

# Fourth Quarter and Full-Year 2018 Earnings Performance

February 27, 2019



Finn, VNS Therapy Patient

# Safe Harbor

Certain statements in this presentation, other than purely historical information, are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These statements include, but are not limited to, LivaNova’s plans, objectives, strategies, financial performance and outlook, trends, the amount and timing of future cash distributions, prospects or future events and involve known and unknown risks that are difficult to predict. As a result, our actual financial results, performance, achievements or prospects may differ materially from those expressed or implied by these forward-looking statements. In some cases, you can identify forward-looking statements by the use of words such as “may,” “could,” “seek,” “guidance,” “predict,” “potential,” “likely,” “believe,” “will,” “should,” “expect,” “anticipate,” “estimate,” “plan,” “intend,” “forecast,” “foresee” or variations of these terms and similar expressions, or the negative of these terms or similar expressions. Such forward-looking statements are necessarily based on estimates and assumptions that, while considered reasonable by LivaNova and its management based on their knowledge and understanding of the business and industry, are inherently uncertain. These statements are not guarantees of future performance, and stockholders should not place undue reliance on forward-looking statements. There are a number of risks, uncertainties and other important factors, many of which are beyond our control, that could cause our actual results to differ materially from the forward-looking statements contained in this presentation, including the risks associated with remediation of any material weaknesses or settlement of litigation, as well as those described in the “Risk Factors” section of Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, the Registration Statement on Form S-4 and other documents filed from time to time with the United States Securities and Exchange Commission by LivaNova. All information in this presentation is as of the date of its release. The Company does not undertake or assume any obligation to update publicly any of the forward-looking statements in this presentation to reflect actual results, new information or future events, changes in assumptions or changes in other factors affecting forward-looking statements, except to the extent required by applicable law. If we update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements. We caution you not to place undue reliance on any forward-looking statements, which are made only as of the date of this presentation.

# Intellectual Property

This report may contain references to our proprietary intellectual property, including among others:

Trademarks for our Neuromodulation systems, the VNS Therapy<sup>®</sup> System, the VITARIA<sup>®</sup> System and our proprietary pulse generator products: Model 102 (Pulse<sup>®</sup>), Model 102R (Pulse Duo<sup>®</sup>), Model 103 (Demipulse<sup>®</sup>), Model 104 (Demipulse Duo<sup>®</sup>), Model 105 (AspireHC<sup>®</sup>), Model 106 (AspireSR<sup>®</sup>) and Model 1000 (SenTiva<sup>®</sup>).

Trademarks for our Cardiopulmonary products and systems: S5<sup>®</sup> heart-lung machine, S3<sup>®</sup> heart-lung machine, Inspire<sup>®</sup>, Heartlink<sup>®</sup>, XTRA<sup>®</sup> Autotransfusion System, 3T Heater-Cooler<sup>®</sup> and Connect<sup>™</sup>.

Trademarks for our line of surgical tissue and mechanical heart valve replacements and repair products: Mitroflow<sup>®</sup>, Crown PRT<sup>®</sup>, Solo Smart<sup>™</sup>, Perceval<sup>®</sup>, Top Hat<sup>®</sup>, Reduced Series Aortic Valves<sup>™</sup>, Carbomedics Carbo-Seal<sup>®</sup>, Carbo-Seal Valsalva<sup>®</sup>, Carbomedics Standard<sup>®</sup>, Orbis<sup>™</sup> and Optiform<sup>®</sup>, and Mitral valve repair products: Memo 3D<sup>®</sup>, Memo 3D ReChord<sup>™</sup>, Memo 4D<sup>®</sup>, AnnuloFlo<sup>®</sup> and AnnuloFlex<sup>®</sup>.

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# Agenda

Recent Highlights

Financial Results

2019 Guidance

Summary

# Recent Highlights

# 2018 Financial Highlights

## Delivered on our financial commitments

- ▶ Met or exceeded all of our adjusted financial targets
- ▶ Strong top-line growth in 2018 versus prior year, exceeding guidance
- ▶ 240 basis point improvement in gross margin versus prior year
- ▶ Achieved overall adjusted EPS guidance while making significant investments in strategic portfolio initiatives, growing R&D 42.8% and integrating Imthera and TandemLife
- ▶ Reduced Days Sales Outstanding by 11 days<sup>1</sup>
- ▶ Delivered \$217 million<sup>2</sup> in operating free cash flow, an increase of 39% versus prior year

# Recent Highlights

## Continued success of our growth strategy

### ► **Neuromodulation:**

- On February 15, CMS<sup>1</sup> issued its final decision regarding a National Coverage Determination for the use of VNS Therapy for TRD. The positive outcome expands potential beneficiaries to include patients with bipolar disorder and allows for response to treatment be added as a primary outcome. The decision initiates coverage for Medicare beneficiaries through CED<sup>2</sup> when offered in a CMS-approved trial with the possibility to extend to a prospective longitudinal study.

