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DarioHealth Corp. (DRIO - NASDAQ)

Positive Price Target Catalysts

Based on our discounted multiple of earnings model DarioHealth is valued at approximately $14.00 per share. Our model assumes rapid revenue growth and positive EPS by 2024. We apply a 25x multiple to 2024 EPS and discount to present using a 25% discount rate.

Current Price (8/14/20)	$16.50
Valuation	**$14.00**

OUTLOOK

DarioHealth is a global digital therapeutics (DTx) company that provides digital management of chronic conditions. Dario offers a blood sugar monitor and associated smartphone application which provides diabetes monitoring and advice to prompt behavioral change and disease improvement. Dario recently launched a hypertension module and will expand into other disease states including obesity.

The DTx platform is targeting multiple parties, including retail, provider, employer and health plan customers. The company's new strategy is to shift primary marketing efforts towards large health care providers which should yield greater subscriber growth and higher PMPM. Dario will also add multiple chronic conditions to its offering which is also expected to increase the PMPM total.

This move to target large healthcare providers is complemented by a shift from the previous B2C model to a high margin SaaS model and B2B2C approach addressing multiple chronic conditions.

Dario has conducted numerous studies leveraging its user data which have demonstrated improvement in clinical parameters. We expect additional studies to be conducted supporting the use of the device on a wide scale by payors and health plans.

SUMMARY DATA

52-Week High	**$18.83**
52-Week Low	**$0.20**
One-Year Return (%)	**96.4**
Beta	**0.90**
Average Daily Volume (sh)	**235,260**
Shares Outstanding (mil)	**12.5**
Market Capitalization ($mil)	**$206.2**
Short Interest Ratio (days)	**0.07**
Institutional Ownership (%)	**9.12**
Insider Ownership (%)	**35.6**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2020 Estimate	**N/A**
P/E using 2021 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**Above Average**
Type of Stock	**Small-Growth**
Industry	**Med-Biomed/Gene**

ZACKS ESTIMATES

Revenue
(in millions of $US)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2019	$2.2 A	$1.7 A	$1.9 A	$1.8 A	$7.6 A
2020	$1.7 A	$1.8 A	$2.0 E	$2.2 E	$7.7 E
2021					$13.6 E
2022					$26.1 E

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2019	-$2.92 A	-$2.53 A	-$1.11 A	$2.86 A	-$9.22 A
2020	-$3.61 A	-$1.16 A	-$0.84 E	-$0.58 E	-$4.93 E
2021					-$3.06 E
2022					-$2.10 E

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WHAT'S NEW

Second Quarter 2020 Operational and Financial Results

On August 12, 2020 DarioHealth Corp. (NASDAQ: DRIO) reported second quarter earnings and filed its companion 10-Q. The company also held an investor conference call providing detail on achievements during the reporting period and to date. Dario reported second quarter revenues of $1.8 million, beating our estimate of $1.7 million. Earnings exceeded our forecasts by an even greater degree with reported loss per share of ($1.16) as compared to our ($1.54) due to lower expenses across the board. Activity during the second quarter and period to date was focused on implementing remote patient monitoring agreements, communicating company strategy to stakeholders with a key opinion leader event, participating in scientific conferences and raising sufficient capital to implement the company's commercialization strategy over the next few years. The most meaningful catalyst for stock performance since our initiation a month ago was the $18.5 billion bid for Livongo (LVGO) by Teladoc (TDOC).

Dario announced the imminent completion of a deal with what we believe to be a large health plan in the next few weeks. The company's new commercialization team has been diligently generating new prospects and we anticipate that several new agreements will be executed in the second half of 2020. On the conference call, CEO Erez Raphael reiterated the three pillars of the company's transformation to a profitable enterprise. Shifting to a software as a service (SaaS) model, expanding the platform into multiple chronic conditions and a moving towards a business to business to consumer (B2B2C) service model.

Revenues of $1.787 million represented $1.305 million in product sales and $482,000 in service sales. Examined from a different perspective, consumer products were $1.069 million and membership services were $718,000 in the second quarter. Sequential total revenue growth was 7% and year over year increase was 8%. Gross margin was 35.6%, up on a year over year basis, but down sequentially due to devices that were sold through the business to business channel. Management believes that the decline in gross margin is only temporary and can ultimately reach ~70%. Operational expenses were lower than expected across the board totaling $4.8 million compared to our estimate of $5.9 million. Lower costs related to research and development payroll, digital marketing expense and stock based compensation contributed to the trend. Net loss for the period was ($4.8) million or ($1.16) per share based on 4.1 million average shares outstanding.

