

## DarioHealth Corp.

(DRIO - NASDAQ)

### Dario's RPM Accelerating

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 (8/16/21) **\$10.47**  
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 **\$10.01**  
One-Year Return (%) **-44.0**  
Beta **1.36**  
Average Daily Volume (sh) **236,368**

Shares Outstanding (mil) **20.9**  
Market Capitalization (\$mil) **219**  
Short Interest Ratio (days) **4.56**  
Institutional Ownership (%) **46.9**  
Insider Ownership (%) **13.0**

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 A	\$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	-\$1.16 A	-\$0.89 E	-\$0.86 E	-\$3.99 E
2022					-\$3.02 E
2023					-\$1.68 E

## WHAT'S NEW

### Second Quarter 2021 Financial and Operational Results

On August 16, 2021, DarioHealth Corp. (NASDAQ: DRIO) [announced](#) its second quarter 2021 operational and financial results and filed its [Form 10-Q](#). Dario hosted a [conference call](#) the same morning to discuss results in further detail.

Highlights for the second quarter ended June 30, 2021 and to-date include:

- Announced partnership with MediOrbis for remote patient monitoring of diabetes - April 2021
- Announced acquisition of wayForward - May 2021
- Published:
  - Research confirming impact of DTx platform and live coaching on diabetes outcomes - May 2021
  - Study showing impact of personalized digital interventions on self-management of diabetes - June 2021
- Closed wayForward acquisition - June 2021
- [Added](#) to Russell 2000 and 3000 indexes - June 2021
- Introduction of Upright GO S - June 2021
- DarioHealth RPM selected by Coastal Family Health Center for hypertensive patients - June 2021
- Research presented on personalized intervention impact on health behaviors at ADA - June 2021
- Three new employer contracts announced for wayForward - July 2021
- Selected to provide RPM for Alabama Regional Medical Services (ARMS) - July 2021
- Workplace Options adds Dario's global behavioral health solution - July 2021
- Dario's behavioral health solution selected by national employer - August 2021
- Study [presented](#) demonstrating clinical impact on personalized digital interventions - August 2021

Dario generated revenues for the second quarter ending June 30, 2021 of \$5.3 million, yielding a net loss of (\$18.3) million, or (\$1.16) per share.<sup>1</sup> For the quarter ending June 30, 2021 and versus the year-ago quarter ending June 30, 2020:

- Revenues totaled \$5.3 million, increasing 194% from \$1.8 million due to an increase in direct to consumer sales and consolidation of Upright and wayForward. Revenues were derived mainly from sales of Dario's products and membership offering through direct to consumer acquisitions primarily in the US and Australia through online store and distributors;
- Cost of revenues totaled \$3.8 million, increasing 226% from \$1.2 million as a result of increase in sales of products, consolidation of Upright and wayForward cost of revenues and amortization of inventory step up and acquired technology;
- Excluding the amortization of acquired intangible assets and inventories, gross margin was 49.4% a sequential and year over year improvement;
- Research & development expense totaled \$3.7 million, rising 354% from \$0.8 million, again driven by consolidation of acquired firms and the required payroll expenses for the integration of the platforms;
- Sales and Marketing expense totaled \$9.6 million, rising 270% from \$2.6 million with the increase predominantly attributable to an increase in stock-based compensation, payroll, digital marketing spend and consolidation of acquired firms;
- General and administrative expense totaled \$6.1 million, expanding 362% from \$1.3 million on increases in stock-based compensation, investor relations expenditures, insurance expenses and consolidation of acquired firms;
- Net loss increased 344% to (\$18.3) million versus (\$4.8) million or (\$1.16) for both periods with the apparent incongruity attributable to similar growth in net loss and shares outstanding.

<sup>1</sup> Note: Our calculated EPS of (\$1.16) does not agree with the EPS provided in company documents of (\$0.99) which varies from our calculation due to accounting conventions related to the Series A Convertible shares.

As of June 30, 2021, cash and equivalents totaled \$64.1 million, more than doubling since year end 2020 due to the \$70 million financing in January. Dario holds no debt on its balance sheet. Cash burn for the quarter totaled (\$12.3) million.

### **Dario's Strategy**

The numerous announced 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 20 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 \$900 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.

### **Revenue Opportunities**

Year to date, Dario has announced numerous new clients including Vitality Group, multiple remote patient monitoring (RPM) arrangements, new employer contracts and now \$900 million in backlog, up from the previous \$700 million reported on the first quarter 2021 call. These wins have pushed the number of active paying users to 197,000 in the quarter. Since our last update in mid-July Dario has [added](#) Alabama Regional Medical Services to provide RPM to improve the management of hypertension in underserved and uninsured patients. Workplace Options (WPO), an employee support and well-being services provider also [joined](#) Dario's roster in July. A national employer also [selected](#) Dario to provide behavioral health, marking the fourth behavioral health partner to join with Dario this year.

Dario additionally expects that a health plan will also come onto its platform in the near term. While the details of the client were not announced, the arrangement is expected to be an important strategic collaboration. More information is expected after the agreement is signed.

