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# *Transcript of*
# *DarioHealth Corporation*
## Second Quarter 2020 Earnings Call and Webcast
## August 12, 2020

## Participants

Glenn Garmont – Investor Relations
Erez Raphael - Chief Executive Officer
Rick Anderson – President and General Manager, North America
Zvi Ben-David – Chief Financial Officer

## Analysts

Alex Nowak - Craig-Hallum
Scott Schoenhaus - Stephens
Ben Haynor - Alliance Global
John Vandermosten - Zacks SCR
Nathan Weinstein - Aegis
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## Presentation

**Operator**
Hello, everyone, and thank you for joining today's DarioHealth Second Quarter 2020 Earnings Call. As a reminder, all phone lines are in a listen-only mode. But after the company's prepared remarks, you will be given the opportunity to ask questions and instructions will be shared at that time.

To get us started with opening remarks and introductions, I am pleased to turn the floor over to Mr. Glenn Garmont, Investor Relations. Good morning and welcome, Glenn.

**Glenn Garmont – Investor Relations**
Thank you, Jim, and good morning, everyone. Thank you for joining us today for a discussion of DarioHealth's second quarter 2020 financial results. Leading the call today will be Erez Raphael, Chief Executive Officer. He will be joined by Zvi Ben-David, Chief Financial Officer and Rick Anderson, General Manager of North America. And of course, after the prepared remarks, we'll open the call for your questions.

An audio recording and webcast replay for today's conference call will also be available online in the Investor section of the Company's website. For the benefit of those who may be listening to the replay or archived webcast, this call is being held and recorded on August 12, 2020.

This morning, we issued a press release announcing our financial results for the second quarter 2020. A copy of the release can be found on the Investor Relations page of the Company's website. Actual events or results may differ materially from those projected as a result of changing market trends, reduced demand or 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 on Form 10-Q for the quarter ended June 30, 2020.

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-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 today's press release regarding the Company's quarterly and year-to-date results.

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

**Erez Raphael – President and Chief Executive Officer**
Thank you, Glenn. And thanks everyone for joining us this morning for our call. I want to keep our comments brief this morning to allow enough time for a longer session of the Q&A. Joining me this morning, Zvi Ben-David, our Chief Financial Officer and Rick Anderson, the President and the General Manager of North America.

As in every quarter, I want to reiterate the three main pillars that are guiding our ongoing transformation into a leader position in the digital therapeutics space. The first pillar is the transformation into a SaaS, software-as-a-service business model. The second one is the expansion of our platform into multiple chronic conditions, beyond diabetes. And the third one is our ongoing transformation from a direct-to-consumer model into business-to-business-to-consumer enterprise.

Today, I'm pleased to report that we made significant progress in all three pillars. But we are mainly excited from the third pillar, under which we made significant progress and we are getting to a late stage of discussions with several large entities that will give us access to a big part [ph] of the type 2 diabetes population. We hope to announce more specifics of these contracts in the very near future.

Zvi Ben-David will cover the financials shortly, but I want to give you a few highlights on a few of the financial KPIs that we had. On the revenue side, we generated $1.78 million in revenue, which is exceeding the consensus analyst expectation. It's also 7.2% sequential increase from the first quarter of 2020. While we were pleased with the sequential quarter as well as the year-over-year growth that we had on the revenue, in terms of absolute dollars increase it's not reflecting yet our potential and we anticipate that moving forward we're going to see much more significant growth. When we are looking into Q3 and Q4 and the several contracts that we have in the pipeline, we feel comfortable that we can get them signed and having specific agreement with service and providers that will make much more meaningful growth for the Company.

On the losses side, we strongly managed our expenses that resulted in a lower reported net loss of $4 million only. This is below the analyst consensus and also approximately 25% lower than the second quarter of 2019.

On the margins front, the gross margins declined from 46% in Q1 to 36% in Q2. This is a temporary reduction due to devices that we sold on the B2C side, and this is something that we expect to be temporary. And as we move forward into the B2B2C, given the fact that we have unit economic of 70% to 80% gross margins, we believe that we're going to be back to track and keep our gross margins going, moving forward.
Looking back at the last eight months, we feel that the last eight months were very, very transformational for our Company, and we are well-positioned to scale ourselves and to create significant growth in our revenue. As you know, we are coming to the B2B2C market with a very-compelling product. We have 55 active paying users on

the platform. Most of them were generated from the B2C market. We know that we have a very good product that is very engaging and we are a top operator in terms of user experience. We have 4.9 stars on the App Store, and 77 in terms of net promoter score.

We also managed to prove that a very good user experience that leads to a very good engagement results in a very good clinical outcome, and we managed to show it in 13 different clinical papers that we submitted along the last few years for significant amount of users. And this is something that we are providing as evidence through our potential payers and benefit managers that we show that we can save a lot of money for them.

