

## DarioHealth Corp.

(DRIO - NASDAQ)

### 47 New Contracts Year to Date

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 (11/15/2021) **\$16.70**  
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 (%) **31.7**  
Beta **1.34**  
Average Daily Volume (sh) **187,373**

Shares Outstanding (mil) **20.9**  
Market Capitalization (\$mil) **349**  
Short Interest Ratio (days) **5.59**  
Institutional Ownership (%) **42.8**  
Insider Ownership (%) **11.3**

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	\$5.6 A	\$6.9 E	\$21.4 E
2022					\$42.1 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	-\$1.39 A	-\$1.07 E	-\$4.74 E
2022					-\$3.71 E
2023					-\$2.25 E

## WHAT'S NEW

### Third Quarter 2021 Financial and Operational Results

On November 15, 2021, DarioHealth Corp. (NASDAQ: DRIO) [announced](#) its third quarter 2021 operational and financial results and filed its [Form 10-Q](#). Dario hosted a [conference call](#) the following morning to discuss results in further detail. Dario's growth is accelerating with 47 signed contracts, 85% of which have been executed in the last two quarters. Pipeline growth has also accelerated, now at over \$1 billion, foreshadowing a dramatic acceleration in revenue growth in 2022 and beyond. The composition of new contracts is also favorable, with over 80% of the pipeline seeking higher-revenue, multi-condition opportunities.

Beyond the number of new contracts signed, highlights for the third quarter ended September 30, 2021 and to-date include:

- Study [presented](#) demonstrating clinical impact on personalized digital interventions - August 2021
- Dr. Omar Manejwala, CMO, [speaking](#) at AHIP<sup>1</sup> National Conference - September 2021
- Jerrod Helms [appointed](#) Chief Commercial Officer - November 2021

Dario generated revenues of \$5.6 million for the third quarter ending September 30, 2021, producing a net loss attributable to common stockholders of (\$22.9) million, or (\$1.18) per share.<sup>2</sup>

For the quarter ending September 30, 2021 and versus the same ending September 30, 2020:

- Revenues totaled \$5.6 million, increasing 176% from \$2.0 million due to an increase in direct to consumer sales and consolidation of contributions 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 \$4.8 million, increasing 222% from \$1.5 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 45%;
- Research & development expense totaled \$5.5 million, rising 477% from \$954,000, mainly due to the consolidation of Upright and WayForward related R&D expenses;
- Sales and Marketing expense totaled \$10.7 million, rising 194% from \$3.6 million increases in our stock-based compensation, payroll related, digital marketing and the consolidation of Upright and WayForward;
- General and administrative expense totaled \$7.1 million, expanding 178% from \$2.6 million on increases in stock-based compensation, investor relations expenditures, insurance expenses and consolidation of acquired firms;
- Net loss attributable to holders of common stock was \$22.9 million, increasing 205% (\$7.5) million or (\$1.18) and (\$0.71) per common share, respectively. Shares used in the calculation of loss per share assume the conversion of the convertible preferred shares.

As of September 30, 2021, cash and equivalents totaled \$51.6 million, up from the \$28.6 million at year end 2020 boosted by the \$70 million financing in January. Dario holds no debt on its balance sheet. Cash burn year-to-date totaled (\$35.3) million.





### Revenue Opportunities

Year to date, Dario has signed numerous new clients including employers, benefit providers and health plans. The company counts 47 new contracts signed year to date, with 85% of this total reached in the last two quarters. On the third quarter conference call, management hinted at 6 – 12 additional contracts that may also be closed before year end. Among the new additions, a large national health plan, a global employer, and a client requiring multi-

<sup>1</sup> American Health Insurance Plans National Conference on Medicare, Medicaid, and Dual Eligibles

<sup>2</sup> Note: Our calculated EPS of (\$1.39) does not agree with the EPS provided in company documents of (\$1.18) which varies from our calculation due to accounting conventions related to the Series A Convertible shares.

