DarioHealth Corp.

Third Quarter 2022 Results Conference Call

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CONFERENCE CALL PARTICIPANTS

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Rahul Rakhit, *LifeSci Capital*

David Grossman, *Stifel*

Ben Haynor, *Alliance Global Partners*

PRESENTATION

Operator

Good day, everyone, and welcome to the DarioHealth Third Quarter 2022 Results Conference Call.

Please note this event is being recorded.

I would now like to turn the conference over to Glenn Garmont, Investor Relations. Please go ahead.

Glenn Garmont

Thank you, Joe.

Good morning, everybody, and thank you for joining us today for a discussion of DarioHealth's third quarter 2022 financial results. Leading the call today will be Erez Raphael, Chief Executive Officer of DarioHealth, and he'll be joined by Rick Anderson, President. After the prepared remarks, we'll open the call for Q&A.

An audio recording and webcast replay for today's call will also be available online, as detailed in the press release invite for this call. For the benefit of those who may be listening to the replay or archived webcast, this call is being held and recorded on November 15, 2022.

Last evening, we issued a press release announcing our financial results for the third quarter 2022. A copy of the release can be found on the Investor Relations page of the DarioHealth website. Actual

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events or results may differ materially from those projected as a result of changing market trends, reduced demand, or the competitive nature of DarioHealth's industry. Such forward-looking statements and their implications may involve known and unknown risks, uncertainties and other factors that may cause actual results or performance to differ materially from those projected.

The forward-looking statements discussed on this call are subject to other risks and uncertainties, including those discussed in the Risk Factors section and elsewhere in the Company's 2021 Annual Report on Form 10-K, as well as the Third Quarter 2022 Form 10-Q filed last evening. Additional information concerning factors that could cause results to differ materially from our forward-looking statements are described in greater detail in the Company's press release issued last evening and in the Company's other filings with the SEC.

In addition, certain non-GAAP financial measures may be discussed during this call. These non-GAAP measures are used by Management to make strategic decisions, forecast future results, and evaluate the Company's current performance. Management believes the presentation of these non-GAAP financial measures is useful for investors' understanding and assessment of the Company's ongoing core operations and prospects for the future. A reconciliation of these non-GAAP measures to the most comparable GAAP measures is included in the press release regarding our quarterly and year-to-date results.

With that, I'd like to turn the call over to Erez Raphael, Chief Executive Officer.

Erez.

Erez Raphael

Thank you, Glenn. Thanks, everyone, for joining our call this morning.

Joining me today, Rick Anderson, the President of the Company.

For the last three years, we have implemented a multiyear strategy, and now we are bearing fruits in two ways. One, we are not only aligned, but ahead, of the macro digital health market trends of consolidation and consumer centricity. Number two, our current model is better suited to the financial macro environment we are facing. The consolidation of conditions into one integrated platform enables less vendors and more conditions, especially in a market that looks to save money and be more efficient while better managing its patients. Employers and buyers are looking for best-of-suite solutions backed by clinical evidence. Also, our data suggests that an integrated model is better than separated single point solution.

Number two, the transformation from B2C to B2B improved drastically the financial profile of the Company. Significant reduction in the cost per acquisition, creating a more efficient economic model with higher gross margins and more runway to execute on our strategic plan. This model reduced capital market risk for the Company as well.

More than 50% of the pipeline that we have today is for the full integrated best-of-suite solution that we have. A full suite creates a higher and more stable revenues while creating an incumbency that is hard to this once dependents have been established, i.e., it will take multiple vendors to replace one integrated best-of-suite solution once it's installed.

Let's take a look at the P&L of the Company. In this quarter, we are presenting a real evidence for the improvement in the financial profile of the Company. That shows that our model is working and creating a long-term shareholder value, as we discussed in the previous quarter. Third quarter of 2022 revenues are $6.6 million, increased by 17.3% from $5.6 million in the third quarter of 2021, driven by growth in B2B revenues. Our B2B growth outstripped the decline in our direct-to-consumer business, in which we have

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shifted both capital and human resources away to focus on the B2B. Everything we are seeing in the market support this decision.

In fact, we are witnessing other digital health companies replicating the B2C first model we created many years ago to prove real-world data, and only then move into the B2B. The many years, we operated as a B2C company, and the data collection is a real differentiator that creates a moat against our competitors.