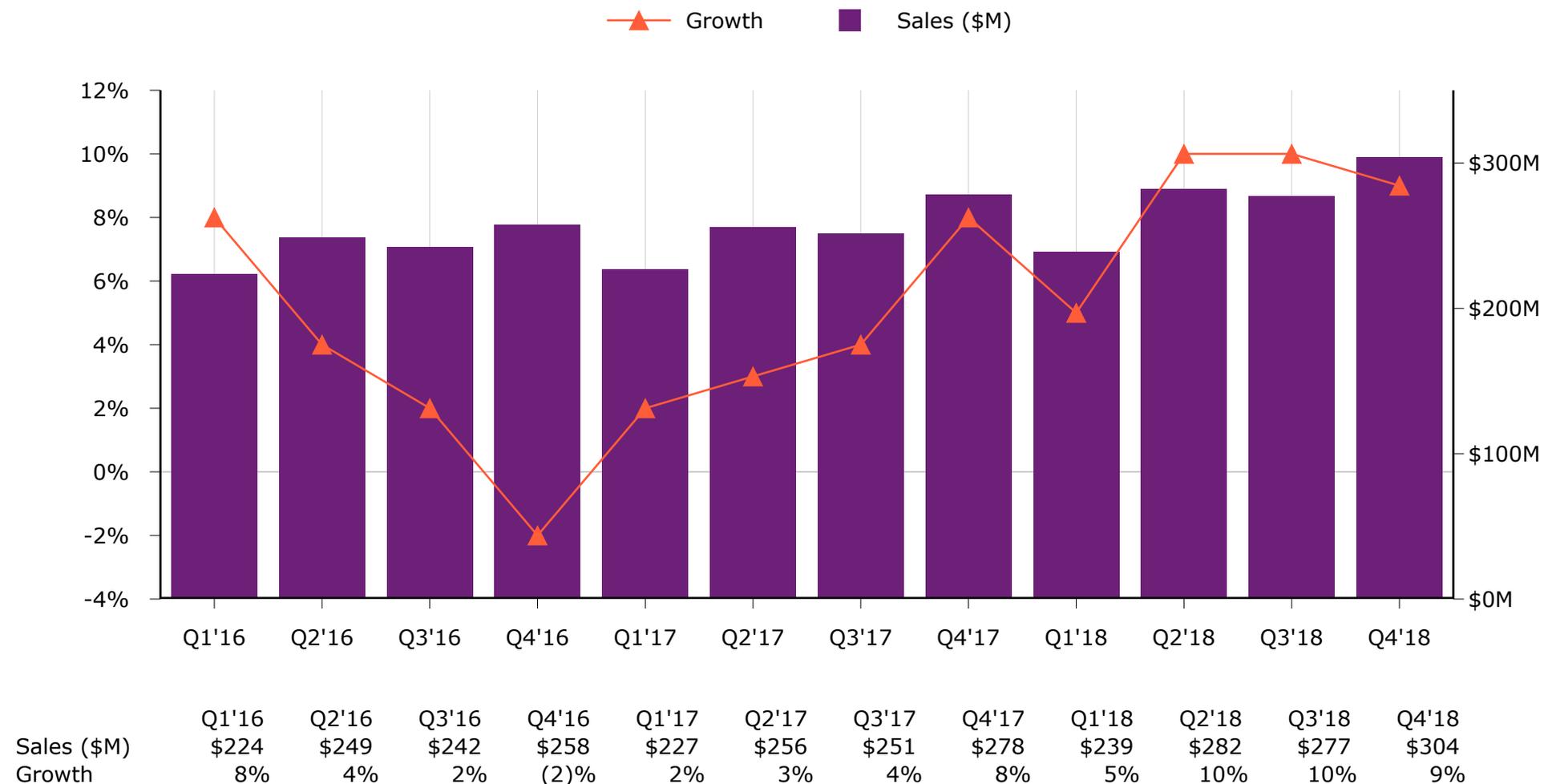
### ► **Cardiovascular:**

- On February 21, we announced that Japan's Ministry of Health, Labour and Welfare granted national reimbursement for our Perceval sutureless aortic heart valve to treat aortic valve disease, which will provide greater access to patients and clinicians in Japan.
- On February 25, we announced new safety and technical instructions for Perceval to support Valve-in-Valve procedures in the U.S.

