



## LED MEDICAL ANNOUNCES CEO LETTER TO SHAREHOLDERS

VANCOUVER, BRITISH COLUMBIA – April 30, 2018

Dear Fellow Shareholders,

Our acquisition of Apteryx, Inc. (Apteryx) in early 2017 allowed us to execute on our vision of strengthening our overall market position by expanding our product offerings, broadening our IP portfolio and increasing the size of our customer base. This has helped us achieve stronger financial results over the prior year and sets us up for even more growth for years to come.

### **Highlights from 2017 include:**

- Acquisition of Apteryx, bringing us an enhanced Software as a Service (SaaS) recurring revenue business model
- New customer wins, including significant Dental Service Organizations (DSOs)
- Cross-selling to existing clients and new pipeline of Apteryx customers
- Revenue increase of 25% for the full year 2017 over 2016
- Gross margin improvement of more than 100% to 56% for 2017 vs. 24% for 2016
- EBITDA improvement of more than US\$3 million
- Reduced net loss by nearly US\$3 million

The premier asset of our acquired software is XVWeb®, the dental industry's first affordable cloud-based SaaS imaging module. We believe that we are at the leading edge of new adoption and market trends, such as the expanding market presence of DSOs. As well as an increasing number of cloud practice management offerings in the market to partner with will facilitate more subscription-based recurring revenue for our business. Subscription revenue from these new XVWeb® customer acquisitions combined with the roll out of a new Maintenance & Support customer program in the summer of 2017 will continue to provide the Company with a growing stream of recurring revenue as a more significant portion of our total business – while achieving our desired product mix.

Apteryx revenues have historically been driven by a one-time perpetual software license sales model. Now Apteryx revenues have largely been positioned to move to a subscription software revenue model for our XVWeb®. We anticipate Apteryx's recurring revenue streams to grow both organically as well as through the SaaS agreement signed recently with a large, North American provider of dental software. SaaS agreements allow for greater market penetration and awareness for our products and services and are an important step in our vision of leading the industry toward the rapid adoption of cloud imaging technologies. This June we plan to release XVWeb® 3D, the first add-on module for XVWeb®, which will provide cloud support for 3D image DICOM and STL data. XVWeb® 3D will be offered to all current XVWeb® customers.



## **2017 Financial Highlights**

Net revenue for the year ended December 31, 2017 was US\$12,688,752, which is an increase of 25% from the year ended December 31, 2016. This revenue increase was primarily due to the acquisition of Apteryx and adding the software business to the Company's product line. Gross margin for 2017 increased by over 100% to 56% versus a gross margin of 24% for 2016. 2017 EBITDA from operations (net of acquisition costs) was (US\$1.3 million) compared to EBITDA of (US\$4.5 million) in 2016. EBITDA was reduced by a US\$365,000 non-cash expense related to the Apteryx acquisition recorded in the fourth quarter. Our new product mix is the primary reason for the improved margin and improved EBITDA.

The net loss for the year ended December 31, 2017 was US\$2,495,015 compared to the net loss for the year ended December 31, 2016 of US\$5,373,273. The decrease in net loss is mainly attributable to higher margin Apteryx software products.

Cash flow used in operations was US\$4,432,082 during the year ended December 31, 2017 compared to cash flow used in operations of US\$2,449,563 during the year ended December 31, 2016. Inflows from financing for the year ended December 31, 2017 of US\$12,791,305 were higher as compared to US\$1,457,079 of cash inflows from the financing activities for the year ended December 31, 2016. The cash outflows from investing activities of US\$6,547,642 relates largely to the cash consideration on the purchase of Apteryx, Inc.

The Company had cash of US\$2,425,468 and Net Working Capital deficit of US\$1,221,176 as of December 31, 2017. Net Working Capital is defined as total current assets less total current liabilities.

## **2018 Status Update:**

XVWeb® is the dental industry's first affordable cloud-based SaaS imaging module which we expect will add high value revenue to our business. It is also key to our strategy of becoming a lead imaging provider in the rapidly expanding niche of Dental Service Organizations, and to the US military dental command. We remain focused on our core proprietary dental imaging and imaging device business including, Tuxedo sensor and VELscope® VX sales, while growing recurring revenue streams through subscription software sales, software maintenance and support, VELcare, and VELscope® disposable sales.

The Company's objectives for the balance of 2018 are:

- Targeted growth of recurring and repeatable revenue streams from software subscription, maintenance and support, VELscope® consumable products and VELcare services via traditional sales/marketing activities and strategic partnering opportunities;
- XVWeb® SaaS customer acquisition campaign to DSO customers and expansion of our reseller partnering program with practice management software partners;
- Launch of additional XVWeb® modules, starting with XVWeb® 3D;
- Continued growth of customer base by entering US Federal Government market segment through a General Services Agency contract award to more efficiently sell LED/Apteryx products and services to federal government dental prospects;



- Implement operating expense reductions and improve the balance sheet, including reducing the cost of capital as we refinance our debt over time at lower rates to support the execution of our plan; and
- Reduced reliance on sale and support of 3rd party distributed imaging device products.

I look forward to our long-term success as we continue to invest in and grow our business.

Thank you for your interest in our company, our products, and our services.

Sincerely,

Dr. David Gane  
Chief Executive Officer  
April 27, 2018

*Please refer to the risk factors and forward-looking statements included in the Company's Management's Discussion & Analysis for the year ended December 31, 2017 and for the three months ended December 31, 2017, respectively, filed by the Company on Sedar.*