DarioHealth Corporation

Fourth Quarter 2020 and Annual Results Call

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David Grossman, *Stifel*

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PRESENTATION

Operator

Greetings and welcome to the DarioHealth Fourth Quarter and Full Year 2020 Financial Results Conference Call.

It is now my pleasure to introduce Glenn Garmont of LifeSci Advisors. Thank you. Glenn, you may begin.

Glenn Garmont

Thank you, Darryl, and good morning, everyone. Thank you for joining us today for a discussion of DarioHealth's fourth quarter and full year financial and operating results.

Leading the call today will be Erez Raphael, Chief Executive Officer of DarioHealth. He is joined by Rick Anderson, President and General Manager of North America, and Zvi Ben-David, Chief Financial Officer. After their prepared remarks, we'll open the call for Q&A.

An audio recording and webcast replay for today's conference call will also be available online as detailed in the press release invite for this call. For the benefit of those who may be listening to the replay or archived webcast, this call is being recorded on March 9, 2021.

This morning we issued a press release announcing our financial results for the fourth 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, and the competitive nature of DarioHealth's industry. Such forward-looking statements and their implications involve known and unknown risks, uncertainties and other factors that may cause actual results or performance to differ materially from those projected. The forward-looking statements discussed on this call are subject to other risks and uncertainties, including those discussed in the Risk Factors section and elsewhere in the Company's annual report on Form 10-K for the year ended December 31, 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 are useful for investors' understanding and assessment of the Company's ongoing core operation 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.

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

Erez Raphael

Thank you, Glenn, and thanks, everyone, for joining our call this morning. Also joining me today is Zvi Ben-David, our Chief Financial Officer, and Rick Anderson, the President and General Manager for North America.

Twenty-twenty was an exciting year for us. I think it was an exciting time for all those that are part of the healthcare industry as the industry is transforming widely these days, and we are even super excited to be at the forefront of these amazing changes happening in the healthcare industry. Like we are doing in every earnings call, I would like to refer to our progress by referring to our three main pillars that we keep mentioning every earnings call, I think for the last six or seven quarters. This is something that helps us communicate the progress that we are doing with the transformation that we are having, and it also helps us to focus on capturing the huge opportunity that we are experiencing these days.

The three main pillars are: number one, the transformation into a SaaS - software as a service, where we are generating high margin recurring revenues; number two if the transformation into B2B2C; and number three is the expansion into multi chronic conditions. Twenty-twenty was a very foundational year for us. I'll start with the B2B2C.

We put a lot of effort in 2020 in order to build the infrastructure to be not only a B2C company but also a B2B company. We started the year with only six employees that are operating in the U.S. in front of employers, health plans and providers, and as of now we are close to 30. We also signed eight different agreements along the year with the last three months where we won two big Fortune 500 employers, and even further than that, we managed to win over our size over our main competition, which speaks to the overall offering and great product that we have.

When we started 2020, we knew that we had a great product. As all of you can see on the App Store and Amazon, we are top-rated and we are considered one of the best products in the market, but we had during 2020 to package the product in a way that we can take it to the B2B market, and this is what we did. With these recent wins, we were very confident that we can start and generate meaningful revenue in 2021. As we started to implement these accounts in Q1, we're also getting a very good first results and indication that we know how to (inaudible) and turn these accounts into dollars, and Rick will speak to that very shortly.

On the expansion into multi-chronic conditions, one of the things that we believed in is that operating as a digital therapeutics company when we are providing a solution that is extremely user-centric and consumer-centric, we need to provide a focus on utilization, we need to provide a very comprehensive solution for our users, and it doesn't make sense that we would operate in silos like the traditional healthcare industry. Companies in the traditional healthcare industry will focus on one single condition. We have seen companies that bid only diabetes or hypertension.

When moving into digital therapeutics and when dealing with a personalized solution, we need to provide multiple chronic conditions, and that's what we put as a target and we were very happy and proud to complete the acquisition of Upright Technologies at the beginning of February. The more we are making progress with the PMI and the more confident we are about making the right decision with regards to this acquisition.

