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DarioHealth Corp. (DRIO - NASDAQ)

B2B2C: Three Wins Since 4Q

Based on our discounted multiple of earnings model DarioHealth is valued at approximately $24.00 per share. Our model assumes rapid revenue growth and positive EPS by 2023. We apply a 20x multiple to 2024 EPS and discount to present using a 25% discount rate.

Current Price (3/9/21)	$21.02
Valuation	**$24.00**

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 added Upright Tech to its platform in early 2021. The MSK company will layer its product on Dario's legacy offering providing another service to clients.

The DTx platform is targeting multiple parties, including retail, provider, employer and health plan customers. The company's strategy is to shift primary marketing efforts towards large health care providers to generate greater subscriber growth and higher PMPM. Dario will add multiple chronic condition modules to its offering which should 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	**$31.85**
52-Week Low	**$3.02**
One-Year Return (%)	**106**
Beta	**1.23**
Average Daily Volume (sh)	**218,901**
Shares Outstanding (mil)	**15.4**
Market Capitalization ($mil)	**$323.7**
Short Interest Ratio (days)	**0.85**
Institutional Ownership (%)	**26.7**
Insider Ownership (%)	**25.8**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**55.9**
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-Instruments**

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 A	$2.1 A	$7.6 A
2021					$25.5 E
2022					$57.5 E

Earnings per Share

	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	-$1.02 A	-$1.19 A	-$5.55 A
2021					-$2.75 E
2022					-$1.62 E

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WHAT'S NEW

Fourth Quarter and Fiscal Year 2020 Financial and Operational Results

On March 9, 2021, DarioHealth Corp. (NASDAQ: DRIO) announced its fourth quarter and FY:20 operational and financial results and filed its form 10-K. 2020 marked a transformative year for Dario as it maneuvered towards a B2B2C-oriented strategy, winning three major accounts in the last several months, including two Fortune 500 companies and one of the largest integrated healthcare systems in New Mexico. Over the last year, Dario added to its management team, bolstering sales and industry experience, appointed new members to its Scientific Advisory Board and presented results from a study showing efficacy of Dario's platform in glucose readings in diabetic adults over 65. Following the reporting period, Dario acquired Upright Technologies, an early-stage app-and-device based platform in the musculoskeletal (MSK) space addressing posture and other MSK conditions, expanding Dario's offerings in accordance with customer demand. The company concurrently executed a $70 million raise.

For the year ending December 31, 2020, compared to the year ending December 31, 2019:

- Revenues were $7.58 million, up 0.2% from $7.56 million; these were derived mainly from sales of glucose monitoring systems, direct to US consumers via ecommerce and distributors, and membership offerings;
- Gross margin declined to 33.2% from 34.4% due to price reductions of medical devices sold in a direct to consumer promotion campaign;
- Research and development increased 20% to $4.4 million from $3.7 million due to increase in salaries and stock-based compensation, partially offset by decrease in product development costs;
- Sales and marketing expense was $15.2 million up 37% from $11.1 million due to increase in salaries and stock-based compensation in line with B2B2C pursuits;
- General and administrative expenses were $12.8 million versus $5.5 million on a significant increase in stock based compensation as well as insurance, legal expenses and investors relations expenses;
- Loss from operations was $29.4 million compared to $17.7 million and after the recognition of the deemed dividend and other financial expenses. We calculated loss per share of ($5.55) compared with ($9.22) in the prior year.

Cash and equivalents balance on December 31, 2020 was $28.6 million and was augmented by the capital raise that closed, after the end of the reporting period, on February 1 of $65 million in net proceeds.

Upright Technologies Acquisition

Dario announced its acquisition of Upright Technologies in a January 27th press release, which was followed by an analyst call discussing the transaction in further detail. We recently updated our estimates and increased our target price as a result of the transaction. We discuss these details in our recent report.

Upright Technologies is a leader in the musculoskeletal (MSK) space with over 90,000 users on its platform and almost $13 million in revenues in 2020. The company has been historically focused on the consumer market with almost all of its current members falling into this category. Upright's device is a small, approximately 2" long by 1" wide sensor that adheres to the patient's back. When the user slouches, the device sends a signal that can modify behavior to improve posture. Users can also purchase accessories such as a lanyard and adhesive patches to hold the unit in place. An application is available to download on the user's phone and a coaching service and membership are available.

Exhibit I – Upright Go 2 Attached to Patient[1]



Dario paid $31 million in consideration to acquire Upright Technologies based on the closing price as of the transaction agreement date. $1.5 million was denominated in cash and was prepaid to guarantee the deal and $29.5 million was tendered in ~1.7 million equity shares. The transaction closed on February 1, 2021.

