



**LifeWatch<sup>®</sup>**  
*Watching Life<sup>™</sup>*

# **MEDIA & ANALYST CONFERENCE**

*Hotel Savoy, Zurich*

*May 27, 2014*

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1. Introduction to LifeWatch
2. Current Situation
3. 100-Day Review and Key Findings
4. Roadmap for Success
5. Financial Review
6. Outlook
7. Questions & Answers

- LifeWatch is a leading provider of monitoring services in the cardiac and home sleep areas
- LifeWatch has its primary operations currently in the United States, Switzerland, Israel, Macedonia, India and Japan
- World headquarters are in Neuhausen am Rheinfl, to be moved to Zug\*
- A comprehensive and detailed analysis of LifeWatch's operations resulted in an additional USD 3 million charge to the 2013 accounts
- 2013 revenues reached USD 91 million (+13.2 % versus 2012) with a net profit after exceptional items of USD 2.9 million
- An extensive Strategy Review was instigated by the Board of Directors, the results of which will be presented today

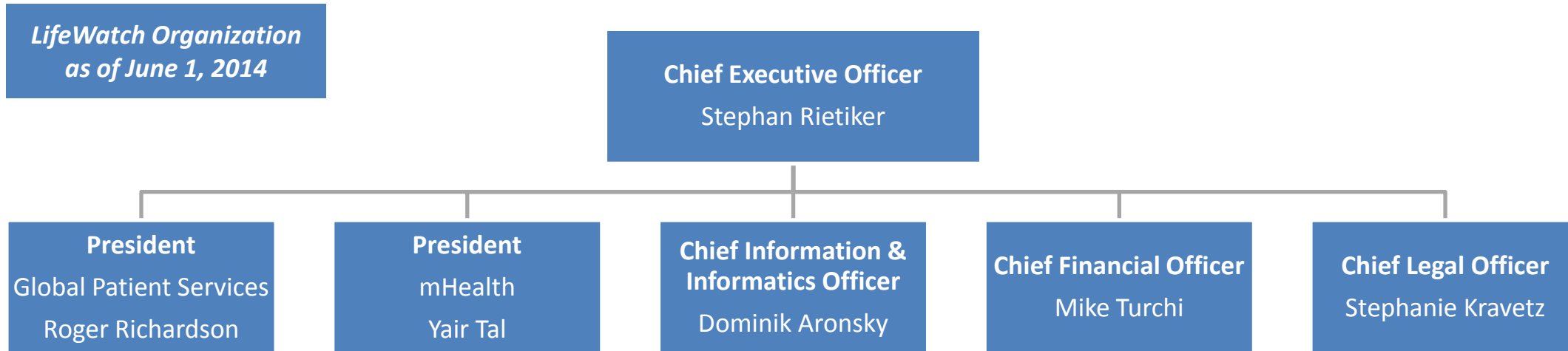
*\* To be approved by shareholders during 2013 AGM on May 28*

# 1. Revenue and gross margin increase not feeding to EBIT yet

USD millions	1Q 2014	2013	2012	+/- in %
<b>Total revenues</b>	<b>23.582</b>	<b>91.063</b>	<b>80.111</b>	<b>13.7%</b>
<b>Gross profit</b>	<b>13.060</b>	<b>53.607</b>	<b>46.030</b>	<b>16.5%</b>
<i>GP margin</i>	55.4%	58.9%	57.5%	
<b>EBIT</b>	<b>-0.956</b>	<b>-2.089</b>	<b>4.371</b>	<b>n.m.</b>
<i>EBIT margin</i>	-4.1%	-2.3%	5.5%	
Exceptional items *		6.8		n.m.
EBIT before exceptional items	-0.956	4.711	4.371	<b>7.8%</b>
<i>EBIT margin before exceptionals</i>	-4.1%	5.2%	5.5%	
<b>Result for the period</b>	<b>-1.329</b>	<b>2.922</b>	<b>-0.037</b>	<b>n.m.</b>
Earnings per share, fully diluted (USD)		0.221	-0.029	n.m.
Free cash flow	-3.901	4.032	-11.312	n.m.
Equity ratio	52.3%	53.8%	58.5%	

\* Including provisions for bad debt, legal costs, one-off payment to former CEO and other

# 1. New Management Team: Business unit-focused organization



- Organization adjusted to reflect a new and primary focus on the market – global business units instead of country centric (including matrix functions)
- Product development aligned with market needs
- Limited number of direct reports
- Interdisciplinary project review committee

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## 2. Current Situation: Product Offering

- Continuous 3-lead ECG, with or without Holter Analysis
- Automatically transmits cardiac events via mobile data networks
- Typical use: Infrequent symptoms or with at-risk patients



### Ambulatory Monitors

Speed to diagnosis  
Increased diagnostic yield

- Patient-activated 1-lead event monitors
- Worn on belt clip or directly on chest
- Relays events and patient recordings over standard telephone connection
- Typical use: Symptomatic lower risk patients



### Arrhythmia Monitors

Effective long-term monitor  
Discreet event monitoring

- 24-48 hours duration
- Remote upload of data to LifeWatch
- Derived 12-lead, ST, QT, HRV, Full Disclosure
- Typical use: Daily symptoms



### Digital Holter

Detailed ECG analysis  
Complete documentation

- 1-3 nights duration
- Nightly patient support
- ECG, Position, Effort, Airflow
- Typical use: Suspected Sleep Apnea