Just as a reminder, Upright was acquired as a company that had 90,000 active paying users. This is a company that is scaled. When we are looking into their musculoskeletal space and looking into other companies in the space, there are not too many companies that are having more than 50,000 active paying users. Hinge (phon) that just (Inaudible) at the $3 billion valuation is one of them. Next in line in terms of users actually is Upright.

Upright is sharing the same philosophy that we have, combining together hardware, software and service in order to drive behavioral change, and they are doing a great job at creating change in the behavioral (inaudible). In terms of the synergies that we've seen to the B2B market, this is a perfect match for us, and we started to hear very positive comments from our potential clients and existing clients, so this was a very good move from our perspective. The fact that we did this transaction or acquisition as an equity only speaks to the fact that we've got here real partners that want to walk together with us and build this company as a multi-billion company, so the actual PMI, the post-merger integration activities are moving forward great.

If we are looking on the overall three pillars, each of them has some kind of contribution into the main parameters that define our business. Elements that relate to recurring revenue, gross margins, we still see the overall objective of the business to exceed the 70% gross margins moving forward, and we're going to see an improvement in the gross margins already in Q1, we believe. In terms of the eligible population, when we started with diabetes, we had access for a potential employer for 8% to 10% of the population. Hypertension expands it into 20% to 25%. With MSK, we exceed the 40% for all the conditions together, so in terms of account utilization, multi condition makes our overall commercial efforts much more effective, and also in terms of the cost of acquisition, the transformation into B2B2C is something that should improve or reduce drastically the cost of acquisition per user, and the fact that we are selling more conditions makes the cost of acquisition per user per condition is even lower.

Each of these pillars has its own contribution into our financial profile and our ability to grow, and I think that the combination of the three of them together creates even a kind of exponential impact on the financial profile of the Company and also on the overall ability to grow. I know that in 2020, we haven't seen a significant growth in terms of the revenue between 2019 to 2020, but we should look into 2020 as a foundational year and we should look into the progress in this foundation that was done, the accounts that we won, and I'm sure that in 2021 we're going to see the impact of all the three pillars and the parameters that I just mentioned in a very, very significant way moving forward.

I would like now to drill down into the B2B2C transformation, and I'll hand it over to Rick to elaborate more on that. Rick?

Rick Anderson

Thanks, Erez.

Over the last few months, we have seen the fruition of a lot of the efforts that we've been making for the last year and announced several wins in our B2B market: two Fortune 500 companies, including those won in a competitive RFP situation, and we've also signed several RPM contracts, including a significant one with an integrated health system in New Mexico. We have now launched these customers in the first quarter and are pleased with our progress to date. We are seeing over 30% enrolment within the first month of commencing our outreach, and we're continuing to hone our approaches and anticipate that that will go higher.

On the business development side, the pipeline is now more than $600 million across all the market segments, and just as a reminder, we calculate our pipeline as the lives in an opportunity times 10% for the prevalence of diabetes, so we're not even including the other conditions, times a 35% enrolment rate, times $59 per month, times 12 months. Of course, we use actual numbers if we have actual numbers for that, and that calculates our annual revenue opportunity, which is the amount that we're saying is our pipeline.

We continue to make progress in all three channels. For employers, we are now starting the sales cycle for self-insured employers that are on an annual cycle, and a significant portion of employers are on this cycle which runs from January 1 to December 31. This cycle will see RFPs for the next few months, contracting in the third quarter, and the launch of these new opportunities in the first quarter of 2022. We are seeing the benefits of the progress we have made on increasing name recognition and increasing our relationships with benefit consultants, which are currently driving the RFP volume and RFI volume that we are seeing. We anticipate that this will increase the pipeline in contract later in this year, and in addition to that we still have opportunities that are on a different cycle closing in the middle of the year, or have no cycle so can close throughout the year.

For health plans, we continue to rapidly grow the pipeline of opportunities and we are working a handful of plans that we have late stage contracting or vendor management through the process. We anticipate closing many of these contracts over the next few months and that they will add additional revenue in the second half of 2021.

For remote patient monitor, we have a growing pipeline of near term opportunities with providers. Recall that RPM enables providers to bill CMS for codes that went into effect at the beginning of 2020, thereby having a top line revenue opportunity as well as improving clinical quality. We did see some headwinds in completing contracts with providers that have been distracted by the COVID surge and the vaccine rollout, but things have picked back up in the last month and we are continuing to see things move towards closure. We have several agreements that are in contracting and believe that RPM will continue to significant revenue in 2021.

