

# **Report of the Board of Directors of LifeWatch AG, Zug, Switzerland regarding the Public Take-Over Offer of AEVIS VICTORIA SA, Freiburg, Switzerland**

## **1. Recommendation to Reject the Offer**

The board of directors of LifeWatch AG has concluded after a thorough examination by an independent committee to recommend that, due to the reasons provided for in this report, the unsolicited public takeover offer by AEVIS VICTORIA SA shall be rejected since it is not in the best interest of LifeWatch AG and its shareholders. In short, the unsolicited offer does not reflect the real value of LifeWatch AG in an appropriate manner. Absent apparent synergies, integration into the AEVIS group offers less value to the LifeWatch shareholders than a continuation of the strategy adopted in the last years on a stand-alone basis or a combination with an industrial partner promising genuine synergies. Also the executive management team of LifeWatch AG supports the recommendation to the shareholders to reject the offer of AEVIS VICTORIA SA.

## **2. Introduction**

On 24 January 2017, AEVIS VICTORIA SA, Freiburg, Switzerland (**AEVIS**) published by way of a pre-announcement an unfriendly public tender offer for all publicly held registered shares of LifeWatch AG, Zug, Switzerland (**LifeWatch**); (**Offer**).

On 20 February 2017, AEVIS published the offer prospectus for the Offer (**Offer Prospectus**). AEVIS offers for each registered share of LifeWatch 0.1818 registered shares of AEVIS or – at the option of the LifeWatch shareholders – the net amount of CHF 10.00 in cash. The offer period will run from 7 March 2017 to 10 April 2017 subject to possible extension(-s) and/or a possible supplementary period.

As per 24 January 2017, AEVIS holds pursuant to the Offer Prospectus 11.99 % of the shares of LifeWatch<sup>1</sup>. According to the Offer Prospectus, Antoine Hubert, Géraldine Hubert-Reynard and Michel Reybier (the ‘Hubert-Reybier-group’) hold directly and indirectly 77.99% of the share capital and the voting rights of AEVIS.

## **3. Formation of an Independent Committee / Result of the Resolution on the Report**

Currently, the board of directors of LifeWatch (**Board**) consists of Dr. Robert Bider (Chair), Raymond Cohen, Jinsheng Dong, Antoine Hubert, Antoine Kohler, Thomas Rühle and Patrick Schildknecht.

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<sup>1</sup> Among these 11.99 % of the shares of LifeWatch, the RSUs which Antoine Hubert holds (see below, 5.c.(i)) are included.

On 24 January 2017, the Board implemented an independent committee consisting of the Board members Patrick Schildknecht (chair of the committee), Raymond Cohen, Jinsheng Dong and Thomas Rühle (**Committee**). The Board members Robert Bider, Antoine Hubert and Antoine Kohler are, due their conflicts of interest, not part of the Committee. All tasks of the Board in relation to the Offer were assigned to the Committee which has also prepared the present report.

The resolution on the report (incl. the recommendation) was passed by a decision of the Board of 8/9 March 2017. For this resolution, the following Board members were in abstention due to their conflicts of interest: Robert Bider, Antoine Hubert and Antoine Kohler. The report was adopted unanimously.

#### **4. Comments on the Offer / Reasons for the Recommendation**

##### **a. Effects of the Offer on LifeWatch and its Shareholders**

In general, the Committee is of the view that the Offer does not benefit LifeWatch as a company and neither its shareholders. In particular, the following reasons were identified:

- No, Respectively Only Few Areas of Synergies: In the Offer Prospectus (see particularly section 5.2 of the Offer Prospectus), AEVIS does not clearly identify relevant areas of synergies (except for the fact that the holding structure of AEVIS may be made use of to save costs, which notably is identified as a risk [see under „Risk Factors“ section 13.1 of the Offer Prospectus]). The Committee itself does neither see such areas. Even AEVIS admits in the Offer Prospectus that there is no overlap between the businesses of AEVIS and LifeWatch and that AEVIS does not dispose of specific knowledge in the relevant fields (see under „Risk Factors“ section 13.1 of the Offer Prospectus). In particular, there are no apparent synergies between AEVIS subsidiary Medgate and LifeWatch as they operate in different business segments. Beyond, Medgate seems to go through difficult times as, according to the website Medinside.ch, it reduced its workforce (see [www.medinside.ch/de/post/medgate-schliesst-zwei-abteilungen](http://www.medinside.ch/de/post/medgate-schliesst-zwei-abteilungen)) and also lost one major account (i.e. Helsana) and business from another (i.e. CSS); (see [www.medinside.ch/de/post/helsana-arbeitet-nicht-mehr-mit-medgate-zusammen](http://www.medinside.ch/de/post/helsana-arbeitet-nicht-mehr-mit-medgate-zusammen)).
- Unclear Intentions of AEVIS: Considering the Offer Prospectus (see particularly section 5.2 Offer Prospectus), the intentions of AEVIS regarding the further development of LifeWatch remain vague. Also, the intention of AEVIS to develop the European market, which notably is identified as a risk (see section 13.1 of the Offer Prospectus), is not set out in detail. Hence, it is difficult for the Committee to conceive the advantages of an integration of LifeWatch into the AEVIS-group.
- Opportunistic Timing of the Offer: The price of the LifeWatch shares decreased in the first half of 2016 presumably mainly due to unfortunate outcomes of legal proceedings the current management inherited. The Offer takes into account such low price. Moreover, the Offer was launched before the full year results and the annual report for 2016 will be published. Hence, the Offer price does not reflect a comprehensive view on the

developments throughout the full year of 2016 (although the Offer was launched in January 2017).

- Substantial Risks of the Proposed Transaction: AEVIS provides in the Offer Prospectus for an extensive list of risks related to the Offer and the prospects of AEVIS, respectively its shares (see under „Risk Factors“ sections 13.1 and 13.2 of the Offer Prospectus). Beyond that (i) there is no overlap between the businesses of AEVIS and LifeWatch and that AEVIS does not dispose of specific knowledge in the relevant fields, and (ii) potential advantages of the transaction are likewise identified as risks, the Committee particularly notes that AEVIS repeatedly highlights the risk that it may not be possible to deploy the promised financial means to further develop the business of LifeWatch efficiently (see under „Risk Factors“ sections 13.1 and 13.2 of the Offer Prospectus). In addition, substantial risks seem to be linked to several of the various fields in which AEVIS operates (see section 13.2 of the Offer Prospectus). Such risks jeopardize the value of the Offer for the shareholders in case they would opt for the exchange offer.
- Inadequate Valuation of LifeWatch: On 8 March 2017, the closing price of the LifeWatch share stood at CHF 12.30. Hence, the cash alternative and (based on the current AEVIS share price) the equity alternative offered by AEVIS fall short of the current LifeWatch share price by CHF 2.30, respectively CHF 1.57, amounting to a discount of 18.7%, respectively 12.8%. Moreover, the Committee is of the firm view that LifeWatch has a stand-alone value exceeding the value of the cash and the equity alternatives offered by AEVIS. In particular, the Offer is not fully reflecting the long-term potential of LifeWatch according to the current business plan, for instance the expansion into Turkey, the co-operation with GE Healthcare and/or the Electronic Medical Record (EMR) integration. The current share price, which the Offer does not take into account, reflects such potential better – albeit in the view of the Committee still not in full.
- Liquidity of AEVIS Share Limited / Value of AEVIS Share Subject to Uncertainty: The liquidity of the AEVIS share is limited which might render it difficult for the shareholders who opt for the exchange alternative to sell the AEVIS share in the future at a favorable price. Due to the limited liquidity of the AEVIS share, AEVIS moreover commissioned a valuation from Ernst & Young SA (see section 12.9 of the Offer Prospectus). Such valuation is, however, based on non-public information and discussions with the AEVIS management (see particularly page 5 of the valuation). It is, therefore, not possible to assess the assumptions made in such valuation so that the real value of the AEVIS share remains uncertain.
- Positive Effects of the Offer: Beyond that AEVIS is hardly in a position to clearly demonstrate positive effects of the Offer, the Committee itself does not see strategic, operational and/or financial benefits for LifeWatch and its shareholders.