In terms of building the organization, we made significant progress where we built a world class team operating in the US that has the experience penetrating into the fair [ph] market and implementing big projects with big health plans. This is something that our team already done. In terms of the transformation into B2B2C, we feel that this transformation can have a potential of significant growth in our sales and revenue as we are generating revenue user, on average between $60 to $80 per member per month as opposed to $25 that we did on the B2C side. So practically, once we are getting this agreement signed, we believe that we can scale up our sales relatively quickly.

Overall, we are very satisfied from the good feedback that we are getting from the potential clients that we have, and we feel that our competitive advantage resonates very well with health plans and self-insured employers. Rick is going to elaborate about it a bit more as we are getting to his part.

One more significant milestone that we had recently is a very-good fundraising that we did a few weeks ago. In fact, we had a very successful private placement that was oversubscribed. We raised $28.6 million. We did it in a straight common deal, no warrants and no discount. And we feel that while the overall terms of the deal were very good for the Company, we're even more excited from the profile of the investors that participated in the deal where the respected healthcare centric and institutional investors participating in the deal.

So together with the $30 million that we have in hand by the end of Q2 on June 30, we have a pro forma cash of approximately $38 million in the bank with no debt. We feel that this amount of cash should take us forward for the next few years and should be helpful in terms of implementing and executing on all our commercial plans.

In terms of the use of proceeds, we'll start to build the very strong themes that will enable us to implement a potential project that we're going to sign, and we're going to also triple the size of the sales and commercial team in the US in order to leverage on the opportunity. And obviously, one of the important things for us is to keep our self very comparative and in a leadership position in terms of our offering. So, we are planning to invest more into our personalization of the platform, artificial intelligence and also into our ability to support multi chronic condition.

One more milestone that we have is the nomination of Dennis Matheis to the Board of Directors. Dennis is the President of Optima Health, a multiline health plan with more 850,000 covered members. His background, including leadership position in some of the largest nation's health plans in the country, including Anthem, Cigna, Humana and others. Dennis' insights and guidance are going to be crucial for the business that is going to be around sales as we move forward.

With that, I want to hand over the call to Rick Anderson, the President and the General Manager for North America. Rick?

**Rick Anderson – President and General Manager, North America**
Thanks, Erez. Last quarter, I discussed Dario's competitive advantages and what any digital health companies need to be successful in a B2B model. I am pleased to report that we have continued to strengthen our foundation on these key elements. In June, at the American Diabetes Association 80th Scientific Session, we

presented new data from two studies. These studies increased the clinical outcome data on our digital therapeutics for diabetes, and importantly, were the first studies demonstrating significant improvement in hypertension through our platform. And of course, improved clinical outcomes translate into real and in many cases significant cost savings for payers. Studies such as these create the foundational support for adoption of our solutions by payers, employers and providers. They also create an increasing competitive advantage in the space.

As we discussed last quarter, COVID-19 has created both challenges and opportunities for us in the digital therapeutic space more broadly. During the second quarter, we saw some of our self-insured employee opportunities remain paused while customers dealt with the impact of the pandemic on their business and employees. However, in other cases, we have seen increased interest from employers and payers and a strong provider interest in our remote patient monitoring solution.

Digital health has seen a surge of interest during the pandemic and we expect that interest to continue in the future. We are well-positioned for this era of virtual care, with the clinically proven digital therapeutic that provides the ability to monitor and care for patients virtually, and an open platform that enables integration with virtually any provider or system. We further enhanced our flexible powerful solution in the second quarter with our partnership with MediOrbis, a telehealth provider specializing in chronic conditions. We anticipate we will see further partnerships in the coming quarters as demand for virtual care solutions grow.

Our transition into the B2B market continued into the second quarter. We have expanded our coaching and enrollment management talent to meet the needs of our new customers and give us the ability to rapidly scale up our teams to meet demand. Efforts to build name recognition with health plans, employers and benefits consultants has paid off, with opportunities to participate in several requests for proposals or RFPs, and the growth of our sales pipeline to over $200 million in potential revenue across the three B2B channels.

We have made a concerted effort over the last quarter to increase our name recognition and educate benefit consultants and employers on Dario solutions. These efforts have resulted in a number of milestones including being named a Shortlister preferred vendor, being added to the Mercer [ph] VIP platform, reaching the finalist round in RFPs for the first time and winning business over Omada and Livongo in that process.

We believe these RFP wins have validated our value proposition and competitive positioning in the self-insured employer market. In addition to our direct sales efforts, we started selling to employers through the vitality platform in the second quarter and have already had our first win on that platform. These recent direct and partner wins are currently in contracting, with some anticipated to launch in the second half of 2020 and some plan to start on the normal benefit cycle in January 2021.

These wins are in addition to a large employer in the Northeast, which has moved into late stage contracting. While the contracting process has been slow, we have recently started implementation with the objective of launching later this year. As I discussed in last quarter's call, we only recently started selling to health plans.