We are also working on an interesting partnership that will enable our direct-to-consumer Medicare members to take advantage of virtual care and receive their membership through an RPM model with significantly higher average revenue per user.

We have also made great progress growing the team this year. We've added management, product and sales talent from Livongo, Omada, Mercer, Optum, Hinge, and other significant digital health companies.

These folks are joining us because they are seeing the differentiated opportunity at Dario and the ability to do great things. These key hires are also helping us accelerate across our business.

As Erez discussed, we have expanded into MSK and are actively looking at other conditions to round out our offering. Our overall strategy is to leverage the expertise of condition-specific point solutions for our customers with an integrated front end and back end, and we will also integrate with third parties. We chose MSK because it's consistently in the top five priorities to reduce costs and improve outcomes for our customers. It expands the portion of the population that we address, as Erez said, to approximately 40%, and MSK can add to our average revenue per user we estimate up to an additional $35 a month. There is significant co-morbidity with MSK in our existing conditions. This acquisition makes our platform one of the most robust in the industry, and that's already paying off as customers are expressing interest in our MSK solution even before we have gone to market, and some of our current pipeline now includes MSK opportunities.

With that, I'll turn it over to Zvi.

Zvi Ben-David

Thank you, Rick. I will provide a brief overview of our results for the fourth quarter. Additional details on our quarterly results can be found in our press release published earlier today.

Revenues for the fourth quarter ended December 31, 2020 were $2.1 million, a 1.9% sequential increase from the third quarter ended September 30, 2020 and 15.7% increase from the $1.8 million in the fourth quarter ended December 31, 2019. Revenues generated during the fourth quarter and year ended December 31, 2020 were mainly from the sales of DarioHealth's medical device offering and from our membership plans to our customers in the U.S.

Gross profit in fourth quarter of 2020 was $549,000, a decrease of $299,000 or 34.6% compared to gross profit of $840,000 in the fourth quarter of 2019. Gross profit as a percentage of revenues decreased from 46.7% in fourth quarter of 2019 to 26.4% in the fourth quarter of 2020. The decrease resulted from the price reductions of our medical devices sold as part of our direct-to-consumer promotion campaigns. With that said, as we scale and implement our transitioning to sales market, we believe we can drive gross margins to 70% and higher over the longer term.

Total operating expenses for the fourth quarter of 2020 were $9.6 million compared with $5 million in the fourth quarter of 2019. Total operating expenses excluding stock-based compensation for the fourth quarter of 2020 were only $7.5 million compared to $4.6 million in the fourth quarter of 2019.

Net loss was $9 million for the fourth quarter of 2020, an increase of $4.8 million compared to $4.2 million net loss in the fourth quarter of 2019.

As of December 31, cash and cash equivalents totaled $28.6 million and our net proceeds from the (inaudible) that closed on February 1, 2021 was $64.9 million.

With that, I'll return the call back to Erez.

Erez Raphael

Thank you, Zvi. We are super excited to be at the forefront of these amazing changes that are happening in the healthcare industry, and in two cases when we talk with investors, we are getting the question whether this kind of transformation or demand on the healthcare is going to disappear post COVID-19. From our perspective, the COVID-19 accelerated the change that should have happened anyway in terms of digitalizing the space, so it created no doubt a huge acceleration in this transformation into digital space, but it's obvious transformation is here to stay, and we see it when we talk with clients and that's something that we expect to stay here.

When we are looking at the overall opportunity, even if we are looking on the biggest competitors out there that are doing chronic condition management to diabetes, hypertension and others, and we aggregate all the penetration into the market together, we're going to get to somewhere around 2%, so the opportunity is huge, the opportunity is there, and we believe that we're going to be a very important player in the space.

In 2020, we put all the foundations from a B2B2C perspective, multi-condition, and we believe that the foundation that we put out there in terms of the three pillars that I mentioned are going to contribute to exponential improvement in our financial profile and also in our growth, and we're going to start seeing these kind of results and this impact in 2021 in a most significant way.