### Sleep Testing

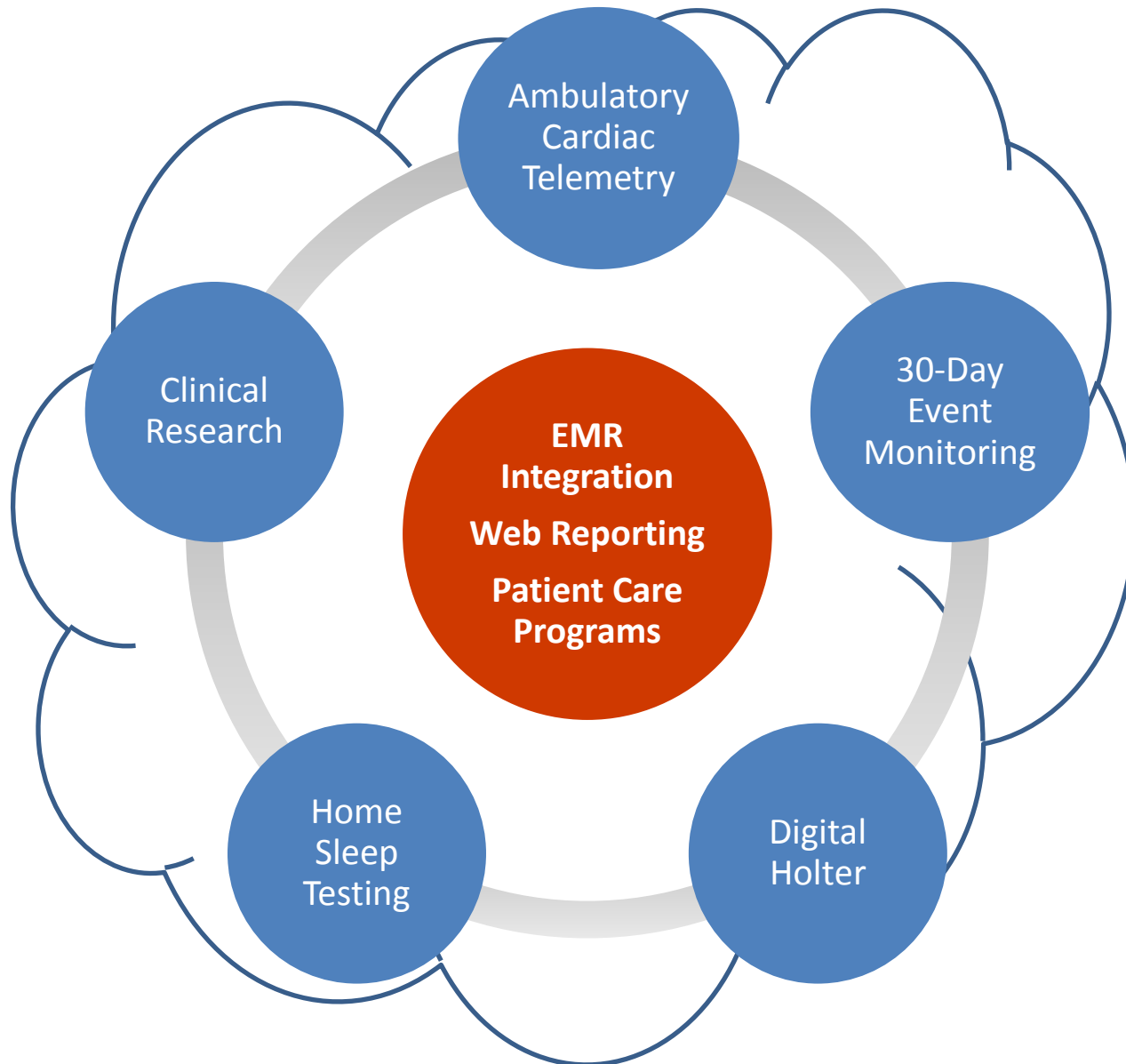
Comprehensive sleep analysis  
Convenience of home testing

- A comprehensive suite of heart and sleep diagnostic services, addressing the growing awareness of the role cardiac rhythm defects and airway obstruction play in Heart Failure and Stroke.
- The global market for cardiac event monitoring devices reached €500 million in 2011. (North American market: €200 million, European market: €160 million)\*
- The global market for home sleep monitoring devices was worth around €35 million in 2011\*

\* Berg Insight 2013



## 2. Current Situation: Service Offering



- LifeWatch services offer physicians continuous monitoring of all their patients, along with a suite of clinical reports to support the diagnosis and management of at-risk cardiac patients.
- The reports provide specific and sensitive clinical data integrated into the Electronic Medical Records (EMR) to help with the diagnosis and treatment of patients, and thus contribute to improved patient outcomes
- Well-developed, efficient supply chain and distribution model that is scalable

## 2. Current Situation: “Areas of Excellence”

- Impressive Credentials
  - Joint Commission in Telehealth and American Society of Sleep Medicine certified
- 24/7 Patient Surveillance and Proven Infrastructure Support Center
  - Advanced Patient Enrollment Procedures
  - FDA-Audited Medical Device Distribution with Good Manufacturing Practices
- Extensive payor network of 500+ contracts
- Expert Distribution of On-shelf Device Management Methodology
- Specialized patient care programs
- Expertise in Electronic Medical Record (EMR) integration



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### 1 LEADERSHIP

Past management style focused on operating and managing Israel and US entities independent of one another with numerous direct reports, which resulted in a silo mentality and ineffective coordination of the business around the globe. Main outcome was accountability with no authority.

### 2 R & D

Singular focus on mobile health to the detriment of the core business of service and VSP development:

- Not linked to market realities / research driven decision
- No accountable project management monitoring in place (e.g. VSP without blood pressure) creating major scope shifts and extreme cost overruns
- No orchestrated plans for market launches and feedback
- No plans to facelift older technology used in core business to keep up with technology advances; success only achieved through integrated services offering and relationships

### 3 FINANCIAL

Rudimentary financial management with limited global liquidity management; systems not compatible worldwide

4

**US business centric** - Failure to focus on key areas around the globe

5

Missing **key opportunities** despite holding a motivated talent pool and a successful healthcare service market franchise

6

**Not capitalizing** on 20 years of accumulated **patient data**

7

**Poor human capital management** due to unstructured talent acquisition and retention processes

8

**No Global Risk Management focus** - Despite the US Compliance Program, no global risk management strategy existed, thereby creating out of control legal issues, excessive cost and additional risk exposure