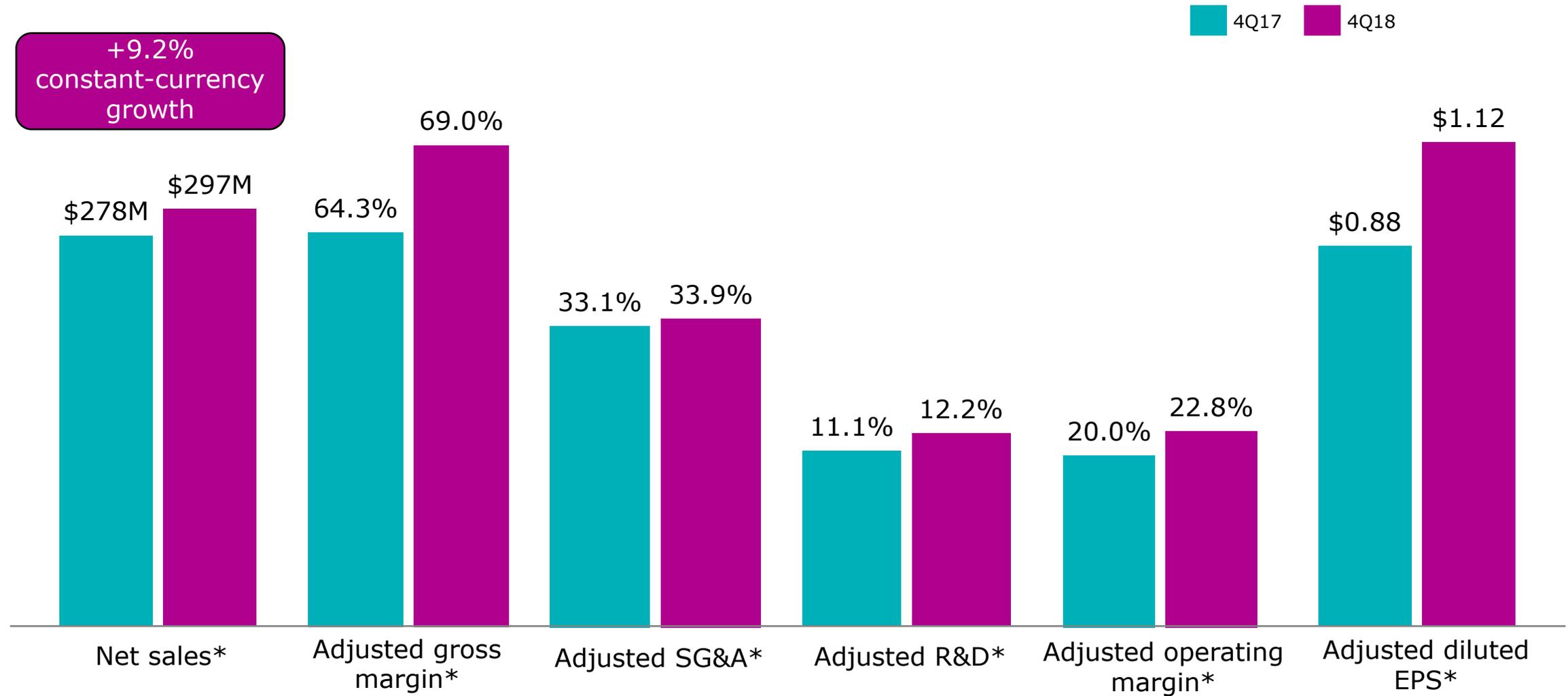
# Financial Results

# Full-Year 2018 Net Sales

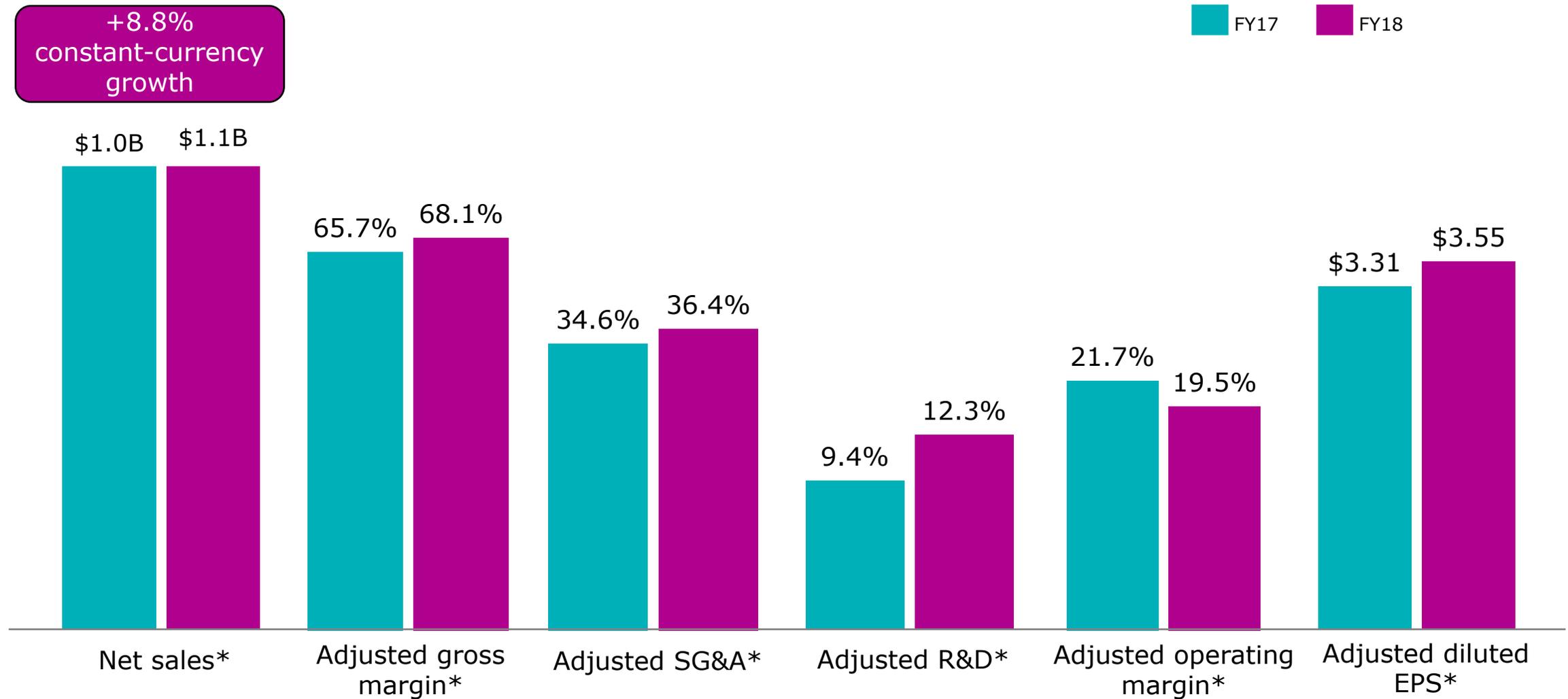
Continued sales growth momentum



# 4Q18 at a Glance



# Full-year 2018 at a Glance



# Fourth Quarter 2018 Net Sales

**\$297M**  
**9.2% Growth\***

**Vagus Nerve Stimulation Therapy (VNS Therapy)**

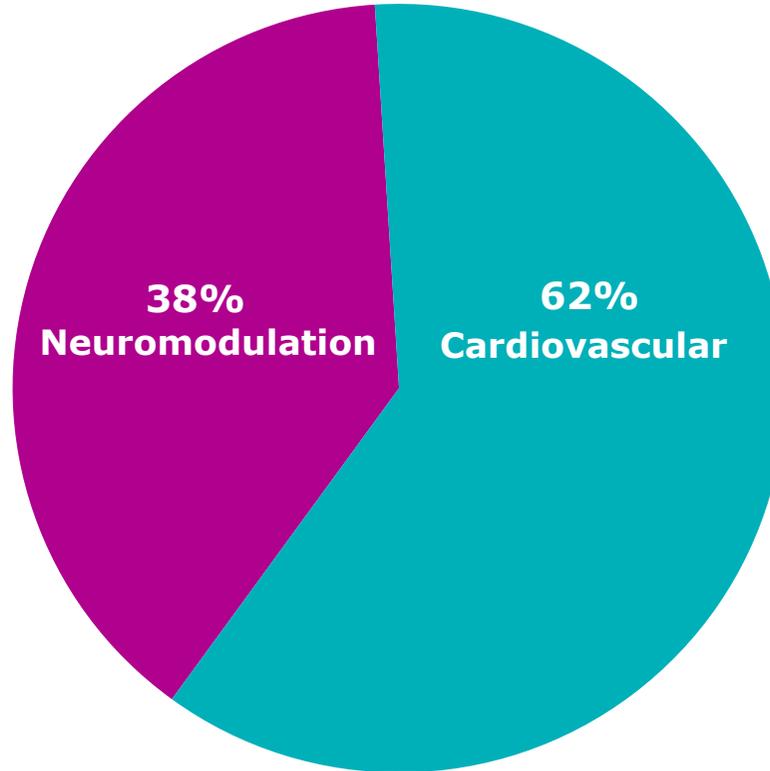
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Drug-Resistant Epilepsy (DRE)  
 Treatment-Resistant Depression (TRD)  
 Heart Failure (HF)

**Hypoglossal Nerve Stimulation Therapy (HGNS Therapy)**

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Obstructive Sleep Apnea (OSA)



**80% Cardiopulmonary (CP)**

Heart-lung machines (HLM)  
 Oxygenators  
 Autotransfusion systems (ATS)  
 Cannulae

**4% Advanced Circulatory Support**

Extracorporeal Life Support (ECLS)  
 percutaneous Mechanical Circulatory Support (pMCS)

**16% Heart Valves (HV)**

Sutureless tissue valves  
 Mechanical valves  
 Traditional tissue valves  
 Annuloplasty rings

Numbers may not add up precisely due to rounding.

