



ReShape Lifesciences® Reports Year Ended December 31, 2022 Financial Results and Provides Corporate Update

April 25, 2023

Continued Sequential Quarterly Growth in the U.S. With Q4 Revenues of \$2.7 Million

Improved Operational Effectiveness With Second Half 2022 Operating Expenses Down 27.9% Compared to the First Half of 2022, A \$5.1 Million Reduction

Executing A Plan For Profitability With A Balance Sheet Bolstered By Approximately \$16.0 Million Raised Over the Last 12 Months

Conference Call to be Held at 4:30 pm ET Today

SAN CLEMENTE, Calif., April 25, 2023 (GLOBE NEWSWIRE) -- [ReShape Lifesciences Inc. \(Nasdaq: RSLS\)](#), the premier physician-led weight loss and metabolic health-solutions company, today reported financial results for the year ended December 31, 2022 and provided a corporate strategic update.

Fourth Quarter 2022 and Subsequent Highlights

- In April, completed a \$2.5 million registered direct offering with a single institutional investor, extending the company's cash runway into 2024, creating a sustainable path to profitability.
- In April, received a Notice of Allowance from the U.S. Patent and Trademark Office (USPTO) for patent application 16/792,094, entitled, "Systems and Methods for Determining Failure of Intra-gastric Devices," related to the company's Obalon® Balloon System, expected to provide protection into at least January 2031, without accounting for a potential Patent Term Extension (PTE).
- In March, formed a Scientific Advisory Board (SAB) comprised of internationally recognized experts and surgeons in the obesity and metabolic disease fields. The newly created SAB will provide management with strategic input and external scientific review of the company's development activities and product pipeline.
- In February, raised \$10.2 million in an upsized underwritten public offering.
- In December, obtained shareholder approval for, and effected, a 1-for-50 reverse stock split in order to regain compliance with the Nasdaq minimum bid price requirement.
- In November, completed a \$750,000 registered direct offering with a single institutional shareholder.
- In October, presented data at the Obesity Society Annual Meeting, during ObesityWeek®, on ReShape's DBSN™ device as a potential treatment for Type 2 diabetes, in an abstract entitled, *Metabolic Effects of Dual Neuromodulation of Vagus Nerve in a Type 2 Diabetic Model*.
- In October, announced that the American Society for Metabolic and Bariatric Surgery (ASMBS) and the International Federation for the Surgery of Obesity and Metabolic Disorders (IFSO) issued updated guidelines for Metabolic and Bariatric Surgery, including the Lap-Band®, replacing the 30 year old guidelines issued by the National Institutes of Health (NIH) in 1991.
- In October, announced publication of data on the company's proprietary DBSN™ system for the treatment of Type 2 diabetes and metabolic disorders in the Neural Technology Section of the peer reviewed journal, *Frontiers in Neuroscience*.
- In October, announced that the ASMBS issued a Consensus Statement on Lap-Band® use and aftercare management, entitled, *American Society of Metabolic and Bariatric Surgery Consensus Statement on Laparoscopic Adjustable Gastric Band Management*.

"Since the latter half of 2022, we have continued to execute on our growth pillars with a metrics driven approach to business operations, while expanding our evidenced-based product portfolio spanning the entire care continuum to treat obesity and metabolic disease. Our upsized \$10.2 million underwritten public offering, completed in February, along with the recent \$2.5 million registered direct offering in April, gives us sufficient cash to achieve profitability within the next 18 months and provides an additional layer of capital to help drive growth," stated Paul F. Hickey, President and Chief Executive Officer of ReShape Lifesciences®. "We intend to work closely with our recently formed global SAB, whose members will be providing their expertise and feedback on our growth initiatives and will be integral in helping us develop safe and effective products and programs for durable weight loss, improvements in obesity related comorbidities and quality of life. Additionally, the compelling evidence-based standards for metabolic and bariatric surgery issued by the industry's two key organizations, ASMBS and IFSO, if supported by payers, can dramatically increase the number of patients eligible for bariatric surgery. Our strong belief is that our Lap-Band® System will prevail as the least invasive surgical treatment option available to help address the global obesity epidemic. Going forward, we remain committed to continuing our collaborations with healthcare professionals to expand awareness and use of personalized treatments, including both our proprietary Lap-Band® and ReShapeCare™ programs, to

ensure that patients can achieve durable long-term weight loss goals.

