

**Transcript of  
DarioHealth  
First Quarter 2019 Earnings Call  
May 13, 2019**

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**Participants**

Erez Raphael – Chief Executive Officer  
Olivier Jarry – President and Chief Commercial Officer  
Zvi Ben-David – Chief Financial Officer

**Analysts**

Steve Wardell – Chardan Capital  
Ben Haynor – Alliance Global

**Presentation**

**Operator**

Good day, ladies and gentlemen. Hosting the call today are Erez Raphael, Chief Executive Officer; Olivier Jarry, President and Chief Commercial Officer; and Zvi Ben-David, Chief Financial Officer.

Before I turn the call over to management, I'd like to remind everyone that during the course of this call, management will make express and implied forward-looking statements within the Private Securities Litigation Reform Act of 1995, and other US federal securities laws. DarioHealth does not assume any obligation to update that information. Actual events or results may differ materially from those projected as a result of changing market trends, reduced demand and the competitive nature of DarioHealth's industry.

Such forward-looking statements and their implications 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 Annual Report Form 10-K for the year ended December 31, 2018, and filed with the Securities and Exchange Commission.

In addition, certain non-GAAP financial measures will 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 to 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 today's press release regarding our quarterly results.

And with that, I'd now like to introduce Erez Raphael, Chief Executive Officer of DarioHealth. Mr. Raphael?

**Erez Raphael – Chief Executive Officer**

Thank you. Welcome and thank you for joining our call today. I would like to congratulate the team for achieving a strong financial performance in the first quarter of 2019 by delivering record quarterly growth and the team continued pioneering the space of digital therapeutics.

2019 started strong as reflected by the increased contribution of higher-margin digital therapy subscriptions as a percentage of the revenue, as our business transformed from being medical device driven to a software-as-a-service model, resulting in record billing and record revenues. We continued to see the growth acceleration across our membership in user numbers, average revenue per user per month, ARPU, as well as a unit margin increase in the unit economics of our membership offering. These improving indicators validate our strategy where we intend to meet the demand for digital therapeutics, representing a shifting of the healthcare space for medical device-enabled to full digital management focused on comprehensive, data evidence and performance-based subscription product offering that helps achieve the lifestyle change and improve health conditions and reduce the healthcare cost.

Also on the clinical aspect, DarioHealth continued to lead improving clinical outcomes. We are looking forward to exhibiting at the American Diabetes Association Conference in San Francisco, and report significant clinical results of our solution during this conference that will happen early June. All those key performance indicators on both illustrate the success that we are having in pioneering the space of digital therapeutics in addition to the acceleration of our financial results that our CFO Zvi Ben-David will discuss shortly.

Now let's turn to some of the financial highlights from the first quarter of 2019. We experienced 32% sequential revenue growth over the fourth quarter of 2018 and achieved record revenue of \$2.2 million for the first quarter of 2019. We had a 37% sequential non-GAAP billings growth over fourth quarter of 2018 and achieved record billing of \$2.8 million for the first quarter of 2019. We had a 60% sequential increase in the deferred revenue over Q4 2018 from [audio disruption] in Q4 2018 to \$560,000 in Q1 2019.

In Q1, we accelerated sales of our membership program resulting in record number of users and a jump in the average revenue per user per month, or ARPU. We believe that this is a clear indication that our work in 2018 to transition the business to a subscription model is paying off in 2019. The strong start of 2019 as well as the product offering and market demand indicates to us that 2019 will continue to show significant growth potential.

Now let's review our commercial strategy at the beginning of 2019. As mentioned in previous calls, our 2019 commercial strategy is comprised of three key channels. One is the direct-to-consumer sales to Amazon, Facebook, Google and other digital channels. This one we expect that we will continue to grow, and we will keep optimizing the cost of acquisition to get a very good ROI on our subscription model.

