

DarioHealth Corp.

(DRIO - NASDAQ)

Dario's Evolving Strategic Vision

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 4Q:23. We apply a 20x multiple to 2025 EPS and discount to present using a 25% discount rate.

Current Price (7/15/21) **\$16.57**
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 & wayForward to its platform in early 2021 delivering on the objective of offering a multi-condition strategy with MSK & behavioral health.

The DTx platform is targeting multiple client types, 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 **\$6.10**
One-Year Return (%) **163**
Beta **1.37**
Average Daily Volume (sh) **266,711**

Shares Outstanding (mil) **20.7**
Market Capitalization (\$mil) **343**
Short Interest Ratio (days) **3.52**
Institutional Ownership (%) **35.6**
Insider Ownership (%) **12.4**

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 2021 Estimate **N/A**
P/E using 2022 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)
2020	\$1.7 A	\$1.8 A	\$2.0 A	\$2.1 A	\$7.6 A
2021	\$3.6 A	\$5.3 E	\$6.1 E	\$8.0 E	\$23.0 E
2022					\$44.9 E
2023					\$73.9 E

	Earnings per Share				
	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2020	-\$3.61 A	-\$1.16 A	-\$1.02 A	-\$1.19 A	-\$5.55 A
2021	-\$1.11 A	-\$0.69 E	-\$0.67 E	-\$0.55 E	-\$2.96 E
2022					-\$2.09 E
2023					-\$0.79 E

WHAT'S NEW

Revenue Opportunities

On July 12, 2021, DarioHealth Corp. (NASDAQ: DRIO) **announced** the closure of three new employer client contracts derived from wayForward relationship. Average revenue per user for these contracts is expected to be in the low single digit range; however, the agreements were unexpected and provide an introduction to other Dario services, including diabetes, hypertension and musculoskeletal (MSK) disease management. The contracts are for a fixed monthly fee based on number of employees. Revenues are expected to be recognized in 3Q:21.

The contracts are evidence of a successful evolution of Dario's strategy to build on the three pillars of growth:

- Transformation into a high-margin software as a service (SaaS) business model;
- Transition into a business-to-business-to-consumer (B2B2C) digital therapeutics provider; and
- Expansion into service offering addressing multiple chronic conditions.

Over the last 18 months, the implementation of this strategy has led to the acquisition of two synergistic platforms, Upright Technologies in MSK and wayForward in behavioral health space, complemented by organic growth into hypertension management and remote patient monitoring (RPM). Company research has shown that some 35% of corporate clients want to offer digital therapeutic services in multiple conditions to their employees, with a strong preference for Dario's recently acquired offerings.

Dario's marketing teams are aligned by customer type and channel rather than by condition, which allows sales representatives to offer the entire platform. A prospect interested in any of the offered conditions can be cross-sold, leveraging a strategy that will more efficiently use the time and efforts of the marketing team. This approach will fundamentally improve the opportunity set for Dario in several ways. It can achieve an:

- Improved win rate due to expanded offering addressing a wider range of client needs;
- Increase in eligibility rate of covered lives from 20% to 40%; and
- Expansion of average revenue per user (ARPU) from \$60 to \$80 per member per month.

Success along these three parameters will drive better margins, greater revenue growth and an improved win rate compared with the previous iteration of Dario Health. The company is focused on internal development of its product capabilities and has built up a backlog most recently reported at \$750 million. Most prospects are on a normal calendar, with contracts beginning in January 2022. This means that announcements in the fourth quarter of 2021 will provide an indication of the longer term success of Dario's efforts converting the backlog of revenue generating customers for next year.

Recent B2B Sales Milestones

On January 5, 2021, Dario **announced** that it had entered into its most recent commercial agreement to provide its digital therapeutics solution to eligible employees of a Fortune 500 subsidiary in the technology and engineering space. 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.

Exhibit I – Expanding Client Base¹



Adding to a list of wins in Dario's B2B2C initiative, the company [announced](#) on April 20, 2021 that it had entered into a partnership with MediOrbis, providing remote patient monitoring (RPM) services to MediOrbis for Medicare patients with diabetes. MediOrbis is a telehealth provider specializing in chronic conditions. Covered members having Medicaid can receive, under existing Medicare benefits, telehealth support provided by MediOrbis and RPM provided by DarioHealth. The virtual care program will also be made available to Dario's approximately 75,000 members with diabetes with 30% of these members over age 65. The virtual care program will also be marketed to qualified Medicare members who aren't current Dario members, a population that the Centers for Medicare and Medicaid Services (CMS) estimates to be 20% of its 62 million beneficiaries.

