# DarioHealth Corp.

## Third Quarter 2023 Results Conference Call

## November 2, 2023

## CORPORATE PARTICIPANTS

**Glenn Garmont**, *LifeSci Advisors*

**Erez Raphael**, *Chief Executive Officer*

**Rick Anderson**, *President*

## CONFERENCE CALL PARTICIPANTS

**Charles Rhyee**, *TD Cowen*

**Rahul Rakhit**, *LifeSci Capital*

## PRESENTATION

**Operator**

Greetings and welcome to the DarioHealth Third Quarter 2023 Results Conference Call.

(Operator instructions)

As a reminder, this conference is being recorded.

Thank you. It is now my pleasure to introduce your host, Glenn Garmont. Please go ahead.

**Glenn Garmont**

Thank you Operator, and good morning everybody. Thank you for joining us today for discussion of DarioHealth's third quarter 2023 financial results.

Leading the call today will be Erez Raphael, CEO of DarioHealth. He'll be joined by Rick Anderson, the 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 on line 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 on November 2, 2023.

This morning we issued a press release announcing our financial results for the third quarter 2023. A copy of the release can be found on the Investor Relations page of DarioHealth's website. Actual 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 third quarter 2023 quarterly report on Form 10-Q. 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 this morning 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 this morning's press release.

With that, I'd like to introduce Erez Raphael, Chief Executive Officer of DarioHealth. Erez?

**Erez Raphael**

Thank you Glenn, and thanks to all of you for joining our call this morning.

Q3 financial results are continuation of our multi-year strategy and evolution of our financial profile. We continue to look forward with added conviction in our advancements in the digital health space.

As we communicated in our recent investor day, our revenue stream can be viewed as threefold. First is our historical direct to consumer or B2C business; second is the recurring revenue of health plans and employers, or commercial B2B2C; and the third revenue stream that we call commercial strategic, which comes from partners like Sanofi, and is milestone-driven.

In the first quarter, our B2C business continued pace to achieve the expected $8 million to $9 million in yearly revenue, while remaining cash-neutral or slightly positive. We expect this trend to continue into 2024.

On the commercial strategic side, our commercial strategic revenue remained on track for annual run rate of approximately $6.3 million a year. The current quarter resulted only with $200,000 recorded in revenues, which negatively affect our revenue compared to the previous quarter and the third quarter of 2022. We want to reiterate that this partnership's revenues should be viewed on a yearly basis and not quarterly basis, and the economic value for us on a yearly basis has not changed. We expect our commercial strategic revenue to continue at an annual rate of $6 million to $8 million a year.

The fundamentals of our core B2B2C commercial ARR business that comes from recurring revenue from employers and health plan continue to grow. In the third quarter, the revenue from this channel grew by 22.7% compared to the third quarter of 2022, and up 57% for the nine months ended, compared to the same period in 2022. In total, $3.9 million in 2023 compared to $2.5 million in 2022.

Our current total signed product estimated value is over $60 million a year, which will be recognized as ARR in the B2B2C channel as we continue to penetrate member populations. We believe that our annual revenue growth target, 100% to 170% in the B2B2C business channel, can be achieved and expected to see faster revenue ramp-up when we enter into 2024. To reach this target, we use metrics surrounding historical enrollment rates and other data from members' and clients' health. This revenue stream shows an adjusted gross margins above 70%, which will continue to drive overall gross margins higher as the B2B2C business channel becomes a larger percentage of our business.

Looking forward, the growth of this B2B2C ARR channel should accelerate because of the following three building blocks. First, implementing signed contracts. We estimate that we have a $60 million in ARR in contract value. Second is the land and expand approach, an opportunity to expand existing clients, either by adding new chronic conditions or expanding to additional population. The third is our partnership strategy that gives us potential access to 87 million members; securing just 1% of this population is about $17 million in ARR, so that's a very large potential.

