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Transcript of DarioHealth Corporation
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Participants

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Alex Nowak - Craig-Hallum Capital
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Presentation

Operator
Good morning, ladies and gentleman, and welcome to DarioHealth's Fourth Quarter and Full Year 2019 Financial Results Conference Call. As a reminder, today's call is being recorded. At this time, I would now like to turn the conference over to Mr. David Holmes of LifeSci Advisors. You may begin.

David Holmes - LifeSci Advisors
Thank you, operator, and good morning, everyone. Thank you for joining us today for a discussion of DarioHealth's Fourth Quarter and Full Year 2019 Financial Results. Leading the call today will be Erez Raphael, Chief Executive Officer of DarioHealth. He will be joined by Zvi Ben-David, Chief Financial Officer and Rick Anderson, President and General Manager of North America.

After prepared remarks, we will open the call for Q&A. An audio recording and webcast replay for today's conference call will also be available in the investor section of the company's Web site. For the benefit of those who may be listening to the replay or archived webcasts, this call is being held and recorded on March 17, 2020.

This morning, we issued a press release announcing our financial results for the fourth quarter and year end 2019. A copy of the release can be found on the investor relations page of the company's Web site. Actual events and 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 applications 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 in this call are subject to other risks, uncertainties, including those discussed in the risk factors section and elsewhere in the company's annual report on Form 10-K for the year ended December 31, 2019 filed yesterday evening.

Additionally, 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 today and in the company's 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-gap 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 today's press release regarding our quarterly and year end results.

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

Erez Raphael - Chief Executive Officer
Thank you, David, and good morning, everyone. I'm very pleased to have you joining our call today for an update on our progress for Q4 2019. Joining us on the call today is Zvi Ben-David, our Chief Financial Officer, as well as Rick Anderson, who was recently appointed to be our President and General Manager of North America. Together, Zvi and Rick with myself, are going to cover four main topics today on this presentation.

Number one is the company ongoing transformation of the offering and the business model for membership and actually for high margin software-as-a-service company. Number two is the scaling up of our growth engines, mainly the transformation into B2B2C business to business to consumer. Number three is the expansion of our chronic condition platform and offering into additional diseases. And number four is the overall market space and the progress that the company is making in the context of the border evolution of the digital therapeutics space.

Let me begin with the changes we have made in our business model into software-as-a-service, SaaS model. During the second half of 2018, we began to offer our users a membership program that, with the overall goal is to provide users something that is much beyond the medical device. We integrated a very powerful software with digital interventions, as well as service that is being provided in a digital and also physical way on top of the platform.

All these elements together allows us to sell a membership program and in fact, we changed the old model to be a much more recurring revenue, which is the foundation of a software-as-a-service company, which is something that is being allowed or enabled by the fundamentals of our technology that is, by nature, a digital therapeutics company.

We think that given the commercial launch and the results that we have so far with a very strong user engagement, retention and clinical data that we are collecting, we already have enough evidence and we think that we're going to be market leader in the space of digital therapeutics. Although the transformation is not completed yet, I think that if we're going to look at the numbers, and we're going to give that few numbers shortly, so looking at the numbers, it seems like we have indications that the transformation into software-as-a-service model is something that is also already reflected in our financial profile.

For example, if we examine our gross profit, you will see that the gross profit improved from 13% in Q4, 2018 to almost 47% in Q4 2019. The revenues derived from the membership model, or in other words the pure SaaS model, increased from $562,000 in 2018 to $2.9 million in 2019. If we zoom in into 2019 where the majority of the transformation has been done, we're going to see fewer key parameters. Number one is that the gross profit increased from $894,000 in the first half of 2019 to $1.7 million in the second half of 2019. This represents a 94% increase in the gross profits from first half to the second half of 2019.