Another channel is our existing users base where we're expanding our offering, and we are up-selling for these users and getting higher ARPU. On top of that, we have the business-to-business channel that we developed in late 2018 and is maturing now into booked revenues into 2019 and just started to bear fruit recently. We expect the presentation of the B2B channel in the revenue mix to increase as our investment into sales to healthcare providers, distributors, retailers, and sales topic is going to extend. This is a topic that our Chief Commercial Officer and President Olivier Jarry will elaborate shortly.

There are three more key factors that will impact our growth in the medium and in the long-term. One is the expansion of the current offerings for people with diabetes. We expect that expansion of this offering will increase our ARPU and will help us take the sales higher. On top of that, we intend to extend our solution for other chronic conditions. Hypertension is the first one and this is something that we expect to launch very shortly.

On top of these two elements, we also have data monetization channel. As you know, Dario is a very big collector of data, data that is related to clinical aspect, biochemical aspect. We expect that this channel will bear fruit in the future and will accelerate our growth as well.

With that, I would like to hand over the call to Olivier Jarry, Chief Commercial Officer, to elaborate on the B2B channels. Olivier?

**Olivier Jarry – President and Chief Commercial Officer**

Thank you, Erez. Indeed in this first quarter, we have signed new B2B agreements and we have registered new users with DarioHealth based on the existing agreements.

Let's start with payers. Through its alliances, DarioHealth has access to several hundred health plans that reimburse DarioHealth users based on usage. In addition, we are in discussions with several large health plans to provide DarioHealth to employers. We have a goal of containing the costs of chronic conditions. DarioHealth has other ways to access employers. We are speaking directly to the C-suite and to the benefits departments of several large companies. We are also finalizing negotiations with two large companies that are providing health products and services to hundreds of employers.

Next, our clinics. In the first quarter, we have seen a significant interest from midsize and large clinics. They are particularly attracted by the functions of the Dario Engage platform for healthcare professionals. Dario Engage allows access to all user data and applicable privacy rules. The breadth of data available from our product considerably simplifies and enriches the support that these clinics are giving to their patients. It reinforces our connection and is expected to help with the regular checkups needed to contain the progression of diabetes. In turn, these professionals make the suggestion to their patients to become DarioHealth users.

We are now serving five chains of clinics across the United States and Canada, and we are finalizing agreements with over six chains, each managing dozens of points of care. These large systems see DarioHealth as a significant way for them to streamline the operations and to increase patient loyalty.

Finally, retailers. Our current agreements are bringing considerable learning to both sides about how to use DarioHealth, to make the retailer a health destination and to increase the loyalty of our users. We are looking forward to extending distribution of our product offerings with them in the fall season. Meanwhile, we are in negotiations with several new large retailers also aiming at a launch in the fall. They appreciate Dario's membership and direct shipments to users that simplify physical handling of products by the retailer while offering to the users an entire lifestyle improvement program.

On this note, let's mention that the largest part of our B2B business in the US is now made of memberships with direct shipment to the users, a greatly appreciated convenience, saving time and costs. A few weeks ago, we also announced a sponsorship agreement with the American Diabetes Association, or ADA. Dario is proud of advancing the non-profit mission of the ADA to prevent and cure diabetes and to improve the lives of all people affected by diabetes.

Back to you, Erez.

**Erez Raphael – Chief Executive Officer**

Thank you, Olivier. Now I'll ask Zvi Ben-David for a few highlights of our first quarter of 2019. Zvi?

**Zvi Ben-David – Chief Financial Officer**

Thank you, Erez. Here are some highlights from the first quarter of 2019. Record revenues for the first quarter were \$2.242 million, a 32% increase over revenues of \$1.7 million in the fourth quarter ended December 31, 2018. In addition, in the first quarter ended March 31, 2019, we recorded \$560,000 as deferred revenues from the revenues generated from our membership offering to our customers in the US and Australia, a 50% sequential increase from the first quarter of 2018.

Gross profit in the first quarter of 2019 was \$558,000 compared to a gross profit of \$223,000 in the fourth quarter of 2018 and compared to a gross profit of \$552,000 in the first quarter of 2018.

