



Half Year 2015 Results



LifeWatch First Half Highlights

- Revenue growth of 9.1% to USD 52.5 million
- Above-market growth of over 12% in core monitoring services resulting in market share gains
- Substantial increase in profitability as efficiency measures bear fruit
- EBITDA margin of 13.8% achieved
- Net profit of USD 1.9 million vs. net loss of USD 4.7 million in H1 2014
- Full-year guidance reiterated

Dear shareholders,

LifeWatch AG is pleased to report on good progress during the first half of 2015. In total, revenues during the first six months amounted to USD 52.5 million, an increase of 9.1% compared to the prior year period. Monitoring services (99.7% of revenues) grew by 12.1%, clearly outperforming the market average and thus resulting in market share gains. During the first half year, our US-based subsidiary LifeWatch Services Inc. signed 40 new or amended contracts, underpinning our brand and sales force successes. Device sales declined to USD 0.2 million due to delivery delays into the second half of 2015. The gross profit margin amounted to 52.8% versus 52.1% a year earlier. We expect the gross margin to continue to expand mid-term as on-going cost and efficiency measures, product mix improvements and new project launches take effect.

Substantial improvement in operating profitability

Our operating profitability improved substantially thanks to the positive impact of the restructuring and productivity measures that we implemented over the past year. As such, EBITDA during the first half year reached USD 7.2 million (H1 2014 EBITDA of USD –1.5 million), equivalent to an EBITDA margin of 13.8%, and EBIT amounted to USD 3.8 million (EBIT margin of 7.3%), marking the highest levels since the first half of 2009. Significant progress was achieved in Sales & Marketing thanks to sales force optimization and territory realignment, resulting in an 800 bps reduction to 18% of revenues (H1 2014: 26%). Likewise, the reorganization of the R&D activities during the second half of 2014 as well as the capitalization of some development costs led to a 300 bps reduction in R&D to 3.8% of revenues. Without capitalization, R&D expenses would represent 5.7% of revenues (H1 2014: 8%). Thanks to these substantial cost savings, together with slightly lower General & Administration costs, the absence of restructuring charges and despite a higher tax charge, LifeWatch was able to achieve a positive net income of USD 1.94 million during the first half of 2015, compared to a net loss of USD 4.72 million during the prior period. As a result of this good operating performance, the company generated a cash flow from operations of USD 4.2 million during the first six months of 2015, against a cash drain of USD 2.8 million during H1 2014. The equity ratio stood at 54.3% as of June 30, 2015 (53.4% as of December 31, 2014).

On-going development and market activities

As previously announced, development activities are continuing on both our cardiac and vital signs monitoring patches. The pilot trials for the vital signs monitoring system are on-going with two new clinics being added in September, one in the United States and one in Switzerland. The FDA's enforcement of its new guidances on medical devices "Design Considerations for Devices Indicated for Home Use" and "Mobile Medical Applications" has resulted in unexpected minor delays in obtaining the requisite FDA clearances for LifeWatch's cutting-edge technologies. Clearance for the vital signs monitoring system is however still expected later this year, allowing for a limited market release during the fourth quarter. The cardiac monitoring patch is currently being tested in a hospital environment. Here again, the new FDA guidance is somewhat delaying regulatory clearance, although we still anticipate a full market launch later this year.

Positive news was received in July regarding an 8% increase in the reimbursement rate from Medicare for our Telemetry offering (ACT) as of 2016. This should lead to improved revenues and profits of around USD 3.5 million in 2016. This change will further enhance our expected revenue growth for 2016 and beyond.

Furthermore, we are on track to launch our cardiac monitoring business in the Turkish market in the first half of 2016 and are currently in the process of establishing the necessary organization and infrastructure to meet this goal. This is a first step in the global expansion of our remote cardiac monitoring services. Although these development activities, as well as other opportunities currently under review, involve significant costs in the short-term, we believe they are necessary to enhance our future growth and thereby remain a leader in this rapidly growing digital health market.