The operating expenses reduced by 25% during the same period respectively. This is mainly due to the fact that when we are launching a B2B2C versus direct to consumer, it is much more cost effective in terms of expenses in sales and marketing. As a result of the improvement in the gross profit and the cost reduction and the expenses, the net losses also reduced respectively. So the company net loss in second half of 2019 was 35% less than the first half of 2019 as a result of all the improvements and mainly the margins improvement. If we remove the onetime expenses that we had in Q4 2019, the reduction is even higher. The trend of improving margins is expected to continue for the next few years, with the goal of eventually reaching margins of mid-70% range, that's the overall goal of the business. And in the next few years, we're going to see a gradual improvement like we have seen in the last three quarters.

In addition to the greater margins that are reflected from this business model, I think that investors will be able to see much more predictable revenue. In the future quarter we will start to report other information like ARR, Average Recurring Revenue. So it's much more predictable for management and also for investors to explore and examine our business as its evolving.

In parallel to the enhancement in the product offering, we also made a significant change in the way that we are sourcing new users to the platform by implementing our B2B2C strategy. The goal of this approach is to broaden our market reach and have access to bigger pools of users and eventually, the main goal is to reduce the cost of acquisition that we have comparing to a company that is doing direct to consumer only.

So as part of the strategy, we opened additional streams, we established partnerships, and as you remember probably from previous calls, we are working in a few different channels from employers, retailers, healthcare providers and insurance. Although, these sales cycles might be longer as like 12 to 18 months, we believe that the return on investment is considerably higher comparing to the direct to consumer. We already signed a few contracts and Rick Anderson, that will talk in a few moments, will elaborate on the progress that we made on the B2B2C.

So given the fact that we have a very strong offering, the right business model, the right financial structure for our unit economics and given the fact that we want to penetrate into the B2B2C, we made a decision that we should strengthen our team in the U.S., and one of the things that we did is searching to hire well-seasoned management and sales professionals. Practically we increased the size of the team, and with regards to this search, eventually we hired Rick Anderson that joined us early this year.

Rick joined as the General Manager and the President of the company and General Manager, North America. Rick is responsible for both operation and commercial development in North American mainly in the U.S. And Rick have a track record in selling data-oriented and technology-driven products, products that are very performance based, which is what our payers and insurers are looking for, which this kind of hire, it shows that we are very, very focused on insurers and payers in the United States and this is the future of our business.

So Rick joined from Catasys where he spent more than ten years cultivating business and building a business that was scaling up eventually with the health plans and insurers for tens of millions of dollars' worth of recurring revenues. We see Rick's appointment as an inflection point in the transformation of the business into B2B2C, which is an ongoing transformation that we are doing. In addition to Rick, we also hired Barbara Stark, who joined as the Head of Managed Markets. Barbara brings proven ability to grow top line revenue in healthcare and specifically in digital technologies.

So looking again at the numbers we are reporting today, while the business transformation is not yet being reflected significantly in the top line growth, there is tangible evidence of our progress. Despite the fact that we made on how to report our business, we still experience growth year-over-year, so Q4 2019 growing by approximately 5.8% versus the comparable period in 2018. We're also confident that the product offering, the right financial structure that is already proven in Q3 and Q4 numbers, together with the significant amount of users that we collected from the direct to consumer, more than 46,000 active paying users, and with the right team in place, we are confident that the changes that we are making will also be reflected in the top-line growth as we move deeply into 2020.

I would like now to zoom out and talking about the whole industry, because I think that also here Q3 and Q4 was very crucial and big for the digital therapeutics industry. So as a novel and innovative company in the digital therapeutics industry, we are excited to be part of this powering [ph] change of the healthcare. During 2019, we have seen several IPOs and we have seen companies that have a comparable financial profile that are achieving very strong multiples.

From our perspective, we chose that investors have an appetite for digital therapeutic solutions and digital therapeutics still is a space that investors are looking into, and we are looking to seek to benefit from this tailwind of the overall industry. So digital therapeutics is something that is going to impact the whole value chain of healthcare and looking on reports of Business Insider, for example, you're going to see that in the United States alone, there is a spent of $3.3 trillion for chronic condition management. This is a number that is from 2018.