9

Singular focus on healthcare reimbursement model, placing business at the mercy of government pricing policies and stringent oversight

### 3. Gaps overview: Product and Service Offering needs to be broadened

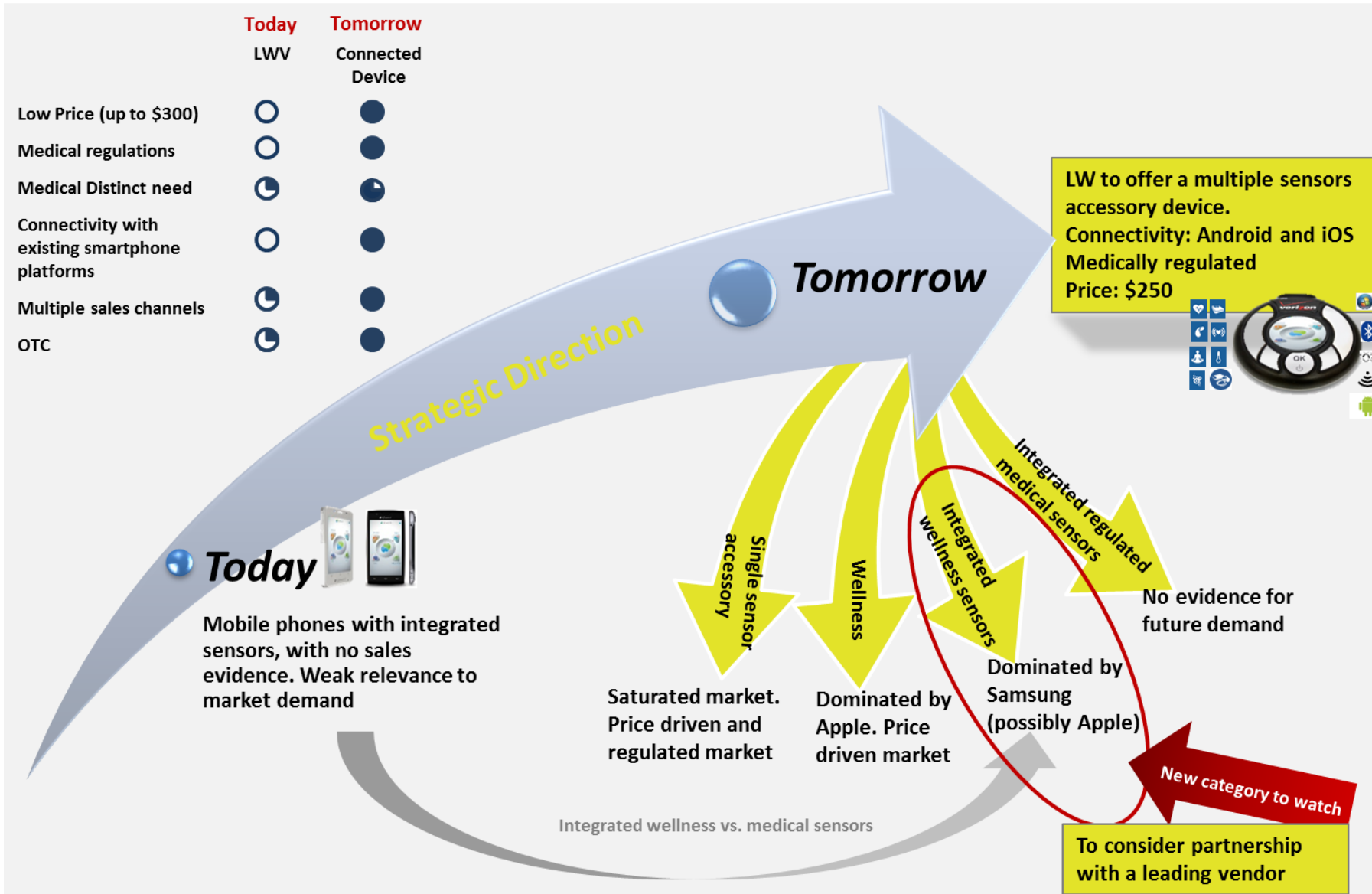


\*\* offer decision support for providers and patients via recognizing patterns, anticipating needs and managing customers' healthcare

### 3. Gaps – by Products

ACT	➔	Needs next generation; US market
Cardiac Event Monitor	➔	Wireless solution needed
Home Sleep Testing	➔	Currently only a diagnostic tool – needs combining with therapy offering
Software	➔	Needs to be hardware-independent, flexible front- and back-end software
Product pipeline	➔	No integrated project management
Vital Signs Patch	➔	Blood pressure measurement solution needed; improve product design
mHealth solution	➔	Disparity between shelf life of smartphone and medical product lifecycle (sensors embedded in phone); retail price too high for market acceptance; blood pressure measurement solution needed; develop a flexible service component.

# 3. Gap – mHealth



External accessory (\$200 to \$300) needed.

Independent service component needed.



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## 4. Roadmap for Success: Megatrends

### People



Aging population who are better informed, mobile, online, socially connected, sharing and looking for real-time information. Trend to product combined with services.

### Technology



Miniaturization; always online with constant monitoring; move from data management to information management – pattern recognition and prediction; offering service over distance.





### Health Care



Hospital to home-based care with a movement from bedside to remote monitoring in the developed world (continuity of care model); exponential increase in health care expenditure in the developing world; move to multi-morbidity management with constant monitoring. Increased patient empowerment. Workforce shortages.