While activity levels seem high, we note that most of Dario's prospects are on a normal calendar year and we expect that the pace of announcements will accelerate as we move into the fourth quarter.

### **Recent Wins**

On July 27, 2021, Dario [announced](#) that it had partnered with Workplace Options (WPO), the largest independent provider of integrated employee wellbeing solutions around the world, to offer Dario's digital behavioral health solutions. WPO services enable platform access in all languages. Together with Dario's recently acquired wayForward, Dario's offering now accommodates multinational customers who have employees across the globe. These interna-

tional employees will no longer experience a language barrier and will be able to access Dario's behavioral health platform. Likewise, Dario's potential customer base can expand accordingly. WPO's language support will be fully integrated into Dario's API.

### Workplace Options

**Workplace Options** is an employee support service centered on wellbeing and provides information, resources, referrals and consultation on a variety of issues including dependent care and stress management. WPO has service centers in the US, Canada, UK, Ireland, Portugal, France, Belgium, UAE, Singapore, Japan, China, India and Indonesia that support over 116,000 organizations and their 70 million employees in more than 200 countries and territories.

### Fortune 500 Subsidiary

On January 5, 2021, Dario **announced** that it had entered into an agreement to provide its digital therapeutics solution to eligible employees of a Fortune 500 subsidiary in the technology and engineering space. It 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 Base<sup>2</sup>**



### MediOrbis

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 are not 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 \$900 million, of which 10-20% could be converted to clients per year.<sup>3</sup>

### Coastal Family Health Center

On June 24<sup>th</sup>, 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 preven-

<sup>2</sup> Source: DarioHealth Corporate Presentation, May 2021

<sup>3</sup> Dario management estimates the pipeline by assuming 10% prevalence, 35% enrollment, and \$59 PMPM.

tion 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.<sup>4</sup>

### *Three New Contracts*

Dario **announced** three new contracts had been executed on July 21<sup>st</sup>, 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 closed.

### *Alabama Regional Medical Services*

On July 20, 2021, Dario **announced** another B2B2C win, reporting that it had been selected as a digital health provider by Alabama Regional Medical Services (ARMS), a Federally Qualified Health Center accredited by The Joint Commission and designated as a Primary Care Medical Home serving patients in multiple counties.<sup>5</sup> ARMS selected Dario's remote patient monitoring (RPM) solution to improve hypertension management across a diverse patient population including large numbers of uninsured, underserved patients. More than 40% of Alabamians report having high blood pressure, with those living in lower-income areas less likely to control their hypertension.<sup>6,7</sup> Adding to recent provider wins, this engagement represents significant opportunity for Dario's RPM to demonstrate its scalability in supporting patient outcomes.

### *National Employer*

On August 4<sup>th</sup>, Dario **announced** that it had been again selected as a digital behavioral health provider by a leading national professional company. The contract continued momentum from the three contracts announced on July 21<sup>st</sup>. Dario continues to nurture a pipeline of employer clients in all areas of its offerings and expects to announce additional employer contracts in the coming months.

## **Recent Study Results**

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 4<sup>th</sup> 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 14<sup>th</sup> 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 81<sup>st</sup> 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

---

<sup>4</sup> Centers for Disease Control, *Hypertension Mortality by State 2019*; [cdc.gov/nchs/pressroom/sosmap/hypertension\\_mortality/hypertension.htm](https://www.cdc.gov/nchs/pressroom/sosmap/hypertension_mortality/hypertension.htm)

<sup>5</sup> Jefferson, Shelby, St. Clair and Blount counties.

<sup>6</sup> <https://www.alabamapublichealth.gov/cardio/high-bp.html>

<sup>7</sup> <https://newsroom.heart.org/news/blood-pressure-control-less-likely-among-those-treated-in-low-income-areas>

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.

In August, Dario [presented](#) at the American Association of Diabetes Care and Education Specialists (ADCES) highlighting study results that demonstrated significant clinical impact of personalized digital interventions based on real-time data. The study tracked 3,609 Dario members including those with Type 2 diabetes, both insulin and non-insulin dependent, with recent clusters of high blood glucose readings. The test group received dynamically personalized communications consisting of clinical, behavioral and educational content triggered by real-time user data as part of a digital clinical intervention. Results indicated a 19% difference in reduction, 18% difference in reduction in test group members with Type 2 diabetes and 42% difference in reduction in a subset of Type 2 diabetes subjects not using insulin treatment. The results indicate that personalized communications are effective in influencing positive lifestyle behavioral change.

### **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 increase our operating costs accordingly. We expect further contract wins that build off of recent successes and conversion of backlog into long-term relationships. We maintain our target price of \$24 per share.

