PrimeStone

The Board of Directors
LivaNova PLC

London, October 12th, 2020

Mr Chairman, Members of the Board,

PrimeStone Capital LLP ("PrimeStone" or "we"), through the funds we advise, started investing in LivaNova (the "Company") earlier this year and now own c.2.2% of the issued share capital. This letter follows the interactions between our team and LivaNova's management since the beginning of 2020, including our letters from June 30th and August 4th, our July 31st meeting with CEO Damien McDonald and SVP Corporate Development Matthew Dodds, and finally our August 24th meeting with the Chairman Dan Moore and Damien.

PrimeStone focuses on making long-term investments in quality companies. Our team has extensive experience investing in and sitting on boards of both private and publicly listed companies. Prior to each investment made, we undertake months of detailed analysis and due diligence to ensure an in-depth understanding of a company and its stakeholders. We then aim to become trusted partners by taking a collaborative, constructive and fact-based approach in our dialogue with companies.

Our work has led us to believe that LivaNova holds attractive assets and that its shares are significantly undervalued versus their full potential due to the combination of a misconceived strategy and poor execution. **We think that its share price can more than double to $100** (see Figure 5). However, to get there, several changes need to take place and our recent discussions have led us to conclude that the appropriate next step is to share our diagnosis and recommendations more broadly for the benefit of all stakeholders. Doing so will enable the Company to better gauge investors' and analysts' perspectives on these matters. Given the conversations we have had with some of them, we have little doubt that our suggestions will be met with support.

As a summary, we are asking you to address four areas:

1. **Capital allocation: refocus on the core Neuromodulation business, divest Cardiopulmonary, sell or close Heart Valves**
2. **Transparency: improve disclosures so that investors and analysts can understand where the Company makes and spends its money**
3. **Governance: strengthen the Board's corporate financial skills, revisit management's compensation**
4. **Leadership: consider appointing a new Chairman, hire a new CFO**

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I. <u>Recap of our engagement with the Board and management to date</u>

After our initial letter that covered our analysis of LivaNova's longstanding underperformance and suggested a list of remedies, our July working session with Damien and Matt led us to believe that we were making progress to set the Company on the path to creating substantial value for shareholders:

(i) we were told "we are more aligned with than opposed to your proposals" and "it is a question of timing"
(ii) we had a discussion regarding potential acquirers of the Cardiopulmonary business and about the process that could create the most value for shareholders
(iii) we had a constructive exchange on the potential steps to be taken to improve analysts' and investors' understanding of LivaNova's profit and prospects by segment

Following up on August 4th we recapped the main points of our discussion and made three concrete suggestions:

1. Reporting adjusted segment operating profit between Neuromodulation, Cardiopulmonary, Heart Valves, central costs and Strategic Portfolio Initiatives (Depression, Heart Failure, Sleep Apnea, together the "SPIs")
2. Initiating a formal RFP process to mandate advisors to exit Cardiopulmonary and Heart Valves
3. Reformulating medium-term expectations communicated to investors and analysts to take into account the various potential scenarios regarding SPIs

Unfortunately, our last meeting on August 24th was, in our view, completely unproductive and set us back to where we had started. We noted Dan's profound dissatisfaction with the stock's performance, his commitment not to sell the Company "on the cheap", and his ambition to more than double the share price from today's level through "beat and raise" earnings releases. However, we were disappointed by:

(i) the lack of precise measures and timeframe presented to us to remedy this unsatisfactory situation;
(ii) the lack of acknowledgement of some of the mistakes made by the Board, particularly regarding the recent refinancing; and most importantly
(iii) the state of denial regarding the need to improve capital allocation, transparency and governance

As we told you, PrimeStone is a long-term, patient investor. But patience is a virtue only when the Company's strategy is the best it can pursue, when management is the best the Company can have, and when it is properly governed and incentivized.