- Mobile health industry expected to reach \$50 billion by 2020. (McKinsey, Dec. 2011)
- Demand for ambulatory mobile ECG monitoring devices is projected to grow at a CAGR of 27.4 percent worldwide (Berg Insight 2013)
- The market for embedded medical & wellness monitoring gadgets is anticipated to grow to 170 million devices by 2017 (ABI Research Sept. 2012)
- The US wireless health monitoring device industry has doubled in the past 4 years to a value of \$7.1 billion and is estimated to triple to \$22 billion in 2015 (Kalorama Information Nov. 2012)
- China's health care sector continues to develop at an astonishing rate; spending is projected to grow from \$357 billion in 2011 to \$1,000 billion in 2020 (McKinsey, Nov. 2012)

## 4. Roadmap for Success: Urgent Organizational Issues I

	Topic	Measures	Timeline	Status
<b>1</b>	<b>Leadership</b>	Appoint a new Executive Management Team to manage global operations	June 1	
		Set up global business units	June 1	
		Adopt management style based on trust, team spirit, empowerment and performance		ongoing
<b>2</b>	<b>R&amp;D</b>	Set-up interdisciplinary project review committee chaired by the CIO	June 1	
		Facelift current product technologies in core business		ongoing
		Transition medical phone development into accessory device	a.s.a.p.	ongoing
<b>3</b>	<b>Financial</b>	Appoint new CFO		
		Utilize US resources for consolidation/monthly reporting		ongoing
		Global liquidity and receivables management		ongoing

## 4. Roadmap for Success: Urgent Organizational Issues II

4

Topic	Measures	Status
US centricity	Globalize organization with global business units	
Human Resources	Professionalize HR processes incl. hiring, on-boarding, transparent communication etc.; introduce state-of-the-art retention and development programs	ongoing
Patient data	Expand data collection and develop analytics for intelligent decision support	ongoing
Risk Management	Introduce a global Governance, Risk and Compliance (GRC) program covering financial, legal, HR, anti-corruption and other areas	ongoing

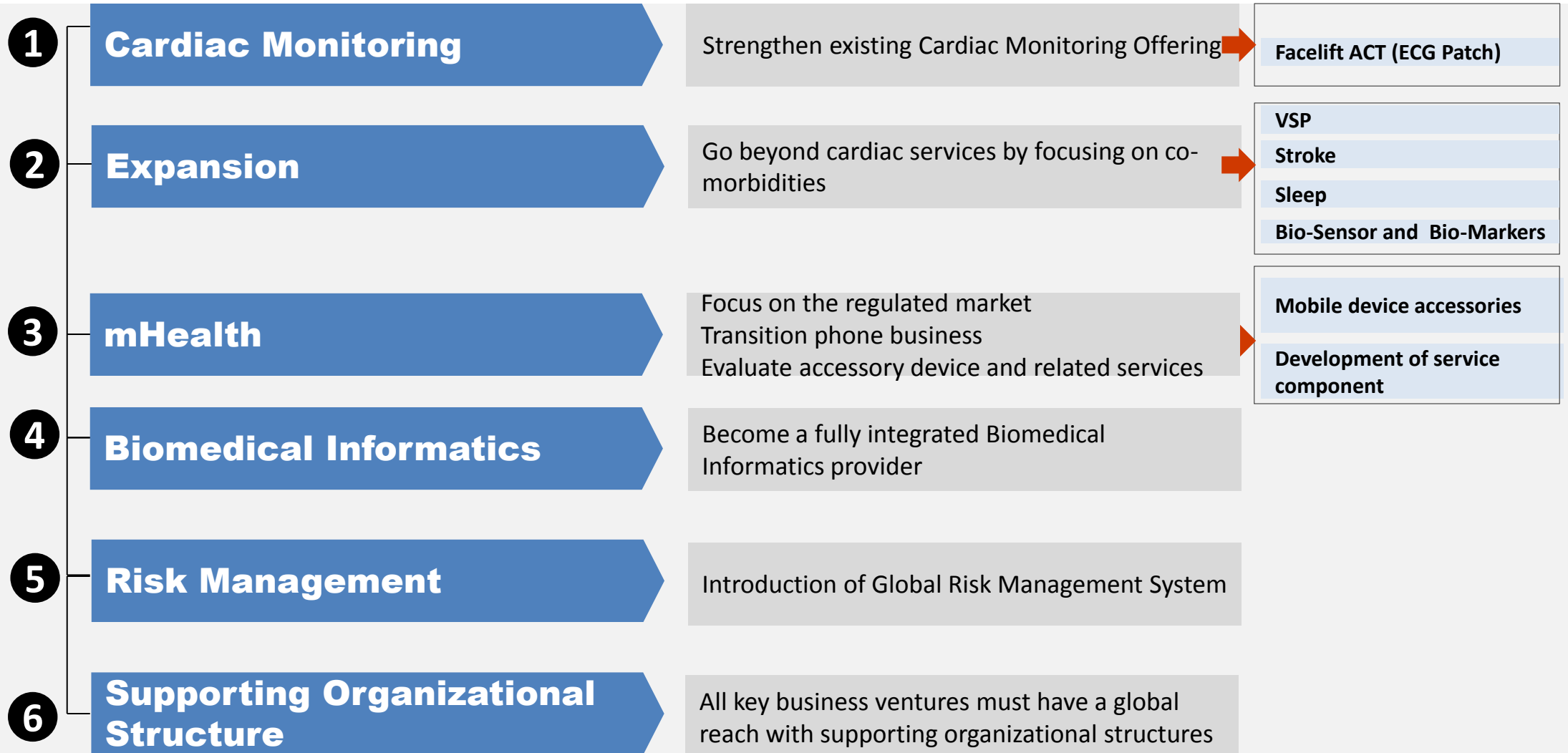
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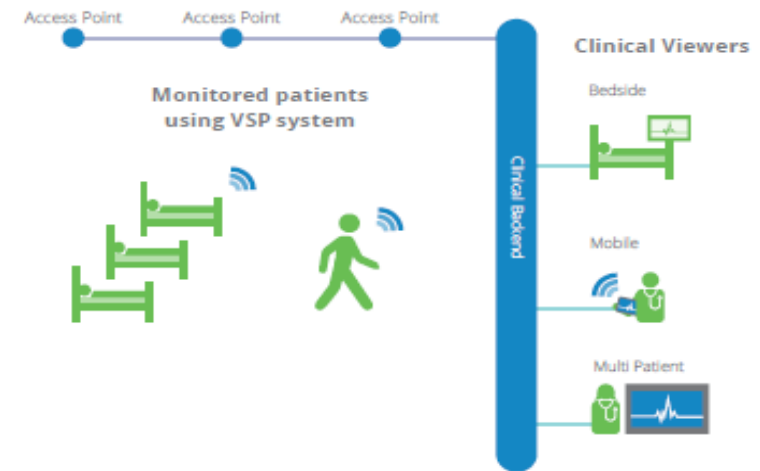
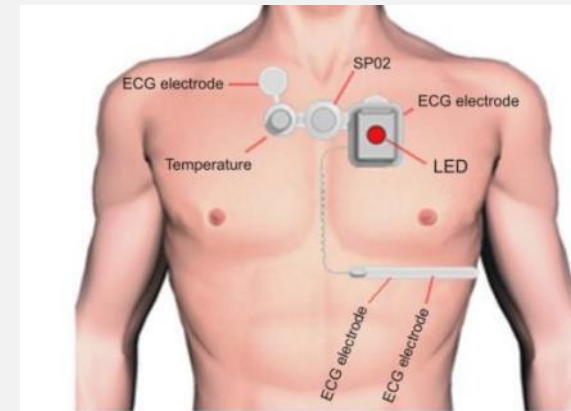
# 4. Roadmap for Success: Strategic Actions include broadening Product Offering and Globalizing Operations