condition services were placed into the fold. This is in addition to the multiple remote patient monitoring (RPM) arrangements that have been added. Backlog has continued to grow despite the sales team closing on several prospects and is now at \$1 billion compared with \$900 million just a quarter ago. These wins have pushed the number of active paying users to 208,000 at the end of the quarter. Since our last update in early November, Dario has added a [National Group Benefits Platform](#) and [three new contracts](#) in the employer and provider markets. Workplace Options (WPO), an employee support and well-being services provider also [joined](#) Dario's roster in July. We provide a summary of the categories of clients in the 47 new contracts below.

Exhibit I – Client Composition <sup>3</sup>		
 <b>Employers</b>	Self insured Employers Consumer satisfaction and cost reduction	<b>30 Clients</b>
 <b>Health Plans / Insurers</b>	Fully insured Partner with self insured employers	<b>1 Client</b>
 <b>Health Providers</b>	Medicare Reimbursement Accelerates provider revenue and value delivery	<b>8 Clients</b>
 <b>Partnerships</b>	Channel Partners Strategic Partners	<b>8 Clients</b>

### Latest Partnerships, Clients and Initiatives

#### *Three New Contracts*

Dario [announced](#) three new contracts on November 11, 2021 including two new employers and a new provider partner, all of which will begin in 1Q:22. One of the clients is a health care provider in the southwest region and another is a Midwest-based player in the food industry both adding behavioral health services. Finally, a provider contract will launch the RPM solution for hypertension in California.

#### *National Group Benefits Platform*

On November 3, 2021 Dario [added](#) a national benefits administrative platform to its portfolio that will begin in January 2022. The agreement provides for the full suite of chronic condition solutions for diabetes, pre-diabetes, hypertension, weight management, musculoskeletal, and behavioral health. The partnership will provide visibility to other employers regarding Dario's services.

#### *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.

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

### 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.

### Recent B2B2C Wins

Dario continues to realize its B2B2C strategy and has announced numerous wins. We see the large health plan and multi-condition agreements as particularly attractive. Below we provide a summary of the partnerships where Dario has provided details.

