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August 16, 2022

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DarioHealth Corp. (DRIO: NASDAQ)

Suite Solution

Based on our discounted multiple of earnings model DarioHealth is valued at approximately $13.00 per share. Our model assumes rapid revenue growth and positive EPS by 2026. We apply a 20x multiple to 2027 EPS and discount to present using a 25% discount rate.

Current Price (8/15/2022)	$6.74
Valuation	**$13.00**

OUTLOOK

DarioHealth is a global DTx company that provides digital management of chronic conditions. It offers a device & associated smartphone application for each solution & 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.

SUMMARY DATA

52-Week High	**19.39**
52-Week Low	**4.11**
One-Year Return (%)	**-35.6**
Beta	**1.2**
Average Daily Volume (sh)	**279,361**
Shares Outstanding (mil)	**27.6**
Market Capitalization ($mil)	**186.0**
Short Interest Ratio (days)	**6.8**
Institutional Ownership (%)	**42.0**
Insider Ownership (%)	**29.3**
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 2022 Estimate	**N/A**
P/E using 2023 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)
2021	$3.6 A	$5.3 A	$5.6 A	$6.0 A	$20.5 A
2022	$8.1 A	$6.2 A	$6.3 E	$6.9 E	$27.4 E
2023					$33.3 E
2024					$53.8 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2021	-$1.11 A	-$1.16 A	-$1.39 A	-$1.33 A	-$4.75 A
2022	-$0.83 A	-$0.82 A	-$0.71 E	-$0.60 E	-$2.94 E
2023					-$2.08 E
2024					-$1.43 E

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

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WHAT'S NEW

Second Quarter 2022 Financial and Operational Results

On August 15, 2022, DarioHealth Corp. (NASDAQ: DRIO) published its second quarter 2022 operational and financial results in a press release and filed its Form 10-Q for the three-month period ending June 30, 2022. Dario hosted a conference call and webcast to discuss results in further detail. Dario announced 69 new accounts signed year to date. Since our last update, Dario has presented several studies that show the effectiveness of its DTx. At the American Diabetes Association's (ADA) June meeting, Dario presented two studies that demonstrated the effectiveness of co-management of multiple conditions in a single solution. At the Association of Diabetes Care and Education Specialists (ADCES) conference in August, research showed the ability to effectively use the DTx solution in rural areas, which lack the health care structure found in urban areas. With respect to financial performance, revenues increased 18% over the prior year quarter, a slowdown over the previous quarter's trend due to an implementation delay in the broadly telegraphed national health plan account and irregular recognition of Sanofi revenues. Dario announced that it will be exiting the business to consumer (B2C) segment more rapidly than it had previously anticipated given the higher margins and greater opportunity in the B2B2C business. The company will allocate resources away from consumer and towards the B2B2C efforts. Management highlighted contributions from partners related to customer access, including Sanofi, Solera and Virgin Pulse which are providing connections to new prospects.

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
- DTx success in multiple conditions presented at ADA – June 2022
- $50 million, non-dilutive credit facility with OrbiMed – June 2022
- DTx impact on depression & anxiety presented at APA convention – August 2022
- Association of Diabetes Care and Education Specialists (ADCES) Conference Presentation – August 2022

Dario generated revenues of $6.2 million for the quarter ending June 30, 2022, producing a net loss attributable to common stockholders of ($18.5) million, or ($0.82) per share.[1]

For the year ending June 30, 2022 and versus the same ending June 30, 2021:

- Revenues totaled $6.2 million, increasing 18% from $5.3 million due to sales growth in commercial revenues partially offset by declines in the consumer business;
- Gross profit was $1.1 million (18% gross margin), declining 25% from $1.5 million (27% gross margin) with the contraction attributable to higher costs related to the shipping of inventory and amortization of acquired technology;
- Research & development expense totaled $4.1 million, rising 11% from $3.7 million, on account of expanding activities into additional product offerings;
- Sales and marketing expense totaled $9.3 million, down 4% from $9.6 million, on changes in levels of stock-based compensation and payroll related expenses;
- General and administrative expense totaled $5.1 million, falling 17% from $6.1 million, mainly due to lower share-based compensation;
- Net loss attributable to holders of common stock was ($18.5) million compared to ($18.3) million or ($0.82) and ($1.16) per common share, respectively, with the improvement in net loss per share attributable to the substantial increase in shares outstanding.