Strategy



## 4. Roadmap for Success: Vital Signs Patch (VSP)-initially operating in the Hospital Market with future expansion into the Ambulatory Market

- The VSP will use sensors for measuring vital signs
  - ECG, Heart Rate
  - Body Surface Temperature
  - Blood Oxygen Saturation
  - Respiration Rate
  - Body Position
  - Blood pressure
- Attached to the patient's upper chest (single patient use only)
- Automation of key vital signs
- Continuous Wireless Monitoring and trending is achieved
- Interoperability with Electronic Medical Records (“EMR”)
- Used initially by patient in the hospital with future goal of sending device home with patient for continuity of care
- Potentially game-changing technology with global reach



- LifeWatch will provide a dedicated, 1-lead ECG monitor for surveillance and early identification of Atrial Fibrillation (AFib) in patients with syncope or stroke
  - The 1-lead ECG expands the indication area for cardiovascular monitoring to other diseases
- 
- **Increasing focus on 1400+ specialized Primary Stroke Centers**
    - 250,000 stroke patients with unknown underlying cause and 1 million syncope patients each year
    - The annual cost of stroke among Medicare patients with atrial fibrillation is estimated to be \$8 billion
  - **Unmet Need for Atrial Fibrillation and Syncope detection and measurement**
    - Identify whether atrial fibrillation is the underlying cause for syncope or stroke event
    - Real-time notification on atrial fibrillation detection, which prevents further adverse events; currently there is a 14-30 day delay in notification
  - **Target audience includes stroke centers, neurologists and hospitalists**
    - Aligns well with and utilizes our existing cardiovascular monitoring and service offering



## 4. Roadmap for Success: Home Sleep Testing – Moving Towards Total Disease Management (Testing and Treatment)

### The Statistics:

- Obstructive Sleep Apnea (OSA) is currently estimated to affect approx. 20% of adults globally
- OSA is associated with a variety of co-morbid chronic diseases, increases the risk of heart disease, stroke and other serious conditions and adds billions in healthcare costs every year

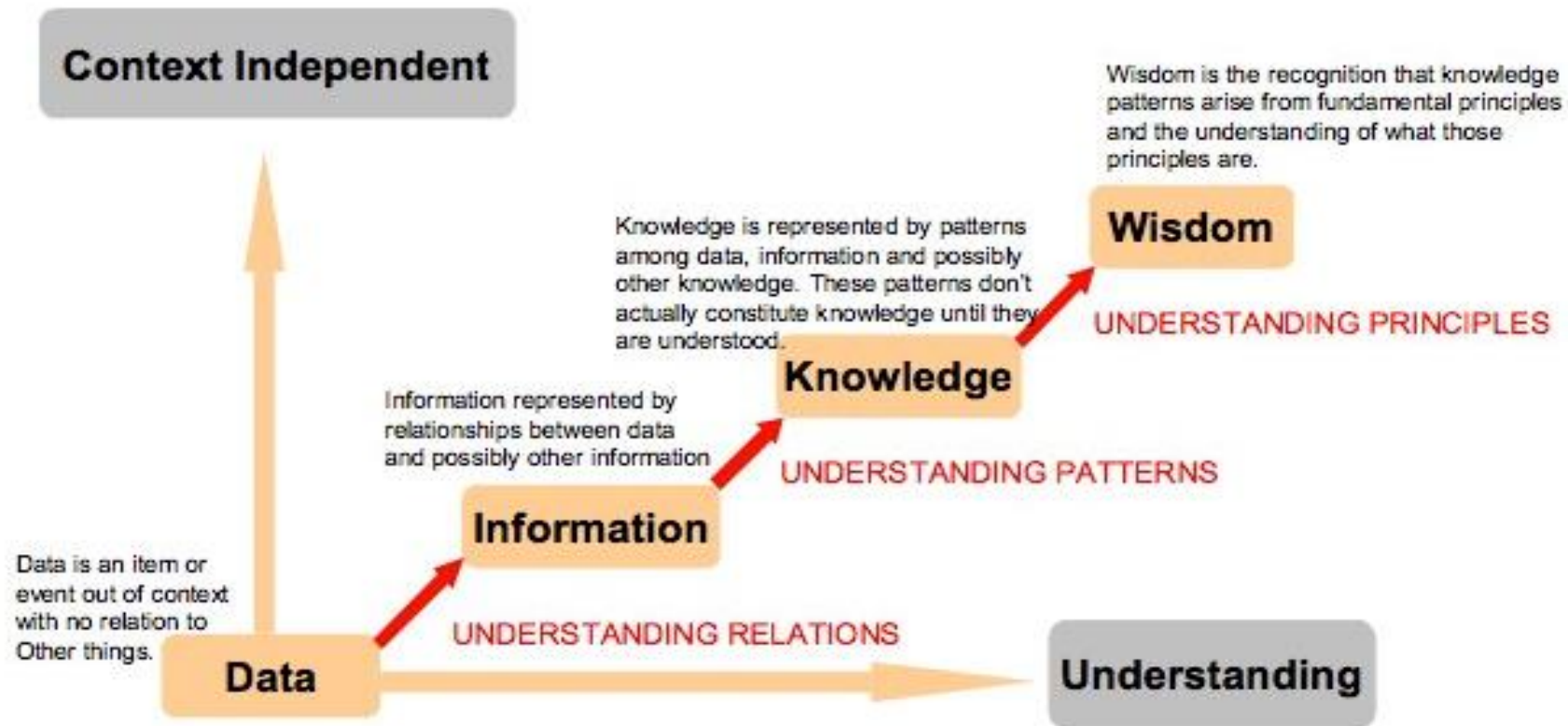
### Diagnosis and Treatment:

