

## DarioHealth Corp.

(DRIO - NASDAQ)

### A Torrent of New Contracts

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 (11/1/2021) **\$18.10**  
**Valuation \$24.00**

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.

## OUTLOOK SUMMARY DATA

52-Week High **31.85**  
 52-Week Low **10.02**  
 One-Year Return (%) **55.5**  
 Beta **1.29**  
 Average Daily Volume (sh) **185,835**

Shares Outstanding (mil) **16.6**  
 Market Capitalization (\$mil) **310**  
 Short Interest Ratio (days) **5.01**  
 Institutional Ownership (%) **44.2**  
 Insider Ownership (%) **12.0**

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 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	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(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					\$45.6 E
2023					\$74.1 E

### Earnings per Share

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(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					-\$2.99 E
2023					-\$1.68 E

## WHAT'S NEW

### Progress Update

DarioHealth Corp. (NASDAQ: DRIO) has added a number of new clients since our last update, continuing its momentum with the B2B2C initiative. Recent wins include:

- RPM [contract](#) with Coastal Family Health Center – 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
- National employer [selects](#) Dario's behavioral health solution - August 2021
- [Chosen](#) by PeopleOne Health as digital behavioral health partner - August 2021
- [Selected](#) by employer for behavioral health services - September 2021
- [Chosen](#) by Northeast regional employer - September 2021
- [Agreement](#) with global employer for metabolic and MSK health solutions - October 2021
- [Agreement](#) with leading national health plan - October 2021
- [Contract](#) with US national employer for full, multi-condition DTx suite - October 2021
- [Joins](#) Virgin Pulse partner network - October 2021
- [Contracts](#) with Hawaii and metro Atlanta providers - November 2021

### Recent B2B2C Wins

Dario continues to realize its B2B2C strategy and has announced numerous wins. We see the national health plan and multi-condition agreements as particularly attractive. Below we provide a summary of the partnerships and contracts that Dario has publically announced year-to-date in 2021.

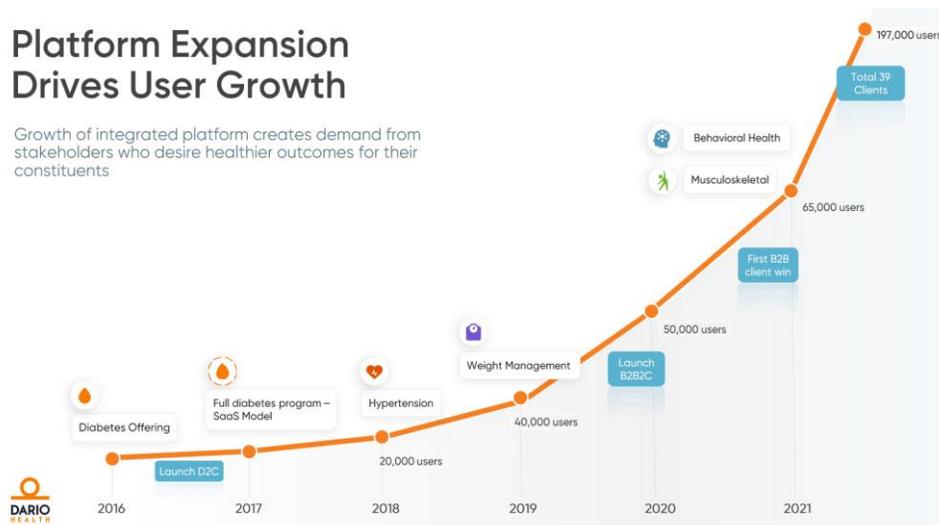
**Exhibit I - B2B2C 2021 Wins<sup>1</sup>**