The Board and management have had ample time to deliver results since the 2015 merger of Cyberonics and Sorin that formed LivaNova and over which half the current Board presided. Since the merger patient investors have been rewarded with **a total shareholder return of -17% versus +83% for the overall market and +171% for your peers[1].** In short, the merger has failed to meet the promises made at the time, the current strategy is not working, and the quality of execution needs to be improved. It has become urgent to provide shareholders with a clear new direction and a roadmap to turn the performance around.

II. Our analysis of LivaNova

In our first letter, we presented a simple diagnosis, of which the main points were the following:

1. **LivaNova owns high-quality assets with exciting prospects.** In particular, the Neuromodulation / Epilepsy franchise is an amazing long-term compounder with attractive economics. It generates more profit than the overall group. At the current share price, it is worth more than the entire group.

Figure 1: Neuromodulation Performance ($m) 2008-2019[2]

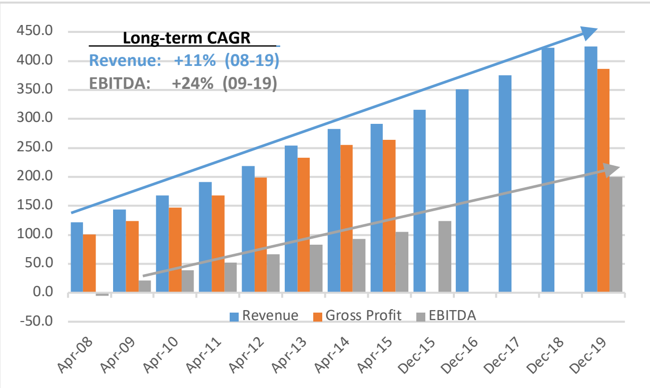
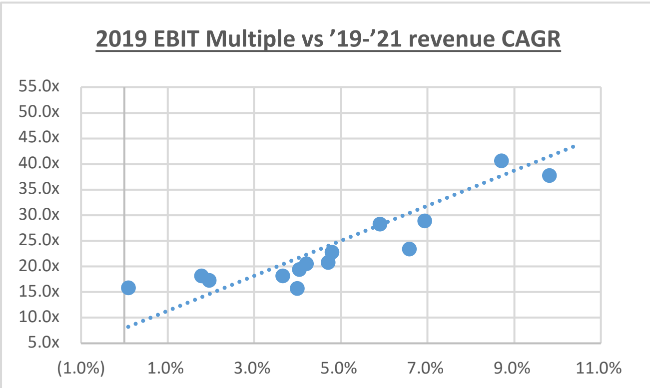


Figure 2: Med-tech Valuation Summary[3]



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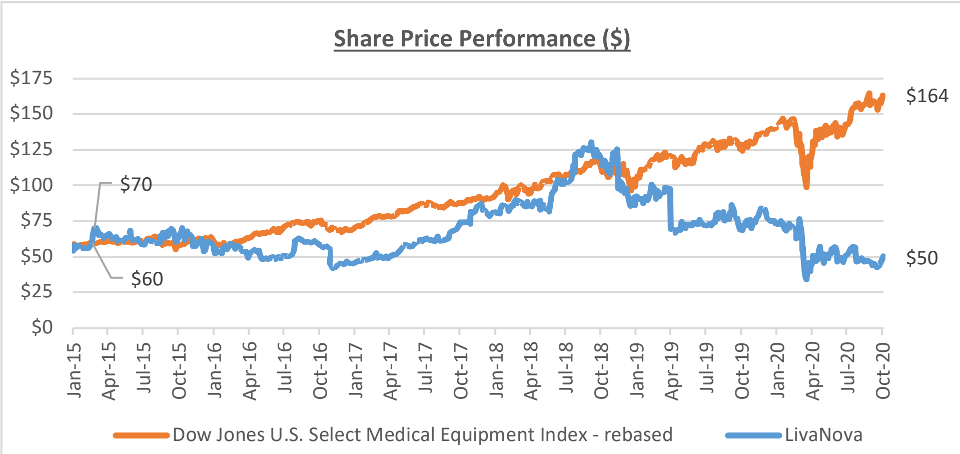
[1] Total shareholder return from 25th February 2015, the day prior to the merger announcement until 8th October 2020. LivaNova's TSR thus includes the 10.3% one-day gain from the announcement. Overall market: 83% TSR for S&P500.
[2] Source: Company information from LivaNova and Cyberonics, PrimeStone Analysis
[3] Source: Bloomberg EV and Analyst Consensus as 8 October 2020. Peer group of EBIT positive comparable med-tech businesses: LIVN, MDT, ABT, SYK, BDX, BSX, EW, BAX, ZBH, RMD, JNJ, TFX, MASI, NUVA, HOLX