Outlook

LifeWatch stands by its full-year 2015 guidance. The company is continuing its efforts to update and grow its core business while at the same time launching new products and entering new markets. Dr. Stephan Rietiker commented: "Our market growth and efficiency programs are progressing well and I am particularly excited about the prospects for our new products and of our new markets. We firmly believe that we are setting the stage for continued above average growth and increased profitability in the years to come."

On behalf of the Board of Directors and the Executive Management Team, we would like to thank all our employees for their commitment and passion to shape the future of LifeWatch. We also thank our business partners as well as our patients for their loyalty and trust. And lastly, we thank you, esteemed shareholders, for your trust and support.

Sincerely,



Patrick Schildknecht
Chairman of the Board



Dr. Stephan Rietiker
Chief Executive Officer

Key figures (unaudited)

unaudited, USD millions:	H1 2015	H1 2014
Revenues	52.51	48.12
Gross Profit	27.75	25.09
As % of revenues	52.8%	52.1%
EBITDA (LBITDA)	7.23	(1.52)
As % of revenues	13.8%	NA
EBIT (LBIT)	3.81	(4.13)
As % of revenues	7.3%	NA
Net income (loss)	1.94	(4.72)
As % of revenues	3.7%	NA
Earnings (loss) per share (basic)	0.14	(0.36)
Total fixed assets, net	16.22	13.02
Total assets	71.94	68.54
Total equity	39.04	34.82
As % of assets	54.3%	50.8%
Net Cash Flow	0.02	(3.92)
Employees	612	561

Investor Relations

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Ticker Details

ISIN-No.: 0012815459

SIX Ticker Symbol: LIFE

Valor-No.: 1281545

Reuters: LIFE.S

Further information on our website: www.lifewatch.com

Condensed Consolidated Balance Sheet

USD thousands	June 30 2015 Unaudited	June 30 2014 Unaudited	December 31 2014 Audited
Assets			
Current assets:			
Cash and cash equivalents	7,108	6,220	7,087
Restricted bank deposit	790	815	780
Accounts receivable (trade & other), net	13,857	13,962	12,335
Deferred income taxes	8,518	9,438	9,398
Inventories	2,487	1,758	1,973
Total current assets	32,760	32,193	31,573
Other non-current assets:			
Marketable securities	52	52	52
Deferred income taxes	4,684	6,807	5,217
Prepaid expenses and deposits	884	903	888
Total non-current assets	5,620	7,762	6,157
Property plant and equipment, net	16,224	13,025	14,922
Goodwill, intangible and other assets, net	17,335	15,557	16,332
Total assets	71,939	68,537	68,984
Liabilities and shareholders' equity			
Current liabilities:			
Short-term loans	2,500	-	-
Current portion of long-term loans and other liabilities	2,328	1,961	2,296
Accounts payable and accruals (trade and other)	19,261	18,735	17,679
Provision for settlement	3,221	2,565	2,587
Total current liabilities	27,310	23,261	22,562
Non-current liabilities:			
Loans and other liabilities, net of current maturities	1,874	3,537	3,047
Accrued severance and other employee benefits	326	108	*323
Provision for settlement	2,838	6,061	5,512
Accrued expenses	555	755	*657
Total non-current liabilities	5,593	10,461	9,539
Total liabilities	32,903	33,722	32,101
Shareholders' equity:			
Share capital, warrants, treasury shares, capital surplus and accumulated other comprehensive income (loss)	148,992	148,710	148,781
Accumulated deficit	(111,898)	(109,170)	(109,170)
Net income (loss) for the period	1,942	(4,725)	(2,728)
Total shareholders' equity	39,036	34,815	36,883
Total liabilities & shareholders' equity	71,939	68,537	68,984