While health plans typically have very long sales cycles, we have been very pleased to have generated significant traction in a short period of time. As in the employer market, we believe this high level of interest is attributable to our competitive positioning and value proposition. We previously noted that we are in late stage discussions with a large health plan, and that plan has now moved into late stage contract negotiations and the implementation process has begun. We anticipate being in a position to launch this customer later this year. Encouragingly, momentum in this market segment continues beyond this early traction with the addition of payers that have already moved into late stage discussions or contracting, setting us up for additional launches in late 2020 or early 2021.

At the same time, we have seen an acceleration in interest and adoption of Remote Patient Monitoring or RPM, particularly in providers and patients who are justifiably hesitant to visit a hospital or provider office during the current pandemic. In June, we announced our first two RPM contracts and another in the UK in July. Our RPM offering integrates the Company's existing open platform, application technology and our Dario engaged coaching platform to provide physicians, health systems and large provider groups with a turnkey solution to leverage the recently approved Medicare remote patient monitoring reimbursement kit. RPM is a new offering for us, and needless to say, we are very encouraged by our early momentum.

At this point, I'd like to turn the call over to Zvi for a review of our financials. Zvi?

**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-Q filed yesterday evening.

Revenues for the second quarter were $1.78 million, an increase from $1.67 million in the first quarter of 2020. Revenues were again derived mainly from the sales of products and from the offering of our membership plans to our customers in the US.

We anticipate moderate sequential revenue growth through the late half of this year, reflecting our continued transition to a SaaS revenue model. Gross profit in the second quarter ended June 30, 2020 was $636,000, an increase of $310,000 or 95% compared to a gross profit of $326,000 in the second quarter ended June 30, 2019.

Our gross profit margin increased to 35.6% in the second quarter ended June 30, 2020 from 19.7% in the second quarter ended June 30, 2019, and was subject to a sequential decrease compared to the quarter ended March 31, 2020. The increase compared to the second quarter of 2019 was mainly due to the increase in revenues generated from our membership plans. The sequential decline in the gross profit in the last quarter is a result of our overall analysis of the cost of acquisition of new customers. We reached the conclusion that reducing the initial access cost to our platform for new users pays off in a much lower acquisition cost.

Implementing price reduction campaigns during the last quarter resulted in reduced marketing expenses compared to the second quarter of 2019, which led to a reduced operating loss and the lower burn rate. Our non-GAAP marketing expenses for the second quarter ended June 30, 2020 were therefore only $2.4 million, compared to $2.9 million in the second quarter ended June 30, 2019.

During the second quarter of this year, we have also implemented additional saving measures, including temporary salary reductions due to the rising uncertainty following the COVID-19 breakout. These savings were in addition to the long-term voluntary saving measures implemented by our Board members and management over the last few years to preserve cash by receiving part of our earned compensation in shares instead of cash. These voluntary cash waivers contributed more than $4 million to the Company's cash flow during the last five years.

All the above reduced our cash balance to only $2.6 million during the second quarter, representing a 42% reduction compared to the previous quarter. As of June 30, we have cash and cash equivalents totaling $13.2 million and subsequent to the end of the quarter on July 31, we closed the private placement financing of common stock that yielded gross proceeds of $28.6 million. As a result, as of today, our pro forma cash balance is approximately $38 million.

Back to you, Erez.

**Erez Raphael - President and Chief Executive Officer**
Thank you, Zvi. So, before opening the call for questions, I want to make a comment about our path for revenue growth in 2021. At the moment, the research estimates for the full year of 2021 revenue is in the range of $10 million to $12 million for 2021. While we are not in a position to provide a specific guidance this morning, we do believe that this will prove to be conservative in light of the opportunities the lay in front of us.

As I've indicated previously, during Q3 and Q4 we do believe that we're going to announce on large transformational deals with health plans and other institutions. And while we know and understand that implementing such a project might take time, we do believe that access for tens of thousands of users will make a significant impact on our revenue. Just to remind you, on the B2B2C side when we are selling to plans, every 10,000 users should generate for our company between $8 million to $9 million every year, which is significant growth comparing to where we are today.

With that, I want to conclude our comments for this morning and hand over the call for a Q&A session.

**Operator**
[Operator instructions]. Firstly, this morning, we'll hear from Alex Nowak at Craig-Hallum.

**Q:** I just want to dive into a couple pieces that were mentioned. When you're submitting RFPs, what are the insurers of the self-employed plans primarily looking to evaluate? Obviously, price is a major component of it, but what else are they looking at when you submit the RFPs?

**Rick Anderson – President and General Manager, North America**
So, they're looking at price obviously, as you said, but also looking at the overall solution. So, they're evaluating the data that exists supporting the solution, what the satisfaction scores look like, what the functionality of the platform and the application is like. And sometimes that also includes demonstrations of the product and the like. But, as you would expect, sort of an overall review of the product, the solution and how users are going to use it.