- Need for diagnosis (Home Sleep Testing) with transition to life-long therapy (CPAP)
  - First line treatment via Continuous Positive Airway Pressure devices (CPAP)
  - Covered by most insurances: High initial use with rapid drop-off of patient compliance over time
- Provide a Continuum of Care for:
  - Improved patient diagnosis and improved clinical outcomes
  - Workflow ease
  - Ongoing management of compliance and health
- Strategic and operational impact:
  - Reach necessary critical mass
  - Higher margins
  - Increased buying power through higher volumes

## 4. Roadmap for Success: mHealth - Transition from Phone Business to Accessory Device Business

- Lifewatch has the necessary technological expertise to become a significant player in mHealth
- Since the life cycle of a phone is not compatible with the life cycle of a medical device and our core competency is in developing biosensors, a transition to an accessory device strategically makes the most business sense
- We will assess and validate the optimal mHealth solution that could combine an accessory device with a service component
- Addressing both the medical consumer and the retail (via a partner) markets would decrease our dependence on reimbursement codes for revenue

## 4. Roadmap for Success: Develop a competitive advantage through Biomedical Informatics



Source: Engenuity social search

- Capitalize on 20 years of accumulated patient data
- Expand data collection and interoperability effort; develop integrated data model
- Develop analytics to enhance the service offering through intelligent decision support

### Current status:

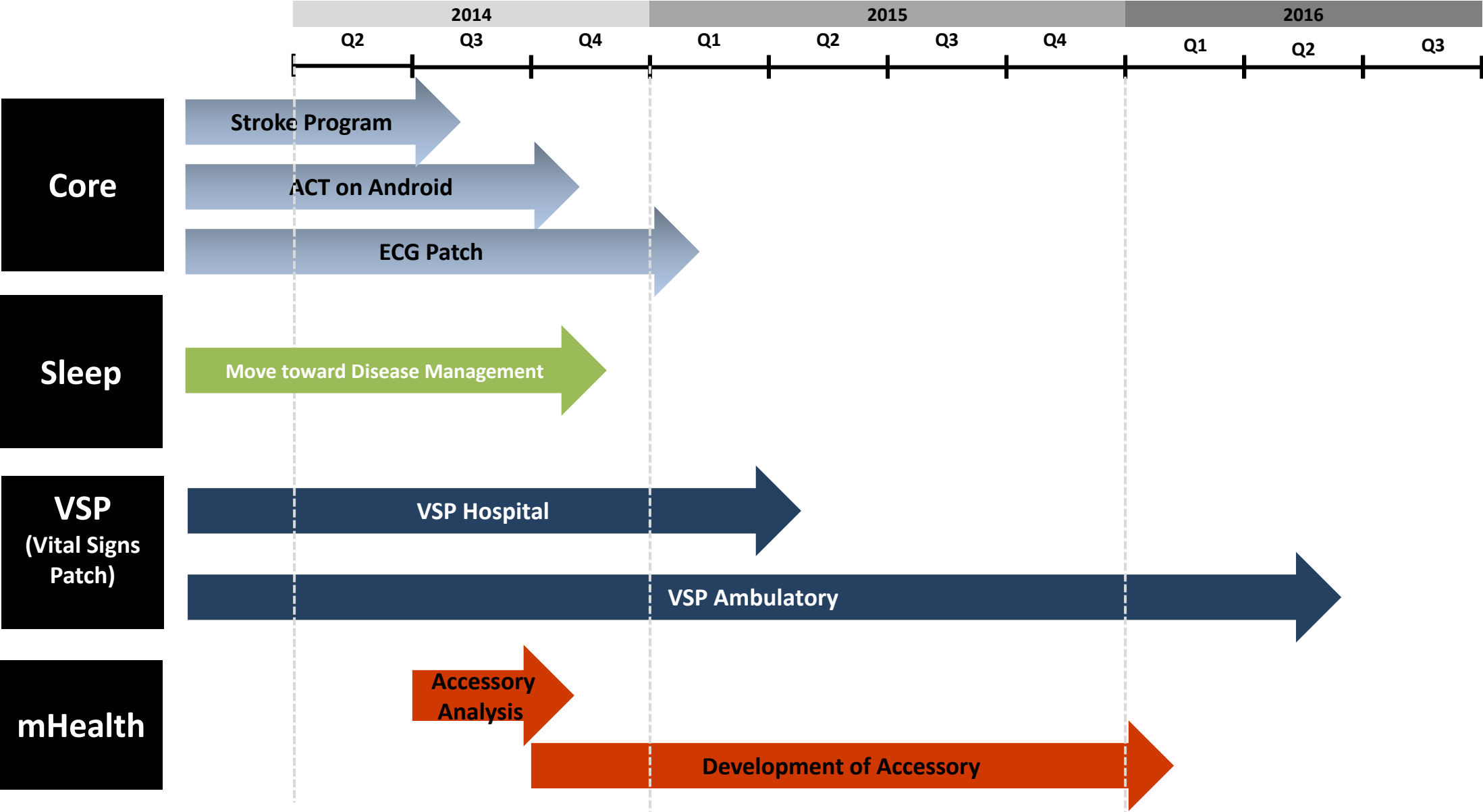
- Rich database of ECG signals (annotated for certain heart rhythms); rich in data, poor in information
- Set of algorithms for limited cardiovascular diseases
- Lack of additional data (incl. metadata)
- Relatively small group of signal processing engineers (4 FTE)