“Operationally, we made a number of changes to ensure more predictable and scalable future financial performance including right-sizing the organization to reduce operating expenditures and allow more investment in our growth drivers, including sales and marketing. Shortly after I joined ReShape in August, we implemented a highly targeted, direct-to-consumer marketing campaign to help yield higher quality and lower cost patient leads for the anatomy sparing Lap-Band® in specific markets that align with surgeon advocates. We are continuing to upgrade our lead generating and nurturing programs and will be moving critical competencies in-house to ensure results are achieved quickly and cost-effectively.”

Management noted that its focus on introducing new products and services, the second of its growth pillars, includes:

- The recent launch of the re-designed ReShape Calibration Tubes, which support the majority of all bariatric procedures. Initial surgeon feedback is positive, and the company expects to achieve revenue from new customer adoption of the Calibration Tubes during 2023.
- The expected submission, in the second quarter, of a PMA Supplement to the U.S. Food and Drug Administration (FDA) for approval of the Lap-Band® 2.0 System, designed to reduce the required postoperative physician office-based Lap-Band adjustments. Feedback from the FDA is expected by year end 2023.
- Continuing to work with large, self-insured employers to provide the HIPAA-compliant, novel, weight management program, ReShapeCare™, to their employees in order to positively impact overall employee health and thus reduce employers' health care costs.
- Continued the development of the proprietary DBSN™ technology through non-dilutive NIH SBIR grant support. The DBSN™ incorporates a vagus nerve block technology platform with vagus nerve stimulation, which may be able to reduce diabetes patients' dependence on medications in a very individualized manner. The device has the potential to address the significant type 2 diabetes market.

Mr. Hickey concluded, “As evidenced by the recent Notice of Allowance from the USPTO for an additional patent covering the ReShape Obalon® Balloon system, we have a strong defensive ‘moat’ of intellectual property surrounding all of our products, including the Lap-Band®, Lap-Band® 2.0, DBSN™ technology, and the ReShape Obalon® Balloon system. Looking ahead, we are at the precipice of some exciting milestones and compelling new product launches, and remain laser focused on executing on our growth pillars, which have put us on a path to profitability.”

Year Ended December 31, 2022, Financial and Operating Results

The information shown below will focus primarily on our full year 2022 financial results. Additionally, we will also highlight the great strides we made during the second half of 2022, as we focused our business strategy and significantly reduced costs, which will serve as both our launch pad for growth and path to profitability.

During the second half of 2022, we pivoted our marketing strategy which has significantly reduced our sales and marketing expenses quarter over quarter. We also reduced our G&A and R&D expenses in order to operate more efficiently and reduce our cash burn. To give you more perspective, and *before* any significant one-time adjustments, our overall operating expenses in the first half of 2022 were \$18.1 million compared to \$13.0 million for the second half of 2022 a reduction of \$5.1 million, or 27.9%. This is a significant reduction in our cash burn, which will pave the way for ReShape to become profitable, sooner.

Revenue totaled \$11.2 million for the year ended December 31, 2022, which represents a contraction of 17.4%, or \$2.4 million compared to 2021. The decline was primarily attributable to the re-emergence of COVID. Nevertheless, we saw sequential growth in each quarter during 2022 in our U.S. business. Our U.S revenue for the first half of 2022 was \$4.2 million vs \$5.1 million for the second half of 2022, an increase of \$0.9 million, or 22.3%.

Gross Profit for the year ended December 31, 2022, was \$6.8 million, compared to \$8.3 million for the year ended December 31, 2021, a decrease of \$1.5 million or 18.1%. Gross profit as a percentage of revenue for the year ended December 31, 2022, was 60.5% compared to 61.4% for 2021. The decrease in gross profit margin is primarily due to a decrease in sales, as revenue decreased by 17.4%, with the largest decrease of revenue in the U.S., which has a higher margin than international sales. During the first half of 2022, our gross margins were 58.2% compared to 62.6% for the second half of 2022 as our U.S revenues began to increase.

Sales and Marketing Expenses for the year ended December 31, 2022, rose by \$5.2 million, or 58.5%, to \$14.1 million, compared to \$8.9 million for 2021. The increase was primarily due to an increase in advertising and marketing costs, as well as payroll related and travel expenses, and expenses related to the development of the ReShapeCare™ platform, all totaling an increase of \$6.1 million. This increase was offset by a decline in stock-based compensation expense, commissions and other related costs of \$0.9 million. During the first half of 2022, our sales and marketing expenses were \$9.4 million compared to \$4.8 million in the second half of 2022, a decline of \$4.6 million, or 48.9%.