Looking at Dario, given the assets that we have, given not just the technology but the proof that we made along the last three years building a very big user base, collecting data, submitting data to multiple entities and showing a significant cost reduction for insurers, and a lot of capabilities to create user satisfaction and user engagement, we think that we're going to lead this overall space of digital therapeutics. Another very interesting number that is giving a highlight for the overall space, this number is also published by Business Insider. It's focusing that the global digital therapeutics market is projected to be worth $9 billion by 2025. So we have been evolving with the market and the market is providing us a very good backup wind.

With that, I'll hand over the call to Rick Anderson that will elaborate on the B2B2C, and the clinical aspects of our products and how it’s going to help us penetrating on the B2B2C. Rick, please.

Rick Anderson - President and General Manager of North America
Thank you, Erez. I wanted to start by saying how excited I am to officially be part of Dario team. This company is poised for great success as we leverage the broad existing customer base, which is now more than 46,000 users, the strong product offering and the dynamic open platform on which the digital therapeutic is built. We are very excited for this new phase of expansion into selling to businesses, and we'd like to provide some additional insight into our approach and the progress we have made establishing partnerships and marketing Dario into these various channels.

On the retail front, we have established new relationships with several major retailers and launched a major new initiative with our membership in a box. With membership in a box, we transition from selling devices and consumables to selling monthly recurring memberships, essentially a SaaS sales in a retail setting. We started membership in a box in partnership with Best Buy online, and we are now in the process of expanding it to our other retail chains.

After launching our retail effort with Best Buy, our biggest single accomplishment in this channel was expanding the Walmart in November. Walmart is the largest retailer in the world and is second largest e-commerce retailer in the U.S., providing access to a significant customer base. They have a reputation as innovators in healthcare, having piloted several initiatives, including the opening of their own Walmart health centers and creating home health care section on walmart.com. Following Walmart, we then launched Albertsons in their marketplace. With three significant partners in the retail market and our membership in the box, we believe we are well positioned to leverage this channel.

Second, we believe we have a significant opportunity in the remote patient monitoring market, providing our solution to chronic care companies, also known as CCMs, major health systems and large Medicare provider groups. At the beginning of 2020, CMS implemented remote patient monitoring, or RPM billing codes, which allow providers to bill for remotely monitoring their Medicare patients with chronic conditions, thereby creating an opportunity for providers to increase their revenue streams. We believe that our solution and engagement capabilities provide a unique ability to assist providers to meet the CMS requirements to build these codes. In particular, we are pursuing CCMs, because the remote patient monitoring codes are a natural fit for their existing business, which aggregates providers for chronic care management. This makes them an efficient means for us to ramp up our sales as well. We are pleased to have gotten some early traction in this channel and believe we should start to see revenue from this channel beginning in the second quarter of 2020.

In the employer channel, our digital therapeutic provides the ability to improve the health and reduce the cost of employees with diabetes and other chronic conditions, while increasing presenteeism and reducing absenteeism. Dario's deep experience as a consumer-focused company provides the differential ability to engage and retain members in this market, providing us an advantage over the others in this space. In addition, we bring this channel compelling clinical outcomes data, strong consumer satisfaction and health economic data that demonstrates the benefit to employer's healthcare costs.

We are encouraged by early progress here, both directly with self-insured companies and with companies that can help us distribute our solution to a large number of employers. In fact, we have entered into an agreement with a significant distributor that we anticipate announcing in the very near future. In addition to the above channels, our approach also includes a focus on strategic partnerships. These deals create an opportunity for Dario to monetize upfront or development fees with the potential for royalties on future sales. This is an area where our platform is especially valuable, because it provides us the flexibility to integrate with other technologies.