Another important metric is the percentage of the B2B revenue that grew to 63.5% of the total revenue for the quarter, up from 46% in the previous quarter. Another important metric that contributes to the improvement in our financial profile is the B2B gross margin that is now above 70%. We told the market our B2B business could reach 70% levels, and today, we report that we are delivering on that. The company-wide gross margins for the business, for the full business and for the full year is expected to be in the 50% range. This is a very large step-up relative to the 39% that we had last year. We believe that next year, we can be in gross margins of approximately 60%, the year after, we believe that we can reach the 70% for the full business. Another metric is the 30% reduction in our operating expenses for the third quarter of 2022 compared to the third quarter of 2021. This is due to the slowing down of the B2C business, and also due to becoming more efficient as we improve our processes and build scale in our business.

The final results of all the improvements that I just mentioned is 30% reduction in the net loss of the Company comparing to the third quarter of 2021, 30% reduction. We had also a 13.3% reduction comparing to the previous quarter. We are seeing (inaudible) a leverage of the infrastructure that we have built and real economic advantage for the multiproduct line approach. The underlying reason for the economic advantage of the multi condition is the improvement of all the following key parameters. We have more eligible population per account because we are managing and serving multi-condition, per every user that we have on the platform, we are generating more revenue per month and more revenue per year, the overall result is that we are generating between 4x to 8x more dollars per every account that we are approaching with the full suite as opposed to companies that are doing a single condition digital health.

Let's take a look on our balance sheet. We ended the third quarter with a strong financial position with cash of $57 million in the bank, we also keep improving our financial profile in a way that we are reducing the loss, and we expect that the loss will continue to reduce into next year. We also have access for another $25 million for OrbiMed, plus the strategic relationships that we keep building and will continue to develop and collaborate with. On the commercial side, we signed 85 accounts, and we are on our pace to reach the 100 accounts by the end of the year, which is the guidance that we provided at the beginning of the year. We are making a substantial progress in building our relationship with Sanofi, we believe we can take this relationship to the next level within productions into health plans.

Another significant relationship is the national health plan we signed with and recognized revenue for the first time in this quarter. Rick will elaborate about this relationship, but we expect that this relationship will expand and contribute significantly to our revenues moving forward. We're also working right now on another strategic deal that will help us expand our commercial outreach.

Overall, we have our own direct sales team. the relationship that we are building with our partners such as Sanofi, Virgin Pulse, Solera, and new relationship that we're building with another company, all of them can help us expand our outreach to the market by multiple folds as we keep growing our business in 2023 and 2024.

With that, I want to hand over the call to Rick to elaborate on the commercial side.

Rick Anderson

Thanks, Erez.

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In the third quarter, we continued to make substantial progress towards our strategic goal of building a robust B2B business. We increased the number of B2B contracts to 85 in the third quarter, on our way to our goal of 100 by year-end, which will represent 100% growth this year. Our current signed contract value is estimated to be approximately $61 million. We have seen growth in both of our primary markets, health plans and employers, and both of our primary products, the full suite and our stand-alone behavioral health products. While we have had off-cycle customers that have launched, especially in behavioral health, the majority of the metabolic and full suite contracts that we have recently announced are expected to launch in the first quarter of 2023; as a result, while our performance is improving each quarter, we expect to see significant growth into 2023. Importantly, these additional agreements also allowed us to generate a growing number of reference customers that are important to growing revenue in a step manner in future quarters and landing an increasing proportion of larger customers as we go forward.

The B2B revenue represented an increasing share of total revenue with growth of approximately 32% over the second quarter and is almost 14 times larger than the B2B revenue in Q3 last year. As B2B has become the primary growth engine with the better financial profile that Erez mentioned, we have reduced our marketing expenditures for B2C and have seen an expected decrease in B2C revenue, which was more than offset by strong B2B growth. This has enabled us to maintain the strategic benefits of our B2C business and reduce our operating expense and cash burn substantially quarter-over-quarter.

We entered into a new phase of our relationship with our national health plan customer, Aetna, in the third quarter. Under this agreement, we are partnering to embed our behavioral health technology into their behavioral health digital platform. We have already recognized revenue related to this agreement in Q3, but we expected that to increase as they roll the platform out to their customers in 2023. We are just over two quarters into our relationship with Sanofi, yet we have seen significant progress and traction.

