

## DarioHealth Corp.

(DRIO: NASDAQ)

### Sanofi Contribution Makes a Difference

Based on our discounted multiple of earnings model DarioHealth is valued at approximately \$18.00 per share. Our model assumes rapid revenue growth and positive EPS by 2025. We apply a 20x multiple to 2025 EPS and discount to present using a 25% discount rate.

Current Price (5/12/2022) \$5.18  
Valuation \$18.00

### SUMMARY DATA

52-Week High 23.80  
52-Week Low 4.11  
One-Year Return (%) -65.8  
Beta 1.4  
Average Daily Volume (sh) 210,506

Shares Outstanding (mil) 26.8  
Market Capitalization (\$mil) 138.8  
Short Interest Ratio (days) 7.7  
Institutional Ownership (%) 43.7  
Insider Ownership (%) 14.4

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 2022 Estimate N/A  
P/E using 2023 Estimate N/A

Zacks Rank N/A

### OUTLOOK

DarioHealth is a global DTx company that provides digital management of chronic conditions. It offers a blood sugar monitor and associated smartphone application for diabetes monitoring & advice to prompt behavioral change & disease improvement. Dario added new assets to its platform in early 2021 and another in early 2022 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, an objective recently augmented by a deal with Sanofi. 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.

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)
2021	\$3.6 A	\$5.3 A	\$5.6 A	\$6.0 A	\$20.5 A
2022	\$8.1 A	\$8.1 E	\$9.5 E	\$11.7 E	\$37.3 E
2023					\$72.4 E
2024					\$117.0 E

#### Earnings per Share

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2021	-\$1.11 A	-\$1.16 A	-\$1.39 A	-\$1.33 A	-\$4.75 A
2022	-\$0.83 A	-\$0.70 E	-\$0.83 E	-\$0.65 E	-\$2.99 E
2023					-\$1.64 E
2024					-\$0.58 E

\*EPS is calculated by analyst and differs from EPS provided by the company in its press releases and filings.

## WHAT'S NEW

### First Quarter 2022 Financial and Operational Results

On May 12, 2022, DarioHealth Corp. (NASDAQ: DRIO) [published](#) its first quarter 2022 operational and financial results and filed its [Form 10-Q](#) for the three month period ending March 31, 2022. Dario hosted a conference call and [webcast](#) to discuss results in further detail. During the quarter, 14 new business to business (B2B) contracts began, including two health plans. Dario highlighted the 61 contracts that have been signed in the last year and a half which should generate a run rate of \$42 million per annum when fully implemented. Revenues increased 124% over the prior year quarter, as Sanofi revenues and new clients are recognized in revenues.

Highlights for 2022 include:

- Webinar [presentation](#): Navigating Digital Health Trends - January 2022
- [Physimax](#) acquisition: MSK computer vision services - January 2022
- Clinical outcomes study published in the Journal of Medical Internet Research - February 2022
- Equity direct offer: \$40 million - March 2022
- Strategic agreement with Sanofi US - March 2022

Dario generated revenues of \$8.1 million for the quarter ending March 31, 2022, producing a net loss attributable to common stockholders of (\$16.4) million, or (\$0.74) per share.<sup>1</sup>

For the year ending March 31, 2022 and versus the same ending March 31, 2021:

- Revenues totaled \$8.1 million, increasing 124% from \$3.6 million due to sales increases in the commercial channels and contribution from the Sanofi agreement;
- Gross profit was \$4.0 million (49% gross margin), increasing 269% from \$1.1 million (30% gross margin) with the improvement in gross margin attributable to more profitable sales through the commercial channel;
- Research & development expense totaled \$5.9 million, rising 123% from \$2.7 million, mainly due to increase in salaries and software development expenses;
- Sales and marketing expense totaled \$9.5 million, rising 34% from \$7.1 million, mainly due to increases in payroll related expenses and stock-based compensation;
- General and administrative expense totaled \$4.4 million, falling 22% from \$5.6 million, mainly due to lower consulting expenses;
- Net loss attributable to holders of common stock was (\$16.4) million, increasing 6% from (\$15.5) million or (\$0.74) and (\$0.92) per common share, respectively, with the improvement in net loss per share attributable to the substantial increase in shares outstanding.

As of March 31, 2022, cash and equivalents totaled \$55.6 million, up from the \$35.8 million at year end 2021. Dario executed a gross \$40 million raise during the first quarter, sufficient to support operations through 2023. Dario holds no debt on its balance sheet. Cash burn for 1Q:22 totaled (\$18.3) million.