I would like to touch base on our strategic relationships and our partner Sanofi. We continue to see significant financial and people resources dedicated to Dario by Sanofi in marketing the solution and conducting the recent clinical studies. The results from three real world clinical studies done by Sanofi and third party hired by Sanofi were published this year. The studies showed impressive results on the clinical side. Hemoglobin A1c improved between 1 to 2.3 points, and also from a cost perspective, with an average annual savings of more than $5,000 per member per year, for users that are operating on the Dario platform. This is an impressive result and useful metrics to deliver to payers and partners.

On Aetna, the highly anticipated launch of the Dario-powered behavioral health platform is on track to January 2024. We have insights into five employers that will enroll to the platform starting in January 2024. We also expanded our relationship with Aetna, and Rick will provide more details about it in few minutes. We believe that the partnership is only getting stronger, and the size of the opportunity is getting larger than what we originally anticipated.

Another large opportunity for us is the GLP1 revolution. We are happy to say that through the development we made with Sanofi, we launched a product offering that defined the Dario platform as a solution for users on GLP1 and other weight loss drugs. According to published FDA statements, the drug needs to be supported by focal behavioral change. This includes on-boarding and off-boarding the drug, as well as managing nutrition and exercise while taking it. This is exactly the type of behavioral management that our solution address. Our product is already fundamentally a complement to this new market opportunity.

Another potential area that we are exploring within the GLP1 opportunity is assistance in navigating the allocation of the drugs to the right patients. Given its price implications to health plans, we see a need for data-driven assistance in making sure that the drug is prescribed to the right people at the right time.

Let's take a deep dive into the rest of the financial results. One important metrics is the gross margins. We see our *pro forma* gross margins for 48.8% for the third quarter of 2023, a slight decrease from 51.5% of the revenue in the second quarter of 2022. Gross margins in the B2B2C channel have remained consistent at around 70%, which is our target rate. Margins will continue to improve toward 70% level in the longer term as the B2B2C continues to grow.

Looking at the operating expenses and operating loss. We are seeing an operating leverage of the infrastructure that we have built and real economic advantage from the multi-condition approach. Our operating expenses on the non-GAAP basis for the nine months ended September 2023 are down to $32.3 million from $39.3 million for the nine months ended September 2022. We expect an additional 15% reduction in our operating expenses in 2024, as we continue to consolidate, automate and scale.

Operating loss, excluding stock-based compensation, amortization of acquisition-related expenses, and depreciation of the third quarter of 2023 was approximately $9 million, compared to $8.4 million for the third quarter of 2022, and $7.5 million in the second quarter of 2023.

For the nine months ended September 2023, our non-GAAP operating losses was $23.8 million, compared to approximately $30 million for the nine months ended September 2022. This was due to decreases in operating expenses.

We expect to continue the OpEx reduction as well as the net loss reduction, as our financial total (phon) continue to take form. We expect our non-GAAP operating expenses to decrease about 10% to 15% during 2024, and our non-GAAP operating loss to decrease between 20% to 30% in 2024.

We have a strong cash position of $44 million, which provides estimate runway during 2025. We believe that we will become cash flow-positive at about $80 million in ARR, a goal that we see very reasonable, as we continue to improve our financial footprint.

With that, I want to hand it over to Rick.

**Rick Anderson**

Thanks Erez.

As Erez mentioned, in the third quarter, our B2C business continued on pace to achieve $8 million to $9 million in revenue while remaining breakeven to slightly profitable; and we continued to see growth in our core business line, recurring revenue from health plans and self-insured employers, in the third quarter. Our strategic revenue was lower in the third quarter than in the third quarter of 2022, and lower than we had originally anticipated for the quarter. The majority of this was due to the timing of the milestones delivered as a result of Sanofi internal changes. These internal changes do not impact the annual revenue or the overall relationship with Sanofi, as Erez mentioned.

As we discussed last quarter, our Aetna behavioral health platform has moved to their commercial division, and we are pleased to report that they are on track to have members on platform with identified customers starting in January of 2024. As a reminder, we earn revenue from this platform on a per employee per month basis for all employees who have access to the platform, which means revenue will commence in January. We expect that the population on the platform will continue to grow over several quarters post launch, as Aetna continues to sell the platform through to their self-insured employer customers.