Cash and marketable securities balance was $13.4 million as of June 30, 2020. Following the end of the reporting period, Dario raised additional funds, bringing the total to a *pro forma* ~$38 million. No debt is carried on the balance sheet. Cash burn for 2Q:20 was approximately ($2.7) million, only 55% of net loss; no cash from financing was recognized in the second quarter.

Since Our Initiation

Since our initiation, we have seen two material events take place for Dario and the industry. The first was the raise of $28.6 million in cash from a private placement and the second was the announcement of a merger between Teladoc and Livongo Health.

In its recent fundraising, Dario was able to tap resources from its largest existing shareholder, Nantahala Capital Management and new investors including Manchester Management Company and Soleus Capital Management. The deal also included leading Israeli institutional investors such as Phoenix insurance, Mor provident fund, Psagot investment house. The quality of the investors is high and Dario management anticipates that these will be long-term shareholders that will support the company as they advance through their growth trajectory.

2,969,266 equity shares and 824,698 prefunded warrants (total of 3,793,955) were issued at ~$7.47 per unit and 31,486 shares were issued at $7.94. Based on our estimates, the funds will be sufficient to advance the commercialization effort for the next two years. This capital removes a significant risk for the fledgling company and provides certainty that the sales team can continue to grow revenues and innovate as they pursue health plans. The near $38 million now on the balance sheet also reduces dilution risk, which is often an issue when a short of cash balance sheet combines with share price volatility.

On August 5th, Teladoc announced an $18.5 billion[1] bid for Livongo which has only been public for about a year. Assuming the deal is completed, the combination will match two of the largest players in digital therapeutics and telemedicine. There is only a small degree of overlap between the two companies, so we do not anticipate an increase in the competitive environment. Penetration for the industry is very low which also suggests that this merger will not hinder Dario's efforts. We discussed the deal in a note published on August 6th. With M&A in the air, Dario becomes a potential target for acquirers that could include health plans, managed care, hospital systems or even technology players desiring exposure to this rapidly expanding space.

DarioHealth announced an RPM deal where it will make a remote monitoring platform available to healthcare professionals in the UK and Ireland through an agreement with Williams Medical. Not only does this deal provide additional revenue from an emerging growth area but it also expands Dario's reach into the British Isles.

Valuation

Following the successful financing announced on July 20, investors' risk perception of DarioHealth declined and a shortly after, an M&A comparison revalued the industry. Second quarter results were also ahead of expectations for revenues, earnings and cash burn and at least two large deals are imminent for Dario, increasing optimism over the company's trajectory. Since our initiation, shares have more than doubled, reflecting the market's revaluation of the company. While we are slow to change our views after conducting the comprehensive analysis presented in our initiation, we also recognize the multiple positive events that have taken place and update our valuation to reflect the improvements. Below we provide a summary of our updated estimates.

Exhibit I – Income Statement Forecast[2]

DarioHealth Corp.	2019 A	2020 E	2021 E	2022 E	2023 E	2024 E
Total Revenues ($US '000)	**$7,559**	**$7,654**	**$13,559**	**$26,083**	**$47,290**	**$76,648**
YOY Growth	2%	1%	77%	92%	81%	62%
Cost of Revenues	$4,962	$4,265	$6,762	$10,611	$16,053	$24,521
Product Gross Margin	34.4%	44%	50%	59%	66%	68%
Research & Development	$3,692	$4,206	$4,963	$5,708	$6,164	$6,472
Sales & Marketing	$11,127	$11,999	$13,490	$14,839	$15,580	$16,983
General & Administrative	$5,483	$10,497	$10,200	$10,506	$11,000	$11,440
Income from operations	($17,705)	($23,313)	($21,855)	($15,579)	($1,507)	$17,232
Operating Margin	-234%	-305%	-161%	-60%	-3%	22%
Financial Expenses	$31	($339)	$0	$0	$0	$0
Deemed Dividend	$3,155	$2,061	$1,100	$1,000	$0	$0
Pre-Tax Income	($20,891)	($25,035)	($22,955)	($16,579)	($1,507)	$17,232
Net Income	**($20,891)**	**($25,035)**	**($22,955)**	**($16,579)**	**($1,507)**	**$17,232**
Net Margin	-276%	-327%	-169%	-64%	-3%	22%
Reported EPS	**($9.22)**	**($4.93)**	**($3.06)**	**($2.10)**	**($0.13)**	**$1.38**
Basic Shares Outstanding	2,266	5,078	7,500	7,905	11,218	12,500