\* Percent change performance is shown on a year-over-year constant-currency basis, which is a non-GAAP measure. Constant currency eliminates the effects of foreign currency fluctuations.

# Full-Year 2018 Net Sales

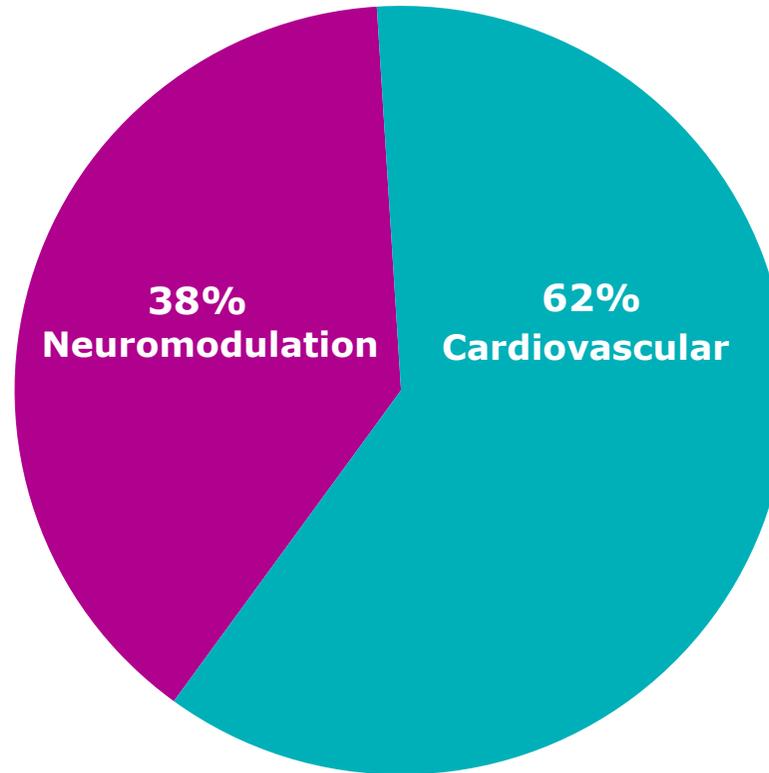
## Vagus Nerve Stimulation Therapy (VNS Therapy)

Drug-Resistant Epilepsy (DRE)  
Treatment-Resistant Depression (TRD)  
Heart Failure (HF)

## Hypoglossal Nerve Stimulation Therapy (HGNS Therapy)

Obstructive Sleep Apnea (OSA)

**\$1.1B**  
**8.8% Growth\***



### 79% Cardiopulmonary (CP)

Heart-lung machines (HLM)  
Oxygenators  
Autotransfusion systems (ATS)  
Cannulae

### 3% Advanced Circulatory Support

ExtraCorporeal Life Support (ECLS)  
percutaneous Mechanical Circulatory Support (pMCS)

### 18% Heart Valves (HV)

Sutureless tissue valves  
Mechanical valves  
Traditional tissue valves  
Annuloplasty rings

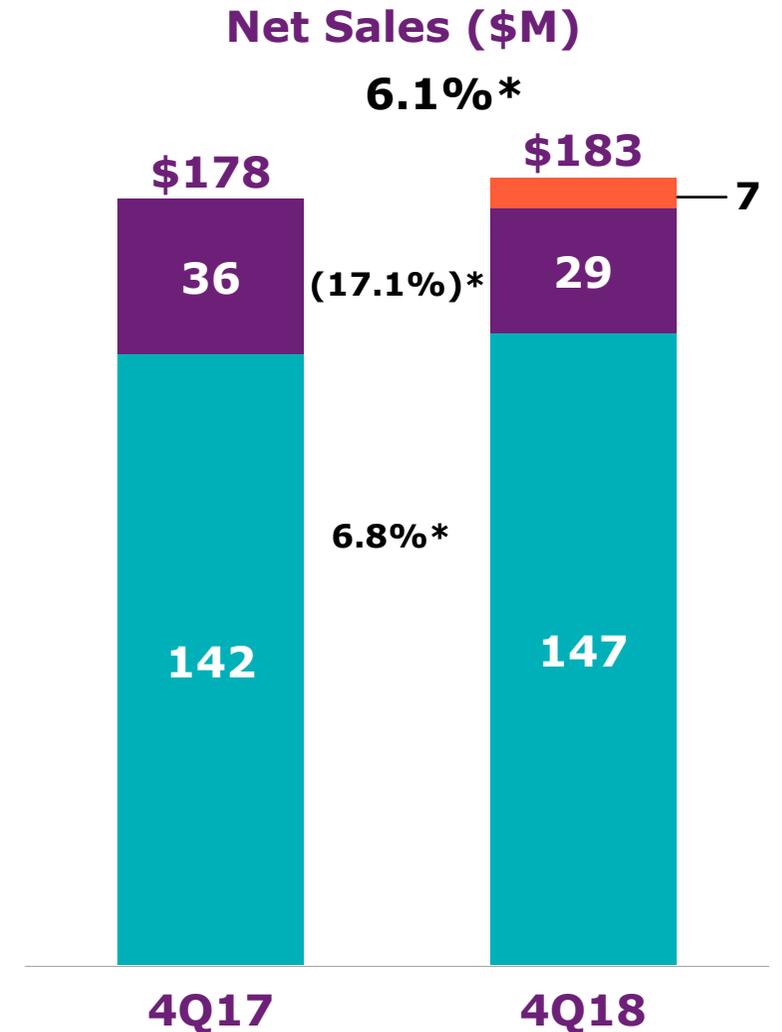
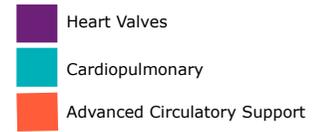
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# 4Q18 Cardiovascular Sales