*Reclassified

Condensed Consolidated Statements of Operations

USD thousands (except share and per share data)	6 months ending June 2015 Unaudited	6 months ending June 2014 Unaudited
Revenues	52,512	48,120
Cost of revenues	24,765	23,027
Gross profit	27,747	25,093
Research and development expenses	1,982	3,282
Selling and marketing expenses	9,453	12,501
General and administrative expenses	12,500	12,690
Legal settlements and other expenses, net	-	751
Total operating expenses	23,935	29,224
Operating income (loss)	3,812	(4,131)
Financial and other expenses net	443	204
Income (Loss) before taxes	3,369	(4,335)
Tax expense	1,427	390
Income (Loss) for the period	1,942	(4,725)

Weighted average number of shares outstanding used in computation of earnings (loss) per share (in thousands)

Basic	13,404	13,255
Diluted	13,417	13,289
Earnings (loss) per share (USD)		
Basic	0.14	(0.36)
Diluted	0.14	(0.36)

Condensed Consolidated Statements of Comprehensive Income (Loss)

USD thousands (except share and per share data)	6 months ending June 2015 Unaudited	6 months ending June 2014 Unaudited
Net Income (loss)	1,942	(4,725)
Other comprehensive loss:		
Foreign currency translation adjustment	-	(2)
Total other comprehensive loss	-	(2)
Comprehensive income (loss)	1,942	(4,727)

Condensed Consolidated Statement of Changes in Shareholders' Equity

USD thousands	Paid in share capital including premium	Warrants	Accumulated deficit	Capital reserve	Treasury shares	Accumulated other comprehensive loss	Total
Balance at January 1, 2015 (Audited)	149,518	-	(111,898)	70	(370)	(437)	36,883
Changes during the six months ended June 30, 2015 (Unaudited):							
Net income for the period	-	-	1,942	-	-	-	1,942
Issuance of shares in respect of exercise of options granted to employees	211	-	-	-	-	-	211
Balance at June 30, 2015 (Unaudited)	149,729	-	(109,956)	70	(370)	(437)	39,036
Balance at January 1, 2014 (Audited)	147,024	1,063	(109,170)	70	(370)	(171)	38,446
Changes during the six months ended June 30, 2014 (Unaudited):							
Net loss for the period	-	-	(4,725)	-	-	-	(4,725)
Other comprehensive loss	-	-	-	-	-	(2)	(2)
Issuance of shares in respect of exercise of options granted to employees	1,067	-	-	-	-	-	1,067
Stock-based compensation expense	17	12	-	-	-	-	29
Balance at June 30, 2014 (Unaudited)	148,108	1,075	(113,895)	70	(370)	(173)	34,815

Condensed Consolidated Statement of Cash Flow

USD thousands	6 months ending June 2015 Unaudited	6 months ending June 2014 Unaudited
Cash flows from operating activities:		
Net income (loss) for the period	1,942	(4,725)
Adjustments required to reconcile net income (loss) for the period to net cash provided by (used in) operating activities:		
Income and expenses not involving cash flows:		
Depreciation and amortization	3,422	2,611
Compensation expenses charged in respect of options and warrants granted to employees and service providers	-	29
Changes in deferred income taxes	1,413	7
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable, including non-current portion	(1,518)	280
(Increase) decrease in inventories	(514)	252
(Decrease) Increase in accounts payable and accruals:		
Provision for settlement	(2,040)	(1,267)
Trade and other	1,483	34
Net cash provided by (used in) operating activities	4,188	(2,779)
Cash flows from investing activities:		
Purchase of fixed assets	(4,721)	(2,339)
Investment in intangible assets	(1,006)	(561)
Restricted bank deposit	(10)	(3)
Net cash used in investing activities	(5,737)	(2,903)
Cash flows from financing activities:		
Issuance of shares in respect of exercise of employee stock options	211	1,067
Obligation under capital lease undertaken, net	(1,141)	624
Proceeds from short term loans undertaken	2,500	-
Discharge of long term loans	-	(16)
Net cash provided by financing activities	1,570	1,675
Translation differences on cash balances of subsidiaries	-	91
Increase (decrease) in cash and cash equivalents	21	(3,916)
Balance of cash and cash equivalents at beginning of period	7,087	10,136
Balance of cash and cash equivalents at end of period	7,108	6,220
Supplementary disclosure of non-cash-activities		
Capital leases of fixed assets	0	1,242