**Q:** And then the plans that you would expect to announce in the coming weeks, can you speak to the size of these programs? I believe, you gave a mention of all the contracts that you're working with; it's in excess of $200 million, but the plans that you're in very close negotiation with right now, how big are those programs? Are these full deals or are these pilot programs? And just help us think about how to turn this into revenue over the next couple of years.

**Rick Anderson – President and General Manager, North America**
I think, they really run the gamut in terms of size. Some of them are small to medium sized employers, all the way up to what I would classify as a jumbo sized employer that we have currently in late stage contract negotiations. In some cases, some of the additional plans that we've seen come on line here the last couple of months with contracting, some of those will be what I would call kind of larger, initial implementations and that we would expect those to grow over a period of time. The ones that are kind of more in the medium to large size and including the larger health plan, we expect to be full implementations. The health plans I'm talking about are all regional players though, although some of them are large.

**Q:** Are most of the RFPs going out to self-employed insurer plans or is it a good mix between self-employed and call it traditional health plans?

**Rick Anderson – President and General Manager, North America**
All of the traditional RFPs that we participated in have been self-insured employers. In a couple of cases, we've responded to more requests for information for health plans. But most of our health plan work is direct sales, so not RFP related.

**Q:** And for these contracts, for the RFPs, are there contract minimums? I'm just trying to get to the mention around the 2021 revenue growth. Obviously, you have a good picture of how big the employer plans are and what sort of potential they can bring to the Dario business, but are there minimums associated with it, so, if a deal closed, you know for sure at least what the minimum is going to be next year?

**Rick Anderson – President and General Manager, North America**
No. In all cases, our contracts are contracts for us to be able to enroll the members in either the health plan or the employers. But, we have a fairly decent idea of both, based on past experience that we have here at Dario, past experience we have in the industry and other people in the space in terms of generally what we can expect to be able to enroll in the program.

**Q:** Okay, got it. And then, just last question on this topic and then I'll move to another piece here. But just want to clarify, did you say you would expect to sign at least one of these, call it transformational deals this year, or are there a couple deals that are in the works that could convert?

**Rick Anderson – President and General Manager, North America**
A couple.

**Q:** Okay, got it. Got it. All right. So, just moving over to the RPM side, can you just walk us through, just for clarification purposes, what you're ultimately providing to the clinicians, to the patients? Transactionally, who buys the Dario's device and gives it to the patient under an RPM sort of agreement? And then, how does reimbursement work there?

**Rick Anderson – President and General Manager, North America**
So, generally speaking, the way that the business model works is we contract with the provider, provider group or health system to provide them with the technology solution. So, basically, our devices, the application, the coaching, if they want us to do the coaching. One of the nice things about our platform is other people can coach on top of the platform because it is open, so we can either do the coaching or not do the coaching. And that matters as it relates to the codes associated with that. The providers are the ones who are giving the devices to the members and then either that or they're inputting it into our web portal, and then we provide the devices directly. We then do the onboarding with those members, and we continue to "monitor" them remotely.

So, it's really just an adjustment to our standard product, if you will. It's just really kind of delivered a little bit differently. And for those numbers that meet criteria for billing, and there's basically three codes for remote patient monitoring for Medicare patients that were approved in a year. One is an implementation code, that's a one-time code. One is a, let's just call it a technology monitoring code. So, if members are participating with the program and measuring on a sufficient basis each month, they can be billed to Medicare. And then, there is a code for doing coaching on that. And that's what I just referenced in terms of who's doing the coaching is how that depends and how we charge for that. We provide the provider with a list of members that meet the criteria each month and then they bill Medicare directly for those.

**Q:** Okay, got it. And then, as you're looking across RPM and then the health plans of the self-employed insurers, which market is the more attractive/better suited to Dario, if we had to choose one?

**Rick Anderson – President and General Manager, North America**
I don't know that I can choose one. I look at kind of the employers and the health plans as being intertwined, given the reliance of those two parties, oftentimes in the marketplace. And they are slightly different from the perspective that health plans have large populations that come all in one, so, they're elephants. Whereas, employers, there's certainly more self-insured employers out there, there are various different sizes, so I find

those attractive from that perspective and the demand there in the market. Health plans, obviously are typically longer sales cycles than employers.

The remote patient monitoring, especially with the new codes, is relatively new, but the demand has been quite high for those, especially in relation to the current situation with the pandemic. And there is estimates out there that that market alone is worth about $32 billion. A slightly different approach, have to sell that product a little bit differently to a different marketplace, and we expect that that's probably going to be the smaller of those three markets over a period of time, but is likely a source of revenue over the next 12 to 18 months.

**Q:** And then, just last question here. With Livongo getting acquired, how does this change the competitive landscape, how does it change at all your strategic focus going out to the B2B market?