## Drivers/Impacts

- + Low double-digit growth and record shipments in HLM driven by S3 conversions and competitive placements
- + Advanced Circulatory Support had another strong quarter with greater than 20% growth
- + Low double-digit Oxygenator growth driven by Rest of World
- Heart Valves impacted by business model changes and Perceval softness in some international regions



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# 4Q18 Neuromodulation Sales

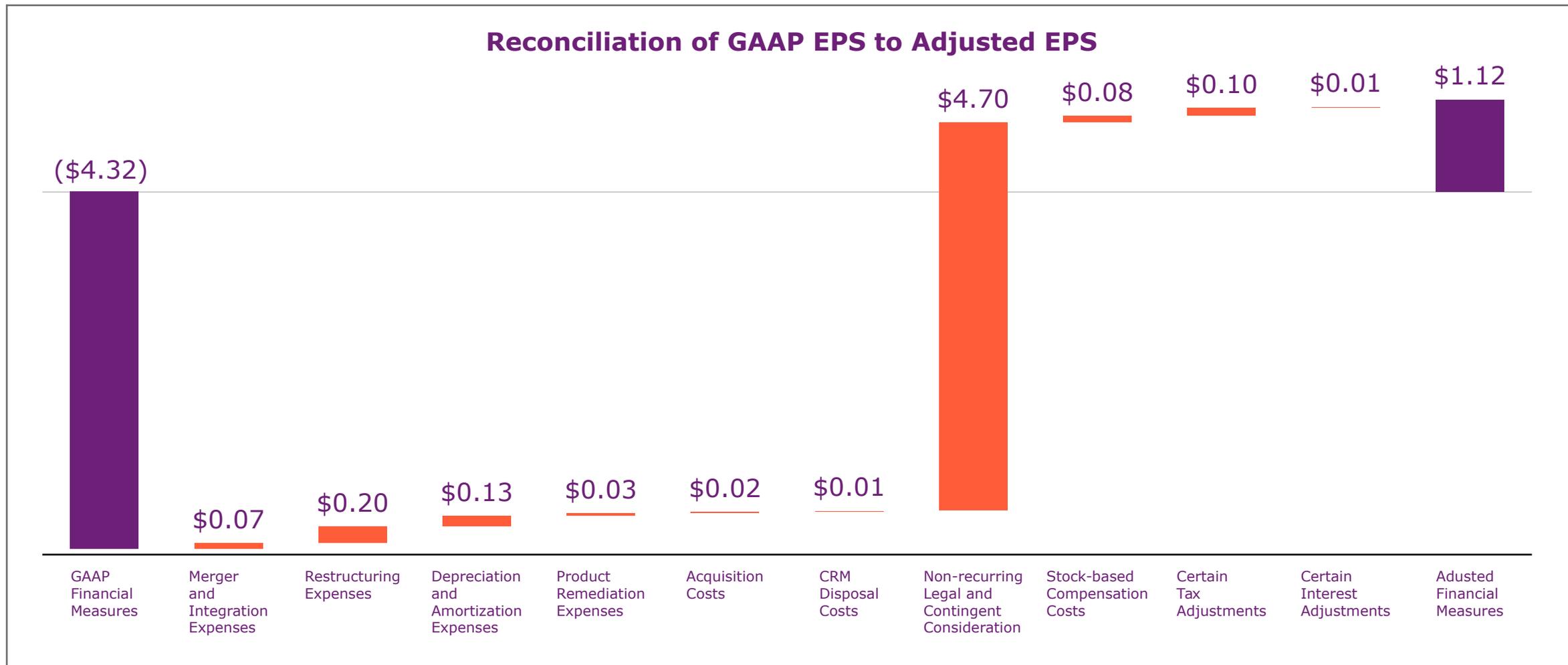
## Drivers/Impacts

- + Strong double-digit growth in all regions
- + SenTiva VNS Therapy System now representing 63% of generator revenue in the U.S.; 50% in Europe
- + Rest of World growth exceeded 75%, contributing 360 bps of total Neuromodulation growth