Management reported over 40% enrollment in the first ten weeks for contracts started in 2021 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 onboard, which would yield incremental revenues in 1Q:22. There are other off-cycle opportunities, such as the recently announced wayForward related deals, which Dario will pursue throughout 2021. Management has estimated the pipeline to be approximately \$750 million, of which 10-20% could be converted to clients per year.²

On June 24th, Dario [announced](#) that its DarioHealth platform had been selected by Coastal Family Health Center, a local non-profit healthcare network providing comprehensive primary care to underserved counties in and around the Mississippi Gulf Coast. The initial focus for DarioHealth will be as a solution for hypertension and in the prevention of related cardiac events. According to the CDC, Mississippi has the highest rate of hypertension mortality and second highest prevalence of hypertension in the nation.³

As mentioned in the introduction, Dario announced three new contracts had been executed on July 21st, all facilitated by the wayForward relationship. In contrast to the diabetes and MSK markets, many behavioral health contracts do not follow a regular sales cycle; this non-standard calendar opened up these opportunities to begin this quarter. While the number of individuals covered was not disclosed, it does build off of the near 20,000 lives attached to wayForward when the deal was consummated.

Recent Study Results

On March 2, 2021, 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. Fi-

¹ Source: DarioHealth Corporate Presentation, May 2021

² Dario management estimates the pipeline by assuming 10% prevalence, 35% enrollment, and \$59 PMPM.

³ Centers for Disease Control, Hypertension Mortality by State, 2019; https://www.cdc.gov/nchs/pressroom/sosmap/hypertension_mortality/hypertension.htm

nally, 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.

Results further confirming the relationship between therapeutic personalization and outcomes were [announced](#) on May 27, 2021. "Digital Therapeutics for Type 2 Diabetes: Incorporating Coaching Support and Validating Digital Monitoring" was published through a Letter to the Editor in the *Journal of Diabetes Science and Technology*. In this study, participants using Dario's digital therapeutics for management of diabetes were monitored for clinical and self-reported impact over a period of three months. Over the duration of the study, participants tracked blood glucose levels in the Dario smartphone application and were under the guidance of live Certified Diabetes Care and Education Specialists (CDCES). Results from lab tests, platform data, and self-reported data demonstrated clinically significant improvement. Key results included a 2.0% reduction in average HbA1c lab values for participants, a measure of three-month average of blood sugar. Participants also experienced a significant reduction of 18% and 10% for fasting blood glucose and Body Mass Index (BMI), respectively. There was statistically significant improvement in glucose variability, and significant improvement in self-reported measures of weight and glucose control satisfaction. The results offered continued support for the efficacy of Dario's DTx platform management of diabetes.

June 4th saw the [release](#) of another study demonstrating the impact of digital interventions in diabetes self-management. The study, titled "Impact of Digital Intervention Engine on Diabetes Self-Management," examined DarioHealth's effect on both clinical and engagement outcomes. DarioHealth applied digital intervention that was specific to the user to drive behavioral change and user engagement. The research retroactively examined 246 DarioHealth users. In the 127 user intervention test group, 14% in the first 30 days, and 22% from 30-60 days measured blood glucose. The average number of blood glucose measurements increased by 6% and 17% in the first 30, and 30-60 days, respectively. Average number of days between blood glucose measurements was significantly improved by 30% in the test group. The results support the utility of AI, dynamically personalized user journeys, coaching and behavior science. Results were presented at the 14th International Conference on Advanced Technologies and Treatments for Diabetes in the first week of June.

At the end of June, Dario [presented](#) new clinical research at the American Diabetes Association 81st Scientific Sessions. Dario's latest research examined the impact of its AI-driven personalization engine on user engagement and clinical outcomes for close to 10,000 users. A new iteration of Dario's user experience, designed to drive better habits and behaviors, delivered highly personalized interventions that drove user engagement, as evidenced by application data. Upon introduction of the new digital experience, engagement and clinical outcomes improved. For the 9,794 users evaluated, engagement increased by 56% compared to baseline before new digital experience was introduced and remained stable for at least six months. Average ratios of high blood glucose readings were reduced by 12% over six months. Dario also presented a second study evaluating clinical outcomes for 11,101 high-risk Type 2 diabetic members after 12 months of engagement. Ratio of in-range readings increased significantly from 28.4% to 54.8%. Recency (days between blood glucose readings) was 3.3 days for Dario members.