When we are looking on where we are from a capital markets standpoint and balance sheet standpoint, I would just to emphasize and to remind everyone that we did two important fundraisings, one in July and another one by the end of January, where we raised overall $100 million in order to fund all these activities, so overall we are very well funded. The Company has no debt on the balance sheet, and when we are looking on the run rate, it's going to go deep into 2023.

With that kind of funding and even more important the profile of investors and shareholders that we have today, it's very different than what we had two years ago. We have investors that understand the space and understand the strategy of the Company and the overall plan that we have moving forward, and as we are in a very late stage of Q1 and typically we don't give any financial guidance, nor do we plan to do so going forward, but in light of the transformative Upright acquisition, we'd like to highlight that we expect a consecutive quarter of double-digit percentage growth in both our MSK and base business between Q4 of 2020 to Q1 of 2021. We believe this is just the beginning of a positive trend that we expect to see in 2021.

With that, I would like to hand over the call to the Operator for a Q&A session.

Operator

Our first question is coming from the line of Alex Nowak with Craig Hallum. Please proceed with your questions.

Alex Nowak

Great, good morning, everyone. Erez, I want to touch right on that point that you mentioned at the end around sequential growth, so double-digit sequential growth into Q1 here. If I just run through the rough math, assuming 10% growth off $2 million, that annualizes close to about a million dollars. Is it fair to say that the deals that you signed, the three big deals that you signed with the Fortune 500 companies, the RPM piece of the business, those deals signed in Q4 is going to lead to a roughly annualized $100 million—or $1 million net bump to the business? Is that the right way to be thinking about it?

Erez Raphael

Yes, I think that although your calculation is not so accurate, you're definitely in the right direction. That's approximately the numbers that we are talking about. As we stated before, employers are generating for the Company somewhere between a quarter of a million to $1.5 million, $2 million a year. Your calculation is in the—generally it's in the right direction, so yes.

Alex Nowak

Okay, I was never very good at mental math, so I totally understand that. Maybe of the deals that you've signed so far, what is the total contract value of those? If you go through the math that Rick mentioned on how you think about contract value, what is the total contract value of the deals that you've signed so far? Then of that pipeline number, the $600 million, how much of that is near term contract value, meaning those are deals that you expect to sign up sometime in 2021?

Rick Anderson

We're not going to go to annual contract revenue yet until we've got a little bit more traction to make sure that we understand exactly what the percentages are that we're going to get. We'd rather talk about what our enrolment rates look like and how many members we have on platform as we go forward. But if you want to think about them in the context of just dividing the employers by the number that you were talking about, you're going to be generally in the range for those that we're anticipating once they're ramped up here. What we are pleased by is the speed at which we are seeing that ramp towards our assumed 35% rate, which would be a bit lower than what we've seen historically, so we seem to be trending with what we had expected in these cases.

Sorry, can you repeat your question again, Alex?

Alex Nowak

I guess the total contract value on the deals you expect to sign up in 2021, but you kind of touched on that.

Rick Anderson

Yes, so the way that we look at it is we expect somewhere between 10% and 20% of our pipeline to close in any given year. That doesn't mean if it doesn't close this year, it won't close next year, because some of those are in longer sales cycles, especially on the health plan side, but if you want to think about it in that kind of a range, that's what we would expect.

Alex Nowak

Okay, that makes sense. Then maybe on health plans, I know there was at least one, maybe two health plans that were pretty close to being signed last time we spoke. Where does that health plan stand, or are they getting pushed out a little bit just due to the annual cycle restarting here?

Rick Anderson

The health plans aren't really on any annual cycle. They can easily lose some time in terms of just coordinating schedules, getting through processes, etc., but we continue—the ones that were late stage continue to be, including as of yesterday, saying that we're looking at launches potentially at the end of this quarter or at the beginning of the third quarter, is what we're anticipating, at least for a couple of them, and then we anticipate a couple more contributing to revenue in 2021, in the back half of 2021.

Alex Nowak

Okay. That makes sense.

Going back on the multi-condition here, the final, I think, real big channel that Dario doesn't touch is behavioral health, and Rick, you obviously have some good experience with that good business, but maybe for either Rick or for Erez, would Dario go into behavioral health to fill out the bag, and how would this happen? Is this going to be an organic bolt-on piece of the business, or would you do this inorganically through an acquisition similar to Upright?