Operating loss for the first quarter ended March 31, 2019 increased by \$2.4 million to \$5.36 million, compared to \$2.9 million in the first quarter ended March 31, 2018. This increase is mainly due to the increase in our operating expenses.

Net loss attributable to holders of common stock increased by \$2.5 million to \$5.4 million in the first quarter of 2019 compared to \$2.9 million in the first quarter of 2018. As of March 31<sup>st</sup>, cash and cash equivalents totaled \$6.950 million.

I'll now return the call over back to Erez for some concluding remarks.

**Erez Raphael – Chief Executive Officer**

Thank you, Zvi. So as we get into 2019, it's clear to us that we have the right product, the right offering with the right business model for the right timing of the healthcare market. The market becomes more and more digital and is demanding solutions that are very data evidence driven and very performance driven; \$20 billion that was invested into digital health solution in 2018 is one evidence.

From a product excellence standpoint, we continually update our product and service offering that is FDA cleared and it's one of the most popular products in the digital store. We are ranked 4.9 with more than 5,000 reviews on the application store. This is just one evidence.

Just to remind you that very good user experience leads to a very good engagement of users that leads to clinical outcomes that leads to healthcare cost reduction, and we keep showing and sharing data with the ADA and also early June, we're going to show a significant amount of data showing concrete ROI, which is something that is extremely important when we keep approaching the healthcare payers.

From a business model standpoint, our business model that is higher margin and greater value for patients, providers and payers, we believe that this business model will provide multiple effects on our growth. And on top of all that, we have the right sales channels, the right team members in order to grow the sales in our three main channels that are direct-to-consumer, our existing user base, plus the B2B channels that Olivier mentioned with the sub-channels of payers, retailers and clinics. So, we expect all these factors to keep accelerate ourselves in 2019 and to accelerate our growth.

So with that, I would like to hand it over to the operator and open this earning call for Q&A.

**Operator**

Thank you. The floor is now open for questions. [Operator instructions]. And we'll take our first question from Steve Wardell with Chardan Capital. Please go ahead.

**Q:** Hi, guys. Thanks for the question. Can you just review a little bit how you look at the markets that you sell into and what the trends that you're seeing in terms of demand and buyer preferences and where you're seeing the strongest demands, for example, markets like B2C in Western Europe or B2C in the US or B2B in the US? It would be great to a review of what you're seeing in those markets.

**Erez Raphael – Chief Executive Officer**

Yes. So Dario is operating in six countries. We keep getting a lot of demand from other countries that we are planning to pursue on this opportunity as we move towards the end of 2019. And at the moment, if we are looking on the dollars that we are generating, more than 80% are coming from the United States. We still see the majority of the revenues coming from B2C, and we start seeing the B2B ramping up.

Generally speaking about the market, you can see that the market of healthcare becomes more and more consumer-centric. We see Amazon pursuing this market from a few different angles. And when we see specific insurers and payers in the United States, we see that they are more and more supportive to the consumerization of the healthcare. For example, if you are looking at Amazon, today through Amazon, you can pay through the HSA. This is something that wasn't exist a few months ago, a few years ago.

So we think that our strategy of B2C together with strong coverage from sales standpoint, which is something that Olivier mentioned and we have distributors that brought us a lot of coverage in the US market, these two elements together will create a very good demand for our product. So if we could talk in the past about B2C versus B2B, I think that today in the modern healthcare world, these two things are working together hand in hand. On one hand, users and consumers are creating demand and on the other side, sales and insurers are doubling for the cost and this is where you can create a very strong growth strategy. We're seeing that the US is going to be the main driver for our sales also in the next few quarters as this is the most progressive market in terms of digital health solution and value-based membership.

**Olivier Jarry – President and Chief Commercial Officer**

Maybe very quick points in addition to what Erez said. Absolutely consumer-centric, interestingly, the clinically proven results are becoming increasingly important. And our membership to the Digital Therapeutics Alliance is a key element as we see now many B2B clients really paying attention to the actual outcomes for the users.