Our co-promotion has developed a significant pipeline with some of those moving to late stages, which bodes well, even though we expect finalization to still take some time. We are on track to deliver our first set of development projects by year-end and have commenced planning for 2023 projects, and we have had a strong collaboration on evidence generation with the real-world evidence team. They have completed early study planning and preparation, including validating our engagement outcomes. This is a valuable part of the collaboration, as evidence is expected to play an increasingly important role in digital health in the next several years, especially with health plans.

We expect that this evidence generation work we are doing with Sanofi will help differentiate Dario from others as we go forward; of course, we are pleased to have a third-party validate our outcome. Partners are expected to also be an important part of our strategy in 2023 as customers look for the easy button, which is created with (inaudible) for data and billing. We are pleased with the partnerships that we have announced, including Virgin Pulse and Solera. We now have customers through Vitality, Alliant and Virgin Pulse, and we expect our first customer through Solera in the near future, with more in the pipeline for all partners. we are working on additional partnerships with some expected to close before year-end.

Our multi-condition integrated chronic condition platform is resonating in the market. We believe that this is based on having an integrated multi-condition platform, one journey, one coach, one experience versus the modules that our competitors have as they cover the same number of conditions that we have in any event. Having multiple conditions through one vendor, which is clearly a benefit in the marketplace. Strong clinical outcomes is demonstrated in a growing body of evidence, including more than 30 studies, and excitingly, our latest studies are showing the benefit of managing multiple conditions together rather than in the individual point solutions.

Our B2C DNA that enables the delivery of a consumer-centric product and our ability and willingness to integrate within an ecosystem with the member at the middle. Overall, we believe we are strongly positioned with our product partners and growing momentum to continue to drive accelerating growth as we go into 2023.

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With that, I'll turn it back over to Erez.

Erez Raphael

Thank you, Rick.

Despite the macro environment that is expecting recession, we don't see a slowdown in the market yet. In fact, we may see a tailwind and expect to (inaudible) save money, create efficiencies and leverage multi-condition platforms that should create a better health profile that will use Dario as a comprehensive solution. We also believe that we have all the building blocks we need in place to keep building a true digital health company that have the potential to reach profitability between $60 million to $80 million in revenue. Dario is very well positioned for success with digital health market consolidation and focus on profitability is desired.

With that, I want to open the call for the Q&A session.

Operator

Our first question here will come from Alex Nowak with Craig-Hallum. Please go ahead.

Chase Knickerbocker

Good morning, everyone. This is Chase on for Alex. A nice quarter here, as there have been some starts and stops in onboarding. This quarter was in a nice pace again.

Help me unpack the growth in B2B in the quarter. Was it mainly the national health plan at uptick in? Was it the Sanofi contribution that stepped up? How do you see that on the go forward as well for Sanofi? I guess if we could just dig into that B2B line in the growth there, that would be helpful.

Erez Raphael

Yes. Sure, Chase.

Number one, the old B2B revenue, as I mentioned, was growing to 63.5% versus 46% from the previous quarter. This is percentage-wise versus B2C. When looking into the few portions of revenue inside the B2B, we have the Sanofi part that was relatively lower than what we have seen in the first quarter. This is something that is happening according to specific milestones, and the milestones are related to data delivery, development services, and market access; it's not always easy to anticipate exactly where we're going to recognize the specific revenue, think about Sanofi as something that is contributing almost every quarter, but not in a linear or equal way.

The other portion that was new this quarter is the revenue that is coming from Aetna that we started to build the relationship last year, and we managed to see the first revenue getting in. This one had a nice contribution to the revenue. Other than that, all the other portions of the B2B, we have seen growth, and we are seeing growth quarter-over-quarter the last few quarters, including this quarter in terms of the accounts that are getting into production; overall, think about some kind of stability or even a lower revenue on the Sanofi side, a new big account that was recognized for the first time, Aetna, number three, accounts that are keep growing quarter-over-quarter, including this quarter.

Chase Knickerbocker

Got it. That's helpful. Then I guess one for Rick. The $61 million in pipeline now. Can we dive in there a little bit to—could maybe give us an idea of what the breakdown is between employer or provider health plan customers there that make up that pipeline? Just a look under the hood there would be great.