### Contracts

Dario continued to add new clients in 2022 with three new entities signing contracts since Dario reported its fourth quarter in late March. Two new employer contracts were executed and an agreement was signed with Health Plan Colorado Access which will manage multiple chronic conditions for the Medicaid population in the state. Below we summarize the latest closed agreements. The previously announced national health plan client will begin its phase 2 implementation earlier than expected and Dario will begin this component of the agreement in the second quarter.

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<sup>1</sup> Earnings per share as provided in the press release include adjustments that are not included in company filings. We use company-provided earnings per share in the discussion section to align with management discussion but use our calculated numbers on page 1 of this report and in our model.

### Exhibit I - 4Q:21 and To-Date Contracts<sup>2</sup>

Date	Entity	Type	Services	Start
4/14/2022	Health Plan Colorado Access	Health Plan	Diabetes,BP,weight, behavioral	2Q:22
3/23/2022	US based social platform employer	Employer	Behavioral health	2Q:22
3/23/2022	Global health care company	Employer	Diabetes	2Q:22
3/9/2022	Employer	Employer	Behavioral health	2Q:22
3/9/2022	Provider	Provider	Diabetes, hypertension	2Q:22
2/8/2022	Northeast regional employer	Employer	Diabetes	1H:22
2/8/2022	Educational organization	Employer	Behavioral health	1H:22
2/8/2022	Educational organization	Employer	Behavioral health	1H:22
2/8/2022	Regional professional services firm	Employer	Behavioral health	1H:22
1/19/2022	Large regional health plan, Medicaid - mid-Atlantic	Health Plan	Diabetes	2Q:22
1/6/2022	Northeast regional employer, food industry	Employer	Diabetes	1Q:22
1/6/2022	Large Northeast regional employer, finance industry	Employer	Full suite	1Q:22
12/21/2021	2,300 small business clients	Benefits Brokerage	Diabetes, hypertension, MSK	Early 2022
12/2/2021	Network of US practices	Provider	Full suite	1Q:22
12/2/2021	Regional employer	Employer	Behavioral health	1Q:22
11/18/2021	Regional employer	Employer	Behavioral health	1Q:22
11/18/2021	National transportation employer	Employer	Diabetes	1Q:22
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	Health Plan	Behavioral health	4Q:21
10/7/2021	Global Employer	Employer	Diabetes, Hypertension, MSK	1Q:22

### **\$40 Million Direct Offer**

On March 1<sup>st</sup>, Dario [announced](#) the pricing of its registered direct, at-the-market offering for gross proceeds of \$40 million. Participants included institutional investors, leading Israeli insurance companies and existing shareholders. The offer issued 5.3 million shares of common stock or pre-funded warrants at \$7.49 per share. Pre-funded warrants may be exercised any time at \$0.001. Dario intends to use proceeds from this offer to accelerate commercial uptake of its platform in the US, for product development and for general corporate purposes. Cowen and Stifel served as global financial advisors to Dario. Rosario and LifeSci Capital Markets served as financial advisors for the offering.

### **Strategic Agreement with Sanofi US**

In 1Q:22 Dario [entered](#) into a multi-year, \$30 million strategic agreement with Sanofi US. This agreement will support commercial adoption across Dario's full suite of offerings with Sanofi's US commercial clients leveraging the pharma company's sales force. It will extend reach in the health plan and employer markets. The agreement should also stimulate development of new enhanced solutions leveraging Dario's platform and generate robust evidence to support future commercialization in the health plan channel.

<sup>2</sup> Compiled by Zacks Analyst

The agreement marks Sanofi's latest foray into the tech space since the announcement of its partnership with Google.<sup>3</sup> Sanofi's agreement with Dario is a testament to its continued interest in the DTx space and its belief that the future of patient care will be data centric and highly personalized. As a first step in Sanofi's appearance in DTx, the agreement provides Dario additional exposure to health and employer plans and Dario will share its data and analysis with Sanofi. If the partnership is successful, Sanofi may increase its interest in the company. Sales exposure for Dario in terms of sales reps will expand more than fivefold with the addition of Sanofi's commercialization force which will include Dario's digital therapeutic in their portfolio of medicines.

Objectives of the agreement include development of services based on Dario's data and analytics. Sanofi's \$30 million investment will be allocated toward the value of the data Dario has collected, its access to this data and its analysis. Sanofi has identified health plans that it will target with the digital offerings, avoiding overlapping sales efforts with Dario. Dario will in turn supply development data, analytics and expertise to support Sanofi's DTx sales. Cash flows from the agreement will be recognized in 2022 consisting of \$8 million in year one, \$7 million in years two and three and the remainder thereafter.