## **b. Alternatives to the Offer**

The Committee conceives mainly two alternatives to the Offer. The first alternative is to continue the strategy adopted in the last years on a stand-alone basis. The second alternative consists in a combination with an industrial partner promising genuine synergies. For such purposes, LifeWatch decided to solicit additional offers in the wake of the Offer of AEVIS (see the press release of 1 February 2017, accessible under [www.lifewatch.com](http://www.lifewatch.com)).

## **c. Conclusion**

Considering the above mentioned reasons and alternatives to the Offer, the Committee is of the view that the Offer is inappropriate. There are only few synergies between the businesses of LifeWatch and AEVIS (if any), the intentions of AEVIS remain vague, and the Offer does not appropriately reflect the value of LifeWatch. Moreover, the timing of the Offer seems opportunistic. With view to those shareholders intending to opt for the exchange alternative, the AEVIS share eventually disposes of limited liquidity and its valuation remains subject to uncertainties. These disadvantages outweigh the potential advantages of the Offer.

In short, the Offer does, according to the Committee's due examination, not provide for value added for LifeWatch and its shareholders compared to a continuation of the business on a stand-alone basis or a combination with a suitable industrial partner. Accordingly, also the executive management team of LifeWatch supports the recommendation to the shareholders to reject the Offer.

## **5. Further Information Required according to Swiss Public Takeover Law**

### **a. Intention of the Shareholders, Holding more than 3% of the Voting Rights**

According to the notifications of significant shareholders pursuant to Art. 120 et seqq. of the Financial Market Infrastructure Act published as per 9 March 2017 – besides AEVIS, respectively the above mentioned beneficial owners – (i) Himalaya (Cayman Islands) TMT Fund (15.26%), (ii) AMG Substanzwerte Schweiz and other collective investment schemes, respectively LB (Swiss) Investment AG as beneficial owner (10.044%) and (iii) Martin Eberhard (3.23%) hold more than 3% of the voting rights in LifeWatch.

Pursuant to the knowledge of a Committee member, Himalaya (Cayman Islands) TMT Fund intends to reject the Offer. AMG Substanzwerte Schweiz describes in its monthly Report 'January 2017' (accessible under [www.amg.ch](http://www.amg.ch)) the Offer as “massively too low”. The Committee hence assumes that also AMG Substanzwerte Schweiz intends to reject the Offer.

### **b. Defensive Measures**

Except for the procedure launched to solicit alternative offers which may result in a friendly public tender offer or similar transaction at some point, the Board has currently not introduced and does neither intend to introduce defensive measures. However, such measures shall not be excluded for the future considering that the Offer is not in the best interest of the LifeWatch AG and its shareholders.

### **c. Conflicts of Interests**

#### **(i) Participations in LifeWatch**

The current members of the Board hold per 9 March 2017 the following participations in LifeWatch:

Board of Directors	Shares	RSUs*
Dr. Robert Bider	72'000	None
Raymond Cohen	None	None
Jinsheng Dong	None	None
Antoine Hubert <sup>2</sup>	None	9'178
Antoine Kohler	None	None
Thomas Rühle	177'593	8'000
Patrick Schildknecht	476'530	19'014

\*RSUs (Restricted Share Units) are LifeWatch shares with a five year blocking period starting on the day when they vest. During the blocking period, the shares cannot be traded while otherwise, the holders of RSUs have the same rights and obligations as the other shareholders. Under the compensation regulations for the Board, RSUs were granted to the above mentioned Board members for the year 2014 and vested in 2014 and 2015. Hence, the related blocking periods will end in 2019 and 2020. However, the compensation regulations for the Board contain a change of control clause according to which the blocking period is lifted in case of a change of control.