Rick Anderson

Obviously behavioral health is an area that is not only in significant demand by our customers, but also is something that has a high co-morbidity with chronic conditions. We have a strong belief that the—you can't really address the underlying chronic conditions for somebody who has behavioral health conditions, or at least significant behavioral health conditions without addressing the behavioral health condition.

We have no interest in building behavioral health from scratch, so this would be done either through partnership or acquisition.

Alex Nowak

All right, that's great. Thank you.

Glenn Garmont

Thanks, Alex.

Operator

Thank you. Our next question is coming from the line of Charles Rhyee with Cowen & Company. Please proceed with your questions.

Charles Rhyee

Yes, thanks, guys. Just wanted to clarify the earlier comment around the expectation for first quarter. Did you say it was a double-digit sequential increase?

Zvi Ben-David

Yes, in percentage.

Charles Rhyee

In percentage, so not 50%, just a double-digit increase? Okay.

Zvi Ben-David

Double-digit increase—I mean, it might be 10%, 15%, 20%. That's double—yes.

Charles Rhyee

Right. You're talking a lot about the opportunity here with diabetes and musculoskeletal. Did you provide at all any kind of a metric in terms of the overlap between customers? How much overlap in customers do you have between Upright and the legacy Dario business?

Erez Raphael

Yes, so in terms of the chronic condition itself, 36% of those that have diabetes on average will have MSK issues. From looking into the overall business, if you are talking about clients, we do anticipate that more than 20%, 25% of our clients will have more than one product, so the way that we look at it is that eventually in between diabetes to hypertension to the MSK, and hopefully the next one that we will have on the platform, eventually we're going to get to 30% to 35% of our clients who will buy at least two conditions. That's the way that we are thinking about the business moving forward. The MSK specifically is something that is—ranks very high among our clients.

Charles Rhyee

Thanks, but is it fair to say currently, then, there's no overlap in clients between the two products?

Erez Raphael

At this point, we don't have yet overlap between clients, but based on what we have built now and the pipeline that Rick mentioned, he did add the MSK based on specific interest that we have seen in the last five weeks since the acquisition, because as soon as we announced the acquisition, we started to get phone calls and we started to communicate the new offering, and we believe that we will be able to sell into it and that pipeline that he mentioned is including the MSK.

Just to remind you, Charles, the MSK solution that we have at the moment is something that we are redefining, so the product exists but we're repackaging the product into an offering that will be able to go into the employers market, and we are planning to launch it only at the beginning of Q3. I wouldn't expect MSK sales into the B2B—into the employers market before Q3.

Just another short reminder is that the MSK and Upright, even before the acquisition, was selling their solution into clinics, and there we have hundreds of clinics that are already utilizing and recommending the solution to bill patients. But the sell-in to the employers and the health plan market will not happen before the beginning of Q3.

Charles Rhyee

Okay, that's helpful. Maybe one last question for me is if we think about remote patient monitoring, the health plan business and the employer market, of those three, which do you think by the end of the year will be the biggest contributor? Will it still be the employer market, and maybe if you can't give us—if you can give us a percentage mix, that'd be great, but if not, maybe you could rank order what you think in terms of dollar value between these three will be the biggest contributor for the year. Thanks.

Erez Raphael

Yes, that's a tough one. Rick, you want to take it?

Rick Anderson

Sure. I can give you my best guess, Charles, at this point, is that just based purely on the size of the opportunity, we would anticipate that on a run rate basis, at least, the health plans would make the majority of the revenue by the end of the year, or at least be the biggest portion of that, probably followed by RPM and employer sort of with the balance split almost equally. It's possible RPM could exceed employers in terms of total revenue, but on a run rate basis that's what we would anticipate.

Charles Rhyee

Okay, thank you. I'm sorry - you said 3% enrolment at the beginning. Does that include RPM? Does RPM enroll the same way, or is that different?