Upright is complementary to Dario's current offerings in diabetes, hypertension and obesity. The acquisition adds to Dario's product offering and addresses demand from employers and health plans that desire MSK solutions. It expands the company's offering into the MSK market that is estimated to be $213 billion[2] annually. Upright has conducted several studies at San Francisco University, Texas Tech University and Oregon Health and Science University demonstrating the benefits of postural intervention and related positive health outcomes, in line with Dario's philosophy to generate clinically supportive data for its DTx. We see a number of synergies from this combination that can leverage existing sales infrastructure, coaching, management and other operational shared services. Dario reported high gross margins in excess of 60% for Upright and sees a path to exceeding 70% in a few years.

Dario Loop: Evolving AI-driven Personalization

At the heart of Dario's app-based chronic illness management platform is artificial intelligence (AI) that personalizes the platform to the user, driving efficacy. Each user has a tailored experience through Dario's unique and comprehensive six domains of personalization: timing, tone, channel, content, frequency and intervention. Below, Dario has outlined a Dario user's typical experience versus that of a competitor.

[1] Source: Upright Technologies Webpage. UPRIGHT GO 2™ Posture Corrector | Results in 2 weeks | Upright Pose – Upright Tech
[2] According to a 2016 report by the United States Bone and Joint Initiative (USBJI). This amount represents treatment, care and lost wages.

Exhibit II - Dario User Experience vs Competitor[3]



By modulating six personalization domains, Dario's Digital Therapeutics (DTx) platform is able to keep users engaged, driving outcomes. Modulation of these six domains is driven by Dario's proprietary AI engine that has been dubbed the Dario Loop, and accommodates user variation in interest and preferences, evolving over time. In addition to the six domains, Dario users also interact with devices, smartphones, coaches, providers and third-party solutions that are personalized and optimized through a central mediator, the Dario platform. Failure of other platforms to retain user engagement has been attributed to lack of dynamic adjustment. The Dario Loop AI engine has been trained on data gleaned from over 150,000 users over a multi-year period, granting the platform insights over time. As a result, the application can adapt as a user continues to interact with the app. Dario Loop then makes personalized recommendations to the user through a multitude of channels including diet, physical activity, self-care, coaching interventions and provider engagement. This is in contrast to other solutions that trivialize intrapersonal changes. Management has emphasized the open nature of the Dario platform, allowing the inclusion of future solutions to achieve a personalized, holistic platform.

Looking Forward

While Dario management does not expect to consistently provide guidance, the CEO expects a double digit incremental increase in revenues which includes the contribution from Upright and recent wins in the remote patient monitoring (RPM), health plan and Fortune 500 customers. In late January, the company identified >$500 million of opportunities in its pipeline which has now increased to $600 million,[4] reflecting additional prospects that are expected to convert over the next several years. The sales team has grown from 6 to 30 in the United States over the last year and increasing its penetration in all the market segments.

Dario is now modifying the Upright product to reflect the demands of the health plan market and expects to have this ready to roll out by July 2021. Our estimates call for revenues of $25.5 million this year.

$70 Million Capital Raise

Along with the merger, Dario announced a $70 million capital raise with proceeds to be used for general corporate purposes. 3,278,688 shares of common stock were sold at $21.35 per share. Investors in the deal included Nantahala Capital Management, LLC Perceptive Advisors, Driehaus Capital Management, Farallon Capital Management, Pura Vida Investments, Phoenix Insurance Ltd., More Provident Funds, and others. Cowen served as financial and capital markets advisor to Dario for the acquisition transaction and private placement. Cowen, Stifel and SternAegis Ventures served as placement agents for the financing. Combined with amounts on the balance sheet, cash is expected to be over $90 million following the deal close.

[3] DarioHealth Corp. Corporate Presentation - Mar 2021
[4] This amount is calculated by multiplying the 1) number of lives in the opportunity, 2) 10% diabetes prevalence (ignoring other conditions), 3) anticipated 35% enrollment rate, 4) $59/month, 5) 12 months. Backing this out, the pipeline of $600 million represents about 24 million lives.

Recent B2B Sales Milestones

In November 2020, Dario announced that it had entered into a contract to provide its platform solutions to eligible employees of a US Fortune 500 technology company, commenced January 1, 2021. This contract was acquired via request for proposal (RFP), where Dario's solution was selected from a pool including Dario's largest competitors.

On December 22, 2020, Dario announced an agreement with Presbyterian Medical Services to provide remote patient monitoring (RPM). This arrangement went into effect at the beginning of 2021 at one of the largest integrated healthcare systems in New Mexico. The agreement involved a rigorous RFP process in which Dario's RPM solution won out against other contenders. Financial terms of the agreement have not been disclosed.

On January 5, 2021 Dario announced that it had entered into a commercial agreement to provide its digital therapeutics solution to eligible employees of a subsidiary of a US Fortune 500 technology and engineering company. The agreement represented the first self-insured US employer client acquired through Dario's partnership with Vitality Group. Dario will provide its diabetes and hypertension solution as part of the agreement, which began enrolling members in January 2021.