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Rick Anderson

That contract is not pipeline, so the majority of that or the largest pieces of that are always going to be health plans relative to employers; if you look at it on an overall split between them, it's probably somewhere in the area of 60-40 health plans and other B2B contracts versus employers, that percentage is going to fluctuate every quarter essentially as we move through, because health plans will be more periodic and employers, as you've seen through the announcements that we made we have off-cycle and on-cycle employers, so we'll have more in the third and the fourth quarter on cycle; during the year, we're constantly signing contracts associated with that; it tends to change over time, but that's more of an estimate.

Chase Knickerbocker

Got it. Then maybe again for Erez, you have nice 13% decline in Opex sequentially. What does that look like going into Q4, and how are you internally expecting that B2C revenue to wind down now that you're cutting that spend?

Erez Raphael

Yes. We are continually making the Company more efficient. It's in multiple places that it's not just the B2C. It's also efficiencies that we are running. You need to remember that we integrated literally four companies together. We had the three acquisitions along 2021. We had a lot of elements that related to operation, architecture. When we are selling an integrated suite, the suite needs to be integrated. We are spending a lot of money integrating pieces together. We believe that moving forward into next year, we're going to see additional small reduction in the Opex. In a combination of higher revenue and higher gross margins, we're going to see a significant impact on our ability to reduce the loss.

This trend is going to continue slightly on Opex, but mainly in terms of top line and also bottom line improving the financial profile, and you want to see the Company losing less, significantly less money into next year. That's what we're expecting to happen. Specifically in Q4, I think that the Opex spend is kind of stabilized on what we are seeing in Q3, the additional reduction will start again early next year, and we're going to see the trend moving along the full year next year.

Chase Knickerbocker

Got it. Thanks. I will hop back in the queue. Thanks for the questions, guys.

Erez Raphael

Thanks, Chase.

Operator

Our next question will come from Charles Rhyee with Cowen. Please go ahead.

Charles Rhyee

Yes. Thanks for the question, guys.

You talked about the $61 million in contracted revenue Obviously, it sounds like the vast majority is going to have a 1/1 start in '23 and then ramp. Is that right to think that as we exit '23, we'll be at that $60 million run rate, then in fact we probably would be greater than $60 million in '24?

Rick Anderson

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Based on the timing of some of those contracts in terms of how they will grow over that period of time, I would expect right now that we would be close to that as a run rate at the end of '23. We've always sort of looked at it as 12 months out from the date that we have those contracts. In some cases, they're launching a little bit later than others, but we should be approximately at that sort of a run rate by the end of '23, yes, we would expect it would be bigger in '24.

Charles Rhyee

Great. Then you talked about it being integrated into a larger platform that you're launching. Any sense on timing of when you expect that to launch? Or any kind of an indication that you're hearing of when this might be launching?

Rick Anderson

I think you just highlighted the most important part, which is we're not directly in control of some of the pieces, but we expect that we will likely see some growth in the first half of the year, with that accelerating effect in half of the year, based on what we currently understand; there are some pieces they could accelerate that even more. It's partially dependent on what order they come on the platform then, there tends to be an emphasis on larger customers over smaller.

Charles Rhyee

Larger customers of Aetna, as you mean?

Rick Anderson

Of theirs, correct. Yes, because the digital platforms for their ASO Business, they're employers they're selling to.

Charles Rhyee

Okay. Is that sort of like they're going to offer this new platform, if financial client picks the platform to get everything including Dario, or they can pick and choose within the platform?

Rick Anderson

Dario is being integrated as a technology into the platform, so we get paid for everybody that's on the platform, but there's also opportunities to access additional services through Dario on that platform on an overall basis.

Charles Rhyee

Okay. That's helpful. Lastly for me. The sales and marketing came down materially in the quarter. Is this—obviously, as you kind of pull back on DTC, is this the right run rate? Or do we expect to see more savings in this line, particularly as we go into next year?

Erez Raphael

Yes. This is mainly because of the B2C, this is something that we guided the market already in the last quarter that you're going to see a decline here.

I think that that's the run rate that we're going to see moving forward; we believe that towards next year—mid of next year, we're going to see this line getting back to growth, because the more we penetrate, the more we're going to invest into the sales and marketing on the B2B side.