### **Physimax Acquisition**

In late January, Dario announced that it had entered into an agreement to acquire Physimax Technologies Ltd., and issued a [press release](#) providing detail. The acquisition aims to augment the features of Dario Move with computer vision capabilities. Physimax leverages computer vision Artificial Intelligence (AI) technology for automated musculoskeletal (MSK) functional screening and predictive risk of injury assessment. The platform has been validated by experts and generates output proven to be comparable to that of trained human professionals. Among Physimax' clients are NBA and NFL teams, as well as US military and healthcare facilities specializing in orthopedic care. Through the agreement, Dario will acquire the right, title and interest in certain assets of Physimax. Consideration for Physimax' assets will include common shares worth approximately \$2.5 million, \$500,000 in cash, and the assumption of up to \$1.02 million in liabilities. Dario Move will gain computer vision capabilities as a result of the Physimax acquisition. Dario unveiled Dario Move at [HLTH 2021](#) several months earlier in October of 2021 and emerged as a result of the integration process for Upright Technologies.

### **Publication for Single DTx Platform-Multiple Conditions Outcomes**

On February 9<sup>th</sup>, Dario [announced](#) the publication of a retrospective study demonstrating Dario's DTx impact on managing both blood pressure and diabetes using a single platform in the *Journal of Medical Internet Research*. The study compared the results of two propensity-matched groups using Dario's digital therapeutic platform to monitor and manage blood sugar levels. Six months of blood sugar level monitoring with Dario were provided for the test group before and after adding blood pressure measurements, while the control group used Dario to manage blood sugar only. The study showed a significant improvement in average blood glucose levels during the first six months of using Dario to manage both blood glucose and blood pressure versus the control group whose average blood glucose levels did not change. Both systolic and diastolic blood pressure dropped during the first six months of monitoring and 27% of users achieved systolic blood pressure reduction of more than 10mmHg, demonstrating the impact of managing both conditions using a single digital application.

### **Summary**

Dario posted strong first quarter revenues helped by Sanofi contributions and new commercial clients. Management reported consistent and positive growth in its channels with remote patient monitoring, business to business customers and partner revenues driving topline. Cash burn was high in the quarter as Dario built inventory in preparation for new client onboarding and as a hedge against supply chain disruptions. Momentum in client revenues should continue throughout the year as the programs are implemented and penetration rises over an expected multi-month period. Management has also guided for some "off cycle" additions and early implementation of a phase 2 for a national health plan that will augment revenues. We maintain our target price of \$18 per share.

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<sup>3</sup> [Sanofi and Google to develop new healthcare Innovation Lab - Sanofi](#)

## PROJECTED FINANCIALS

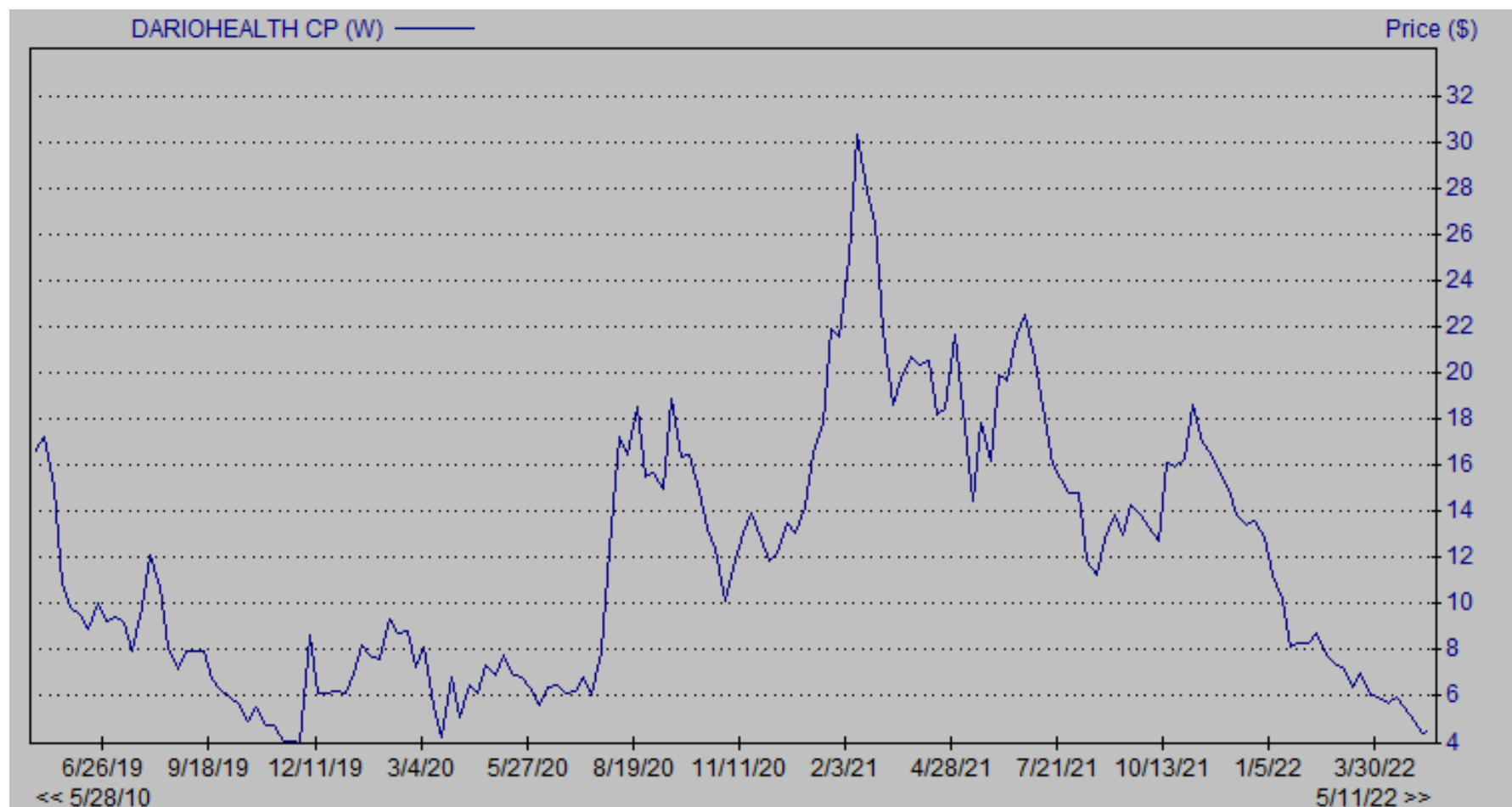
### DarioHealth, Corp. - Income Statement

