

LifeWatch

Maintaining the rhythm

A strategic partnership with AliveCor and US (FDA 510k) and EU (CE mark) approvals for the mobile cardiac telemetry (MCT) patch kicks off an important year for LifeWatch. With a full turnaround of the company's fortunes nearly complete, there is a renewed focus on growth via organic and external means. The recent purchase of FlexLife Health and suspension of its home sleep testing services are testament to LifeWatch's new strategic direction.

Adding another beat

The recent FDA 510k approval and grant of CE mark in Europe for the MCT 1-lead patch enables LifeWatch to commercialise a cardiac monitoring device that is lighter, more discreet and more comfortable than traditional devices. This should improve patient compliance and provide better-quality monitoring data, to enable physicians and patients to make more informed decisions over ongoing care. Further product approval and launches are expected as the year progresses, which is key to maintaining an edge in an increasingly competitive digital health market.

Strategic broadening of product portfolio

The agreement with AliveCor to use its FDA-approved Mobile ECG technology will enhance LifeWatch's cardiac portfolio offering. The AliveCor technology attaches to a mobile phone, is quick (records an ECG in just 30 seconds), is easy to use (readings from finger or chest), and can detect atrial fibrillation in screening patients over 65 years-old at primary care clinics and pharmacies in the US.

Waking up to new indications

Suspending its home sleep testing services and purchasing FlexLife Health demonstrate a willingness to cut underperforming areas while investing in new areas for growth. While LifeWatch still sees value in home sleep testing, FlexLife appears more complementary to the cardiac monitoring franchise with its remote coagulation management systems (AMS). Coagulation monitoring is vital for patients taking anti-coagulants such as warfarin (risk of bleeding/clotting if dose too high/low), while warfarin is often used to treat atrial fibrillation, the main cause of a clinical arrhythmia detectable via LifeWatch's cardiac monitoring devices.

Valuation: 2.2x EV/sales belies growth prospects

An FY14 EV/sales ratio of just 2.2x seems at odds with the +9% H115 growth rate and the company's FY15 guidance of 10-15% revenue growth. FY16 will benefit from an 8% Medicare price increase, resulting in an estimated +\$3.4m in revenues.

Historic financials						
Year end	Revenue (\$m)	PBT (\$m)	EPS (\$)	DPS (\$)	P/E (x)	Yield (%)
12/12	80.1	4.1	(0.03)	0.0	N/A	N/A
12/13	91.1	(2.5)	0.22	0.0	73.9	N/A
12/14	98.5	(0.2)	(0.21)	0.0	N/A	N/A

Source: Bloomberg

Medical technology

Price CHF16.25
Market cap CHF219m
 CHF1.0/US\$

Share price graph



Share details

Code	LIFE
Shares in issue	13.5m
Net cash (\$m) at 30 June 2015	1.2

Business description

LifeWatch, headquartered in Switzerland and listed on SIX, specialises in advanced digital health systems and wireless remote diagnostic patient monitoring services (eg ambulatory cardiac telemetry, ACT). Its primary operations are in the US, Switzerland and Israel.

Bull

- Established US business with cardiac monitoring unit outperforming the market.
- Well positioned to benefit from expected advance of digital health solutions.
- Turnaround continues with strong H115 revenues and earnings (+9.1% sales growth to \$52.5m).

Bear

- Digital health is a highly competitive and rapidly evolving market.
- Relatively low-margin business (7% operating margin in H115); challenge to grow margins against need to reinvest.
- Modest net cash position limits capacity/flexibility to strike transformational deals.

Analysts

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