**Exhibit II - Recent B2B2C Wins<sup>4</sup>**

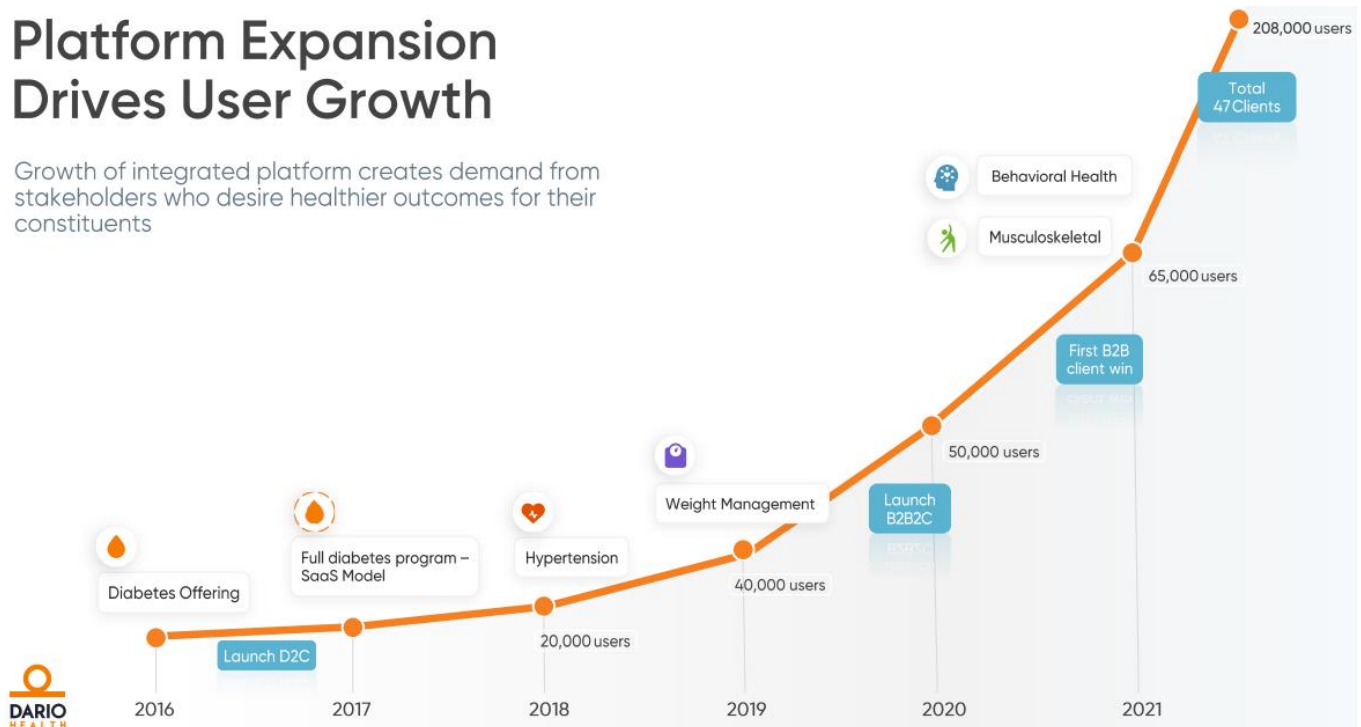
Date	Entity	Type	Services	Start
11/11/2021	Wide range of providers	Provider	RPM: Hypertension	1Q:22
11/11/2021	Midwestern employer in food industry	Employer	Behavioral health	1Q:22
11/11/2021	Southwest regional employer in health care industry	Employer	Behavioral health	1Q:22
11/3/2021	National benefits administrator platform	Benefits Platform	Full suite	1Q:22
11/1/2021	One of the Largest Providers in Hawaii	Provider	RPM: Diabetes, Hypertension	-
11/1/2021	Metro Atlanta primary care system with multiple locations	Provider	RPM: Diabetes, Hypertension	-
10/27/2021	Virgin Pulse	-	DarioHealth: Multi-condition	-
10/25/2021	US National Employer	Employer	Full Suite	1Q:22
10/14/2021	Leading National Health Plan	Plan	Behavioral health	4Q:21
10/7/2021	Global Employer	Employer	Diabetes, Hypertension, MSK	1Q:22
9/9/2021	Northeast regional employer	Employer	Diabetes, hypertension and pre-diabetes	1Q:22
9/8/2021	California casino resort company	Employer	Behavioral health	4Q:21
8/31/2021	PeopleOne Health	Provider	Behavioral health	3Q:21
8/4/2021	National employer	Employer	Behavioral health	-
7/20/2021	Alabama Regional Medical Services	-	RPM: Hypertension	-
7/12/2021	Global partnership	Employer	-	3Q:21
7/12/2021	Employer client	Employer	-	3Q:21
7/12/2021	Employer client	Employer	-	3Q:21

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 signed 47 clients, 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 208,000 members at the end of the second quarter. We anticipate that this number will grow substantially, especially in the first quarter as 25 of the announced closed contracts are anticipated to launch.

<sup>4</sup> Compiled by Zacks Analyst

# Platform Expansion Drives User Growth

Growth of integrated platform creates demand from stakeholders who desire healthier outcomes for their constituents



## 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 MSK and wayForward in the 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>5</sup> Dario Corporate Presentation, November 2021.