Notes to Condensed Consolidated Half Year Financial Statements

Note 1

BASIS OF PRESENTATION

The unaudited condensed consolidated half year financial statements for LifeWatch AG and its subsidiaries (the "Company") have been prepared on the basis of accounting principles generally accepted in the United States of America ("US GAAP") for interim financial information. Accordingly, such financial statements do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These interim financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2014.

Note 2

PROPERTY PLANT AND EQUIPMENT

a. Composition of assets, grouped by major classifications, is as follows:

	June 30, 2015 Unaudited	June 30, 2014 Unaudited	December 31, 2014 Audited
Cost			
Manufacturing and peripheral equipment	12,291	11,670	11,848
Office furniture and equipment	3,027	2,737	2,924
Monitoring units	26,577	20,167	23,359
Motor vehicles	17	161	161
Leasehold improvements	1,537	1,521	1,576
Total costs	43,449	36,256	39,868
Less – accumulated depreciation and amortization	27,225	23,231	24,946
Total	16,224	13,025	14,922

b. Depreciation expenses in respect of fixed assets totaled USD 3,419 thousand USD 2,608 thousand and USD 5,643 thousand for the six months ended June 30, 2015, June 30, 2014, and for the twelve months ended December 31, 2014, respectively.

Note 3

SEGMENT AND GEOGRAPHIC INFORMATION

The Company operates in four reportable operating segments:

- Sales of Systems – Development, manufacture and marketing of trans-telephonic and wireless diagnostic equipment for the medical industry.
- Mobile Health (formerly LifeWatch V) – Mobile medical device platform designed for self-testing of vital signs for the consumer market.
- Services – Cardiac event monitoring, pacemaker, ambulatory heart monitoring and sleep disorder services.
- Other – Company activities and expenses that are not assigned directly to either of the above segments.

The table below presents information about reported segments:

USD thousands	Sales of Systems	Mobile Health	Services	Other	Reconciling items	Consolidated total
For the 6 months ended June 30, 2015 (Unaudited):						
Revenues from external customers	165	-	52,347	-	-	52,512
Inter segments revenues	8,270	-	-	-	(8,270)	-
Total	8,435	-	52,347	-	(8,270)	52,512
Operating income (loss)	4,018	-	4,583	(3,125)	(1,664)	3,812
Depreciation and amortization	255	-	9,044	18	(5,895)	3,422
Goodwill	-	-	14,976	-	-	14,976
Capital investments	393	-	11,682	11	(7,365)	4,721
Total assets	106,338	-	83,611	2,385	(120,395)	71,939
For the 6 months ended June 30, 2014 (Unaudited):						
Revenues from external customers	1,400	20	46,700	-	-	48,120
Inter segments revenues	5,951	2	-	-	(5,953)	-
Total	7,351	22	46,700	-	(5,953)	48,120
Operating income (loss)	2,755	(4,576)	926	(3,295)	59	(4,131)
Depreciation and amortization	176	-	7,957	-	(5,522)	2,611
Goodwill	-	-	14,976	-	-	14,976
Capital investments	385	-	8,381	16	(5,202)	3,580
Total assets	102,072	-	84,884	2,717	(121,136)	68,537

The table below shows revenues classified by geographical location of the customers and property plant and equipment, net classified by geographical location of assets:

USD thousands	Revenues	Property plant and equipment, net
For the 6 months ended June 30, 2015 (Unaudited):		
United States and Canada	52,347	14,756
Europe	11	254
Asia	154	1,214
Total	52,512	16,224
For the 6 months ended June 30, 2014 (Unaudited):		
United States and Canada	46,700	11,923
Europe	31	118
Asia	*1,389	*984
Total	48,120	13,025

*Reclassified