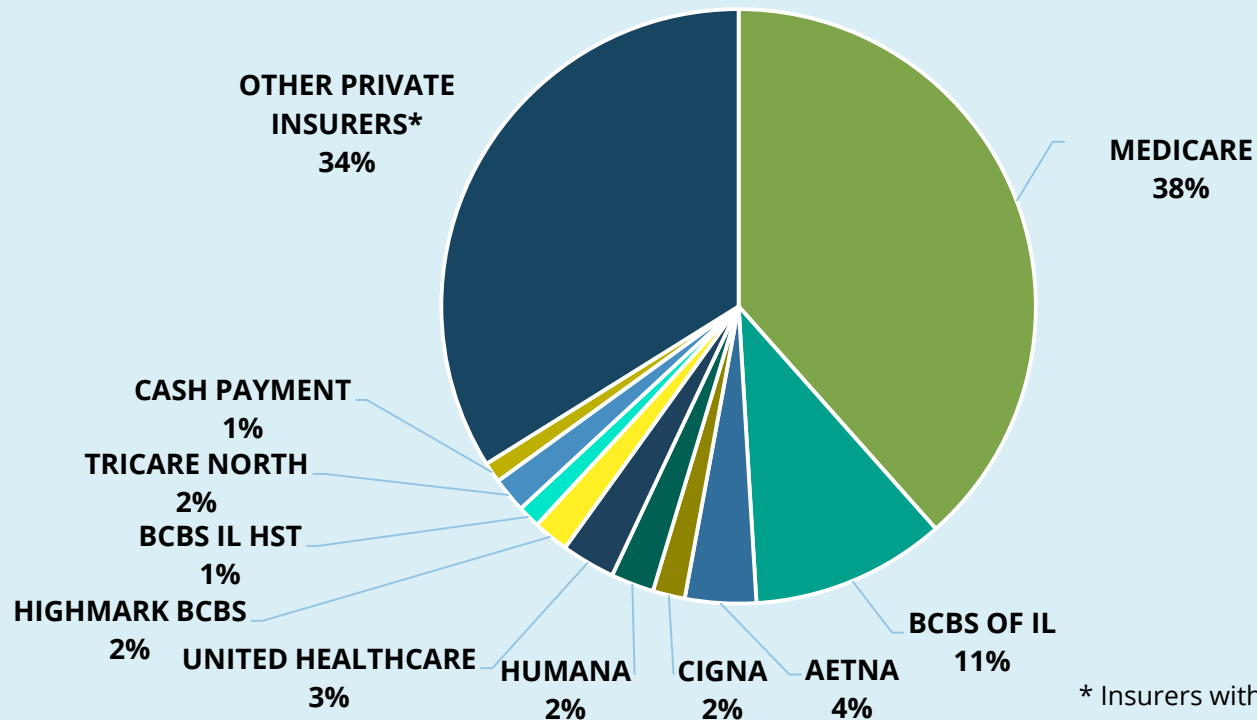
## Reimbursement:

- > 600 managed care contracts with provider networks
- CPT Codes: 93226, 93229, 93271  
(Current Procedural Technology)
- CPT Codes cover purely technical work performed by LW
- Ordering physician / cardiologist performs the professional analysis of test results

## Relevant laws / guidelines:

- “HIPAA” (Health Insurance Portability and Accountability Act)
- ICD-10-CM Guidelines for Coding and Reporting