I am also pleased to report that we had a significant win with Aetna in the third quarter, as we were selected to replace one of their existing vendors in providing digital cognitive behavioral therapy. This represents a separate win and additional revenue that will commence during the first quarter of 2024. In addition to the significant ARR revenue this will add, starting in the first quarter of next year, we also believe this demonstrates the strength of our relationship with Aetna and fuels our belief that we will continue to have opportunities to expand this relationship. We have continued to see growth from both MedOne and the large regional booth (phon) plan that we recently launched, and as previously discussed, we expect to see a growth of members from these two accounts throughout the remainder of 2023 and more substantially into 2024.

In addition, in the third quarter we expanded the conditions for the regional blues (phon) from hypertension to also now include diabetes, which we expect to launch in the first quarter of 2024. The launch of diabetes, combined with the increased promotion of the program in Q4 and 2024, by the health plan and our partner Solera, are expected to result in significant growth in this account with approximately 3 million members.

In addition, MedOne has now made Dario offering part of their standard product for new customers, launching in 2024. This should further accelerate the penetration of this account. Combined, these customers will ramp over the next several quarters, adding to our ARR growth through 2023 and accelerating into 2024.

We continued to deliver for our customers. In a recent customer satisfaction study, 96% of our customers were satisfied or very satisfied. This has translated to a steady increase in reference customers, which are important for accelerating growth.

In addition, several of our existing customers are in the process of expanding, including two of our health plans, either in terms of the size of the population with access to Dario or the lines of business. The majority of these expansions will commence in the first quarter of 2024, with the rest expected in the second quarter of 2024.

In the third quarter, we saw a slowdown in self-ensured employer decision-making due mostly to macroeconomic conditions, resulting in several opportunities shifting to next year. In spite of this, we are pleased to be adding at least 15 self-ensured employers and health plans to the platform in the first quarter of 2024, which we anticipate will result in a significant increase in ARR in the first quarter. These additions do not include several health plans and employers that we anticipate adding in 2024 through our partnerships, including at least one national health plan. We have seen a strong pipeline and activity through our partnerships, which enabled the easy-button contracting, integrating, and implementation for customers. Partnerships will continue to be a significant part of our go to market strategy.

In summary, we will continue to see growth of the key B2B health plan and self-ensured employer business in the fourth quarter and substantial growth in our core business in 2024. We have created a growing base of B2B2C health plan and self-ensured employer revenue that will carry into 2024 with strong retention. MedOne and the large regional blues plan will continue to increase revenue in 2024 as we continue to bring those customers' numbers on the platform. Importantly our partners are increasing the promotion of these programs to their members and, in the case of MedOne, making Dario part of their standard offering rather than an opt-in. Several of our customers are expanding, including multiple health plan customers, by adding additional populations, conditions, or lines of business, which will be contributing to revenue in the first and second quarters of 2024. We anticipate adding at least 15 additional employer and health plan customers on the platform in the first quarter of 2024, the Aetna platform will launch in the first quarter of 2024 with several identified customers, and our newly expanded business with Aetna, which bills on a per employee per month basis, will launch in the first quarter of 2024 as well.

We have established several quality partnerships, and those partners are starting to generate Dario customers from growing pipelines that we anticipate will contribute significantly to revenue in 2024, including one to two national health plans.

With that, I would like to turn it back over to Erez.

**Erez Raphael**

Thanks Rick.

As we look back to the strategic changes we have made in the Company in the last few years, such as moving from single to multi chronic conditions and from direct to consumer to B2B2C, we see how massively (inaudible) for our growth and advancement of our business across the channels.

From product perspective, as we explained in our investor day a couple of weeks ago, our platform is best in class with clinical proof of efficacy that has been validated by real world data, as well as our partners.

Our core business is functioning very well, and the financial profile of the Company is continuing to improve.

We are very happy with development of the top partners like Aetna and Sanofi, and continue to see them in progress to be stronger.

