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# LifeWatch reports first half-year 2016 financial results

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## ***Revenue growth of 8.6% to USD 57.0 million – negative EBIT and EBITDA principally caused by one-time charges***

Zug/Switzerland - LifeWatch AG (SIX Swiss Exchange: LIFE), a leading developer and provider of medical solutions and remote diagnostic monitoring services in the digital health market, reports continued revenue growth during the first half of 2016.

Overall revenues during the first six months amounted to USD 57 million, an increase of 8.6%, whereas monitoring service revenue in the US grew by 10% compared to the prior year. Revenue grew less strongly in Q2 compared to Q1, which had shown revenue growth of 12.3%.

### **Significant one-time costs negatively impact profitability**

The gross profit margin in the first half of 2016 was 49.1% as compared to 52.8% a year earlier. The reduction in margin is attributable to the write-off of capitalized software development costs and inventory for the Vital Signs Patch (VSP) project as well as other obsolete inventory. Without these one-time write-offs, the gross margin would have been 55.5%.

Research and development expenses increased to 4.7% of revenues in H1 2016 (H1 2015: 3.8%) mainly due to lower capitalization of software development costs. However, without capitalization, R&D expenses would represent 5.8% of revenues (H1 2015: 5.7%). Sales and marketing expenses increased to 19.5% of revenue in H1 2016 (H1 2015: 18.0%). The increase is attributed to higher sales commission payments associated primarily with the increased revenue. General and Administrative (G&A) expenses in H1 2016 were 31.7% of revenue (H1 2015: 23.8%). G&A was negatively impacted by two one-time items (see table below), which contributed to the increase of USD 5.5 million in this category.

Other increases in G&A include costs related to a bonus scheme for all employees, higher labor costs, recruitment fees for several new senior staff members, new website design, FDA consultant costs, upgrade of global interconnectivity and the implementation of a new disaster recovery system.

The provision to pay the Qui Tam settlement, once the anticipated approvals by the government are received, and the reduction in the Highmark settlement, together with a recovery from the Pharmedica case are included under other charges and represent one-time legal settlement costs in the half-year.

Principally as a result of these one-time items, LifeWatch incurred a loss from operations (EBIT) of negative USD 7.63 million (H1 2015: USD 3.81 million) and a loss before interest, tax and depreciation (EBITDA) of negative USD 3.0 million (H1 2015: USD 7.2 million). Following the deduction of financial costs, tax and the share of the losses from establishing operations in Turkey, LifeWatch had a net loss of USD 9.8 million (H1 2015; net income of USD 1.9 million).

The table below shows adjusted EBIT and adjusted EBITDA:

<b>One-off items (in USD million):</b>	
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>
Adjusted EBIT	1.952
Adjusted EBIT margin	3.4%
Adjusted EBITDA	6.620
Adjusted EBITDA margin	11.6%

## Outlook

LifeWatch is revising its full year guidance from that announced in its July 6, 2016 press release. Whilst LifeWatch maintains that the Company will have a positive EBITDA margin, in the single digit range and negative EBIT and net income, the Company now expects that, as a result of the slowing of sales growth in the second quarter, revenue growth is likely to be in the single digit range.

Although the first half of 2016 has been disappointing, management is of the opinion that with the settlement of the two older legal cases, the Company has finally resolved the major remaining historical issues and can now fully focus on growing the business going forward.

With the launch of the new Mobile Cardiac Telemetry (MCT) 1-lead patch, the upcoming completion of several internal development projects and the planned entry into the Turkish market, the company has laid the foundation for future growth, the benefits of which should materialize in the second half of 2016 and beyond.

## Key figures (unaudited, USD millions):

	<b>H1 2016</b>	<b>H1 2015</b>
Revenues	57.02	52.51
Gross profit	28.01	27.75
<i>As % of revenues</i>	<i>49.1%</i>	<i>52.8%</i>
EBITDA / (LBITDA)	(2.96)	7.23
<i>As % of revenues</i>	<i>NA</i>	<i>13.8%</i>
EBIT / (LBIT)	(7.63)	3.81
<i>As % of revenues</i>	<i>NA</i>	<i>7.3%</i>
Net income (loss)	(9.80)	1.94
<i>As % of revenues</i>	<i>NA</i>	<i>3.7%</i>
Earnings (loss) per share	(0.73)	0.14
Total fixed assets, net	16.58	16.22
Total assets	76.32	71.94
Total equity	15.90	39.04
<i>As % of total assets</i>	<i>20.8%</i>	<i>54.3%</i>
Net cash flow	(3.90)	0.02
Employees	631	612

***Detailed reporting***

The report on the first half 2016 can be found on our website using the following link:

[http://irlifewatch.com/download/companies/lifewatch/Quarterly%20Reports/LifeWatch\\_HY2016.pdf](http://irlifewatch.com/download/companies/lifewatch/Quarterly%20Reports/LifeWatch_HY2016.pdf)

The presentation on the first half 2016 is available under this link:

[http://irlifewatch.com/download/Companies/lifewatch/Presentations/presentation\\_LifeWatch\\_HY2016\\_en.pdf](http://irlifewatch.com/download/Companies/lifewatch/Presentations/presentation_LifeWatch_HY2016_en.pdf)

***Today's conference call***

A conference call on LifeWatch's half-year 2016 results will be held today at 15.00 CET.

Dial-in numbers for the conference call:

CH: +41 22 580 59 70

GER: +49 69 2222 29 043

UK: +44 203 00 92 452

US: +1 855 402 77 66

Participant Pin Code: 60170589#

The presentation slides (without audio) will be available under following link:

[www.audio-webcast.com](http://www.audio-webcast.com)

Password: lifewatch0816

The live audio webcast will be available under following link:

<http://lifewatch180816-live.audio-webcast.com>

## About LifeWatch AG

LifeWatch AG, headquartered in Zug and listed on SIX Swiss Exchange (LIFE), Switzerland, is a leading healthcare technology and solution company, specializing in advanced digital health systems and wireless remote diagnostic patient monitoring services. LifeWatch's services provide physicians with critical information to determine appropriate treatment and thereby improve patient outcomes. LifeWatch AG has operative subsidiaries in the United States, in Switzerland and in Israel, and is the parent company of LifeWatch Services Inc., and LifeWatch Technologies, Ltd. LifeWatch Services, Inc. is a leading U.S.-based provider of cardiac monitoring services. LifeWatch Technologies Ltd., based in Israel, is a leading developer and manufacturer of telemedicine products. For additional information, please visit **[www.lifewatch.com](http://www.lifewatch.com)**.

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