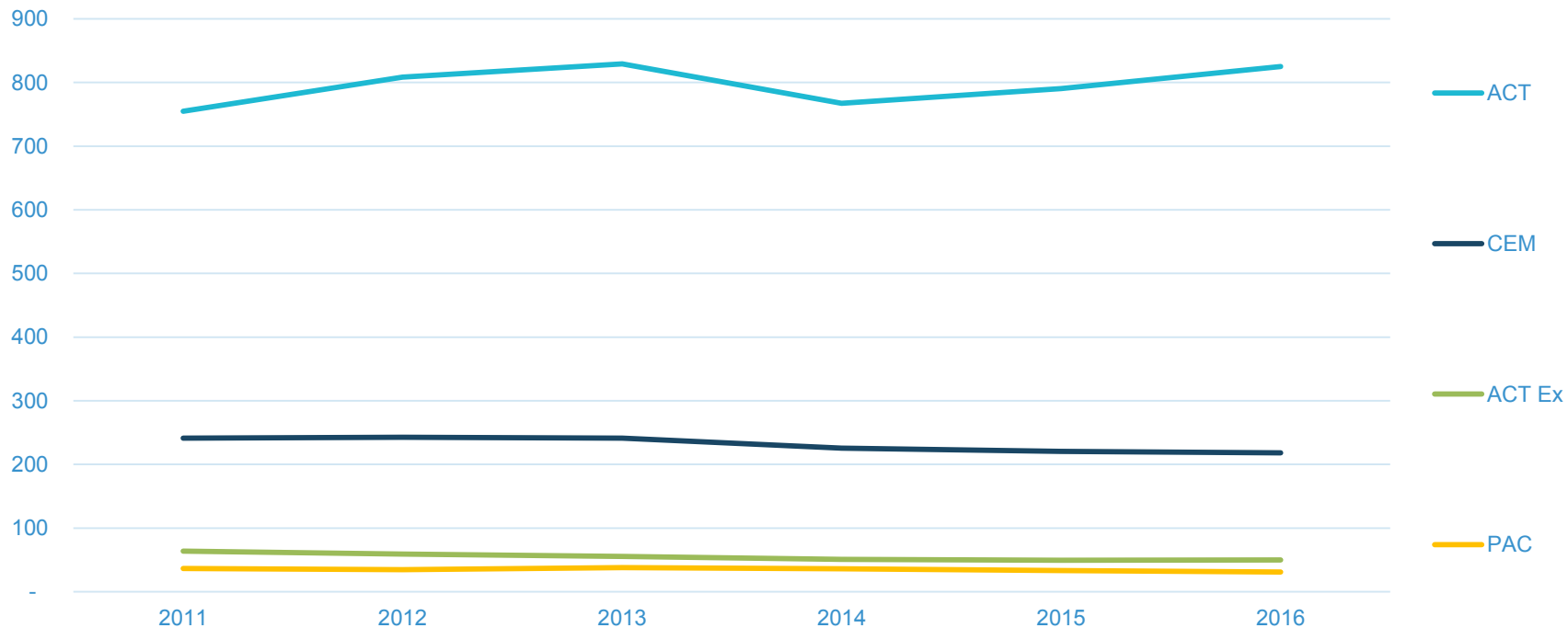
## Payor Breakdown 2015



## 2015 Business Statistics



Average Selling Price (USD)



## Digital Health: a paradigm shift in healthcare

- Uberification of Healthcare
- Only constant is change
- Change creates opportunities
- Move from traditional fee-for-service to pay-for-performance models (and how much they pay)
- Focus on patient centric vision
- Trend towards wireless devices

LifeWatch is evaluating opportunities and is well positioned to become a player in this space

## Key Elements of Strategy

- Transition to a pure play service provider
- Primary focus on revenues from outpatient services in cardiac monitoring and co-morbidities
- Increase the demand for the Group's remote cardiac monitoring solutions
- Expand into new markets
- Accelerate growth by pursuing opportunistic strategic acquisitions



## LifeWatch's Service Improvements

- Projects nearing completion
  - Updated and more customized web portal
  - Reduction of delivery times for clinical reports
  - More flexible reporting system
  - Fine-tune marketing message and sales management processes
  - More automation via improved algorithms
  - Streamlining of operational processes to reduce the risk of future back-orders

## Roadmap to higher growth

- Improve sales management process (US)
- Re-organize marketing (US)
- Align marketing & sales (US)
- Improve efficiency of service offering
- Sell a comprehensive product portfolio incl. patch
- Push INR
- Successful ramp-up in Turkey
- Pursue other promising growth opportunities in the US and Europe

# Finance

Andy Moore  
Chief Financial Officer

## First Half-year 2016 Summary

- First half year 2016 cardiac monitoring revenues up 10.0%
- Overall revenue growth up 8.6% reaching USD 57.0 million versus USD 52.5 million in the first half of 2015
- Q2 revenue growth slowdown compared to Q1 revenue growth of 12.3%
- EBIT of USD -7.625 million and EBITDA of USD -2.957 million
- Adjusted EBIT and EBITDA of USD 2 million and USD 6.6 million respectively; adjustments made for legal settlements (mainly Highmark and Qui Tam)