Rick Anderson

Yes, so I said 30%—we'd exceed 30% enrolment within 30 days. RPM is—well, it slightly depends on the contract, but in the case of the ones that we're operating now, it's actually the RPM customer is identifying blocks of patients and then we're enrolling those blocks of patients, and we're getting a very high portion of those blocks to be able to enroll. It doesn't enroll in quite the same way in terms of eligibility and then enrolment, they're just saying here's 200, 500, 1,000 patients we want to enroll, and usually they will communicate first and then we will communicate with them, or sometimes they just directly enroll them into the system and then they're up and operating and we're generating revenue off of them, so it's a little bit different.

Charles Rhyee

That's over 30%?

Rick Anderson

In terms of the block that we're identifying, no - that's more like 85% to 90%.

Charles Rhyee

Okay.

Rick Anderson

But it doesn't calculate in terms of eligibility quite the same way.

Charles Rhyee

Okay, that's helpful. Thanks a lot.

Operator

Thank you. Our next question is coming from the line of Steve Halper with Cantor Fitzgerald. Please proceed with your questions.

Steve Halper

Hi. Just as a follow-up, can you talk to some of the changes that you have to make at Upright in order to sell it into the employer market? Also as a follow-on, as obviously this is the big selling season for employers, is that part of the conversation now as you're selling the traditional service?

Rick Anderson

Yes, so thanks for that question. There's two ways that we're going about—specifically as it relates to employers, that we're going about the Upright solution. One is the existing solution has relevance in the employer market, including some of the sub-segments of that market like health and safety, and then on top of that what we're really doing is utilizing the existing hardware and building out a bit more robustly the video libraries of exercises that they have, so that we can connect the sensors to those video libraries and then also leveraging and expanding on their existing relationships with physical therapists to provide virtual physical therapy solutions. That's what Erez was referring to when he said that we'd be in a position to be launching those products beginning in July of this year.

The existing product, obviously we can deliver today, but all of our existing opportunities, including those that are currently in the pipeline, that timing will fit very well with those. For employers that are in the sales cycle right now for January 2022 launch, yes, we are including that in all of our RFPs. We know what the product is, what we'll be delivering, and we will be able to deliver at that point—well before that point.

Steve Halper

Great, thank you.

Glenn Garmont

Thanks, Steven.

Operator

Thank you. Our next questions are from the line of David Grossman with Stifel. Please proceed with your questions.

David Grossman

Thank you, good morning. I'm wondering if you'd talk a little bit more about where we are with the transformation of the sales force, and perhaps you could integrate into those comments how the selling efforts of Upright are going to change that dynamic, if at all, as we progress through 2021. Yes, I'll leave it at that for the moment.

Rick Anderson

Yes, so from a B2B perspective, we have separate sales forces. Also there is obviously some overlap in each of the market segments that we're pursuing, so health plans, self-insured employers and RPM. We've doubled basically our sales force over the last few months in the RPM space and also really in the employer space, and we're continuing to fill out some additional sales positions there. We've been very pleased with the sales talent that we've been able to persuade to join us. As I mentioned, they're really seeing the differentiated opportunity, and these folks are coming from people that are very familiar with both selling point solutions into employers as well as the overall market where we're competing, whether that be diabetes, etc.

In terms of MSK as a condition, really it just adds into our existing sales forces, so other than educating the team on the product, including that in our RFP efforts, etc., it's really like just having another tool in the bag, if you will, so we don't anticipate having to add sales folks specifically for that. We have added some sales folks that have expertise in the health and safety area as a way to also differentially pursue that market, because we think Upright has a unique opportunity in that space, but that's the only differentiator versus just having the rest of the products like we normally do.

David Grossman

Are you at steady state for the moment with your sales force, Rick, or do you think you need to continue to add over the course of the year?

Rick Anderson

We're looking to fill a couple open positions right now, and then we will reassess where we are. I would anticipate we will probably add a couple more as we get towards the end of the year, but we always respond to demand, so if the demand starts to outstrip what our capacity is, we will add to that.

David Grossman

Great. Then in terms of selling—and sorry if I missed this, selling Dario into the provider market, any thoughts on that at this point?