In 2019, we signed a license agreement with Aerami Therapeutics, formerly known as Dance Biopharm. The two companies are working together to integrate Aerami's gentle mist smart inhaler into Dario's platform, allowing for automated real time treatment data through a mobile application. This is a development stage collaboration, but we also could see ourselves partnering with companies that have existing commercial products.

Underpinning each of the above channels are multiple studies and abstracts that we have published over the last two years validating our clinical outcomes. These studies include several large and long-term studies, like the one presented at the American Diabetes Association Annual Scientific Sessions in June 2019, which incorporated data from more than 38,000 active type 2 diabetics with over 3 million measurements and a study of the recent Advanced Technologies & Treatments for Diabetes meeting in Spain, which showed that over a two year period, patients were able to significantly reduce hypoglycemic and high glycemic events. These analyses, which involved large real world populations, create further evidence of the benefits that our platform provides to these extensive populations across our channels.

As we go forward, we believe that a major value driver in the medium and long term lies in the capability of our platform to help manage multiple chronic conditions. Our initial focus has been on diabetes, because we believe that to be the biggest opportunity to improve healthcare outcomes and lower costs. In 2019, we expanded our offering to include hypertension. Our plan is to add additional chronic conditions, such as pre diabetes and obesity this year. Given the high rates of comorbidity among these conditions, we believe we can drive better health care and financial outcome by applying the same platform technology and an integrated user experience across multiple chronic conditions.

We are also integrating behavioral health across the platform and conditions. This is a unique approach in the industry that recognizes the close interaction of mind and body and that durable behavioral change requires addressing both. Through increased utilization among the medical community, demonstrated value to payers and active user engagement, we believe our technology will prove to be extremely valuable across the broader healthcare system.

I will now turn the call over to Zvi to discuss the financial results.

Zvi Ben-David - Chief Financial Officer
Thank you, Rick. I will now provide a brief overview of our financials. Additional details on our results can be found in our Form 10-K, which we have filed yesterday evening. Revenues for the fourth quarter ended December 31, 2019 were $1.8 million, a 5.8% increase from the $1.7 million reported for the fourth quarter ended December 31, 2018. Revenues for the 12 months ended December 31, 2019 were $7.6 million, a 2.2% increase from revenues of $7.4 million for the 12-months ended December 31, 2018.

Revenues generated during the year ended December 31, 2019 were derived mainly from the sales of our DarioHealth components and our membership plans to our customers, mainly in the United States. We recorded an additional $487,000 of deferred revenue for revenues generated from our new membership offering to our customers in the United States.

Gross profit in the fourth quarter of 2019 increased to $840,000 compared to a gross profit of $223,000 in the fourth quarter of 2018. As a percentage of revenue, the gross profit increased from 13% in the fourth quarter of 2018 to 46.7% in the fourth quarter of 2019. For the full year of 2019, gross profit was $2.6 million compared to a gross profit of $1.8 million in 2018. As a percentage of revenues, the gross profit increased from 23.9% in the full year 2018 to 34.4% in 2019. These increases in gross margins for the fourth quarter and year end 2019 were mainly due to the increasing revenue generated from our software-as-a-service base membership plans.

Operating growth for the fourth quarter ended December 31, 2019 was $4,200,000 compared to nearly $5 million operating loss in the comparable period of 2018. This decrease is mainly due to the increase in our gross profit. Operating loss for the 12 months ended December 31, 2019 was $17.7 million similar to the operating loss for the same period in 2018. Net loss attributable to the holders of common stock decreased to $4.17 million in the first quarter of 2019 compared to $5 million in 2018. Cash and cash equivalents at December 31, 2019 were $20,400, 000.

In December, we closed the private placement of convertible preferred stock for institutional and private investors. Net proceeds after deducting placement agencies and other operating expenses were approximately $18,700,000.

Let me tell him to call back now to Erez for his concluding comments.