General and Administrative Expenses for the year ended December 31, 2022, decreased by \$7.1 million, or 28.5%, to \$17.4 million, compared to \$24.3 million for 2021. The decrease is primarily due to a decline in stock-based compensation expense, and a reduction in consulting and professional fees totaling \$10.4 million. This decrease was primarily offset by accrued litigation expenses and severance costs totaling \$3.3 million. During the first half of 2022 our general and administrative expenses were \$9.6 million compared to \$7.7 million in the second half of 2022, a decrease of \$1.9 million, or 19.4%.

Research and Development Expenses for the year ended December 31, 2022, increased by \$0.2 million, or 7.3% to \$2.5 million, compared to \$2.3 million for 2021. The increase is primarily due to an increase in consulting and professional services related to the development of ReShape's Diabetes Bloc-Stim Neuromodulation™ device and payroll related expenditures. Our R&D expenses for the first half of 2022 were \$1.5 million compared to \$1.0 million for the second half of 2022, a decrease of \$0.5 million, or 30.0%.

Cash and Cash Equivalents as of December 31, 2022 were \$3.9 million and the company remains debt free on its balance sheet. Additionally, in February and April 2023, we completed two financings totaling \$12.6 million. Based on available cash resources, the company believes there is sufficient cash on hand to fund current operations into 2024.

A full discussion of our financials is available in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission.

Conference Call Information

Management will host a conference call to discuss ReShape's financial and operational results today at 4:30 pm ET. To participate in the conference call please register with the following [Registration Link](#), and dial-in details will be provided. Participants using this feature are requested to dial into the conference call fifteen minutes ahead of time to avoid delays.

An archived replay will also be available on the "Events and Presentations" section of ReShape's website at: <https://ir.reshapelifesciences.com/events-and-presentations>.

About ReShape Lifesciences®

ReShape Lifesciences® is America's premier weight loss and metabolic health-solutions company, offering an integrated portfolio of proven products and services that manage and treat obesity and metabolic disease. The FDA-approved Lap-Band® System provides minimally invasive, long-term treatment of obesity and is an alternative to more invasive surgical stapling procedures such as the gastric bypass or sleeve gastrectomy. ReShapeCare™ is a virtual weight-management program that supports lifestyle changes for all weight loss patients led by board-certified health coaches to help them keep the weight off over time. The recently launched ReShape Marketplace™ is an online collection of quality wellness products curated for all consumers to help them achieve their health goals. The investigational Diabetes Bloc-Stim Neuromodulation™ (DBSN™) system utilizes a proprietary vagus nerve block and stimulation technology platform for the treatment of Type 2 diabetes and metabolic disorders. The Obalon® balloon technology is a non-surgical, swallowable, gas-filled intra-gastric balloon that is designed to provide long-lasting weight loss. For more information, please visit www.reshapelifesciences.com.

Forward-Looking Safe Harbor Statement

This press release may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those discussed due to known and unknown risks, uncertainties, and other factors. These forward-looking statements generally can be identified by the use of words such as "expect," "plan," "anticipate," "could," "may," "intend," "will," "continue," "future," other words of similar meaning and the use of future dates. Forward-looking statements in this press release include statements about our expectation that we have sufficient cash to achieve profitability within the next 18 months, that we expect to achieve revenue from new customer adoption of the Calibration Tubes during 2023, and the expected timing of the FDA submission and review process for the Lap-Band 2.0. These and additional risks and uncertainties are described more fully in the company's filings with the Securities and Exchange Commission, including those factors identified as "risk factors" in our most recent Annual Report on Form 10-K and subsequent Quarterly Reports on Form 10-Q. We are providing this information as of the date of this press release and do not undertake any obligation to update any forward-looking statements contained in this document as a result of new information, future events or otherwise, except as required by law.

Non-GAAP Disclosures

In addition to the financial information prepared in conformity with GAAP, we provide certain historical non-GAAP financial information. Management believes that these non-GAAP financial measures assist investors in making comparisons of period-to-period operating results.