2. **LivaNova's shares have underperformed over many years, which requires management and the Board to fundamentally rethink its strategic direction** and acknowledge what is obvious to every investor: the merger of Sorin and Cyberonics has failed and destroyed shareholder value. It was an especially poor decision for Cyberonics' shareholders. It needs to be unwound.

Figure 3: Share price performance against an index of peers[4]



3. **The Board has the opportunity to at least double the current share price to more than $100 a share, which a sum-of-the part analysis supports**

Figure 4: Breakdown of 2019 Adjusted EBIT[5]

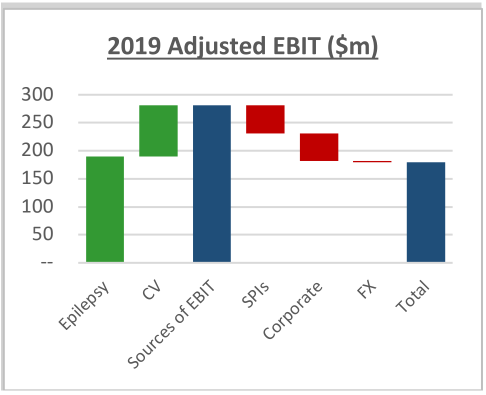


Figure 5: Sum-of-the-parts analysis[6]

	Adjusted '19 EBIT ($m)	Low-end Valuation x EBIT	Low-end Valuation Value ($m)	Low-end Valuation Value per Share ($)	High-end Valuation x EBIT	High-end Valuation Value ($m)	High-end Valuation Value per Share ($)
Cardiovascular	91	10.0x	905	$19	13.0x	1,177	$24
TandemLife	0		250	$5		400	$8
Epilepsy	190	20.0x	3,804	$79	24.0x	4,565	$94
SPIs	(49)		0	$0		1,698	$35
Corporate and FX	(52)	15.0x	(774)	($16)	18.5x	(955)	($20)
Total	**180**		**4,185**	**$86**		**6,884**	**$142**
Net Debt			(519)	($11)		(519)	($11)
Total			**3,666**	**$76**		**6,365**	**$131**
Share Price Today				$50			$50
Upside				***51%***			***161%***

During our meetings, you agreed with us. But a nod was not what we were looking for. We are looking for concrete actions to actually set us on track to a $100 per share valuation.

III. Our request for immediate actions

To reach this shared objective, we ask you launch a few important initiatives:

1. **Capital allocation: Analyze strategic alternatives, in particular the disposal of the old Sorin business,** which would refocus the group on the Neuromodulation franchise and its promising strategic portfolio initiatives.

[4] As of 8 October 2020, index rebased to 25th February 2015, the day prior to the merger announcement
[5] Source: Company Information and PrimeStone Analysis
[6] Source: Company Information, PrimeStone Analysis and Equity Research. Net debt calculation uses par value of the 2025 Notes

⇨ You seem to agree with us that there is a better owner for the Cardiopulmonary business "one day" and you acknowledged the need for drastic action - i.e. disposal or closure - for the likely loss-making Heart Valves division but so far we are left being asked for patience rather than receiving a commitment to work on the necessary restructuring and disposals together with unambiguous deadlines to deliver results.