Erez Raphael - Chief Executive Officer
Thank you, Zvi-Ben. So before we close, I would like to briefly mention the evolvement of the situation with the COVID-19, or the coronavirus in other words. So as you probably can imagine, the users that Dario are dealing with, people with diabetes and hypertension, are exposed to higher risk with regard to this virus situation. So our technology can help them not being exposed in an unnecessary way to places outside of their home.

Actually, we have a few key advantages that we can help them with and this is what we are doing these days. We have specific campaigns and support that we're providing our users: our real time connectivity, our ability to coach them from remote, specific coaching sessions, how to deal with the situation. Everything is provided digitally on the platform. We're looking into the vitals. Our coaches are working extremely hard in order to support users these days [ph]. And in addition to that, we also have the consumer advantage and the fulfillment advantage where our users don't need to leave their home in order to collect the disposables, all the devices, all the strips, everything is shipped right to their door.

So from that end, we think that a solution like DarioHealth is something that is very helpful. And we also see, in today's market, a lot of request and urgent RSPs in order to provide remote patient monitoring systems, which is exactly what we have. So, we think that in today's evolving world, technologies that we have and proved to be effective for tens of thousands of users is extremely important. And we believe that we're going to be very helpful to our users and potential clients and potential partners leveraging this technology.

From an operational standpoint we are good with enough inventory, we are being able to provide the users with supplies. So from that end, we are not experiencing any risk at the moment. Our employees are safe, our employees are operating on remote. We are using small tools like Zoom and Slack, and from an operational standpoint, we feel as effective as usual. So the overall situation is stressing, but we are not experiencing any issues at the moment and we're very positive that we're going to go through this period stronger than ever.

Before we summarize, just want to highlight the main points of this call. So number one, I think that in 2019, we successfully did a major transformation into a software-as-a-service model. The fact that we are selling a membership with high margins, we improved the margins from 13% Q4 2018 to 46% in Q4 2019. This is a significant change and it's going to be very high, it's going to be higher margin business as we move forward. We will exceed the 70% in the future we believe. The space is hot and $9 billion projected by Business Insider for 2025.

In addition to the business model, we have probably one of the best products in the market as witnessed by more than 46,000 active paying users. Just go to the app store, search for Dario and see what users are telling about us. And I think that given the fact that we are transforming from direct to consumer to B2B2C is something that we make the cost of acquisition much lower and eventually we'll be able to get the successful offering and make it scalable. So we are having the right product, we are having the right channel, and recently also we made few key hires so we have the right team that already have a track record, so we think that we are very well positioned for successful 2020, 2021 and we're really excited about it.

With that, I will open the session for Q&A and hand it over to the operator.

Operator
Certainly. [Operator instructions]. We'll go first to Alex Nowak at Craig-Hallum Capital.

Q: Erez, last quarter, you had 100,000 to 200,000 type 2 diabetics that had access to Dario by the business channel. What is this number now based on the new contracts you've signed? And when do you think you'll start releasing some of the payers that you're partnering with?

Erez Raphael - Chief Executive Officer
So we already have a few agreements that we signed. We believe that during the next quarter, we're going to announce on some of the agreements that are already in place. This agreement will get us access to a network of employers. And as we move forward, we're going to go also into the health plans [ph], also here we have some traction that we'll be able to publish later this year. We think that we're going to see a significant jump towards the second half of 2020. In terms of the percentage of the revenue that is coming from B2B, we are still in the ranges of around 15% to 20% B2B versus B2C. We don't see, in this numbers, the scale up of the B2B yet but this is something that we believe that is going to come eventually.

Q: And what is the rationale for continuing to focus and stay within the DTC channel with Walmart and Albertsons that you just announced recently instead of focusing solely on B2B?