We remain dedicated to keeping the investing public educated on the progress of the business across the multiple channels we have defined. To recap here, commercial strategic revenue will be measured on an annual basis; as it is milestone-driven, we expect to see this staying in line with our estimation of $6 million to $8 million a year. B2B2C, employers and health plan is recurring and should grow as we continue to implement our signed accounts, we expect to see this revenue channel grow between 100% to 170% annually. On the B2C side, we are going to be stable on breakeven cash flow or cash flow-positive, with $8 million to $9 million per year.

In 2024, we expect to see OpEx reduced by additional 10% to 15% non-GAAP, and net loss reduced by additional 20% to 30% non-GAAP.

All this proves as evidence of continued improvement of our financial profile on a consistent going forward basis.

Thanks everyone, and I would like to open it now for Q&A.

**Operator**

Thank you. (Operator instructions)

Your first question comes from Charles Rhyee, TD Cowen. Charles, please go ahead.

**Charles Rhyee**

Yes, thanks for taking the questions, Erez and Rick.

Maybe just give a sense on sort of how the strategic partnerships are going and obviously we didn't get as much contribution this quarter. Maybe a little bit more about the Sanofi relationship and how that's progressing.

Then secondly, in light of this and sort of the pace that we're expecting with Aetna next year and sort of your expectations on some of the new customers that could come on board, how should we be thinking about next year's revenues?

**Erez Raphael**

I'll start with Sanofi and Rick can talk about Aetna, and I also can talk about Aetna.

When we think about the relationship with Sanofi, I mean we are looking into few types of revenues. We have development services, we have elements that related to clinical publication and data, and one of the things that we were showing and reiterating in our investor day is all the achievements that we had in the last year with this kind of relationships, we had three different clinical publications, that were done on top of our real world (phon) data that we collected over the year, and we had like one of the top clinical guys from Sanofi on the stage talking about it. That's a long way to say that relationship are very good, we are making progress in terms of achieving objectives from the clinical aspects to the development services aspects. Just to remind you we develop together a behavioral change capability that related to the GLP1, which is also something that was done together with Sanofi, so on the development side we are also going well. Also on the commercial side, we are working together to get clients and actually MedOne is all of the clients that we work together with Sanofi in order to achieve and we think that we're going to get another few clients including health plans that is coming from the relationship with Sanofi.

So, looking back, we signed on this agreement on March first last year, looking back on all three strains, the clinical, the development services, and the commercial, and there is a satisfaction from both sides. I think that the challenging part is the way that we anticipate how this $30 million deal is recognized and delivered, because it's very milestone-based, and it's very hard for us to communicate with the market when we're going to recognize what part of the revenue, and I think this is what created the challenge. One of the things that I was trying to be very, very clear on the script on the earning call itself, is that the relationship are moving to the right direction, and we believe we can also take it to the next level beyond the $30 million. This is something that we said before, and we think that the relationship are stronger than ever.

Rick, you want to say something about Aetna and the launch?

**Rick Anderson**

Sure. So, I mean, I think our relationship with Aetna continues to be very strong. As we mentioned, they have now identified customers that on the platform, the Mind Companion platform which is the private label version they're selling to their customers, and they've brought us more and more to be involved in the commercialization effort of that, so that continued to deepen. Plus, as I mentioned, we won another piece of business, which was actually taken from Teledoc, and that's going to launch in January. So, our understanding from them is they're looking to continue to consolidate vendors, and we've benefited from that, and I think that that speaks to the relationship, I think there will be other opportunities over the next 12 months with them also to be able to expand that.

So, I think the relationship is strong, it's showing up in terms of the business that we're increasing with.

**Erez Raphael**

In terms of the revenue, Charles, I want to make sure that I'm addressing that part of the question, and how we should look into revenues for next year and the year after. We think that the B2C, our strategy is to keep that, because it generates the data that we need and it helps us to like create the sandbox in order to improve the platform, and this one we are keeping on cash flow neutral or a bit positive or slightly positive, and this is in the ranges of $8 million to $9 million a year.