**Rick Anderson – President and General Manager, North America**
Do you want me to take that one, Erez, or do you want to?

**Erez Raphael – President and Chief Executive Officer**
Yes, please take it.

**Rick Anderson – President and General Manager, North America**
So, obviously, that's a large deal that changes the face of the industry to some extent. But the reality of it is from a strategic point of view and competition on the ground, as they themselves have pointed out, there's not a lot of overlap as it relates to what they're doing. So, it really doesn't change our value proposition or our competitive position against them. As I said, we've been in the market competing against them directly and have seen that customers respond well to that value proposition. So from that point of view, it doesn't change it that much.

I think what it does do is accelerate, to some extent, especially probably in some of the largest players out there, the concept of virtual care. And I think we're going there anyway. That was not a big surprise. Obviously, that creates an entity that has that. I think, it does accelerate potentially interests of other players in the market to match their offering as it relates to it. And I think strategically, as I mentioned, we will continue to expand our partnerships and offerings as it relates to being able to be in a position to do complete remote virtual care for chronic conditions. I think that benefits the market on an overall basis. I think it addresses things like access to care, quality of care and things of that nature.

Some of this is going to depend a little bit on how the regulations go forward. We've seen, obviously, the regulations have been suspended or temporarily changed. Some of those will likely become permanent, some of it probably won't be. So, you'll see entirely the way that that sort of evolves. But on an overall basis, it really doesn't change our approach to market.

**Q:** Okay, very helpful. Appreciate the update.

**Operator**
Our next question will come from the line of Scott Schoenhaus at Stephens.

**Q:** Just as a follow-up to the B2B pipeline, are these health plans and self-insured companies already using a competing chronic illness platform mostly, or are they clients just starting to use digital therapy, digital health solutions? Is it a mix of both? Can you kind of comment on that mix?

And then, as a follow-up to that, are your contracts locked in over a set period of time for the pipeline of clients? And can you discuss the average length of the contracts?

**Rick Anderson – President and General Manager, North America**
Sure. So, in terms of the average length of the contract, the industry standard, and ours as well, are in the three-year range. Obviously, there can be variations in that. In terms of whether these are customers that are new to a solution like this or they're using another product to start with, it's definitely a mix of those. If I had to guess, I would say it's probably in the 70-30 or 60-40 in terms of folks that are new to this solution. This market is not penetrated, so we're going to see lots of business from people that are not using this solution.

I think also with the remote patient monitoring coming online from a Medicare perspective, one thing there's also interest in the commercial side, which really kind of is a bit more like our standard digital therapeutic product. That especially, that market, the users there have not been using another product. But probably 30% or 40% of those folks that we're talking to have another solution. And when I'm saying talking to, I'm talking about the one-third, very late stage. If I look at the overall pipeline, it's probably more like 50-50.

**Q:** And I guess just as a follow-up question. You've obviously done a successful recent capital raise. Can you talk about how you plan to use this capital for future growth? You briefly talked about it, but will it be more focused on M&A, will it be focusing on growing your sales efforts to win and grow your or B2B pipeline? Can you just tell me how you think about the priorities of the recent capital raise?

**Erez Raphael – President and Chief Executive Officer**
Yes. Thanks for the question, Scott. We do believe that we have the right product and the right offering in the market. Our first priority is to be able to implement on the potential clients that we're going to have in order to ramp up the revenue and to show significant growth. This is priority number one, implementing on the existing pipeline.

Priority number two is to be able to expand the pipeline by having more sales capabilities, and that's something that as I said on the call, we want to at least triple our ability to grow up the pipeline on the existing offering. We do believe that we have the right offering for the right timing of the market. So that's the first two priorities, which is in the boundaries of what we already have today is very straightforward, and we need to be successful doing that.

Moving forward, we do believe that we're going to see consolidation in the space of digital health and digital therapeutics. There are lots of interesting solutions out there. And once we are creating this bridge into the health plans and employers market, we believe that we're going to see expansion of our platform by having more technologies. This is a third priority and not first or second priority at the moment. We think we need to be very, very focused in making what we have super successful.

**Q:** Thanks, guys.

**Operator**
Next, we'll hear from Ben Haynor at Alliance Global.

**Q:** So, just on the sales pipeline, I think I heard you mention about $200 million that's available to you there, potentially. How do you calculate that? Is that an annual opportunity? Is it over the average three-year life of contracts, or how do you look at that?

**Rick Anderson – President and General Manager, North America**
We're looking at it on an annual basis. That would be the annual opportunity.

**Q:** Okay, great. And then, do you have a sense of, or a goal in terms of close rate on the pipeline, or any color that you can provide there?