# Profit & Loss Statement

USD millions	First Half 2016	First Half 2015	2015	+/- in %
<b>Total revenues</b>	<b>57.015</b>	<b>52.512</b>	<b>88.628</b>	<b>8.6%</b>
Total cost of revenues	29.006	-24.765	-51.037	
<b>Gross profit</b>	<b>28.009</b>	<b>27.747</b>	<b>37.591</b>	<b>0.1%</b>
GP margin	49.1%	52.8%	42.4%	
Research & development expenses	-2.706	-1.982	-4.140	36.5%
<i>in % sales</i>	4.7%	3.8%	4.7%	
Selling & marketing expenses	-11.119	-9.453	-18.796	17.6%
<i>in % sales</i>	19.5%	18.0%	21.2%	
General & administrative expenses	-18.055	-12.500	-26.316	44.4%
<i>in % sales</i>	31.7%	23.8%	29.7%	
Legal expenses and other expenses, net	3.754	-	-	
<b>EBIT</b>	<b>-7.625</b>	<b>3.812</b>	<b>-11.661</b>	<b>n.m.</b>
<i>EBIT margin</i>	-13.4%	7.3%	-13.2%	
One-off items *	9.577	-	18.000	
EBIT excluding one-time items	1.952	3.812	6.339	-48.8%
<i>EBIT margin excluding one-time items</i>	3.4%	7.3%	5.9%	
Financial and other income (expenses), net	-0.722	-0.443	-3.956	63%
Tax benefit (expenses)	-0.503	-1.427	4.459	
Share in losses of affiliate company			-0.790	
<b>Result for the period</b>	<b>-9.796</b>	<b>1.942</b>	<b>-11.948</b>	<b>n.m.</b>
<b>EBITDA</b>	<b>-2.957</b>	<b>7.234</b>	<b>-3.620</b>	<b>n.m.</b>
<i>EBITDA margin</i>	-5.2%	13.8%	-4.0%	
EBITDA excluding one-time items	6.620	7.234	14.370	-8.5%
<i>EBITDA margin excluding one-time items</i>	11.6%	13.8%	13.5%	

# Adjusted numbers

One-time items (in USD million):	
Vital Signs Patch development / inventory	-3.612
Qui Tam settlement	-12.975
Reduction in Highmark settlement	8.973
Pharmalife recovery net of employee settlement	0.248
Professional fees related to legal settlements	-0.964
Automation of bad debt provision calculation	-1.247
<b>Total</b>	<b>-9.577</b>
<b>Adjusted EBIT</b>	<b>1.952</b>
Adjusted EBIT margin	3.4%
<b>Adjusted EBITDA</b>	<b>6.620</b>
Adjusted EBITDA margin	11.6%



## Review of Operating Expenses

- Gross margin higher at 49.1% versus 52.8% in the first half of 2015; adjusted gross margin at 55.5%
- Higher R&D costs due to a reduction in capitalization in H1 2016 and higher labor and external contractor costs. USD 672 million capitalized in R&D in the first half of 2016 versus USD 1.0 million in the first half of 2015.
- Higher S&M expenses at 19.5% of sales versus 18% of sales in the first half of 2015.  
The increase is attribute to higher sales commission payments for the strong revenue growth in the first quarter of 2016.
- Higher G&A expenses at 31.7% of revenues versus 23.8% of revenues in the first half of 2015. The large increase in G&A expenses was caused by two large one-time items for legal costs and the automation of the bad debt provision calculation totaling \$2.2 million as well as higher labor, regulatory and IT costs. In particular a new disaster recovery system was installed, internet connectivity was upgraded, a new website is being developed, a global bonus system was implemented and HR and FDA consultants were used.
- Legal settlements totaling USD 3.8 million were recorded in the first half of 2016. This includes a provision for the Qui Tam settlement of USD 12.98 million, offset by a reduction in the Highmark settlement of USD 8.97 million and a recovery from the Pharmalife case of USD 248 thousand, net of an employee settlement. There were no such costs in the first half of 2015.