[1] 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 analysis but use our calculated numbers on page 1 of this report and in our model.

As of June 30, 2022, cash and equivalents totaled $67.9 million, up from $35.8 million at year end 2021. Dario conducted a direct equity offering in March for $40 million and entered into a credit agreement with OrbiMed in June which provided $25 million in proceeds and another $25 million available when needed, subject to revenue requirements. Cash burn for 1H:22 and 2Q:22 totaled ($29.5) million and ($11.3) million respectively.

Contracts

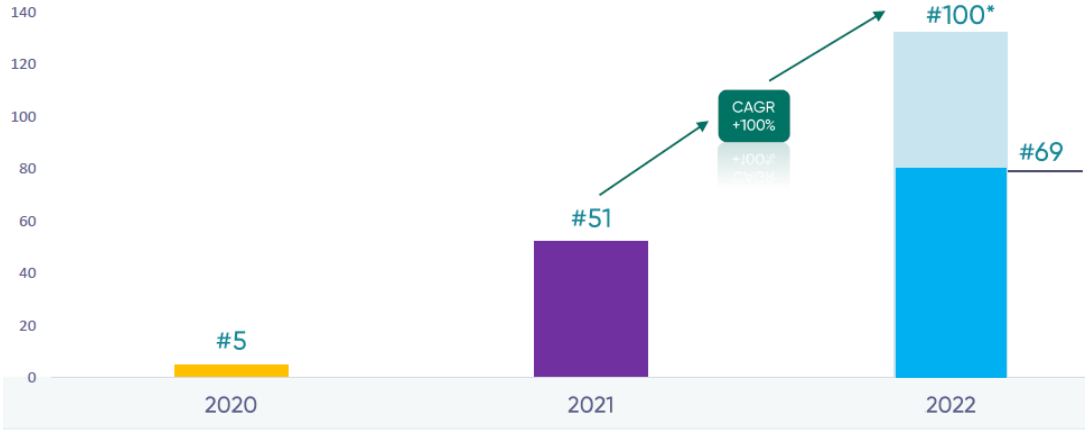
Dario continued to add new clients in 2022 with press releases for six new entities since the beginning of 2Q:22. Dario reports 69 accounts signed year to date and is targeting at least 100 by year end. The larger agreements were dominated by behavioral health services, underlining the importance of last year's acquisition of wayForward. Other contracts included multiple solutions, which provide high incremental margins, greater penetration into client populations and increased revenue per user. Below are the latest closed agreements with the majority of the recently signed beginning in the third quarter.

Exhibit I - 4Q:21 and To-Date Contracts[2]

Date	Entity	Type	Services	Start
8/11/2022	National Health Plan	Health Plan	Behavioral health	3Q:22
7/21/2022	No detail	National Employer	Full suite	3Q:22
6/21/2022	Provider of tech for finance professionals	National Employer	Behavioral health	3Q:22
5/19/2022	Texas based w/ svcs in 17 states in S & SE	National Employer	Behavioral health	3Q:22
5/19/2022	East coast presence	Provider	Diabetes, BP, weight	3Q:22
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 '22
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 (multiple locations)	Provider	RPM: Diabetes, Hypertension	-
10/27/2021	Virgin Pulse	-	Dario Health: 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

[2] Compiled by Zacks Analyst

Exhibit II – Historical Accounts Signed[3]



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.

There are three revenue components to the Sanofi agreement: 1) market access, 2) development services for integration of Sanofi devices, and 3) revenue from Dario's data set. While revenues from this agreement will vary widely from quarter to quarter, Dario is expecting $8 million in proceeds in the first year and $7 million in the second and third years.