The current members of the executive management team hold per 9 March 2017 the following participations in LifeWatch:

Executive Management	Shares	PSUs*
Christoph Heinzen	None	None
Stephanie Kravetz	None	5'348
Andrew Moore	4'000	None
Stephan Rietiker	330'000	23'234

\*PSUs (Performance Share Units) are entitlements to LifeWatch shares which vest after three years starting at the end of the year for which they are granted depending on the fulfilment of certain performance objectives provided for in the bonus and long-term incentive plan for the executive management team and outlined in the compensation report for the year 2015, contained in the annual report 2015 (accessible under

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<sup>2</sup> Except for the shares, Antoine Hubert indirectly holds via AEVIS, see above, under section 2.

www.lifewatch.com). PSUs were granted to the above mentioned members of the executive management team for the years 2014 and 2015 so that they vest at the end of the years 2017 and 2018. However, the bonus and long-term incentive plan for the executive management team contains a change of control clause according to which the PSUs vest immediately in case of a change of control provided that the relevant performance objectives are fulfilled.

(ii) Antoine Hubert und Antoine Kohler

AEVIS discloses in section 5.3 of the Offer Prospectus that Antoine Hubert and Antoine Kohler have informed the Board that they will not take part in any decisions with regard to the Offer. Indeed, both of them are subject to several conflicts of interests:

First, Antoine Hubert is one of the beneficial owners of AEVIS. Furthermore, Antoine Hubert and Antoine Kohler were according to the knowledge of the Committee at least (i) elected to the Board upon the proposal of AEVIS at the last annual general meeting of 15 April 2016 (see the minutes of the annual general meeting, bottom of p. 9, accessible under [www.lifewatch.com](http://www.lifewatch.com)) and are (ii) members of the board of AEVIS (Antoine Hubert as delegate).

(iii) Dr. Robert Bider

Dr. Robert Bider was elected to the Board upon the proposal of AEVIS at the last annual general meeting of 15 April 2016 as well (see the minutes of the annual general meeting, bottom of p. 9, accessible under [www.lifewatch.com](http://www.lifewatch.com)). Robert Bider was given the opportunity to rebut the statutory presumption of a conflict of interest based on such circumstance (art. 32 para. 2 lit. b Takeover Ordinance). However, Robert Bider failed to give reasons which rebut such presumption.

(iv) Other Members of the Board

The other members of the Board (Raymond Cohen, Jinsheng Dong, Thomas Rühle and Patrick Schildknecht) confirmed not to have and do not have conflicts of interests as far as the Committee is aware of.

(v) Members of the Executive Management Team

The members of the executive management team (Christoph Heinzen, Stephanie Kravetz, Andrew Moore and Stephan Rietiker) do not have conflicts of interests as far as the Committee is aware of.

(vi) Conclusion

The members of the Board Dr. Robert Bider, Antoine Hubert und Antoine Kohler are, therefore, conflicted. The measures which were adopted in relation to such conflicts of interest, are referred to above, under section 3.

## **6. Annual- and Semi-Annual Reports**

The annual report for 2015 and the semi-annual report for the first half year 2016 can be accessed on the website of LifeWatch ([www.lifewatch.com](http://www.lifewatch.com)). On 20 March 2017, LifeWatch will publish on its website the annual report for 2016. Since the end of the year 2016, no significant changes in the assets and liabilities, financial position, earnings and prospects of LifeWatch have occurred.

Zug, 9 March 2017

For the board of directors of LifeWatch AG (under exclusion of Dr. Robert Bider, Antoine Hubert and Antoine Kohler):

Patrick Schildknecht, member of the board of directors and chairman of the independent committee