The other part, which is the strategic, and we recognize this year some strategic that is coming from Aetna, and also Sanofi, so these are the two revenues that we had under the strategic, and next year we think that we have a range of somewhere between $6 million to $8 million for that part, can be even more. Sanofi is kind of guaranteed to some extent, and it just depends on how it's going to be recognized between the quarters, so that's another part. We also work on other relationships that related to pharma, and companies that related to clinical and data, and we believe that we're going to have more clients contributing to this revenue channel, what we are calling commercial strategic.

The third part, which is the most important part, which is the B2B2C ARR, all the membership that is coming from employers and health plans, here we are looking into growth that is somewhere between 100% and 170% growth. This is very hard to predict, but the more we are implementing, it becomes more predictable, and we are aware to the challenge that investors have and analysts have in anticipating how the ramp-up is going to look like on a quarterly base, and that's a challenge that we are trying to address, also with our partners, with Sanofi, and we'll try to get it as steady as possible, but the business is a bit complicated, but it's ramping up. So, we are confident that we are in the right path to create a growth that is most significant, as we move forward.

**Charles Rhyee**

Sorry, just to clarify though, so if we look at the services revenue, which is, I'm assuming, mostly—is all the B2B2C, and we know we don't have really any strategic like Sanofi-related revenue in it, if we look at sort of—if we kind of annualize that number, is that the number we should be growing, the hundred, I think you said 170%, as we think about next year? And then obviously we have a steady state in terms of consumer on the B2C, and then obviously some contribution from strategics?

**Erez Raphael**

No. Not exactly. I say that on the B2C it's between $8 million to $9 million, which is the cash flow-positive part, that's number one.

Number two, the strategic, I provided a range of $6 million to $8 million or more. That's a range that is the strategic. This year we had strategics that are coming from both Sanofi and Aetna, and this is something that was total, including Q3, it was $6.5 million for this year, and we have another quarter. So, so far, year to date, it was 6.5, but looking next year we are still looking into a range of between $6 million to $8 million or more.

Now the last one, the ARR, that at the moment is in the run rate of $5 million to $5.5 million, this one should grow between 100% to 160%, which is the—that's the core business. That's the membership, that's the ARR that is coming from employers and health plans, we are counting under this bucket, the Aetna on the membership, what we are going to launch in January. But Aetna that related to building the platform, investing into the platform in a way that it can be integrated with the rest of their platform, we were considering this revenue as a strategic revenue, because we did specific customizations for them, and we got somewhere around $3.5 million so far, but next year, once we are getting the platform to production, and we're going to generate per member per month, on a monthly base, this one will be considered under the B2B2C ARR, which is the portion that is growing 100% to 170% year over year.

Is that clear?

**Charles Rhyee**

Yes, okay, I got it. Yes, yes, I'm with you. All right, thanks, appreciate it.

**Erez Raphael**

Thank you.

**Operator**

Thank you. (Operator instructions)

Your next question comes from Rahul Rakhit, LifeSci. Rahul, please go ahead.

**Rahul Rakhit**

Hey, Erez. I know you touched on this kind of a little bit just now, but I was wondering if you could just pry a little more detail on the milestones that were delayed this quarter, and maybe just help us understand what it'll take to get those milestones completed and to obtain the associated revenues. Is it something that can be done and seen and pushed off to Q4, or is it something that might take a little while longer to see those revenues come in?

**Erez Raphael**

Overall, when we introduced this deal to the investors community, we were always talking about $30 million deal, that should be delivered over four to five years. In Q2, the agreement was adjusted in order to enable also acceleration of this $30 million deployment for four years, and eventually the overall spent of the $30 million is between data and clinical publication, the other part related to market access, and another part related to development services. I think that the most kind of (inaudible) less predictable part is how we are making progress from an operation standpoint with the development services that we want to do. So, for example, this year we developed a medication cabinet and other elements that will support GLP1, and all this kind of things depends on the internal operation within Sanofi and also us, in terms of defining the requirements and defining when this kind of things can and need to be delivered. A lot of things that are internally discussed inside Sanofi on how they want to get this kind of features in development delivered.