Erez Raphael - Chief Executive Officer
That's a very good point there. I think that the market is very hot about digital therapeutics solutions. So when we're partnering with someone like Walmart or Albertsons, we are not just having in mind selling boxes of strips. We are having in mind our SaaS model and our platform. So think about us as an open platform as opposed to our competitors that are selling just the membership, our platform is open. And when I'm saying open, I'm

referring to two main things. Number one is the fact that we are having other coaches that can coach on top of our platform. And here, we have a few partnerships where we partner with providers that are coaching on top of our platform. And number two is integrating different devices into our platform, because it's generic.

So when we have an agreement with Albertsons, we see three steps of the agreement. So it starts with something that is opening us to sell online, which is maintaining our current direct to consumer, and as we evolve, it goes and will go we believe into licensing the platform, because all these retailers like Walmart and others, are going into big clinics as well. They are providing coaching and they become more and more digital health companies, and we believe that given the fact that we opened our platform to licensing like a pure software company, we believe that there is an opportunity here.

So in the short term, it’s just an expansion of the direct to consumer. In the long term, we believe that we have an opportunity as a software company and the future of our business is to be enabler to others. We will have to explore very carefully how we are going to utilize our resources and a very significant amount of money that we raise in December in order to get the most benefit. So as we move forward, we'll have to evaluate the best investment in terms of marketing in terms of Dario. But at the moment, we still see the retailers as an opportunity, not because of the selling devices but mainly because of the platform licensing.

Q: And then Rich, can you provide some more details on why you joined, what you saw in Dario and kind of your first steps here to move Dario better within that B2B channel?

Rick Anderson - President and General Manager of North America
I think that what I saw here at Dario, and kind of building a little bit on what Erez just said, is they're unique in the fact that they had a very established consumer business. So as we all know, healthcare is moving to be more of a consumer-focused business, and the ability to engage members in programs that will save cost is what's important. It doesn't matter how good your platform or your product or your treatment is, if the members won't utilize it. And one of the things that I saw at Dario was, in fact, the user satisfaction on the consumer side that they have, and I believe that we can utilize that in the market to demonstrate differentially an impact on the numbers.

The other thing is, is that I was actually quite excited by the open platform, because I think that that provides a variety of different applications. It allows the company to move quickly, address different conditions, it also allows to work with payers, and based on my experience in the payer market, they are looking for flexibility, they're looking for the ability to configure a platform in a way that can quickly be put in without a bunch of development work, and I think the Dario has done a great job of doing that. So we can share data, we can integrate that data, and also the cost of delivery is significantly lower than others that are in the marketplace. And, as the digital therapeutics expand and there continues to be pressure on healthcare costs, that's going to be an important factor as well.

So those three kinds of things put together I think were what really drove me to believe that Dario can be successful. And, I like the space that we're in, and I think their digital therapeutics will continue to be a major driver. The current crisis probably also may move us a little faster, but no matter what we're going to end up having a lot of remote and digital healthcare that can be provided in the industry. That's kind of inevitable. You're seeing that in telehealth even before what's happening currently and I think that that's just going to expand. So you have an expanded market, you have a flexible technology that can be applied, and I think it can be applied in a way that is a competitive advantage for the folks that are paying the big dollars to be able to treat people in their system today.

I've been here for about 60 days, so some of that has been really getting into a deep dive and understanding the data, the technology so that we can position it appropriately, but we've been moving quickly to get bigger footprint in the employer space. And as I mentioned, the remote patient monitoring codes, which came on in 2020, so we've been moving quickly to take advantage of that because it's a nice source of 2020 revenue and also are starting to pursue the health plan space in a bigger way than the company was before.

Q: And then, Erez, kind of staying on that topic, it seems like the company has jumped around between a couple of different business models over the past couple of years. So first, Dario was a foam-based glucose monitor and then it moved into a membership program for strips and then it moved into the diabetic counseling service. Now it seems to be a more of a remote patient monitoring system into other diseases. So just first, am I reading that pivot correctly? And then if so, explain the rationale for kind of switching between these. And then who is the right comp here for the business? Is it Livongo that we've historically thought it was, or is it more like Teladoc?