**Rick Anderson – President and General Manager, North America**
What we've seen so far has been much greater, faster interest than I would have anticipated historically. So, I think it's a little too early to really comment on that. I mean, if I was going to say, hey, what did I normally expect? I would say something in the area of 20% that we would expect to close. But right now, I think we're seeing a lot greater success as it relates to that in that area, so I'm not entirely certain where that one's going to play out.

**Q:** Okay. Fair enough. And then, in terms of implementing the projects, once you win them, how long does that take? Is it a month? Is it a quarter? Is it multiple quarters? And how much do you think that factors into the decision of the potential customer?

**Rick Anderson – President and General Manager, North America**
In terms of potential customers, I think, especially on the health plan side, people are looking for solutions that are easy to implement. They've got a lot going on, things that are complicated, heavy lifts that require them to utilize more resources internally are judged more negatively than those that are an easy lift. In our case, I really think this is an ease to implement type of program. I mean, essentially, what we need is the information to be able to determine who is eligible, and we can do most of the rest of that.

So, typically, I would expect implementations to be in the 60-day time frame, some may be 30, some may be 90, depending on how customers function and their level of complexity and how we actually roll out the initial launch, as it relates to that. Time from signing to implementation can also vary too. As I said, we've got two customers at the moment, which we're finalizing agreements with which we've already started the implementation process, and so I would expect that we would have a shorter timeframe in that case.

**Q:** Got it. And then just lastly for me, more of a housekeeping question. I think you mentioned last quarter having about over 50,000 users on the platform. How many do you have on the platform now? Then, can you give us kind of a breakdown of where they fall? Are they more subscription based? Are they more kind of on the piecemeal plans? Any color there would be helpful.

**Erez Raphael – President and Chief Executive Officer**
Okay. So, as I stated in my script and my comments, we have 55 active paying users on the platform at the moment, 95% of them are in the United States, and around 40% of them are our members, 40% to 45% are members. And we do look to transform the business fully to SaaS, so we expect that in the next couple of quarters, we will have only members on the platform. This is one of the transformations that we are doing. In parallel level of penetrating into the B2B2C market, we're also changing our B2C channel in order to have members only. So, this is a transformation and migration that we are planning to do in the next two quarters.

**Q:** Okay, great. Thanks for taking the questions, gentlemen, and congrats on all the progress.

**Erez Raphael – President and Chief Executive Officer**
Thank you so much, Ben.

**Operator**
Next, we'll hear from John Vandermosten at Zacks SCR.

**Q:** Good day, everyone, and thanks for taking my questions. Starting with a question on remote patient monitoring services, I know you had announced a few deals on the last quarterly call and wanted to get a sense of how the trend there has continued as we move into the sixth month of the pandemic.

**Rick Anderson – President and General Manager, North America**
Thanks, John. We have continued to have some strong interest and some larger players that move a little bit slower than the smaller ones that have been in the process, and we continue to get strong interest there. And actually, as Erez mentioned, that in particular is a market that we intend to invest additional sales resources in. The reality is, is that we reallocated some of our resources from that market into the health plan market, and given the interest that we are getting on the health plan side was a bit greater than we originally anticipated.

But I think the trend is continuing. I expect it to continue. There was a little bit of hesitation in some of the customers in the first quarter in terms of trying to understand what the new reimbursement codes mean. CMS is not always entirely clear about what the criteria are for doing things of that nature and so we've been able to work those out and folks have gotten more comfortable with that. As they continue to get comfortable with that, I expect that that will continue to increase.

**Q:** Okay. And, Rick, you had mentioned that you actually were up against Livongo in some of these competitive deals and I was just wondering, what attributes stand out for potential clients that helped them select you over a competitor out there? What are they looking for that Dario specifically has that others don't?

**Rick Anderson – President and General Manager, North America**
I think that the feedback that we got from the marketplace is that the flexibility and transparency of the solution that we're offering, the ability to in some cases for them to do coaching or us to do coaching, our ability to share and integrate data with other solutions is very attractive, as is the level of engagement that we have with members. I think that people are pretty impressed with 55,000 paying users on the platform. It really speaks to the engagement level that folks have with the platform, and then obviously, the clinical outcomes matter. And our approach to billing for only engaged members and our pricing strategy has also been very attractive to the market.

**Q:** Okay. And as you guys mentioned that there are a few agreements that are imminent, as those deals close, hopefully, what milestones should we expect to see? I think you mentioned there's something like 60 days, you anticipate to kind of get things done. But what should we see in that time period? And then, how long will it take to get full penetration into the plan, the total number of members to get them kind of actively using the Dario product?

**Rick Anderson – President and General Manager, North America**
So, in terms of milestones, from the larger ones we probably will look to release that obviously to the market, when we can do that. The timing of that is somewhat dependent on customers as well in terms of approving such announcements. And then really in terms of penetrating the accounts, the smaller ones will probably penetrate a bit faster, but generally speaking, what we're providing for in our internal forecasting, if you will, is penetration over three to six months, depending on what that looks like. It could vary from that obviously, based on the situation on the ground.