Management reported over 30% enrollment in the first month since the start of 2021 calendar year contracts won in 4Q:20 and guided towards double-digit quarterly percentage increase in revenues, expecting growth in all areas of its offerings. Management also noted that the beginning of the year offers an opportunity for self-insured employers on an annual cycle to come on as users, which could generate revenues that would be recognized in 1Q:22. There are also opportunities off-cycle as well, which Dario will pursue through 2021. Management estimated the pipeline now to be approximately $600 million, of which 10-20% could be converted to clients per year.[5]

Recent Study Results

During 4Q:20, Dario presented results from a study investigating glucose levels in adults over 65 that used the Dario app at the 20th Annual Diabetes Technology Society Meeting (DTS). The study enrolled 940 subjects that showed a marked reduction in percentage of high blood glucose readings and in average blood glucose readings using Dario's platform. The results challenged the notion that the digital aspect of digital therapeutics may present a barrier to seniors, who represent a significant portion of diabetics. Study results highlighted improvement in average blood glucose at six months by 13% and sustained outcomes for 12 months, and high readings ratio of greater than 250mg/dL was reduced by 38.1% at six months and 41.5% at 12 months. While the results were somewhat better in subjects younger than age 65, the results showed that seniors can benefit from Dario's digital solution.

Following the end of the reporting period, Dario publicized highlights from a study evaluating engagement levels and diabetes control. The study was published in Journal of Medical Internet Research (JMIR) Diabetes, and was entitled "Role of Digital engagement in Diabetes Care beyond Measurement: Retrospective Cohort Study." The study evaluated the level of user engagement versus their ability to control blood glucose. The study found a statistically significant improvement during the initial period of 13% relative to less engaged users at 9%. Also, changes in engagement in the same subject over the study period also were associated with reduction in monthly average glucose levels. Finally, a 43% decrease in monthly average glucose levels was observed in the month following increased digital engagement from the month prior during the initial six month period.

[5] Dario management estimates the pipeline by assuming 10% prevalence, 35% enrollment, and $59 PMPM.

Summary

2020 was a pivotal year for Dario as it continued progress towards the three pillars of the company's growth plan: 1) a shift towards software as a service (SaaS), 2) implementation of a B2B2C-oriented strategy and 3) presentation of a multi-chronic condition platform. Dario won three major accounts over the last several months and will see the fruits of this success on the topline of next quarter's report and throughout the rest of 2021. Dario acquired Upright Technologies in January. This provider of MSK digital therapeutics adds another offering which is expected to increase the likelihood of client wins. Dario has added to its management and scientific team, bolstering sales and industry experience and filling out its Scientific Advisory Board. Dario has also presented results from a study showing efficacy of Dario's platform in glucose readings in adults over 65 and published a study regarding user engagement in early 2021. We maintain our recently increased target price of $24.00 per share.

PROJECTED FINANCIALS

DarioHealth, Corp. - Income Statement

DarioHealth Corp.	2019 A	Q1 A	Q2 A	Q3 A	Q4 A	2020 A	2021 E	2022 E
Total Revenues ($US '000)	**$7,559**	**$1,667**	**$1,787**	**$2,042**	**$2,080**	**$7,576**	**$25,495**	**$57,492**
YOY Growth	2%	-26%	8%	9%	16%	0.22%	237%	125%
Cost of Revenues	$4,962	$888	$1,151	$1,493	$1,531	$5,063	$12,658	$23,350
Product Gross Margin	34.4%	46.7%	35.6%	26.9%	26.4%	33.2%	50.4%	59.4%
Research & Development	$3,692	$1,231	$825	$954	$1,423	$4,433	$6,733	$7,742
Sales & Marketing	$11,127	$4,091	$2,608	$3,635	$4,893	$15,227	$26,972	$29,669
General & Administrative	$5,483	$5,571	$1,326	$2,562	$3,297	$12,756	$20,198	$20,804
Income from operations	($17,705)	($10,114)	($4,123)	($6,602)	($9,064)	($29,903)	($41,065)	($24,074)
Operating Margin	-234%	-607%	-231%	-323%	-436%	-395%	-161%	-42%
Financial Expenses	$31	($222)	($117)	($52)	($67)	($458)	$0	$0
Deemed Dividend	$3,155	$1,275	$786	$930	$667	$3,658	$1,100	$1,000
Pre-Tax Income	($20,891)	($11,167)	($4,792)	($7,480)	($9,664)	($33,103)	($42,165)	($25,074)
Net Income	**($20,891)**	**($11,167)**	**($4,792)**	**($7,480)**	**($9,664)**	**($33,103)**	**($42,165)**	**($25,074)**
Net Margin	-276%	-670%	-268%	-366%	-465%	-437%	-165%	-44%
Reported EPS	**($9.22)**	**($3.61)**	**($1.16)**	**($1.02)**	**($1.19)**	**($5.55)**	**($2.75)**	**($1.62)**
Basic Shares Outstanding	2,266	3,091	4,122	7,328	8,100	5,963	15,345	15,510

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

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HISTORICAL STOCK PRICE

DarioHealth, Corp. – Share Price Chart



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