## Net Sales (\$M)

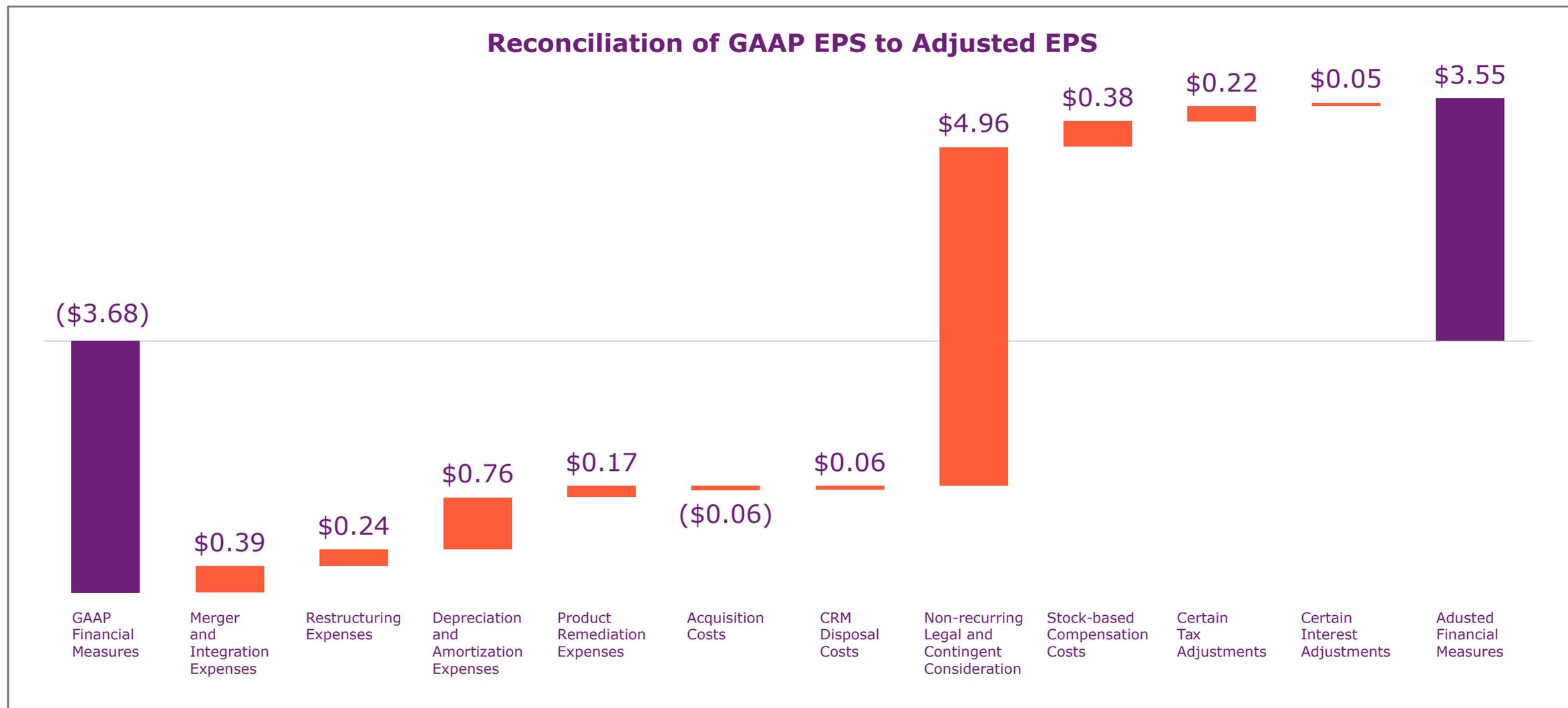


# 4Q18 Adjusted EPS from Continuing Operations\*



\* Adjusted diluted EPS is a non-GAAP measure. Non-GAAP measure are reconciled to GAAP measure in the appendix.

# FY18 Adjusted EPS from Continuing Operations\*



\* Adjusted diluted EPS is a non-GAAP measure. Non-GAAP measure are reconciled to GAAP measure in the appendix.

# 2019 Guidance

# Full-year 2019 Guidance from Continuing Operations

Including impact of TRD investment and Canadian distribution agreement exit

	Guidance
Worldwide net sales growth <sup>(1)</sup>	5% - 7%
Gross margin <sup>(1)</sup>	69% - 70%
R&D <sup>(1)</sup>	12.5% - 13.5%
SG&A <sup>(1)</sup>	37% - 39%
Operating margin <sup>(1)</sup>	18% -20%
Effective tax rate	17% - 19%
Diluted EPS <sup>(1) (2)</sup>	\$3.55 - \$3.75
Cash flow from operations <sup>(3)</sup>	\$180M - \$200M

1. Net sales are on a constant-currency basis. All financial measures are adjusted non-GAAP measures.

2. Diluted EPS assumes a share count of approximately 49 million shares.

3. Excludes integration, restructuring and product remediation payments.

# Full-year 2019 Sales Guidance Assumptions

## Neuromodulation

- SenTiva continues to gain adoption throughout the year in the US and Europe
- Direct-to-consumer advertising (DTC) campaign will be key in expanding patient outreach in the back half of the year
- Continued double-digit growth in our Rest of World region from commercial expansion initiatives and launch of Sentiva in select markets in the second half of the year
- \$5-\$10M in TRD revenue

## Cardiovascular

- Cardiopulmonary: Continue upgrading heart-lung machine customers from our legacy S3 devices to our current S5 devices; Inspire oxygenator continues to show steady growth globally from new account acquisitions
- Cardiopulmonary: Canada OEM distribution agreement exit impacting revenue \$32M
- Heart valves: Perceval assumed to deliver double-digit growth partially offset by continued declines in traditional tissue valves
- Advanced Circulatory Support: Commercial expansion and launch of a next generation pump are expected to drive growth globally in excess of 20%

# Summary

# Summary

## FINANCIAL GROWTH

- Constant-currency sales growth exceeded our most recent increase in full year revenue guidance
- Pricing discipline and product mix continue to drive higher ASPs and drive improvement in the gross margin

## STRATEGIC GROWTH

- Investing in direct-to-consumer campaign for VNS Therapy for Epilepsy
- Expanding commercial infrastructure for Rest of World region
- Advancing our growth drivers and strategic portfolio initiatives by funding trials in Heart Failure, Treatment-Resistant Depression and Obstructive Sleep Apnea

## PORTFOLIO GROWTH

- Advanced Circulatory Support fully integrated and driving growth in excess of 20%
- Well positioned to successfully execute clinical and commercial programs for Treatment-Resistant Depression

# Appendix

# GAAP to Non-GAAP Reconciliations- *Unaudited*

## RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES - UNAUDITED (U.S. dollars in millions, except per share amounts)

Three Months Ended December 31, 2018	Specified Items											Adjusted Financial Measures
	GAAP Financial Measures	Merger and Integration Expenses (A)	Restructuring Expenses (B)	Depreciation and Amortization Expenses (C)	Product Remediation Expenses (D)	Acquisition Costs (E)	CRM Disposal Costs (F)	Non-recurring Legal, Contingent Consideration and Other Reserves (G)	Stock-based Compensation Costs (H)	Certain Tax Adjustments (I)	Certain Interest Adjustments (J)	
Gross profit	\$204.1	\$—	\$—	\$0.8	\$2.0	(\$0.2)	\$—	(\$2.2)	\$0.2	\$—	\$—	\$204.8
Selling, general and administrative	122.2	—	—	(0.3)	—	(1.1)	(0.6)	(15.4)	(4.3)	—	—	100.6
Research and development	37.6	—	—	(0.1)	—	(0.2)	(0.3)	0.3	(1.0)	—	—	36.4
Litigation provision	294.0	—	—	—	—	—	—	(294.0)	—	—	—	—
Other operating expenses	26.6	(4.4)	(13.1)	(9.1)	—	—	—	—	—	—	—	—
Operating (loss) income from continuing operations	(276.5)	4.4	13.1	10.3	2.0	1.2	0.9	306.9	5.5	—	—	67.8
Income tax (benefit) expense	(69.8)	0.8	3.5	4.0	0.5	0.3	0.3	74.5	1.6	(5.2)	0.2	10.5
Net (loss) income from continuing operations	(209.5)	3.6	9.7	6.2	1.5	0.9	0.6	232.5	3.9	5.2	0.6	55.2
Diluted EPS - Continuing Operations	(\$4.32)	\$0.07	\$0.20	\$0.13	\$0.03	\$0.02	\$0.01	\$4.70	\$0.08	\$0.10	\$0.01	\$1.12