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Charles Rhyee

Got it. I'm sorry, one last one. On Sanofi, obviously a great partner. when you look in the diabetes market, the bigger players are Lilly and Novo Nordisk, is there an exclusivity with the Sanofi deal? Are you allowed to speak to other manufacturers that are in the diabetes space. I'm just curious if your platform would fit well with some of these newer drugs in the market.

Rick Anderson

I think a couple of things there. I think our Sanofi relationship is broader than diabetes. I mean, we're in the general medicines area primarily, although there are conversations with other parts of the organization as well, they view it through that lens as well as more of a digital health than a diabetes issued; the co-promotion is for our full platform, that kind of speaks to the overall relationship. We do have—there are some elements of exclusivity, but they wouldn't prevent us from having relationships with other companies that are in the—generally in the space, depending on exactly how we structured that. We don't see a lot of value in doing app partnership with a specific drug in the absence of a larger relationship.

We really view this—and one of the reasons why we did the deal with Sanofi was they were interested in digital health as a market and not just as a companion app to a medication. Now, that doesn't mean we would never have it as a companion app to a medication. It just means we see a broader value there from that relationship.

Charles Rhyee

That's great clarification. I think a lot of people assume that was much more tied to diabetes. But—so is it that—so when you guys are sharing data, what are they doing with the data right now? And how are they planning to integrate them in the broader Dario platform into their environment, I guess? How are they moving that towards their patients, is the question.

Rick Anderson

Yes. I think that's an evolving strategy on an overall basis with them. This was them stepping in, part of it was them validating our data for themselves. They did a bunch of due diligence upfront, but then have done some additional really deep-dive work around it, and the real-world evidence team that they're working on is about validating and providing evidence for the benefits of the Dario platform for patients on an overall basis, full suite. I mean, yes, they will do some stuff around diabetes because obviously, the Company has the longest history in diabetes, we have the most amount of data on an overall basis in diabetes, but then rapidly moving into the overall suite, because we agree with them on this, but their point of view is they're looking at health plans primarily, and their point of view is, hey, the people that have the best evidence are going to win (phon), which is fully consistent, right, with the way that they look at medications on an overall basis.

That's kind of their view. The way that it gets integrated, I think it's going to be in a bunch of different places; we're going to see some of it with their product. We're going to see some of it in, well, let's just say, broader relationships in the ecosystem, more to come on that later; then I think ultimately, they're looking at it is how they get closer to the folks that are using their medications and devices; also, really, they're looking at digital health as a multibillion dollar potential opportunity for them as a company. I think it cuts across all of those.

Charles Rhyee

Got it. Sorry, just one clarification from my earlier question, the $61 million is just in the B2B business, right? We would layer on top of any remaining B2C revenue.

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Rick Anderson

Correct.

Charles Rhyee

Okay, great. Thanks for the color.

Rick Anderson

Sure.

Operator

Our next question will come from Rahul Rakhit with Life Science Capital. Please go ahead.

Rahul Rakhit

Hi, guys. I really appreciate all the color so far.

I was just wondering if you could expand on what percentage of the account growth is coming internally versus your strategic partners. How do you expect that partner contribution to impact count growth in Q4 and then more, I guess, beyond 2023?

Rick Anderson

Current account growth, the vast majority would be internal. We've seen some nice activity from partners in Q3 and are expecting a bit more in Q4. I expect that remains to be seen to some extent; we're expecting partners will play an important (phon) part of our growth going forward in 2023 and probably in 2024, and I think a lot of that has to do with market dynamics that we're seeing. If there's more and more effort on the part of customers to really, A, make it easier on themselves, manage less vendors, and make the vendors that they're managing easier. I think that, that bids well for sales to our partnership; we're investing more in the sell-through through those partnerships; as Erez mentioned in his comments, too, that gives us a lot greater reach than our own sales force on a stand-alone basis; to date, the majority is internal.

Rahul Rakhit

Got it. That makes sense. I mean, it's great. You guys are on track to double the number of accounts that you had last year; is it reasonable to think that you might potentially—or are you looking to double accounts again next year, from 100 to 200, in that, are you kind of factoring in this contribution from partners to help drive you guys in that direction?

Rick Anderson

That's generally the mentality.