⇨ You should plan and prepare for these events to happen. Given the recent corporate finance missteps (more on this below), we encourage you to pay particular attention to selecting competent and experienced advisors to guide you through the transaction.

2. **Transparency: Clearly disclose where the Company makes its money and spends it.** Increased transparency will help restore credibility, enable accountability, and trigger a valuation uplift at no cost.

⇨ We ask you to provide investors and analysts with data regarding segment EBIT, headquarters costs and spending in strategic portfolio initiatives. Not doing so leads market participants to massive differences in assumptions: we have found that they often significantly underestimate the profit contribution and attractiveness of your Epilepsy franchise and end up attributing a negative value to your pipeline. Investors also need to be guided regarding the various financial scenarios in case your SPIs succeed or fail, given the fundamental differences in financial outcomes.

⇨ We, other investors, and analysts would appreciate your communicating more, better, and consistently to all of us. While you are transparent with those who ask for the information (including ourselves, which we appreciate), it seems from our last meeting that you do not see the need to improve your disclosures because you supposedly match those of your peers. Maybe when your performance reaches that of your peers you can revert to being opaque but for now, we believe your reluctance is misguided.

⇨ Your communication should focus on numbers, facts, targets, deadlines, and not only provide us with vague words. At the last Baird conference, it was interesting to note that despite the analyst's efforts, the team avoided using any numbers whatsoever in answering questions. This leaves an impression of vagueness and lack of grasp.

⇨ By being more transparent you will make valuing your business easier, whereas today such an exercise is extremely difficult, which is neither in your interest nor in your shareholders'. For example:
- You regularly conduct sum-of-the-parts valuations and seem frustrated by the discount at which the shares are trading, but you are not forthcoming in providing analysts and investors with the necessary information to perform the same analysis. The recent initiation note by Baird is a case in point: it includes no SOTP analysis.
- Your important investments in DTD, Heart Failure and Sleep Apnea are "strategic" and potentially game-changing for the Company, but you do not clearly disclose how much you invest in those nor give any perspective regarding the potential outcomes and timeframes. Investors are left in the dark, writing a blank check that currently costs them more than $50m a year.
- TandemLife is an exciting and fast-growing venture. We believe it has a great future. Despite the fact that you acquired it recently at the cost of several years of group profits, you do not give any significant detail about its bottom-line performance and prospects anymore.

⇨ Beyond a serious improvement in regular communications, we recommend you organize a full Investor Day that would cover all these points, plans and scenarios. It is overdue. As we showed in our first letter, **the 2022 goal of "mid-teens EPS growth" from your 2017 Investor Day had clearly lost all credibility even before Covid-19 hit**. **Past performance and future earnings growth now need to be clearly detailed and**

attributed to each individual business to create accountability and restore credibility. There are currently many examples of successful investor days (entire IPOs even) conducted virtually; Covid-19 should not be an excuse for delaying this further.

3. **Governance**

   i. **Strengthen the Board's corporate finance skills** to improve management oversight to avoid disastrous decisions like that linked to the recent refinancing, which we believe cost the Company a staggering amount at more than $150m, an amount duly and immediately reflected in the share price which underperformed the market by c.600bps on the day.

      ⇨ We were frankly shocked by the fact that your only response to our analysis that showed how costly this refinancing had been was to challenge our market benchmarks and to claim you were advised by world-class advisors and had numerous parties involved in the decision.

      ⇨ From the lack of a direct answer to our question it was unclear whether you knew that the total costs of the senior and subordinated debt recently issued were c.8% and c.12% p.a., respectively. Such a cost of debt is incredibly high for listed companies in the healthcare space with an LTV of c.15%. In fact, we suspect the Board may not have realized the full cost of these debt instruments in the form of upfront fees, capped call costs, excessive coupons, libor floors, prepayment penalties and the remaining derivative liability. All of these benefits to lenders represent real costs to your shareholders even when they are excluded from the "Adjusted" metrics.