Date Announced	Entity	Services	Start
November 01, 2021	One of the largest providers in Hawaii	RPM: Diabetes, Hypertension	-
November 01, 2021	Metro Atlanta primary care system (multiple locations)	RPM: Diabetes, Hypertension	-
October 27, 2021	Virgin Pulse	DarioHealth: Multi-condition	-
October 25, 2021	US National Employer	Full Suite	1Q:22
October 14, 2021	Leading National Health Plan	Behavioral health	4Q:21
October 07, 2021	Global Employer	Diabetes, Hypertension, MSK	1Q:22
September 09, 2021	Northeast regional employer	Diabetes, Hypertension & Weight Mgmt	1Q:22
September 08, 2021	California casino resort company	Behavioral Health	4Q:21
August 31, 2021	PeopleOne Health	Behavioral Health	3Q:21
August 04, 2021	National employer	Behavioral Health	-
July 20, 2021	Alabama Regional Medical Services	RPM: Hypertension	-
July 12, 2021	Global partnership	-	3Q:21
July 12, 2021	Employer client	-	3Q:21
July 12, 2021	Employer client	-	3Q:21
June 24, 2021	Coastal Family Health Center	RPM: Hypertension	-
January 5, 2021	Vitality Group	Employer	1Q:21

<sup>1</sup> Compiled by Zacks Analyst from public domain

Over the last several months Dario has added many new clients in the remote patient monitoring (RPM), national employer, global employer, health plan and other categories as it continues to advance its B2B2C initiative. As of its last update, Dario had a total of 39 clients,<sup>2</sup> with an acceleration in count that builds on its recent acquisitions of Upright Technologies and wayForward. The number of users on Dario’s platform has grown significantly and consisted of more than 197,000 members at the end of the second quarter. We anticipate that this number will grow substantially as the announced contracts begin to enroll patients.

**Exhibit II - Dario Platform User Growth<sup>3</sup>**



### **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 two years, the implementation of this strategy has led to the acquisition of two synergistic platforms, Upright Technologies in musculoskeletal (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.

<sup>2</sup> With the new additions this number is likely 10 greater or about 49.

<sup>3</sup> [Dario Corporate Presentation](#), September 2021.

## **Partnerships and Initiatives**

### *Virgin Pulse Network*

On October 27, 2021, Dario announced that it had partnered with Virgin Pulse, the leading global provider of digital and live health and wellbeing solutions, making Dario's DTx platform available for contract through Virgin Pulse to employers and health plans around the world, specifically, through Virgin Pulse's Homebase for Health solution. Dario's preconfigured benefits will be available to eligible employees and health plan members. Benefits will include support for diabetes, hypertension, weight management, MSK and behavioral health, again, driven by Dario's AI engine to personalize support for every patient's management of one or multiple chronic conditions.

### *Workplace Options*

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 international 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](#) 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.

### *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.

### *Dario Move*

On October 18, 2021, Dario [announced](#) that it would unveil Dario Move at [HLTH 2021](#). Dario Move is the result of integrating Dario's recently acquired MSK solution, Upright Technologies, marking approximately 9 months since the acquisition. Integration of the solution is key as Dario's mission is to provide a holistic, comprehensive digital therapeutics platform to business clients, which can then support employees in the crucial majority time between physician's visits. Dario Move makes it easy for end users to improve their MSK health by combining adaptive software, technology and personal support and leverages the acquired technologies: single biofeedback sensor, personalized, evidenced based exercise programs designed by physical therapists, real-time feedback, real-time support from coaches and physical therapists, and a highly personalized experience driven by Dario's AI engine.

## **Summary**

Dario has been active over the last two years 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. Since June, we count 15 new client relationships and collaborations with multiple networks to reach even more users. 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