Summary

Dario's growth rate slowed in the second quarter as a decline in the consumer business was not offset by strength in commercial. Revenues from Sanofi which appeared in the first quarter were not repeated in the second quarter and revenues from the eagerly anticipated national health plan were delayed until the third quarter. While the hiccup was a surprise, Dario has signed contracts representing $55 million in annual revenue and is on track to meet or exceed 100 contracts before year end. Management is also optimistic on gross margin for B2B2C going forward noting customer acquisition costs of below $20 and customer proclivity for multi-condition offerings. Higher costs for the consumer business and Dario's strategic shift away from this will lead to a loss of revenues in the second half but also a decline in operational expenses as well. 2022 is a period of massive change for Dario, as it continues to integrate acquisitions, shift away from consumer business and grow its B2B2C offering.

We are optimistic on what Dario can achieve a profitable B2B2C business and have confidence that revenue growth will come given the strong addition of contracts year to date despite the weak showing on the revenue side. With the abrupt acceleration in strategy, our estimates for profitability are pushed out a year. Additionally, it will likely take a few quarters to clear out all of the acquisition-related items and adjustments and we are hopeful that revenue growth will align with the $55 million in contract value that has been secured to date by the end of 2023. With the high season for contract closing coming up in late 3Q and 4Q, continued client addition will preserve our interest. To reflect the delay in topline growth, we shift our multiple of EPS valuation date to 2027 and discount to present which generates a target price of $13 per share.

[3] Source: DarioHealth 2Q:22 Earnings Release Presentation, August 2022

PROJECTED FINANCIALS

DarioHealth, Corp. - Income Statement

DarioHealth Corp.	2021 A	Q1 A	Q2 A	Q3 E	Q4 E	2022 E	2023 E	2024 E
Total Revenues ($US '000)	**$20,513**	**$8,059**	**$6,183**	**$6,250**	**$6,890**	**$27,382**	**$33,315**	**$53,837**
YOY Growth	171%	124%	18%	11%	14%	33%	22%	62%
Cost of Revenues	$16,550	$4,074	$5,045	$2,500	$2,549	$14,168	$11,296	$17,203
Product Gross Margin	19.3%	49.4%	18.4%	60.0%	63.0%	48.3%	66.1%	68.0%
Research & Development	$17,219	$5,927	$4,137	$5,332	$5,113	$20,509	$20,712	$21,748
Sales & Marketing	$39,706	$9,535	$9,297	$9,385	$9,520	$37,737	$39,432	$42,290
General & Administrative	$23,532	$4,395	$5,059	$5,500	$4,807	$19,761	$20,354	$20,964
Income from operations	($76,494)	($15,872)	($17,355)	($16,467)	($15,099)	($64,793)	($58,479)	($48,368)
Operating Margin	-373%	-197%	-281%	-263%	-219%	-237%	-176%	-90%
Financial Expenses	$235	$44	$672	$0	$0	$716	$0	$0
Deemed Dividend	$2,005	$451	$433	$0	$0	$884	$0	$0
Pre-Tax Income	($78,734)	($16,367)	($18,460)	($16,467)	($15,099)	($66,393)	($58,479)	($48,368)
Net Income	**($78,766)**	**($16,367)**	**($18,461)**	**($16,467)**	**($15,099)**	**($66,394)**	**($58,479)**	**($48,368)**
Net Margin	-384%	-203%	-299%	-263%	-219%	-242%	-176%	-90%
Reported EPS	**($4.75)**	**($0.83)**	**($0.82)**	**($0.71)**	**($0.60)**	**($2.94)**	**($2.08)**	**($1.43)**
Basic Shares Outstanding	16,592	19,624	22,426	23,210	25,220	22,620	28,142	33,792

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

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HISTORICAL STOCK PRICE

DarioHealth, Corp. – Stock Price Chart[4]



[4] Source: Zacks Research System

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