Source: Company Filing // Zacks Investment Research, Inc. Estimates

We had previously applied a 20x multiple to 2024 earnings and discounted them to present at a 25% rate. We now believe a 25x multiple on slightly higher 2024 earnings is appropriate. We continue to use a 25% discount rate, which now generates a $14.00 price target. Note that as of the 10-Q filing date, Dario has approximately 7.35 million basic shares outstanding, 1.18 million prefunded warrants[3] and preferred shares that will convert to a minimum of 3.92 million equity shares. We assume these amounts will be added to the share balance over the next few years as investors exercise into equity shares. We include the sum of all of these components on page one of our report to reflect total shares outstanding and to calculate Dario's market capitalization as of August 14th.

[1] Based on Teladoc's accounting and closing price the night before the announcement.
[2] Source: Company filings and author's work.
[3] We consider prefunded warrants as essentially equivalent to equity shares

Summary

We initiated on DarioHealth just a month ago recognizing the company's exposure to one of the fastest growing areas of the economy. Dario's recent shift to focus on large health plans and thereby raise its revenue per user and lower acquisition costs is a recipe for fast growing revenues and increasing margins. The company is on the cusp of closing several new agreements in the near term which suggest accelerating revenues and improving profitability in the latter part of the year and in 2021. We are optimistic that Dario can exceed our revenue projections if the pending deals are quickly closed and members enrolled at a reasonable pace. Expansion into other chronic diseases such as hypertension and obesity provide a longer and wider runway for future expansion. We raise our target price for DarioHealth to $14.00 from $10.50 based on the company's better than expected quarter, accumulation of sufficient cash for several years, imminent large deal closures and industry revaluation based on M&A comparisons.

PROJECTED FINANCIALS

DarioHealth, Corp. - Income Statement

DarioHealth Corp.	2019 A	Q1 A	Q2 A	Q3 E	Q4 E	2020 E	2021 E	2022 E
Total Revenues ($US '000)	**$7,559**	**$1,667**	**$1,787**	**$2,000**	**$2,200**	**$7,654**	**$13,559**	**$26,083**
YOY Growth	2%	-26%	8%	7%	22%	1%	77%	92%
Cost of Revenues	$4,962	$888	$1,151	$1,060	$1,166	$4,265	$6,762	$10,611
Product Gross Margin	34.4%	46.7%	35.6%	47%	47%	44%	50%	59%
Research & Development	$3,692	$1,231	$825	$1,100	$1,050	$4,206	$4,963	$5,708
Sales & Marketing	$11,127	$4,091	$2,608	$2,800	$2,500	$11,999	$13,490	$14,839
General & Administrative	$5,483	$5,571	$1,326	$1,800	$1,800	$10,497	$10,200	$10,506
Income from operations	($17,705)	($10,114)	($4,123)	($4,760)	($4,316)	($23,313)	($21,855)	($15,579)
Operating Margin	-234%	-607%	-231%	-238%	-196%	-305%	-161%	-60%
Financial Expenses	$31	($222)	($117)	$0	$0	($339)	$0	$0
Deemed Dividend	$3,155	$1,275	$786	$0	$0	$2,061	$1,100	$1,000
Pre-Tax Income	($20,891)	($11,167)	($4,792)	($4,760)	($4,316)	($25,035)	($22,955)	($16,579)
Net Income	**($20,891)**	**($11,167)**	**($4,792)**	**($4,760)**	**($4,316)**	**($25,035)**	**($22,955)**	**($16,579)**
Net Margin	*-276%*	*-670%*	*-268%*	*-238%*	*-196%*	*-327%*	*-169%*	*-64%*
Reported EPS	**($9.22)**	**($3.61)**	**($1.16)**	**($0.84)**	**($0.58)**	**($4.93)**	**($3.06)**	**($2.10)**
YOY Growth		*23.6%*	*-54.1%*	*-24.5%*	*-79.6%*	*-47%*	*-38%*	*-31%*
Basic Shares Outstanding	2,266	3,091	4,122	5,700	7,400	5,078	7,500	7,905

Source: Company Filing // Zacks Investment Research, Inc. Estimates

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HISTORICAL STOCK PRICE

DarioHealth, Corp. – Share Price Chart



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