### **Jerrod Helms Appointed Chief Commercial Officer**

On November 15, 2021, Dario [announced](#) that Jerrod Helms had been appointed its Chief Commercial Officer, who will support Dario's continued B2B2C initiative, driving rapid expansion across employer, payer, provider and partnership markets. His appointment comes at a time of accelerating growth in Dario's customer and user base. Helms brings a wealth of sales leadership experience in the business-to-business health care markets, with a successful track record of selling to employers and health plans. He joins Dario after most recently serving as Head of Sales at the combined entity of Ginger and Headspace, and previously held sales leadership roles at Virgin Pulse and Humana. Mr. Helms is currently a member of the Board of Advisors at Gluconfidence. Helms received his Bachelor of Science degree from Texas Tech University.

### **Summary**

Dario has announced 47 new contracts this year and may have 6 to 12 additional contracts that close before year end. While some of these begin immediately, others will start in 2022 and ramp up over an eight to 12 week period. For clients that are only taking one condition, there is an opportunity for expansion over time. Other clients are starting in phases and may layer on different regions and conditions as the relationship matures. Dario 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

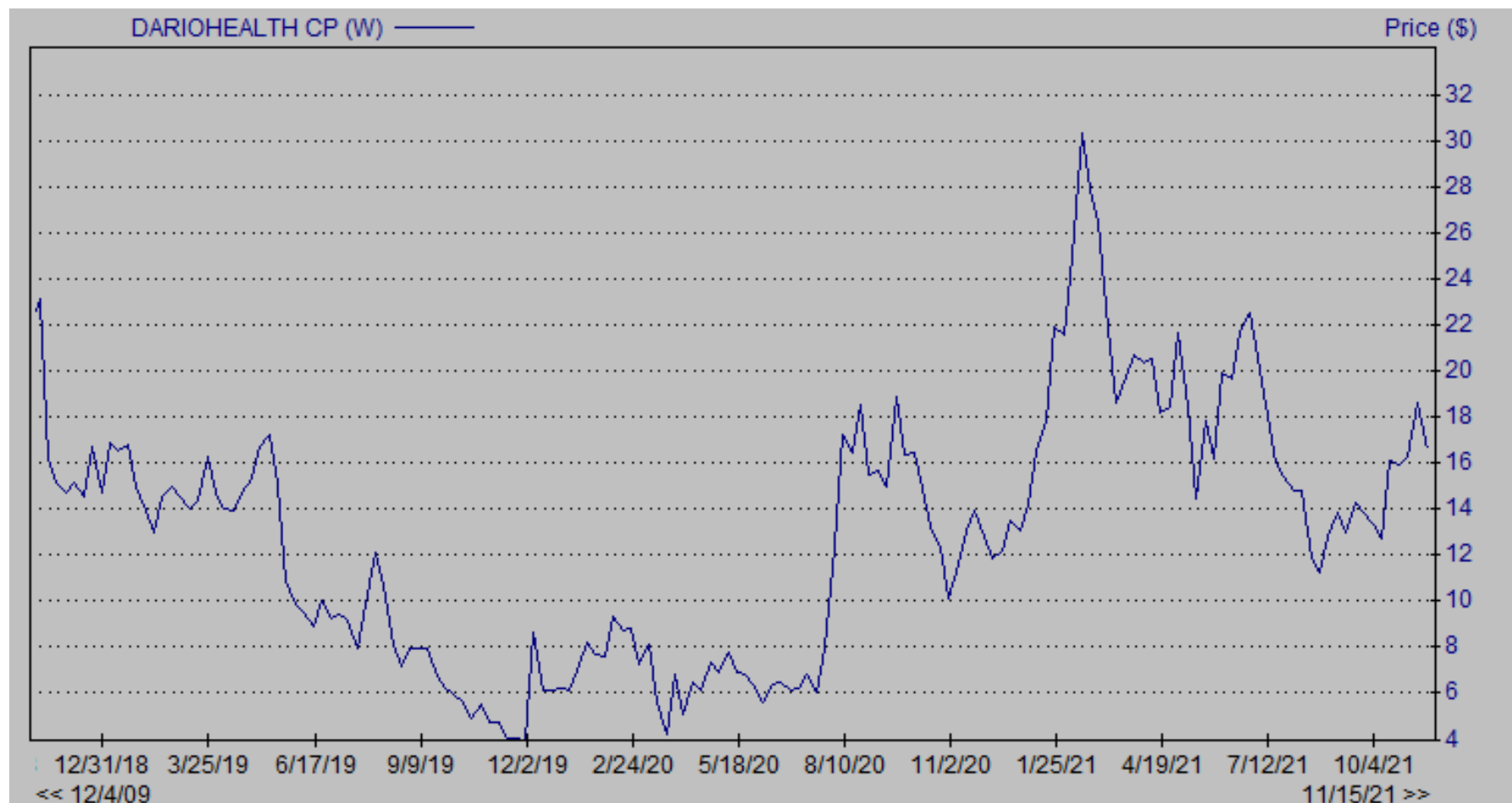
### DarioHealth, Corp. - Income Statement