## PROJECTED FINANCIALS

### DarioHealth, Corp. - Income Statement

DarioHealth Corp.	2020 A	Q1 A	Q2 A	Q3 E	Q4 E	2021 E	2022 E	2023 E
<b>Total Revenues (\$US '000)</b>	<b>\$7,576</b>	<b>\$3,595</b>	<b>\$5,261</b>	<b>\$6,100</b>	<b>\$8,014</b>	<b>\$22,970</b>	<b>\$44,900</b>	<b>\$73,921</b>
YOY Growth	0.22%	116%	194%	199%	285%	203%	95%	65%
Cost of Revenues	\$5,063	\$2,514	\$3,753	\$3,050	\$3,847	\$13,164	\$18,304	\$25,049
Product Gross Margin	33.2%	30.1%	28.7%	50.0%	52.0%	42.7%	59.2%	66.1%
Research & Development	\$4,433	\$2,655	\$3,742	\$3,100	\$3,450	\$12,947	\$14,889	\$16,080
Sales & Marketing	\$15,227	\$7,132	\$9,648	\$9,632	\$9,846	\$36,258	\$38,428	\$40,349
General & Administrative	\$12,756	\$5,621	\$6,121	\$5,050	\$5,098	\$21,890	\$22,547	\$23,223
<b>Income from operations</b>	<b>(\$29,903)</b>	<b>(\$14,327)</b>	<b>(\$18,003)</b>	<b>(\$14,732)</b>	<b>(\$14,227)</b>	<b>(\$61,289)</b>	<b>(\$49,268)</b>	<b>(\$30,781)</b>
Operating Margin	-395%	-399%	-342%	-242%	-178%	-267%	-110%	-42%
Financial Expenses	(\$458)	\$639	(\$238)	\$0	\$0	\$401	\$0	\$0
Deemed Dividend	\$3,658	\$544	\$488	\$0	\$0	\$1,032	\$1,000	\$0
<b>Pre-Tax Income</b>	<b>(\$33,103)</b>	<b>(\$15,510)</b>	<b>(\$18,253)</b>	<b>(\$14,732)</b>	<b>(\$14,227)</b>	<b>(\$62,722)</b>	<b>(\$50,268)</b>	<b>(\$30,781)</b>
<b>Net Income</b>	<b>(\$33,103)</b>	<b>(\$15,510)</b>	<b>(\$18,253)</b>	<b>(\$14,732)</b>	<b>(\$14,227)</b>	<b>(\$62,722)</b>	<b>(\$50,268)</b>	<b>(\$30,781)</b>
Net Margin	-437%	-431%	-347%	-242%	-178%	-273%	-112%	-42%
<b>Reported EPS</b>	<b>(\$5.55)</b>	<b>(\$1.11)</b>	<b>(\$1.16)</b>	<b>(\$0.89)</b>	<b>(\$0.86)</b>	<b>(\$3.99)</b>	<b>(\$3.02)</b>	<b>(\$1.68)</b>
Basic Shares Outstanding	5,963	14,026	15,691	16,550	16,610	15,719	16,649	18,291

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

# HISTORICAL STOCK PRICE

DarioHealth, Corp. – Share Price Chart



---

## DISCLOSURES

The following disclosures relate to relationships between Zacks Small-Cap Research (“Zacks SCR”), a division of Zacks Investment Research (“ZIR”), and the issuers covered by the Zacks SCR Analysts in the Small-Cap Universe.

### ANALYST DISCLOSURES

I, John Vandermosten, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

### INVESTMENT BANKING AND FEES FOR SERVICES

Zacks SCR does not provide investment banking services nor has it received compensation for investment banking services from the issuers of the securities covered in this report or article.

Zacks SCR has received compensation from the issuer directly or from an investor relations consulting firm engaged by the issuer for providing non-investment banking services to this issuer and expects to receive additional compensation for such non-investment banking services provided to this issuer. The non-investment banking services provided to the issuer includes the preparation of this report, investor relations services, investment software, financial database analysis, organization of non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Zacks SCR. The fees for these services vary on a per-client basis and are subject to the number and types of services contracted. Fees typically range between ten thousand and fifty thousand dollars per annum. Details of fees paid by this issuer are available upon request.

### POLICY DISCLOSURES

This report provides an objective valuation of the issuer today and expected valuations of the issuer at various future dates based on applying standard investment valuation methodologies to the revenue and EPS forecasts made by the SCR Analyst of the issuer’s business.

SCR Analysts are restricted from holding or trading securities in the issuers that they cover. ZIR and Zacks SCR do not make a market in any security followed by SCR nor do they act as dealers in these securities. Each Zacks SCR Analyst has full discretion over the valuation of the issuer included in this report based on his or her own due diligence. SCR Analysts are paid based on the number of companies they cover.

SCR Analyst compensation is not, was not, nor will be, directly or indirectly, related to the specific valuations or views expressed in any report or article.

### ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports and articles are based on data obtained from sources that it believes to be reliable, but are not guaranteed to be accurate nor do they purport to be complete. Because of individual financial or investment objectives and/or financial circumstances, this report or article should not be construed as advice designed to meet the particular investment needs of any investor. Investing involves risk. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports or articles or tweets are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.