## Balance Sheet

USD millions	June 30. 2016	June 30. 2015	+/- in USD million
Balance sheet total	76.317	71.939	4.378
Cash and cash equivalents	3.497	7.108	-3.611
Net working capital (NWC)	-24.715	5.450	-30.165
NWC in % of revenues	n.m.	10.4%	
Property, plant & equipment, net	16.580	16.224	3.199
Goodwill & intangibles	18.861	17.335	1.778
Provisions	23.225	6.059	17.166
Interest-bearing debt	11.497	6.702	4.795
Net cash	-8.000	0.406	-8.406
Equity	15.886	39.036	4.221
Equity Ratio	20.8%	54.3%	

# Cash Flow Statement

USD millions	June 30. 2016	June 30. 2015	+/- in USD million
Net cash from operating activities	0.889	4.188	6.967
Net cash from investing activities	-5.130	-5.737	-2.834
Net cash from financial activities	0.338	1.570	-0.105
Increase (decrease) in cash and cash equivalents	-3.903	0.021	3.937
Balance of cash and cash equivalents at beginning of period	7.400	7.087	-3.049
Balance of cash and cash equivalents at end of period	3.497	7.108	0.888

## Summary and Outlook

- Disappointing first half of the year
- With the resolution of the Highmark and Qui Tam legal cases the Company has resolved the remaining historical issues and can now fully focus on growing the business going forward
- Successful capital increase completed in July 2016 and yielding CHF 43.7 million net of costs
- Ramping-up of Mobile Cardiac Telemetry (MCT) 1-lead patch production
- Several internal development projects to improve service and efficiency nearing completion
- Controlled entry to the Turkish market planned in Q1 2017
- Foundations for future growth have been laid and the benefits will materialize in 2017 and beyond

**Thank you for your interest!**



Our experience  
and credentials let you  
take care of your life.



# Back-up Slides



# LifeWatch Services Remote Monitoring Solutions



## Remote Monitoring Solutions MCT 1-Lead Patch



Up to 30 days of retrievable ECG data

QRS detection and extraction

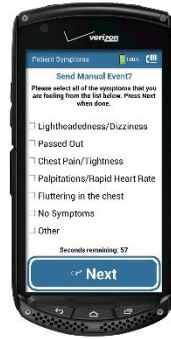
Analysis of R-R intervals and P-wave recognition  
Heart Rate histogram correlated to AFib, symptoms  
and activities

Captures AFib onset and offset  
Daily Summary, End of Session and Physician  
Notification reports with AF Burden, average heart  
rate and patient compliance

Full disclosure report on demand



## Remote Monitoring Solutions Holter Plus Extended MCT



Convenient conversion of service from 24/48 hour Holter to ambulatory cardiac telemetry for up to 30 days

Comprehensive Holter report with quantification of heart rates and all arrhythmia types

Periodic ECG samples, including onset and offset of arrhythmia episodes

Automated QT and ST segment measurements

Automated HRV measurement

Accurate AF Burden

## Remote Monitoring Solutions MCT Elite



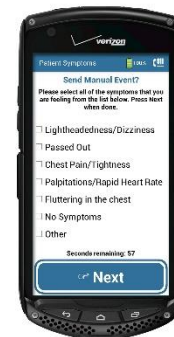
Solution for patients who do not meet enrollment criteria for ACT Ambulatory Cardiac Telemetry services

Automatic conversion from MCT III device to standard cardiac event monitor with auto trigger and auto send capabilities

3-channel EKG for more specific and sensitive diagnostic value

Auto detect / auto-send of symptomatic and asymptomatic Atrial Fibrillation, Bradycardia, Tachycardia and Pause

Manual event button for symptomatic episodes



## Remote Monitoring Solutions DigiTrak XT Holter Monitor



Captures every heartbeat and can document arrhythmia onset and offset of AF, Bradycardia, Tachycardia and Pause

Standard 24 hours of memory

Flash memory technology

ECG view from 5-lead cable

EASI derived 12-lead

Constant diagnostic 3-channel lead ECG

Automatic uploading



## Remote Monitoring Solutions Cardiac Event Monitors



### Explorer™

Manual trigger

1-lead ECG

5 minutes of looping  
memory captures ECG  
both before and after  
patient pushes button  
record event

Patient manually  
transmits data with a  
landline telephone



### LifeStar AF Express™

Auto-trigger

1-lead ECG

Records 45 seconds pre-  
symptom and 15 seconds  
post trigger

10 minutes of memory

Patient transmits  
recordings by landline  
telephone