Erez Raphael

Yes. I mean we were doubling from 50 to—we are doubling from 50 to 100. Almost everything is direct.

Now with all these partners that are working with us, it's a reasonable assumption that we can double again. That's something that we're going to talk about at the beginning of next year; yes, that's the direction.

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Rahul Rakhit

Got it. Appreciate it, then one more. You guys previously mentioned that you anticipate seeing additional strategic partnerships come in before year-end. Is that still a reasonable expectation? And if so, can you help us understand what type of strategic partnership you might be looking at pursuing at this point?

Rick Anderson

We are still pursuing things that we anticipate will close before year-end. We think that they will be substantial in terms of the ability to add to our overall client base over a period of time, and more to come on that later.

Rahul Rakhit

Great. Thanks for taking the questions.

Rick Anderson

Thank you.

Operator

Our next question will come from David Grossman with Stifel. Please go ahead.

David Grossman

Thank you. Good morning.

I just wanted to follow up a couple of questions that were already asked. I think first on the ARR, the $61 million, is it fair to say that given where we are in the calendar year that most of the large employers, the self-insured plans, would have kind of made their decision by now, and that the incremental growth from here would come from health plans that would probably most likely kind of have some impact next year, just depending on timing in terms of increments above the $61 million?

Rick Anderson

Yes, health plans also off-cycle employers with the incremental between now and in terms of revenue contribution to next year, there's a couple of other opportunities; yes, generally speaking, yes.

David Grossman

Great. Then maybe if you could give us a sense of kind of how pricing is really trending for you in the marketplace, particularly on the full bundle. Maybe I have to give specific numbers on kind of what that pricing looks like on an absolute basis; on a year-over-year basis, how is that trending when you're out there selling the full suite?

Rick Anderson

We've purposefully taken a pricing strategy that I don't want to discuss in absolute detail; but let's just say, generally speaking, we've either maintained our pricing or raised it slightly.

Erez Raphael

Maybe I can give you some more color, David, on—I mean that's something that I mentioned earlier on the call. The way to look at it, and if I'm just picking up on—I'm not going to mention the name, but the

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employer that was buying the full suite at the beginning of the year. The average revenue that we are generating per a single user is about around 50% higher than for a single condition. Once we are selling the full suite and users are utilizing the full suite.

On average, when we are launching, and that's numbers that we have seen so far, and we believe we're going to scale it, overall, 30% to 40% of the population are going to be eligible to one or more conditions. if you were thinking about it, we know other competitors that we're selling into this market diabetes only or hypertension only, the numbers are usually around 6% to 8%; if we are like selling both MSK, (inaudible), weight loss, hypertension and diabetes, you can reach somewhere between 30% to 40% of the account that is eligible to one or more conditions. Usually, we have like around 35% of the population that are eligible, will enroll eventually to the platform; on average, we start to see nice numbers that the average patient that is saying yes to the program will probably ask for an average 2.2 conditions to be managed by. This is more or less the numbers that we have seen; this is why, on the call, I mentioned that the revenue per account is somewhere between 4x to 8x or falls comparing to a company that is selling a single condition. That's the number that we are seeing today.

David Grossman

Got it. All right. Just to make sure I got that right. You said that 30% to 40% of the eligibles are taking the service, and the average is 2.2 services per eligible to take the service. Did I get that right?

Rick Anderson

Just on average, the number of people—when somebody enrolls in the full suite program, they're taking—they are involved in 2.2; the price—the revenue we're earning is not relevant to how many they're actually taking, because the pricing on the full suite is for all of the conditions, whether they take one or multiple of those conditions; it's a higher price than the single condition, as Erez mentioned, but it also gives us access to four times the population within, your average population would be eligible when you add the full suite versus say, diabetes on a stand-alone basis.

David Grossman

I got it. Okay. Great, then just back to both Sanofi and Aetna. Can you just remind us what the revenue milestones are the conditions that have to be met for you to take on incremental revenue for each of those. I think I've got different bits and pieces. I just want to make sure that I understand all of the different components that drive revenue for those two relationships.

Rick Anderson

Within Sanofi, there are preferred partnership payments that the milestones associated with those are delivery of training and data and things of that nature, as well as just general market access. There's also milestones related to delivery and development plans, which really tend to happen throughout the year. I mean, those are the primary revenues. All of that excludes agreements that we signed through the co-promotion that would be above and beyond that, that would land in our health plan revenue and pipeline associated with that.