Management believes that the presentation of this non-GAAP financial information provides investors with greater transparency and facilitates comparison of operating results across a broad spectrum of companies with varying capital structures, compensation strategies, and amortization methods, which provides a more complete understanding of our financial performance, competitive position, and prospects for the future. However, the non-GAAP financial measures presented in this release have certain limitations in that they do not reflect all of the costs associated with the operations of our business as determined in accordance with GAAP. Therefore, investors should consider non-GAAP financial measures in addition to, and not as a substitute for, or as superior to, measures of financial performance prepared in accordance with GAAP. Further, the non-GAAP financial measures presented by the company may be different from similarly named non-GAAP financial measures used by other companies.

Adjusted EBITDA

Management uses Adjusted EBITDA in its evaluation of the company's core results of operations and trends between fiscal periods and believes that these measures are important components of its internal performance measurement process. Adjusted EBITDA is defined as net loss before interest, taxes, depreciation and amortization, stock-based compensation, and other one-time costs. Management uses Adjusted EBITDA in its evaluation of the company's core results of operations and trends between fiscal periods and believes that these measures are important components of its internal performance measurement process. Therefore, investors should consider non-GAAP financial measures in addition to, and not as a substitute for, or as superior to, measures of financial performance prepared in accordance with GAAP. Further, the non-GAAP financial measures presented by the company may be different from similarly named non-GAAP financial measures used by other companies.

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RESHAPE LIFESCIENCES INC.
Consolidated Balance Sheets
(dollars in thousands; unaudited)

December 31, 2022	December 31, 2021
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	As Restated	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,855	\$ 22,765
Restricted cash	100	50
Accounts and other receivables	2,180	2,815
Inventory	3,611	3,003
Prepaid expenses and other current assets	165	1,305
Total current assets	9,911	29,938
Property and equipment, net	698	1,454
Deferred tax asset, net	56	—
Operating lease right-of-use assets	171	266
Other intangible assets, net	260	20,827
Other assets	46	46
Total assets	\$ 11,142	\$ 52,531
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,926	\$ 3,468
Accrued and other liabilities	5,040	3,368
Warranty liability, current	344	415
Operating lease liabilities, current	171	279
Total current liabilities	7,481	7,530
Warranty liability, noncurrent	—	300
Deferred income taxes, net	—	367
Total liabilities	7,481	8,197
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Preferred stock, 10,000,000 shares authorized:		
Series C convertible preferred stock	—	—
Common stock	1	—
Additional paid-in capital	627,935	622,399
Accumulated deficit	(624,187)	(577,973)
Accumulated other comprehensive loss	(88)	(92)
Total stockholders' equity	3,661	44,334
Total liabilities and stockholders' equity	\$ 11,142	\$ 52,531

RESHAPE LIFESCIENCES INC.
Consolidated Statements of Operations
(dollars in thousands, except share and per share amounts; unaudited)

	Year Ended December 31,	
	2022	2021
		As Restated
Revenue	\$ 11,240	\$ 13,600
Cost of revenue	4,438	5,252
Gross profit	6,802	8,348
Operating expenses:		
Sales and marketing	14,093	8,893
General and administrative	17,250	24,319
Research and development	2,537	2,369
Impairment of intangible assets and goodwill	18,744	30,649
Loss on disposal of assets, net	529	—
Total operating expenses	53,153	66,230
Operating loss	(46,351)	(57,882)
Other expense (income), net:		
Interest (income) expense, net	113	832
Warrant expense	—	2,813
Loss on extinguishment of debt, net	—	2,061
Loss (Gain) on foreign currency exchange, net	141	(168)
Other	(11)	—
Loss before income tax provision	(46,594)	(63,420)

Income tax benefit	<u>(380)</u>	<u>(274)</u>
Net loss	\$ (46,214)	\$ (63,146)

The following table contains a reconciliation of Adjusted EBITDA to GAAP net loss attributable to common stockholders for the years ended December 31, 2022 and 2021 (in thousands).

	<u>Year Ended December 31,</u>	
	<u>2022</u>	<u>2021</u>
		As Restated
GAAP net loss	\$ (46,214)	\$ (63,146)
Adjustments:		
Interest (income) expense, net	113	832
Income tax expense (benefit)	(380)	(274)
Depreciation and amortization	2,153	1,971
Stock-based compensation expense	2,087	12,227
Impairment of intangible assets and goodwill	18,744	30,649
Loss on disposal of assets, net	529	—
Loss on extinguishment of debt, net	—	2,061
Warrant expense	—	2,813
Professional fees incurred in connection with the Obalon merger	—	2,277
Adjusted EBITDA	<u>\$ (22,968)</u>	<u>\$ (10,590)</u>



Source: ReShape Lifesciences Inc