### GAAP results for the three months ended December 31, 2018 include:

- (A) Merger and integration expenses related to our legacy companies and recent acquisitions
- (B) Restructuring expenses related to organizational changes
- (C) Includes depreciation and amortization associated with purchase price accounting
- (D) Costs related to the 3T Heater-Cooler remediation plan
- (E) Costs related to acquisitions
- (F) Corporate costs incurred to divest of the CRM business not attributable to discontinued operations
- (G) 3T Heater-Cooler litigation provision, legal expenses primarily related to 3T Heater-Cooler defense, settlements and other matters, remeasurement of contingent consideration related to acquisitions and AR reserves
- (H) Non-cash expenses associated with stock-based compensation costs
- (I) Primarily relates to discrete tax items and the tax impact of intercompany transactions
- (J) Primarily relates to intellectual property migration and other non-recurring impacts to interest expense

# GAAP to Non-GAAP Reconciliations- *Unaudited*

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	GAAP Financial Measures	Merger and Integration Expenses (A)	Restructuring Expenses (B)	Depreciation and Amortization Expenses (C)	Product Remediation Expenses (D)	Acquisition Costs (E)	Impairments (F)	Non-recurring Legal and Contingent Consideration (G)	Stock-based Compensation Costs (H)	Certain Tax Adjustments (I)	Certain Interest Adjustments (J)	
Gross profit	\$172.2	\$—	\$—	\$1.1	\$4.7	\$—	\$0.7	\$—	\$0.2	\$—	\$—	\$179.0
Selling, general and administrative	101.3	—	—	(0.3)	—	(2.3)	0.3	(3.2)	(3.5)	—	—	92.2
Research and development	32.4	—	—	—	—	(0.6)	(0.5)	0.1	(0.3)	—	—	31.0
Other operating expenses	19.6	(7.9)	(3.2)	(8.5)	—	—	—	—	—	—	—	—
Operating income from continuing operations	18.9	7.9	3.2	10.0	4.7	2.9	1.0	3.2	4.0	—	—	55.8
Income tax expense	39.1	1.9	0.2	5.0	1.6	2.5	1.6	(0.1)	0.5	(41.7)	0.3	11.0
Net (loss) income from continuing operations	(31.5)	5.9	3.1	4.9	3.1	0.4	7.9	3.2	3.5	41.7	0.7	43.1
Diluted EPS - Continuing Operations	(\$0.65)	\$0.12	\$0.07	\$0.10	\$0.06	\$0.01	\$0.17	\$0.07	\$0.08	\$0.85	\$0.01	\$0.88

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- (E) Caisson-related acquisition costs
- (F) Impairments of cost-method investments and tangible assets
- (G) Contingent consideration related to acquisitions, legal expenses primarily related to 3T Heater-Cooler defense and other matters
- (H) Non-cash expenses associated with stock-based compensation costs
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# GAAP to Non-GAAP Reconciliations- *Unaudited*

## RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES - UNAUDITED (U.S. dollars in millions, except per share amounts)

Twelve Months Ended December 31, 2018	Specified Items											Adjusted Financial Measures
	GAAP Financial Measures	Merger and Integration Expenses (A)	Restructuring Expenses (B)	Depreciation and Amortization Expenses (C)	Product Remediation Expenses (D)	Acquisition Costs (E)	CRM Disposal Costs (F)	Non-recurring Legal, Contingent Consideration and Other Reserves (G)	Stock-based Compensation Costs (H)	Certain Tax Adjustments (I)	Certain Interest Adjustments (J)	
Gross profit	\$ 734.5	\$ —	\$ —	\$ 11.6	\$ 10.7	\$ —	\$ —	\$ (3.5)	\$ 1.1	\$ —	\$ —	\$ 754.3
Selling, general and administrative	465.0	—	—	(0.9)	—	(5.5)	(3.8)	(32.9)	(19.4)	—	—	402.5
Research and development	146.0	—	—	(0.3)	—	(5.4)	(0.3)	0.2	(4.5)	—	—	135.7
Litigation provision	294.0	—	—	—	—	—	—	(294.0)	—	—	—	—
Other operating expenses	77.5	(24.4)	(15.9)	(37.2)	—	—	—	—	—	—	—	—
Operating (loss) income from continuing operations	(248.1)	24.4	15.9	49.9	10.7	10.9	4.2	323.3	25.0	—	—	216.2
Gain on acquisition of ImThera Medical, Inc.	11.5	—	—	—	—	(11.5)	—	—	—	—	—	—
Income tax (benefit) expense	(69.6)	5.1	4.0	12.3	2.5	2.5	1.4	78.2	6.3	(11.0)	0.8	32.5
Net (loss) income from continuing operations	(178.5)	19.3	11.9	37.6	8.2	(3.1)	2.8	245.0	18.6	11.0	2.4	175.3
Diluted EPS - Continuing Operations	\$ (3.68)	\$ 0.39	\$ 0.24	\$ 0.76	\$ 0.17	\$ (0.06)	\$ 0.06	\$ 4.96	\$ 0.38	\$ 0.22	\$ 0.05	\$ 3.55