For the national health plan, the contract is really—the way to think about it is that we get payments for delivering certain elements of the platform; then from there, it is essentially get per employee per month or per member per month if you prefer for people that have access to the platform, like I said a minute ago, those that would have buy up services that would be for those that buy those services up, it's a monthly fee for those that have access.

David Grossman

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Where are we delivering the elements of the platform component of that, Rick? Are we—are those significant milestones that are still left in terms of dollars? Or have we—are we kind of beyond that at this point, because it sounds like just started recognizing revenue this quarter; it would appear that, that would still be out there.

Rick Anderson

There is some of that still out there. We definitely do have some of that in this quarter. I expect that we will have all of that—that will be completed within the first half of next year.

Operator

Our next question will come from Ben Haynor with Alliance Global Partners. Please go ahead.

Ben Haynor

Good day, gentlemen. Thanks for taking the questions.

First off for me, just thinking about R&D expenditures. What's really going into those at the moment? Are those mostly kind of implementation details? Is it something you're developing internally, new features, functionality, etc., what's kind of the right way to think about higher allocating R&D dollars?

Erez Raphael

Yes. Thanks, Ben, for the question.

The way to look at it is that we have like a few main bulks of spending. Number one, we are pushing to promote each of the products as a stand-alone. I mean, we want to have the best diabetes solution. We want to have the best MSK solution, we are promoting each of the products and taking them to the next maturity level, better engagement, improvement. That's bucket number one for each of the product lines.

Bucket number two is that we are investing on integrating pieces together into one integrated experience, which is something that is very important when we are selling the suite, we are talking about best-of-suite. This is one of the advantages that we are creating over the competitors. Because we are creating a one integrated journey, one clinical journey, and use cases that are cost conditions. That's bucket number two.

Bucket number three, we had many years of experience as a B2C company, transforming everything to B2B, making sure that all the operation is functioning from billing to IT, security and all what we are calling operational side is significant, especially when you are combining few technologies together; here, we have a very big investment that we are doing, and we're going to keep spend there in order to make sure that we are very stable and can keep the scale if we really want to continue and double the number of accounts next year, these are where we are investing the money. Usually, when companies are running M&As and technologies are being integrated together, usually you see a ramp-up in the R&D expenses in the first two years of the acquisitions, and then things are getting consolidated, then we are—and companies are creating more efficiencies. I think that here, we're going to see the same kind of trend.

Ben Haynor

Kind of trend in the sense that after you've digested these acquisitions that you made over the past, I guess, couple of years, we should start to see the R&D line come down a little bit. Is that the right way to think about it?

Erez Raphael

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Yes. Absolutely.

Ben Haynor

Okay. Great. Then I apologize if I missed this, but did you guys zero out B2C advertising now? Or does that—do you still do a little bit of that?

Rick Anderson

We still do some of it, we reduced it to a level that made the business very sustainable. We still see strategic benefits to the B2C business, just like from always, we use as a test bed as well as for a variety (phon) of other things; we're not expecting to zero out the spend, but we've got to spend in at a level that makes sense relative to the cost of the market and the margins associated with it.

Ben Haynor

Okay. Some of that sales and marketing spend is sort of effectively R&D spend as well.

Rick Anderson

You can think about it that way.

Erez Raphael

Yes. That's a very good way to look at it.

Ben Haynor

Okay. Fair enough, then last thing for me, this is, I guess, more curiosity or housekeeping. I know last quarter, you talked about a customer that had some revenue that was slipping into Q3. Was that Aetna that slipped from—you guys expected some revenue in Q2 that slipped on the Q3?

Rick Anderson

Yes.

Ben Haynor

Okay. Great. Well that's all I had, gentlemen. Thanks for taking the questions.

Rick Anderson

Thank you so much, Ben.

Operator

With no remaining questions. We will conclude our question-and-answer session. I'd like to turn the conference back over to Erez Raphael for any closing remarks.

Erez Raphael

Thank you.

Thanks, everyone, and I appreciate you joining our call today. Wish you an amazing day. Thank you.

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Operator

The conference has now concluded. Thank you for attending today's presentation.

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