**Q:** And just last question for me is on the studies, how important are those? How important is efficacy in the decision making process? And what new studies do you anticipate conducting to answer potential questions out there from partners?

**Rick Anderson – President and General Manager, North America**
So, at a certain level, it is table stakes. You have to have data that supports the solution, especially. We're members of the Digital Therapeutics Alliance, that requires that you have data that supports it. It separates what we're doing from a lot of the healthcare apps and things of that nature that are out there. So, from the perspective of a buyer, data is important. And it really plays into also what the expected financial outcomes from that are.

There's many studies that are out there that show that a reduction in A1c will generate savings, and so that's part of the validation of the overall product.
In terms of additional studies, we anticipate we will see more studies coming out on hypertension on our platform as well as in the area of weight loss and things of that nature, as we continue to move and broaden the product as we go in that direction. Also, probably some specific financial outcome studies as well.

**Operator**
Our next question comes from an investor, Ashok Kumar [ph].

**Q:** Erez, could you just provide the take home messages from your dashboard metrics? So, a three-part question would be, one, on the SaaS model transition, what's your timeline for the 70% gross margin? And then, the other side of that question is the opex, given that they're normalized, what normalized expense is on a quarterly basis, either absolute or percentage relative to the $4.6 million in Q1?

And question two is, again in the B2B2C, where is your cost per acquisition, per user, and what's your steady state, where do you see that as a target, where do you see that bottoming out? And also, the revenue mix at $5 to $7 per user per month to this, $60 to $70 per user per month, right? So, what's the mix right now and where do you see that I think over the next 12-month period?

And the last question is, the health plan channel. What is the length of the sales cycle right now, and also the traction in engaging for a single chronic condition to multiple chronic conditions? Thank you.

**Erez Raphael – President and Chief Executive Officer**
So, I'll start from the expenses. I'm not going to according to the order, but in terms of the expenses, we believe that we're going to see increase in the overall expenses into the sales and marketing because we're already building teams and we started eight weeks ago to build teams that will help us implement on the potential contracts that we are having. So, that's something that will increase some of the expenses. And this will be one or two legs behind the revenue that will get in, that will offset that. I think that in terms of expenses and losses, we're going to go a bit higher.

In terms of the overall transformation from a direct-to-consumer, on the SaaS level, eliminating those that are device users and having only software-as-a-service, so only members, we think it's going to take us two quarters. We have a legacy kind of asset, which is tens of thousands of users that are from the old system. They are getting us a lot of value in terms of the data that we are generating, which is significantly contributing to our ability to improve the platform and develop our AI, so, while it doesn't look good from a gross margin perspective, it does contribute to our overall R&D efforts. So, we are not in a rush to kill it tomorrow morning, and we're going to do a very thoughtful transformation.

So, overall, the transformation into the 70%, close to 70% gross margins, this is something that will take us, we believe, between 8 to 12 quarters from now. In order to be there, we need to scale up the B2B2C and to reach a place where 80% or 90% of our sales are coming from health plans and sales. And we think it's going to take a bit of time until we reach this goal of 70%. So, I'd say like two years or so. That's in terms of the gross margins.

And in terms of the cost per acquisition and the B2B2C, we believe that while on the B2C side we were in the range of $100; on the B2B2C side we need to be in the ranges of $20 to $30, including some kind of a cost for the enrollment cost, the enrollment teams have already been established. And we believe that the overall average that we're going to see per user is in the range of $30. And this is how we are building our models forward.

So, if you are looking on the overall difference between the B2B2C to the B2C, which is our legacy, on the average revenue per user per month, we're going to increase from $25 to around $60 to $80, depending on the how many chronic conditions we are managing. And in terms of cost per acquisition, we're going to go down from $100 to $30. That's the expectation. So, you can imagine what the impact is that we're going to see on our business. I hope I covered all your questions, Ashok.

**Q:** Thank you very much. And just the last question, in terms of the length of the sales cycle with your health plan channels, so I think just qualitatively or otherwise. Thank you very much, and all the very best.

**Rick Anderson – President and General Manager, North America**
Thanks. So, in terms of sales cycles for health plans, typically, what I would say is, it's 12 to 24 months in terms of the sales cycle. I've seen them go as long as five years. So, generally speaking, they're fairly slow. We have seen some, as I said, traction, instead of what we would normally anticipate. And I think that we have an opportunity in front of us to close a couple of health plans above and beyond the ones that we have in the very late stage before the end of the year, which would run them more in the six to nine sort of month sales cycle, which is quite fast. And I wouldn't anticipate that that would continue in the future. I'd expect, we would see stuff more in the 12 to 24 months.