### Create information and knowledge from available data:

- Enrich our cardiovascular database with additional data (e.g. comorbidities, medications) thereby providing a basis for more intelligent decision support
- Vital Signs Patch: include more sensors, develop trending algorithms, combine data elements, develop and license software components
- Expand into other chronic (cardiovascular) diseases that are aligned with current core business
- Combine data from different disease conditions, that are associated with each other (arrhythmias, sleep apnea, congestive heart failure, vital signs, etc.); develop decision support modules that strengthen our “medical solutions”, service offering (call center), summary reports, real-time alerts, and potentially chronic disease management

- Create “medical solutions” that consider:  
***sensing technology + service + information***
- Invest in software development, basic and advanced development
- Invest in people: expand and strengthen our team in the Medical, IT and Biomedical Informatics areas
- Collaborate with universities

# 4. Key projects: Address Core Business and VSP first



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- 2013 revenues up 13.7% to USD 91.06 million thanks to strong organic growth in core business
  - 104 new or amended contracts signed
  - 98% of sales generated by services business
  - Product revenues of LifeWatch V smart phone did not meet expectations at only USD 245k
- 2013 gross margin improved to 58.9%
- 2013 operating and net results heavily impacted by exceptional charges totaling USD 6.8 million
- Adjusted EBIT amounted to USD 4.7 million, equivalent to an EBIT margin of 5.2%
- Q1 2014 revenues up 12.2% to USD 23.58 million thanks to strong organic growth in core business
  - 10 new or amended contracts signed
  - 95% of sales generated by services business
  - Product revenues of LifeWatch V smart phone did not meet expectations at only USD 8k
- FY 2014: partial capitalization of software development as is widely done in the industry



## 5. Profit & Loss Statement

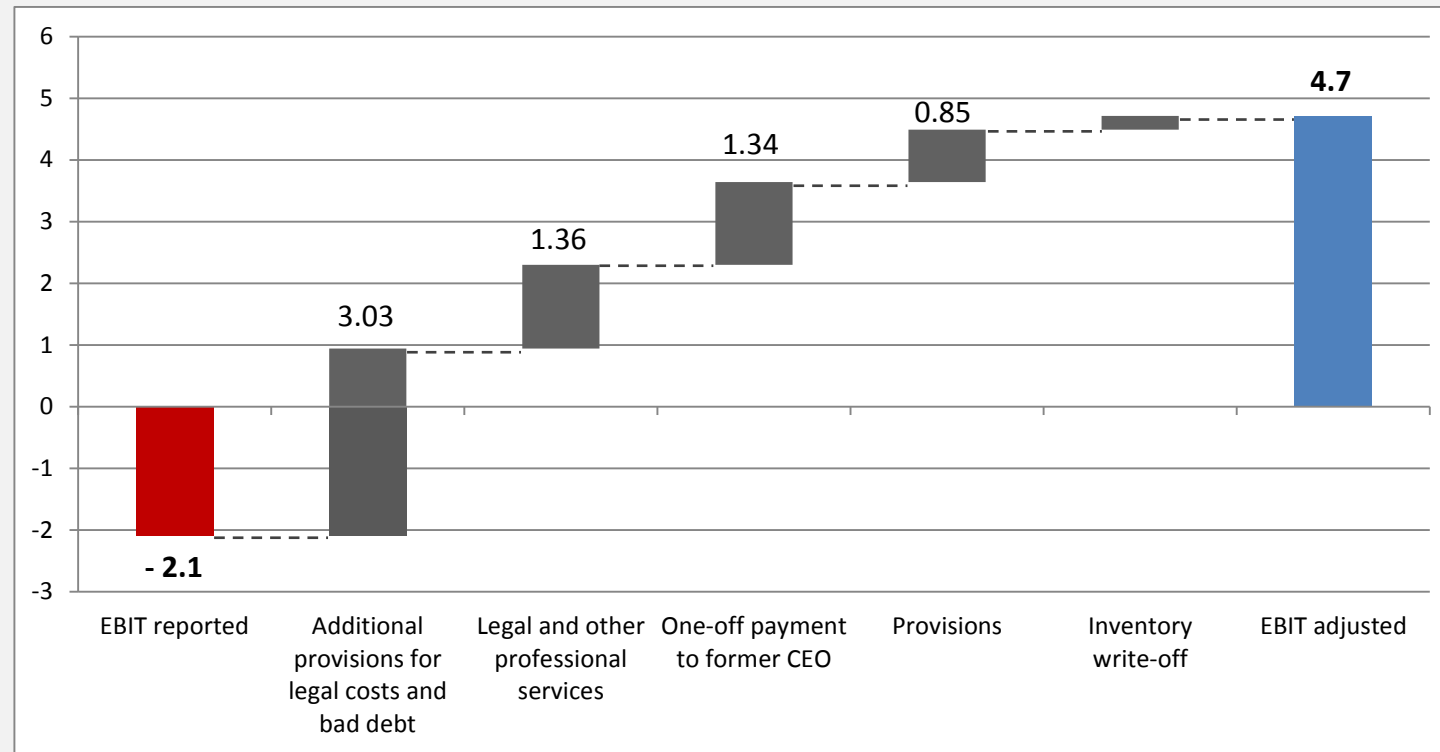
USD millions	2013	2012	+/- in %	1Q 2014	1Q 2013	+/- in %
<b>Total revenues</b>	<b>91.063</b>	<b>80.111</b>	<b>13.7%</b>	<b>23.582</b>	<b>21.024</b>	<b>12.2%</b>
Total cost of revenues	-37.456	-34.081		-10.522	-8.602	
<b>Gross profit</b>	<b>53.607</b>	<b>46.030</b>	<b>16.5%</b>	<b>13.060</b>	<b>12.422</b>	<b>5.1%</b>
<i>GP margin</i>	58.9%	57.5%		55.4%	59.1%	
Research & development expenses	-7.751	-6.912	12.1%	-1.873	-1.551	20.8%
<i>in % sales</i>	8.5%	8.6%		7.9%	7.4%	
Selling & marketing expenses	-19.551	-16.573	18.0%	-6.391	-4.443	43.8%
<i>in % sales</i>	21.5%	20.7%		27.1%	21.1%	
General & administrative expenses	-26.394	-18.652	41.5%	-5.752	-5.260	9.4%
<i>in % sales</i>	29.0%	23.3%		24.4%	25.0%	
Legal expenses and other expenses, net	-2.000	0.478	-518.4%			
<b>EBIT</b>	<b>-2.089</b>	<b>4.371</b>	<b>n.m.</b>	<b>-0.956</b>	<b>1.168</b>	<b>n.m.</b>
<i>EBIT margin</i>	-2.3%	5.5%		-4.1%	5.6%	
Exceptional items *	6.800		n.m.			n.m.
EBIT before exceptional items	4.711	4.371		-0.956	1.168	-181.8%
<i>EBIT margin before exceptionals</i>	5.2%	5.5%		-4.1%	5.6%	
Financial and other income (expenses), net	-0.433	-0.319		-0.080	-0.050	60.0%
Tax benefit (expenses)	5.444	-4.422		-0.293	-0.982	-70.2%
<b>Result for the period</b>	<b>2.922</b>	<b>-0.370</b>	<b>n.m.</b>	<b>-1.329</b>	<b>0.136</b>	<b>n.m.</b>