Addition to Russell 2000 and 3000 Indexes

On June 15, 2021, Dario announced that it was set to join the broad-market Russell 3000 Index and the small-cap Russell 2000 Index, effective June 28, 2021 at market open. The Russell indices are based on the largest 4,000 US equities by market capitalization and reconstitute annually.

Summary

Dario has been active over the last year and a half implementing its new strategy with the pace of activity accelerating into 2021 with two acquisitions and several new deals announced in behavioral health, remote patient monitoring and other critical areas. The company has made progress strengthening its pillars of growth and has improved its capacity to improve win rates, eligibility and revenues per user. The efforts will consume substantial resources and we adjust our revenue forecasts to be more conservative over the next two years. We expect further contract wins that build off of recent successes and conversion of backlog into long-term relationships. Valuation is calculated based on 2025 earnings per share of \$2.90. We apply a 20x multiple to this value and discount to present at a 25% rate. This generates our target price of \$24 per share, which is unchanged. On a multiple of forecasted 2021 revenues this is equivalent to 21.6x 2021 estimated revenues.⁴

⁴ In our calculation of implied multiple of revenues, we assume exercise of preferred shares and prefunded warrants. This sum is added to shares outstanding as of June 8, 2021 which yields a shares outstanding equivalent of 20,694. $\$24 \times 20,694 / \$22,997 = 21.6x$.

Exhibit II – Revenue, Expense and Earnings Estimates⁵

DarioHealth Corp.	2020 A	2021 E	2022 E	2023 E	2024 E	2025 E
Total Revenues (\$US '000)	\$7,576	\$22,997	\$44,900	\$73,921	\$125,507	\$192,596
Income from operations	(\$29,903)	(\$44,969)	(\$33,788)	(\$14,376)	\$18,171	\$60,063
Pre-Tax Income	(\$33,103)	(\$46,152)	(\$34,788)	(\$14,376)	\$18,171	\$60,063
Net Income	(\$33,103)	(\$46,152)	(\$34,788)	(\$14,376)	\$18,171	\$60,063
Reported EPS	(\$5.55)	(\$2.96)	(\$2.09)	(\$0.79)	\$0.98	\$2.90
Basic Shares Outstanding	5,963	15,616	16,648	18,291	18,450	20,694

