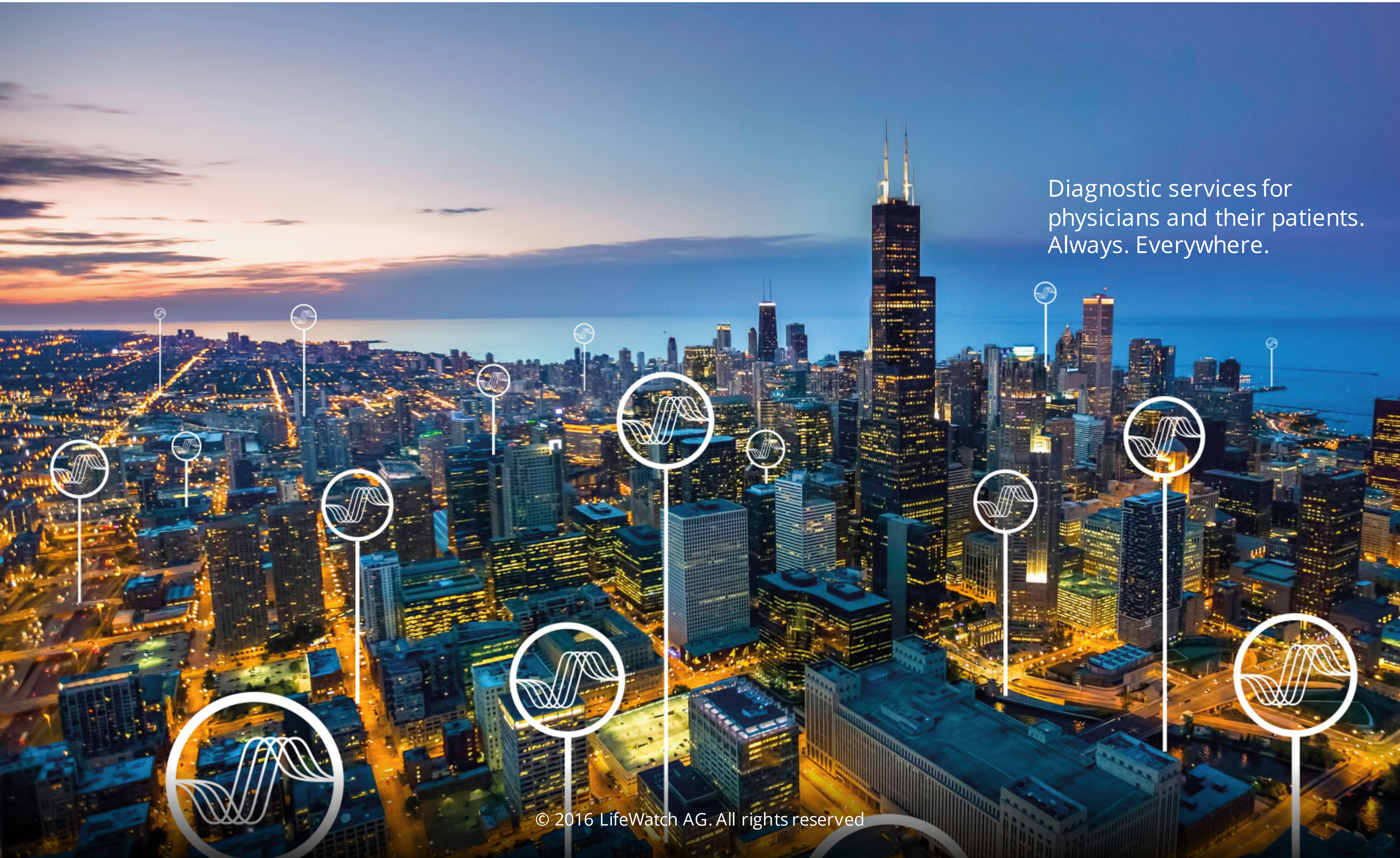
Half-year 2016 Results

LifeWatch®



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

Conference Call Presentation

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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 growth slowdown compared to Q1 revenue growth of 12.3%
- Adjusted gross margin of 55.5% (following elimination of one-time write-off VSP development and inventory costs). Unadjusted gross margin 49.1%.
- Adjusted EBIT and EBITDA of USD 2 million and USD 6.6 million respectively; adjustments made for legal settlements (mainly Highmark and Qui Tam)
- Goal to become pure-play service provider; Vital Signs Patch project cancelled
- Launch of MCT 1-lead patch and INR (blood thinner) service in H1 2016 with ramp-up planned for H2 2016
- Turkey project delayed to end of 2016; revenues only expected from 2017
- Successful capital increase completed in July 2016 and yielding CHF 43.7 million net of costs

MCT 1-lead Patch

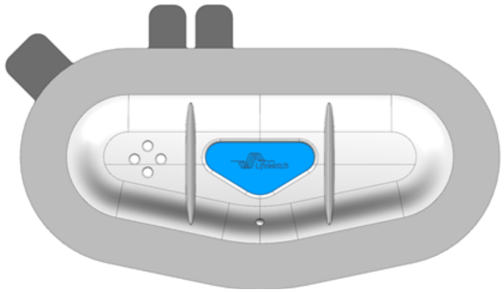
The LifeWatch Mobile Cardiac Telemetry (MCT) patch combines an ultra-light ECG sensor, pre-programmed, according to physician orders, to relay diagnostic data back to a monitoring center for review and appropriate action by clinical staff

Regulatory Affairs

- FDA clearance obtained in January 2016

Production

- Production and delivery of patches has started
- and will be ramped-up in the second half of the year



Patch advantages

- Better results through patient compliance
- Ease of use
- Discreet

Marketing & Sales

- A detailed roll-out plan has been defined with execution expected in the second half of 2016

LifeWatch's Service Improvements

Projects nearing completion

- Updated and more user-friendly 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

Profit & Loss Statement

USD millions	First Half 2016	First Half 2015	2015	+/- in %
Total revenues	**57.015**	**52.512**	**88.628**	**8.6%**
Total cost of revenues	29.006	-24.765	-51.037	
Gross profit	**28.009**	**27.747**	**37.591**	**0.1%**
GP margin	49.1%	52.8%	42.4%	
Research & development expenses	-2.706	-1.982	-4.140	36.5%
in % sales	*4.7%*	*3.8%*	*4.7%*	
Selling & marketing expenses	-11.119	-9.453	-18.796	17.6%
in % sales	*19.5%*	*18.0%*	*21.2%*	
General & administrative expenses	-18.055	-12.500	-26.316	44.4%
in % sales	*31.7%*	*23.8%*	*29.7%*	
Legal expenses and other expenses, net	3.754	-	-	
EBIT	**-7.625**	**3.812**	**-11.661**	**n.m.**
EBIT margin	*-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%
EBIT margin excluding one-time items	*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	
Result for the period	**-9.796**	**1.942**	**-11.948**	**n.m.**
EBITDA	**-2.957**	**7.234**	**-3.620**	**n.m.**
EBITDA margin	*-5.2%*	*13.8%*	*-4.0%*	
EBITDA excluding one-time items	6.620	7.234	14.370	-8.5%
EBITDA margin excluding one-time items	*11.6%*	*13.8%*	*13.5%*	

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
- 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 before year-end
- Foundations for future growth have been laid and the benefits will materialize in 2017 and beyond

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