\* Including provisions for bad debt, legal costs, one-off payment to former CEO and other

## 5. Adjusted EBIT margin amounted to 5.2% in 2013

### EBIT Bridge

In USD millions



## 5. Balance Sheet: Solid equity ratio

USD millions	Dec. 31. 2013	Dec. 31. 2012	+/- in USD million		1Q 2014	1Q 2013	+/- in USD million
<b>Balance sheet total</b>	<b>71.459</b>	<b>59.676</b>	<b>11.783</b>		<b>71.795</b>	<b>60.988</b>	<b>10.807</b>
Cash and cash equivalents	10.136	5.859	4.277		6.352	9.974	-3.622
<b>Net working capital (NWC)</b>	<b>14.395</b>	<b>18.014</b>	<b>-3.619</b>		<b>11.767</b>	<b>15.700</b>	<b>-3.933</b>
<i>NWC in % of revenues</i>	<i>15.8%</i>	<i>22.5%</i>					
Property, plant & equipment, net	12.053	7.838	4.215		13.286	7.895	5.391
Goodwill	14.976	14.976	0		15.278	14.976	0.302
Provisions	11.119	11.927	-0.808		9.975	11.922	-1.947
Interest-bearing debt	3.648	0.204	3.444		4.450	0.185	4.265
Net cash	6.488	5.655	0.833		1.902	9.789	-7.887
<b>Equity</b>	<b>38.446</b>	<b>34.935</b>	<b>3.511</b>		<b>37.533</b>	<b>35.185</b>	<b>2.348</b>
<i>Equity Ratio</i>	<i>53.8%</i>	<i>58.5%</i>			<i>52.3%</i>	<i>57.7%</i>	

## 5. Cash Flow Statement

USD millions	Dec. 31. 2013	Dec. 31. 2012	+/- in USD million		1Q 2014	1Q 2013	+/- in USD million
<b>Net cash from operating activities</b>	<b>8.263</b>	<b>-7.746</b>	<b>16.009</b>		<b>-2.232</b>	<b>5.04</b>	<b>-7.272</b>
<b>Net cash from investing activities</b>	<b>-4.231</b>	<b>-3.566</b>	<b>-0.665</b>		<b>-1.669</b>	<b>-0.843</b>	<b>-0.826</b>
<b>Net cash from financial activities</b>	<b>0.206</b>	<b>3.223</b>	<b>-3.017</b>		<b>0.101</b>	<b>0.063</b>	<b>0.038</b>
Translation differences	0.039	0.108	-0.069		0.016	-0.145	0.161
<b>Increase (decrease) in cash and cash equivalents</b>	<b>4.277</b>	<b>-7.981</b>	<b>12.258</b>		<b>-3.784</b>	<b>4.115</b>	<b>-7.899</b>
Balance of cash and cash equivalents at beginning of period	5.859	13.840	-7.981		10.136	5.859	4.277
Balance of cash and cash equivalents at end of period	10.136	5.859	4.277		6.352	9.974	-3.622

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- **Improving existing products** whilst **broadening our product offering** in order to increase our market share in the sector of our business that is paid for by reimbursement
  - +
  - Utilizing our **current technology and knowhow** to expand in two directions: outside of our core business and globally
  - +
  - Assessing the opportunity of **developing an accessory device** that can address both the medical consumer and, via a partner, the retail market – moving into the self-paying market would decrease dependence on reimbursement for revenue
  - +
  - Biomedical Informatics: Utilizing our data to become a fully integrated Biomedical Informatics provider
  - =
- SUCCESS

### LifeWatch is poised for profitable growth

- Financial
  - Past issues have been addressed – additional USD 3 million charged in 2013
  - 2014 will lay the foundation for the future: product development catch-up will impact profits
  - 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
  - Market-oriented organizational structure
  - Experienced management team focused on developing profitable global products
- Operational
  - Operating inefficiencies will be further addressed
  - Costs are being scrutinized and reduced where appropriate
- Barring unforeseen events, we expect 2014 revenues to exceed 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:***

May 28, 2014: Ordinary AGM 2013 in Zurich

Aug 20, 2014: Analyst Conference Results HY 2014