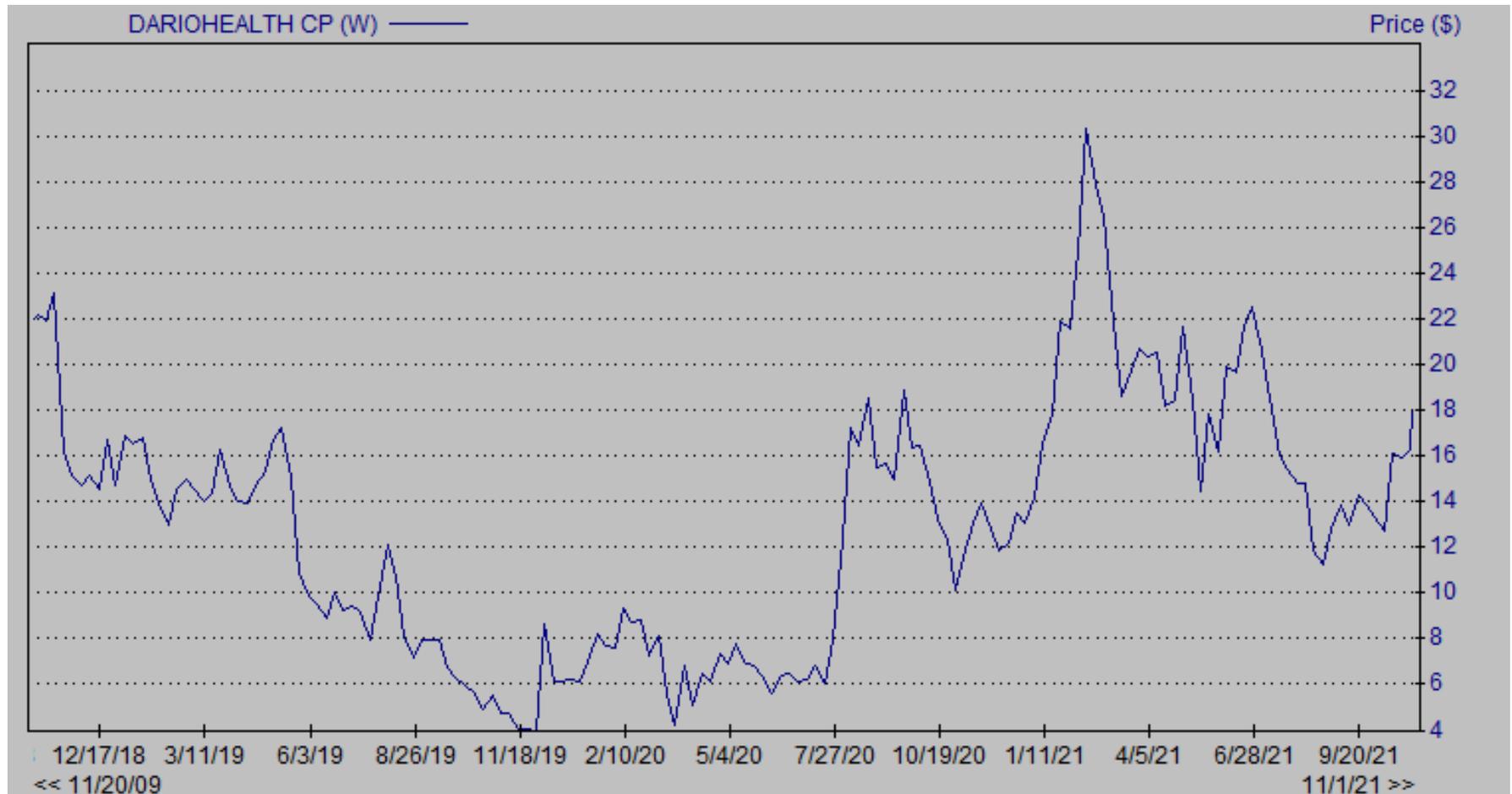
### DarioHealth, Corp. - Income Statement

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>\$45,620</b>	<b>\$74,121</b>
YOY Growth	0.22%	116%	194%	199%	285%	203%	99%	62%
Cost of Revenues	\$5,063	\$2,514	\$3,753	\$3,050	\$3,847	\$13,164	\$18,595	\$25,117
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>(\$48,839)</b>	<b>(\$30,649)</b>
Operating Margin	-395%	-399%	-342%	-242%	-178%	-267%	-107%	-41%
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>(\$49,839)</b>	<b>(\$30,649)</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>(\$49,839)</b>	<b>(\$30,649)</b>
Net Margin	-437%	-431%	-347%	-242%	-178%	-273%	-109%	-41%
<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>(\$2.99)</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. – Stock Price Chart<sup>4</sup>



<sup>4</sup> Source: Zacks Research System

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