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Gross profit	\$651.8	\$—	\$—	\$4.4	\$7.3	\$0.2	\$0.7	\$0.1	\$0.4	\$—	\$—	\$665.0
Selling, general and administrative	380.1	—	—	(1.0)	—	(2.3)	0.3	(10.5)	(16.1)	—	—	350.5
Research and development	109.5	—	—	(0.1)	—	(13.0)	(0.5)	0.3	(1.1)	—	—	95.0
Other operating expenses	65.7	(14.8)	(17.1)	(33.1)	—	(0.9)	—	0.2	—	—	—	—
Operating income from continuing operations	96.5	14.8	17.1	38.7	7.3	16.5	1.0	10.1	17.7	—	—	219.5
Gain on acquisition of Caisson Interventional, LLC	39.4	—	—	—	—	(39.4)	—	—	—	—	—	—
Foreign exchange and other (losses) gains	0.3	—	—	—	—	—	—	(3.2)	—	—	—	(2.9)
Income tax expense	50.0	3.2	2.4	12.1	2.4	5.7	1.6	3.2	4.1	(37.2)	1.1	48.6
Losses from equity method investments	(16.7)	—	—	0.1	—	—	13.0	—	—	—	—	(3.6)
Net income from continuing operations	54.5	11.6	14.7	26.7	4.8	(28.7)	20.9	3.7	13.6	37.2	1.5	160.5
Diluted EPS - Continuing Operations	\$1.12	\$0.24	\$0.30	\$0.55	\$0.10	(\$0.59)	\$0.44	\$0.08	\$0.28	\$0.77	\$0.03	\$3.31

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- (E) Caisson-related acquisition costs and gain on acquisition
- (F) Impairments of cost-method investments, equity method investments and tangible assets
- (G) Contingent consideration related to acquisitions, legal expenses primarily related to 3T Heater-Cooler defense, gain on sale of Instituto Europeo di Oncologia S.R.L. and other matters
- (H) Non-cash expenses associated with stock-based compensation costs
- (I) Primarily relates to discrete tax items and the tax impact of intercompany transactions
- (J) Primarily relates to intellectual property migration and other non-recurring impacts to interest expense

# GAAP to Non-GAAP Reconciliations

The preceding tables reconcile the most comparable U.S. Generally Accepted Accounting Principles (GAAP) measures to the non-GAAP financial and operating measures presented in LivaNova's fourth-quarter and full-year 2018 press release and during the conference call held in conjunction with the announcement of fourth-quarter and full-year 2018 results.

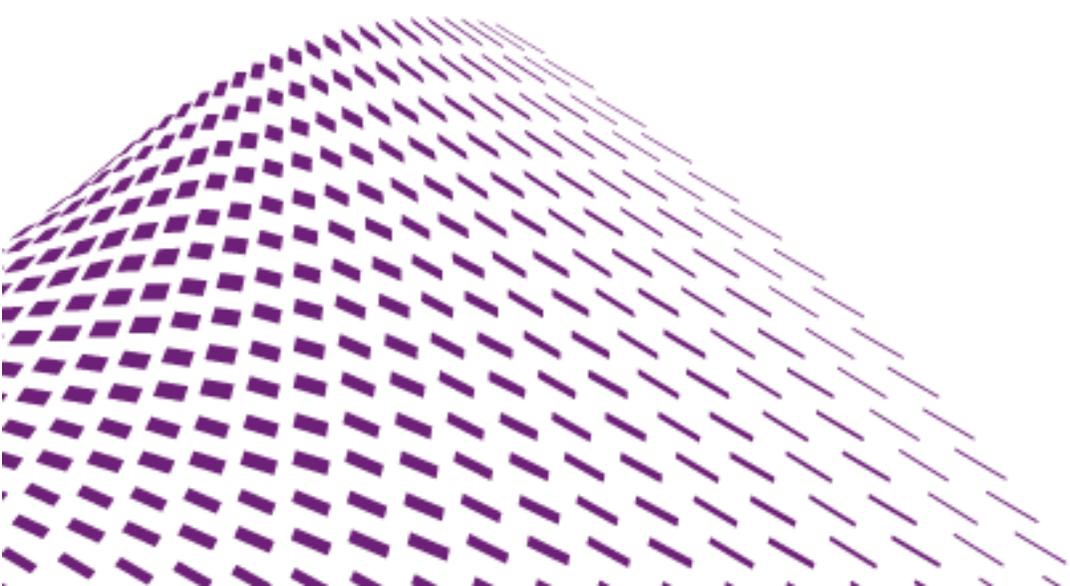
Unless otherwise noted, all sales growth rates in this presentation reflect comparable, constant-currency growth. Management believes that referring to comparable, constant-currency growth is the most useful way to evaluate the sales performance of LivaNova and to compare the sales performance of current periods to prior periods on a consistent basis. Constant-currency growth, a non-GAAP financial measure, measures the change in sales between current and prior-year periods using average exchange rates in effect during the applicable prior-year period.

LivaNova calculates forward-looking non-GAAP financial measures based on internal forecasts that omit certain amounts that would be included in GAAP financial measures. For example, forward-looking net sales growth projections are estimated on a constant-currency basis and exclude the impact of foreign currency fluctuations. Forward-looking non-GAAP adjusted tax rate and adjusted diluted earnings per share guidance exclude other items such as, but not limited to, changes in fair value of contingent consideration arrangements, asset impairment charges and product remediation costs that would be included in comparable GAAP financial measures. The most directly comparable GAAP measure for constant-currency net sales, non-GAAP adjusted tax rate and adjusted diluted earnings per share are net sales, the effective tax rate and earnings per share, respectively. However, non-GAAP financial adjustments on a forward-looking basis are subject to uncertainty and variability as they are dependent on many factors, including but not limited to, the effect of foreign currency exchange fluctuations, impacts from potential acquisitions or divestitures, gains or losses on the potential sale of businesses or other assets, restructuring costs, merger and integration activities, changes in fair value of contingent consideration arrangements, product remediation costs, asset impairment charges and the tax impact of the items above and the tax impact of tax law changes or other tax matters. Accordingly, reconciliations to the most directly comparable forward-looking GAAP financial measures are not available without unreasonable effort.

The Company also believes adjusted financial measures such as adjusted gross profit; adjusted selling, general and administrative expense; adjusted research and development expense; adjusted other operating expenses; adjusted operating income from continued operations; adjusted income tax expense; adjusted net income from continuing operations; and adjusted diluted earnings per share, are measures by which LivaNova generally uses to facilitate management review of the operational performance of the company, to serve as a basis for strategic planning, and to assist in the design of compensation incentive plans. Furthermore, adjusted financial measures allow investors to evaluate the Company's core performance for different periods on a more comparable and consistent basis, and with other entities in the medical technology industry by adjusting for items that are not related to the ongoing operations of the Company or incurred in the ordinary course of business.

# LivaNova

Health innovation that matters



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