The second point is, as I mentioned, we are definitely going to memberships and this is further going into therapeutics instead of device. The device is one key part of it but people rarely look at the holistic way of treating the user and helping them with diabetes and other conditions.

And the third point is we see a huge interest in something which is quite specific to Dario, which is this connection between the physician and the clinic and the patient or the coaching that we provide via the employers as well, and this is greatly appreciated especially as an open platform.

**Q:** Great, thank you.

**Erez Raphael – Chief Executive Officer**

Thanks, Steve.

**Operator**

[Operator instructions]. And we have a question from Ben Haynor with Alliance Global. Please go ahead.

**Q:** Good morning, guys. Thanks for taking the questions. I just saw that you guys became a member of the—and I apologize I have been jumping between calls, so I apologize if you've already addressed this, but I noticed that you guys became a member of the Digital Therapeutic Alliance. Can you maybe talk a little bit about what that might do for you? Any color there will be great.

**Erez Raphael – Chief Executive Officer**

Yes, sure. So thanks for the question, Ben. I think it's an important point that we didn't deep dive into this earning call. We didn't talk about it. We believe that when the healthcare market is going through this transformation of getting the users in the center, providing very good user experience and digitalization of the space, we believe that this is something that will be significant part of the healthcare system that will be very data evidence driven.

When we were looking on all the efforts that we are putting and the offering that we designed, we felt that the Digital Therapeutics Alliance that is pitching for all the things that we are already doing and we are already

proving a success in this area, we saw that we can collaborate and on one hand contribute to the transformation of the industry in general. We feel that the Digital Therapeutic Alliance that is being led by few pharmaceutical companies and other companies that understand where the market will be in five to ten years from now, we felt that they're going to have a big contribution to the transformation of this space. We felt that we have a lot to contribute for the various working groups that's going to shape how the healthcare industry is going to look like from a digital standpoint, from a regulation standpoint, from prescription standpoint, from technology standpoint. And, we have a lot of strong stakeholders and also strong offering that we developed with the right experience and we thought that it's going to provide a mutual benefit.

So I think that together, as part of the alliance, as a group, we'll be able to make a much big impact on transforming the space and impact the regulation in the healthcare and the payers to support our transformation that eventually will save a lot of money to the healthcare system. So for us, the decision to be part of the alliance and the decision of the alliance that we're going to be part of them is a very important milestone and a very important signal that as a group we are a part of a very, very, very big change and we are proud to be part of this very exclusive group.

**Q:** That's great. Thank you for the color there. And then, again, I apologize if you've already covered this, but what are you seeing on the B2B side in terms of potential customer discussions with potential customers there? Anything that you could provide there would be helpful.

**Erez Raphael – Chief Executive Officer**

Yes, of course. So I'm sure that you have seen in the last two quarters we signed a lot of agreements. So we see the pipeline is still a very strong pipeline. As Olivier mentioned in the call, we have a few significant agreements in the pipeline as well as implementing existing agreements that will get us more and more users. We already signed agreements with retailers. We signed agreements with distributors that are taking us to more than 200 different insurers. So this part is already up and running, and we think that the pipeline will continue to be strong.

And as we move forward this year, we're going to see a growing percentage of the revenue that is coming from the B2B. I think that the fact that we keep showing a lot of clinical evidence is something that opens the doors for us also on the B2B side. So I think that you guys should stay tuned because we are going to show a few more significant agreements in the very short-term.

**Q:** Excellent. Well, thank you very much for taking the questions, gentlemen.

**Erez Raphael – Chief Executive Officer**

Thank you so much, Ben.

**Operator**

[Operator instructions]. It appears we have no further questions at this time. I'll turn it back over to management for any closing remarks.

**Erez Raphael – Chief Executive Officer**

Thank you. So I'd like to thank everyone for joining the call this morning. We are looking forward to keep the relationship with our investors. We are looking forward for a strong 2019. We are in a very good timing for the healthcare industry, and we are very excited about the opportunity. Thanks, everyone.