DarioHealth Corp.	2020 A	Q1 A	Q2 A	Q3 A	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>\$5,629</b>	<b>\$6,914</b>	<b>\$21,399</b>	<b>\$42,128</b>	<b>\$74,121</b>
YOY Growth	0.22%	116%	194%	176%	232%	182%	97%	76%
Cost of Revenues	\$5,063	\$2,514	\$3,753	\$4,803	\$3,319	\$14,389	\$17,060	\$25,117
Product Gross Margin	33.2%	30.1%	28.7%	14.7%	52.0%	32.8%	59.5%	66.1%
Research & Development	\$4,433	\$2,655	\$3,742	\$5,506	\$3,450	\$15,353	\$17,656	\$19,068
Sales & Marketing	\$15,227	\$7,132	\$9,648	\$10,696	\$9,846	\$37,322	\$39,545	\$41,522
General & Administrative	\$12,756	\$5,621	\$6,121	\$7,123	\$8,000	\$26,865	\$28,671	\$29,531
<b>Income from operations</b>	<b>(\$29,903)</b>	<b>(\$14,327)</b>	<b>(\$18,003)</b>	<b>(\$22,499)</b>	<b>(\$17,701)</b>	<b>(\$72,530)</b>	<b>(\$60,804)</b>	<b>(\$41,118)</b>
Operating Margin	-395%	-399%	-342%	-400%	-256%	-339%	-144%	-55%
Financial Expenses	(\$458)	\$639	(\$238)	(\$55)	\$0	\$346	\$0	\$0
Deemed Dividend	\$3,658	\$544	\$488	\$488	\$0	\$1,520	\$1,000	\$0
<b>Pre-Tax Income</b>	<b>(\$33,103)</b>	<b>(\$15,510)</b>	<b>(\$18,253)</b>	<b>(\$22,932)</b>	<b>(\$17,701)</b>	<b>(\$74,396)</b>	<b>(\$61,804)</b>	<b>(\$41,118)</b>
<b>Net Income</b>	<b>(\$33,103)</b>	<b>(\$15,510)</b>	<b>(\$18,253)</b>	<b>(\$22,932)</b>	<b>(\$17,701)</b>	<b>(\$74,396)</b>	<b>(\$61,804)</b>	<b>(\$41,118)</b>
Net Margin	-437%	-431%	-347%	-407%	-256%	-348%	-147%	-55%
<b>Reported EPS</b>	<b>(\$5.55)</b>	<b>(\$1.11)</b>	<b>(\$1.16)</b>	<b>(\$1.39)</b>	<b>(\$1.07)</b>	<b>(\$4.74)</b>	<b>(\$3.71)</b>	<b>(\$2.25)</b>
Basic Shares Outstanding	5,963	14,026	15,691	16,473	16,610	15,700	16,649	18,291

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

## HISTORICAL STOCK PRICE

DarioHealth, Corp. – Stock Price Chart<sup>6</sup>



<sup>6</sup> Source: Zacks Research System



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