      ⇨ As you pointed out, the head of the audit committee, Hugh Morrison, aged 73, may change as he retires. But from our perspective the first step for the Board is to acknowledge the mistakes made, then to find out the root causes and finally to decide what is appropriate in terms of process and talent. This may indeed involve a reshuffling of the audit committee, but other measures may be also warranted as covered below.

   ii. **Revisit management's compensation** to better align it with shareholder value creation and lower it to a more socially acceptable level and in line with that of peers.

      ⇨ Our analyses show that share-based compensation is 2x to 3x higher than at peers and that the current CEO compensation is 60% higher than those of the previous CEOs of Sorin and Cyberonics combined, whereas EBITDA is now 20% lower. We have not received any reply from you so far on this matter.

      ⇨ The combination of underperformance and high compensation is certainly something that deserves your attention and some form of dialogue with shareholders. Many like us are focused on alignment of incentives but also fairness of remuneration. We look forward to hearing from you on this matter.

4. **Leadership**

   i. **We believe that the Board must urgently review its own performance and that of management in the most honest and dispassionate way.** From our perspective, you have collectively failed to deliver value and made significant mistakes. This started with the merger 5 years ago, continued with disappointing execution monitoring, sloppy covenant and balance sheet management, and culminated in a disastrous refinancing this June laying bare severe deficiencies in capital markets management. LivaNova, its shareholders and its employees deserve better.

   ii. **You should ask yourself if you still have the right Chairman,** especially given the fact that Dan led the initial merger, that he has presided over the last 5 years of difficult performance and execution, and that he has been continuously selling shares, having now disposed of c.85% of what he owned in early 2015[7].

iii. **You should hire a new Chief Financial Officer who will be tasked with restoring credibility, ensuring transparency and accountability, and making sure the capital structure is properly managed.** Please pick someone who is diligent and has been CFO of a standalone company before, rather than a divisional controller. One cannot afford more inexperience.

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We trust you will acknowledge that the above remarks are founded, that our requests make sense and that they are in the interests of all LivaNova's stakeholders. We believe the actions we propose can help restore the Company's credibility and get it on a path of significant value creation. Given the discussions we have had with other shareholders during our due diligence and more recently, we believe they would receive broad support. It is indeed difficult to argue that the only remedy to LivaNova's underperformance is patience from investors.

We look forward to you translating the nods and words of agreement you gave us in our meetings into transparent commitments, detailed plans, actions, and tangible results for all stakeholders.

Yours respectfully,

PrimeStone

[7] Source: Form 4 filings. Dan Moore owns 29,740 shares as of 18-Jun-2020. This compares to 195,038 shares on 05-Mar-2015, a reduction of 85%.

Cautionary Statements Regarding Forward-Looking Statements

This letter contains forward-looking statements. All statements contained in this letter that are not clearly historical in nature or that necessarily depend on future events are forward-looking, and the words “anticipate,” “believe,” “expect,” “potential,” “could,” “opportunity,” “estimate,” “plan,” and similar expressions are generally intended to identify forward-looking statements. The projected results and statements contained in this letter that are not historical facts are based on current expectations, speak only as of the date of this letter and involve risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such projected results and statements. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of PrimeStone Although PrimeStone believes that the assumptions underlying the projected results or forward-looking statements are reasonable as of the date of this letter, any of the assumptions could be inaccurate and therefore, there can be no assurance that the projected results or forward-looking statements included in this letter will prove to be accurate and therefore actual results could differ materially from those set forth in, contemplated by, or underlying those forward-looking statements. In light of the significant uncertainties inherent in the projected results and forward-looking statements included in this letter, the inclusion of such information should not be regarded as a representation as to future results or that the objectives and strategic initiatives expressed or implied by such projected results and forward-looking statements will be achieved. PrimeStone will not undertake and specifically disclaims any obligation to disclose the results of any revisions that may be made to any projected results or forward-looking statements in this letter to reflect events or circumstances after the date of such projected results or statements or to reflect the occurrence of anticipated or unanticipated events.