Erez Raphael - Chief Executive Officer
I think that the evolvement, the way that I see that and we had a discussion in the past about the difference between pivot to iterating. I think that we were iterating from a medical device into a full membership program that was the plan from the first place and this is what we did. So the way that we build the technology is that as a software company, we added additional digital services on top of the platform, we add physical services on top of the platform, and we're utilizing the platform for the benefit of our users. So from our perspective, this is the transformation that is happening for the last six quarters since mid-2018, stop selling a pure device, selling a membership program and allowing others to benefit from the platform, because it's open in order to sell a membership program as well.

So you can look at us like in terms of the business model as the business model, like Livongo, this is the closest competitor. However, we can allow, as Livongo are not doing it at the moment, but we are allowing others to sell a membership program also for their users. And this is our way to scale and see more and more users on the platform, that's the way that we envision our platform. And one of the partnerships that we're going to announce shortly will show that our platform can be licensed by others. So eventually, we have our own coaches coaching on top of the platform, but we can get others to coach on top of the platform. So we see ourselves more a membership SaaS company than a pure remote patient monitoring company.

There is a very important layer for our technology I think that other companies don't have, which is the [audio drops]. So there is a very important layer of technology, which is the engagement layer. I think that one of the things that we collect is the ability to communicate with the users in real time and to engage with them and to get users' engagement. The traditional remote patient monitoring companies that we have seen five years ago and ten years ago were focusing mainly on the engagement of the clinician. And I think that it's very hard to engage the user through clinician engagement. You need to be much more user engagement.

This is why, also to your previous question, we insist to keep operating on the direct to consumer, because that's the way to get the best user experience. I mean the harder way in the market is to confront with the users and to give them something that they like. And I think that this is what we did better than everyone. And the thousands of reviews that we have on App store and Google Play, that's the best evidence that we are probably the best in user engagement. So we're going to emphasize this user engagement.

And also, when Rick is talking about the CCM and the remote patient monitoring code, eventually Medicare are going to pay for a code where they're going to see enough interaction with the platform every month. They are requiring at least 16 interactions. In order to reach 16 interactions, you need to have the best user engagement and we think that this is what we have. And this is something that we're going to strengthen, but we'll provide clinicians this kind of engagement that we managed to create with our users. So we are very focused on user engagement. The platform is remote patient monitoring as well, but as opposed to other companies that we're focusing on the engagement of the clinician, we will still be focusing on the engagement of the users and this is a very big difference. So we are much more Livongo than Teladoc.

Q: And just one last quick question, revenue growth in '19 was flat year-over-year. I know you're not providing official guidance here. But can you just help us have a benchmark for the growth you're expecting in 2020 on revenue side?

Erez Raphael - Chief Executive Officer
So I think that the all the overall transformation that we did from the pure device into the membership, and I mean we will manage to do this transformation that eventually costs us money. It's an implementation of the technology, the software, the service, also additional chronic conditions. So it was a very tough year for us in terms of the top line growth, that's not the plan for 2020. So in 2020, we're planning to get back to a growth as we have seen in previous years, and I think that since this overall change is in place and the financial profile that we showed in Q3 and Q4 in terms of the margins and in terms of the increasing revenue of the membership ARR that we'll start to publish in the next few quarters, I think that the way that the market should look at it is that we are getting back to growth, that it's much more significant than what we have seen 2018-2019 and that's the trend.

Operator
[Operator instructions]. We'll move next to Ben Haynor at Alliance Global Partners.

Q: First off from me, thanks for sharing the number on the more than 46,000 active paying users. Can you maybe provide a little bit more color there on how many of those are on a membership program, what you consider to be active? I mean, is it someone that's been active in the last three months, last year? How's the right way to look at those?