**Q:** Of course. Thank you very much. And all the best.

**Rick Anderson – President and General Manager, North America**
It specifically relates to health plans.

**Q:** Thank you.

**Rick Anderson – President and General Manager, North America**
Yes.

**Operator**
Nathan Weinstein at Aegis. Your line is open, sir.

**Q:** Good morning, Erez, Rick, and Zvi. Congrats on the many accomplishments in the quarter. Thanks for taking my question. Just one quick one from me. Noting that there's many chronic conditions suffered by patients, outside of diabetes, maybe just discuss a little bit more about your roadmap and what areas you could see the company expanding into in the future?

**Erez Raphael – President and Chief Executive Officer**
Yes. So, thanks for the question, Nathan. We do believe that the mindset or the technology that we build, combining medical devices together with the service where you're having the center a software platform that understands very well the habits of the user and the routine of user is extremely beneficial in order to change behavior. And this is what we are doing here. We are trying to change behavior of people with chronic conditions.

So, a lot of things that are applicable for the diabetes market also are applicable for those that have hypertension and other chronic conditions. And in fact, we think that the traditional management of chronic conditions in silos doesn't make sense, and once you are approaching users, and a lot of the things that we are talking about in digital therapeutics is providing a very personalized solution that is driven by data. So, obviously, someone that has diabetes and has comorbidities like hypertension and other diseases, this is something that we want to be able to tackle when we are approaching the user either digitally or through our coaches.

As we are moving forward, we're going to expand into more conditions. We think we're going to get into more devices. We're looking very closely on integrating CGM. We are looking at also integrating more artificial intelligence in order to make our overall platform much more personalized. So, that's the general direction that we see on our business, and we feel that we can even expand our competitive advantage by implementing this direction.

**Operator**
We'll hear next from Rahul Rakhit at LifeSci Cap.

**Q:** Just looking at the growth in revenue that you saw quarter-over-quarter and year-over-year, can you just provide some additional color on what if anything particular really contributed to that growth?

**Erez Raphael – President and Chief Executive Officer**
Yes. So, I guess that you're talking about my last comments before I wrapped up, about the potential growth into 2021. As I stated, we do know that the overall analyst projection is somewhere between $10 million to $12 million for the full year 2021. We do believe that if we are going to get the contracts that we think are going to get signed, it's going to get us access to tens of thousands of users. And assuming an ARPU, average revenue per user, that is between $60 to $80, this can generate for us $6 million on every 10,000 users that are going on to the platform. And you need to remember that we are under a SaaS model and under recurring revenue, every dollar that we're going to generate from a new user is going to be added on top of the run rate that we have today.

So, all these kinds of elements give use the confidence that the estimate that at the moment analysts have might be relatively conservative to where we can be. And I think that investors will have to follow us very closely in the next few weeks and the next few months to see on how we are making progress on signing these contracts and enrolling patients into the platform, so the acceleration once we are signing this contract, the acceleration in terms of growth might be very high. And that's why we feel that we can get better numbers in 2021, but we'll be in a position to provide guidance maybe later this year or early next year.

**Q:** I know Rick touched on the sales cycle for the health plan. Once you have an agreement with a new health plan in place, what does the onboarding process look like? And how long do you think it takes to see an initial tangible increase in revenue?

**Rick Anderson – President and General Manager, North America**
So, in terms of onboarding, it's going to usually be 30 to 60 days, is what we'd anticipate. We will see some variation around that. Obviously, it depends on the individual customers. And then right now what we're internally looking at it is three to six months in terms of really kind of ramping up the enrollment within those plans. What we've seen historically with the customers that we've done so far is a bit faster than that, but that's what we're planning for.

**Q:** And then last one, just kind of thinking more broadly, in your ongoing discussions with health plans, what about the platform has really been resonating with these payers?

**Rick Anderson – President and General Manager, North America**
As I mentioned a little bit ago, I think the main things that are resonating are the flexibility and the transparency that we're providing, and then really the user experience. There is more and more interest in the market on an overall basis in terms of what's the experience for the user, how much are they using it? How do they use it? Because people view that, I think rightly so, as will they get the clinical and financial results in the long term. So, a lot of focus on user satisfaction, utilization data that's coming out of those people using it. So, outcomes data, I think that's where some of our studies that are more than two years in length and tens of thousands of users in some cases that we're looking at is really valuable and resonates with folks. And then, I think, ultimately, the fact that we are only billing for truly engaged members and our pricing strategy there is working well in the market.

**Operator**
I believe we did have a signal from Mr. Jonathan Chrysman [ph]. Your signal has dropped from our queue. Mr. Chrysman, would you hit star and one once again for me. [Operator instructions]. Gentlemen, I believe Mr. Chrysman has dropped. I'll turn it back to our leadership team for any additional or closing remarks.

**Erez Raphael – President and Chief Executive Officer**
Thank you, Jim. Thanks, everyone, for joining our calling this morning and thanks for the large interest in the space and in what we're doing. Looking forward to seeing you again in the next quarter. Have a great day. Bye-bye.