The best way to think about it is to think—and I think that we also talked about it on the investor day a couple of weeks ago, I think the best way to look at it is to think about it on a yearly base, and look into like $6 million to $8 million on a yearly base average, that's how we are trying to impose all these specific milestones. What we'll try to do next year is to try to have it as flat as possible or as balanced as possible, so it would be less fluctuated, and then it's going to be easier to predict and to model. That's a conversation that we'll try to do with Sanofi in order to get it that way; that's going to be our objective.

The damage that we feel that we are experiencing from this lumpiness of this revenue, as a publicly traded company where the typical investor want to see gradual growth every quarter, it creates a lot of damage and noise in the market, and we are spending a lot of time explaining it. The reality is that it's very milestone-driven, and that's the nature of the beast. So, our way to address it is to educate the market like I'm doing now, investor day like I did two weeks ago, and also try to collaborate with Sanofi in order to make it more balanced across the different quarters. That's what we'll try to do.

We need to remember that there are things that are happening in the world. I mean, Sanofi had some changes in the business in the last few quarters, so things are not related directly to us, and we feel that some of the changes that are happening even should benefit us. But this is something that is creating changes in internal planning, and we have seen also this kind of changes inside Aetna that delayed the launch that we were supposed to have on July 1st. It's important to say that fundamentally the relationship with Sanofi and with Aetna are becoming more strong, okay? So, I got a lot of phone calls from investors who are looking into the performance of the stock, and they felt that something is happening with this relationship. So, that's the time to say that the relationship are getting stronger, we are confident in the launch that we're going to have January next year, and we are confident in the relationship with Sanofi, that will execute on the existing deal, and even expand into additional deals in the future.

**Rick Anderson**

Rahul, just to add a little just specificity in terms of the changes. So, the Sanofi deal is three pieces, commercial, data and the development piece. There was changes in the personnel on the development piece, the people that are doing the data and the studies and doing the commercial have not changed, or not materially changed, and so there's been a period where the new folks have been getting up to speed, and that's slowed down some of the things that would be normally happening in this quarter, related to the development. So, it will stretch out, that makes that stretch out a little bit, but they'll still happen. It's just in terms of it took a little longer for them to get up to speed and for us to coordinate those activities as it relates to that.

**Rahul Rakhit**

Got it. Okay. That's real helpful. I appreciate the color from you as well, Erez.

I guess, as in the process of trying to get people to better understand what goes into these milestone revenues, it also just might be helpful to under—to get some color from you guys on how dependent these milestones are upon each other. If we see certain milestones get pushed off in one quarter, does that mean that it's going to shift everything back in subsequent quarters, and things are going to get lumpier and maybe shift back into 2024 as well, or across those three aspects, the commercial, data and development, are they all—the milestones within each of those channels, are they dependent on each other, or can they be achieved independently?

**Rick Anderson**

So, the commercial and the data side are not milestone-driven, so the commercial is really just, you know, their market access team is selling the Dario solution through to their end customers, which are going to be health plans and PBMs as we saw MedOne come out and they continue to make some actually really good progress with some of the other PBMs, which I think is a significant opportunity.

On the data side, that's continuing to function, they're continuing to do and finalize the two studies that they did, those two studies are in publication at this point, and there's follow-on analyses etc., that were being done. So those are not interrelated with each other, and if you think about the development pieces as sort of being your standard cycle of coming up with what we want to do, agreeing on that, coming up with the specific specifications for it, having that approved on an overall basis, and doing the development associated it, that's delivering pieces within there is what those milestones are, and we don't expect that there was, I mean, I don't see those like stacking up or getting different and becoming lumpier, it's just the question of when exactly does something get approved, when it shifts from one quarter or another, it moves the milestone from one quarter to another.

**Rahul Rakhit**

Got it. That's helpful. Appreciate that. Thanks.

**Operator**

Thank you. There are no further questions at this time. Please proceed.

**Erez Raphael**

Thanks everyone for joining our call this morning. Have a good day.

**Operator**

Thank you, ladies and gentlemen, this concludes your conference call for today. We thank you for participating, and ask that you please disconnect your lines.