Erez Raphael - Chief Executive Officer
So one of the numbers that we were providing is that we shared in this call is that almost $4 million of our revenue came from members. So practically, if you're looking on the 46,000, then we are still making this transformation. We launched the membership late 2018, we continued the transformation in 2019, and this is something that is still evolving. However, we see the results in the numbers of the gross profit, 46% in Q4 and so on.

The way to look at it is that at the moment, we are halfway of the transformation. So around half of our users are more [ph] members and recurring and the rest are still device users but over time, we're looking to create a SaaS only company, so practically we'll not be signing devices anymore. Just a small correction, our revenues from the membership is $2.9 million not $3.9 million. So the way to look at it is that the transformation is still happening and around 50% of the users are under membership, the rest are still devices and we're going to continue the transformation moving forward to a full membership.

Q: And then just as maybe a follow up on that, so if you have, let's just call it 23,000, active memberships, if we assume for 2020 that there's zero attrition, just for sake of argument, at call it 30 bucks a month, that's 8,000,000 plus for the year. I mean does that sound reasonable for the kind of a baseline membership number and then any members you add on top of that provides upside from there, if my description there makes sense?

Erez Raphael - Chief Executive Officer
Yes, the way that you're looking at it, it makes sense. I think that given a SaaS model with the retention that we have and our annual recurring revenue that we have, I think that assuming that when you have full membership, you can assume that for every dollar that you are generating in 2019, you have around $0.70 that will go into 2020, that's more or less the way to look at it when we are in full transformation into SaaS model.

This is not the full transformation yet, but I think that the way that you are looking at its right, because eventually building the 2020 numbers we have like three buckets of dollars. Bucket number one is the users that we have on the platform that will contribute to the revenue of 2020. Bucket number two is the users that we are acquiring from the current business models, which is the direct to consumer which is still operating. And bucket number three is the B2B2C users where we already have a few agreements, and this is something that will also contribute users.

And just to remind you, we have two membership programs. We have the standard program, which is on average something that is more close to $25 per member per month, it's not fully $25. And we have another one which is the premium that we are providing much more intensive coaching, including CDE. This is the $59.99that is more available on the employer’s parts. So as we move forward and getting more users of the $59.99, you're going to see higher margins and you're going to see higher average revenue per user per month. So this is something that will make our top line and our bottom line to look much better as we inject more B2B2C users as opposed to B2C users.

Q: And then finally for me just on the online marketplace efforts you have going on at Walmart and Albertsons, how would you characterize those? How is that going so far? And then are there other marketplace programs that you can join and plan on joining?

Erez Raphael - Chief Executive Officer
So, so far we are at just the beginning of the launch. So I mean it's not reflected in the number, which we just presented. However, I think that opening more channels is something that is helping us scale on the consumer side. I think that we're going to see a few more agreements as we move forward. So this is something that is still happening but we don't see the numbers significantly yet. If we're going to take all the agreements that we sign and assume that we're going to see numbers towards Q2, Q3 and so on, I think that this is something that already should give some kind of indication to investors that we can grow the sales year-over-year sequentially.

And this is not including other agreements that we have, like better living now and a few those that already signed, more on the payer side and hopefully, we'll be able to announce on them within the next few weeks, so it will give more tangible evidence to investors of what exactly our pipeline is based on. So from my perspective, the output [ph] side of the world is just an expansion of the direct to consumer. And the real B2B with high average revenue per user per month is something that we're going to see from the insurers and the payers, which is something that we hope we'll be able to publish within the next two to three months.

Operator
And with no other questions holding, I'll turn the conference back to management for any additional or closing comments.

Erez Raphael - Chief Executive Officer
Okay, thanks. Thanks, everyone, for joining us this morning. I want to wish you all to be safe in this kind of environment, and I'm sure that we'll all be fine and things will evolve in the next few months and we'll get back to regular life. Thank you so much and have a good day.