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

⁵ Zacks analyst estimates

PROJECTED FINANCIALS

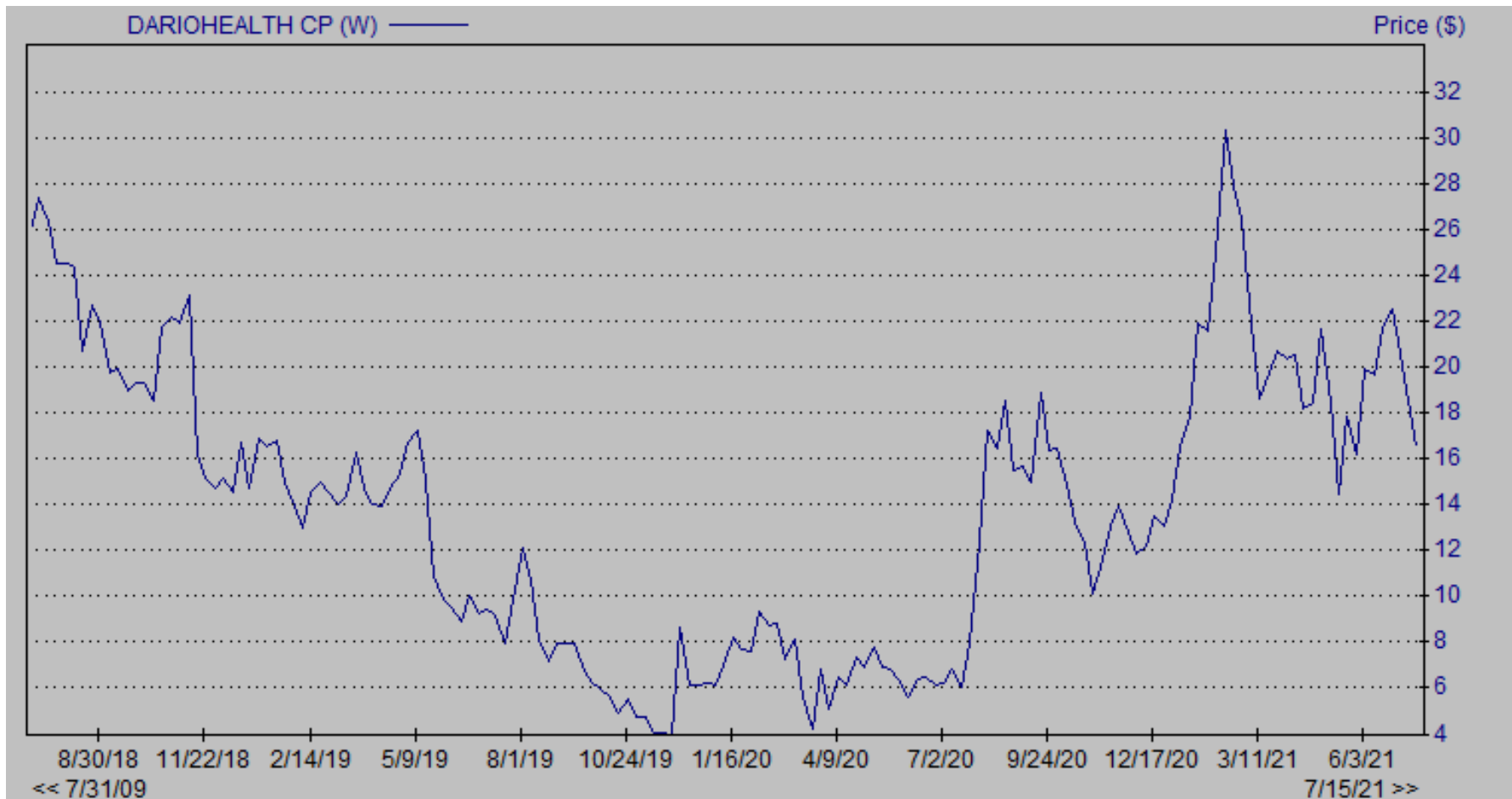
DarioHealth, Corp. - Income Statement

DarioHealth Corp.	2020 A	Q1 A	Q2 E	Q3 E	Q4 E	2021 E	2022 E	2023 E
Total Revenues (\$US '000)	\$7,576	\$3,595	\$5,288	\$6,100	\$8,014	\$22,997	\$44,900	\$73,921
YOY Growth	0.22%	116%	196%	199%	285%	204%	95%	65%
Cost of Revenues	\$5,063	\$2,514	\$2,697	\$3,050	\$3,847	\$12,108	\$18,304	\$25,049
Product Gross Margin	33.2%	30.1%	49.0%	50.0%	52.0%	47.4%	59.2%	66.1%
Research & Development	\$4,433	\$2,655	\$1,974	\$1,626	\$1,680	\$7,935	\$9,125	\$9,855
Sales & Marketing	\$15,227	\$7,132	\$6,130	\$7,362	\$6,480	\$27,104	\$29,814	\$31,305
General & Administrative	\$12,756	\$5,621	\$5,050	\$5,050	\$5,098	\$20,819	\$21,444	\$22,087
Income from operations	(\$29,903)	(\$14,327)	(\$10,563)	(\$10,988)	(\$9,091)	(\$44,969)	(\$33,788)	(\$14,376)
Operating Margin	-395%	-399%	-200%	-180%	-113%	-196%	-75%	-19%
Financial Expenses	(\$458)	\$639	\$0	\$0	\$0	\$639	\$0	\$0
Deemed Dividend	\$3,658	\$544	\$0	\$0	\$0	\$544	\$1,000	\$0
Pre-Tax Income	(\$33,103)	(\$15,510)	(\$10,563)	(\$10,988)	(\$9,091)	(\$46,152)	(\$34,788)	(\$14,376)
Net Income	(\$33,103)	(\$15,510)	(\$10,563)	(\$10,988)	(\$9,091)	(\$46,152)	(\$34,788)	(\$14,376)
Net Margin	-437%	-431%	-200%	-180%	-113%	-201%	-77%	-19%
Reported EPS	(\$5.55)	(\$1.11)	(\$0.69)	(\$0.67)	(\$0.55)	(\$2.96)	(\$2.09)	(\$0.79)
Basic Shares Outstanding	5,963	14,026	15,400	16,500	16,538	15,616	16,648	18,291

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

HISTORICAL STOCK PRICE

DarioHealth, Corp. – Share Price Chart



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