DarioHealth Corp.	2021 A	Q1 A	Q2 E	Q3 E	Q4 E	2022 E	2023 E	2024 E
<b>Total Revenues (\$US '000)</b>	<b>\$20,513</b>	<b>\$8,059</b>	<b>\$8,140</b>	<b>\$9,450</b>	<b>\$11,700</b>	<b>\$37,349</b>	<b>\$72,418</b>	<b>\$116,988</b>
YOY Growth	171%	124%	55%	68%	94%	82%	94%	62%
Cost of Revenues	\$16,550	\$4,074	\$3,419	\$3,780	\$4,329	\$15,602	\$24,539	\$37,371
Product Gross Margin	19.3%	49.4%	58.0%	60.0%	63.0%	58.2%	66.1%	68.1%
Research & Development	\$17,219	\$5,927	\$4,303	\$6,332	\$6,113	\$22,676	\$24,490	\$25,714
Sales & Marketing	\$39,706	\$9,535	\$10,130	\$11,231	\$12,842	\$43,738	\$45,925	\$49,228
General & Administrative	\$23,532	\$4,395	\$6,305	\$7,337	\$4,807	\$22,843	\$23,529	\$24,234
<b>Income from operations</b>	<b>(\$76,494)</b>	<b>(\$15,872)</b>	<b>(\$16,017)</b>	<b>(\$19,229)</b>	<b>(\$16,391)</b>	<b>(\$67,509)</b>	<b>(\$46,064)</b>	<b>(\$19,559)</b>
Operating Margin	-373%	-197%	-197%	-203%	-140%	-181%	-64%	-17%
Financial Expenses	\$235	\$44	\$0	\$0	\$0	\$44	\$0	\$0
Deemed Dividend	\$2,005	\$451	\$0	\$0	\$0	\$451	\$0	\$0
<b>Pre-Tax Income</b>	<b>(\$78,734)</b>	<b>(\$16,367)</b>	<b>(\$16,017)</b>	<b>(\$19,229)</b>	<b>(\$16,391)</b>	<b>(\$68,004)</b>	<b>(\$46,064)</b>	<b>(\$19,559)</b>
<b>Net Income</b>	<b>(\$78,766)</b>	<b>(\$16,367)</b>	<b>(\$16,017)</b>	<b>(\$19,229)</b>	<b>(\$16,391)</b>	<b>(\$68,004)</b>	<b>(\$46,064)</b>	<b>(\$19,559)</b>
Net Margin	-384%	-203%	-197%	-203%	-140%	-182%	-64%	-17%
<b>Reported EPS</b>	<b>(\$4.75)</b>	<b>(\$0.83)</b>	<b>(\$0.70)</b>	<b>(\$0.83)</b>	<b>(\$0.65)</b>	<b>(\$2.99)</b>	<b>(\$1.64)</b>	<b>(\$0.58)</b>
YOY Growth	-14%	-24.6%	-40.1%	-40.5%	-51.1%	-37%	-45%	-65%
Basic Shares Outstanding	16,592	19,624	22,984	23,210	25,220	22,760	28,142	33,792

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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