Rick Anderson

We are primarily focused on the provider market through the remote patient monitoring side, so that our targets are generally going to be large providers with Medicare members or integrated health systems. There are certainly some exceptions to that because remote patient monitoring is becoming more prevalent and in demand in the non-Medicare space, but funding sources there are a little bit different than they are in the Medicare space, where they can bill to CMS to get reimbursed for providing those services, which is usually the primary hurdle in a provider market. We're not targeting the provider market for just general adoption of the product at this point, although we do see some of that just organically. We're really focused on where the providers can get reimbursement or have other revenue sources, or funding sources I should say, for the product.

David Grossman

Got it. I know you talked about not providing guidance for the year. Can you give us any sense for how you expect the cadence of revenue to change over the course of the year, or expenses, anything that would help us think about how you may exit the year differently from where you enter the year?

Erez Raphael

Yes, so if you are looking into the transformation from 2019 to 2020, practically we continued with our B2C sales and we put all the foundation into the B2B. In 2021, we are looking to see—to implement us on top of the B2C, because the B2C is going to stay there, this is part of the philosophy of the Company. This is how we are getting data, this is how we are improving the solution and creating a better AI, so I would expect that in terms of the foundation, we can see B2C staying and even growing at the single digit.

On top of that, we need to add the Upright, that is also growing, and the most important part is the three channels of health plans, employers and providers, where in the short term we're going to see the revenue coming from employers, like in this quarter we already signed and it's starting to get into implementation, as well as providers. This is something that we'll see in Q1 and also more intensively in Q2, and then moving into the second half of the year, we're going to see a bigger impact that will come from the health plans because we do believe that we will have some plans, and then the more we go further into the year, the more intensive the growth is going to happen in terms of the absolute numbers.

To my point, we're going to start and see significant revenue already this quarter, so it's starting to go up. If we need to compare 2020 to 2021, we are not providing formal guidance, but the growth is going to be, I would say, significant.

David Grossman

Okay, great. Thank you very much.

Operator

Thank you. Our next question is coming from the line of Nathan Weinstein with Aegis Capital. Please proceed with your questions.

Nathan Weinstein

Hey, good morning, Erez, Rick and Zvi. Thanks for taking my questions.

With the acquisition of Upright and your willingness to plug in very interesting hardware onto your SaaS model, just thinking about your M&A pipeline ahead, do you think acquisitions will still be a big way that you expand your ecosystem ahead, and have you seen other companies out there that are as interesting as Upright, maybe in other chronic conditions?

Erez Raphael

Yes, so, thanks, Nathan, for the question. The way that we were thinking about building this technology as a platform for digital therapeutics is that we in advance created the technology where we can have integration of other products fairly quickly. The open platform allows us to integrate other devices. We already integrated other glucose monitors into the platform, we are looking into the CGM, so it's easier to integrate and easier to create one integrated experience.

Having said that, when we think about adding other technologies, when we need to define whether we want to acquire or build it by ourselves, in a lot of cases acquisition is easier as long as it's being done at the right price with the right company and the right philosophy (inaudible) company. Acquisition is something that we are considering and the integration of a potential different product into our platform is something that should be fairly easy because of the open architecture that we created.

We are thinking in terms of—our mindset is in terms of having a quick integration and being able to absorb other technologies, so that's something that—the (inaudible) higher for acquisition rather than build something by ourselves when we are going to the next condition.

Nathan Weinstein

Thank you, Erez. I suppose there was an out-of-the-box question earlier, there was a very interesting question asked about mental health. That's obviously a large issue in the U.S. and can sometimes be a gating item to full or any employment, so for millions of people that are unemployed or underemployed in the U.S., is there a future scenario where you could work with government payors to address that issue with your technology?

Rick Anderson

In terms of government payors, are you referring to Medicare and Medicaid, or are you referring to something else?

Nathan Weinstein

Yes, and whether you could work with those government payors, such as Medicaid, to provide your service to folks who are perhaps not currently employed, for example.

Rick Anderson

Yes, so that's a great question and it's a great point. Accessibility to care is obviously a significant issue in the U.S., and digital ability to access care is also a significant issue. But one of the nice things about digital is it allows for care at scale at a reasonable price point, and I think that if you look at behavioral health in general, you have—I'll put it in three buckets, I'm going to over-simplify it.

But if you think about it, you've got a larger group of people that have behavioral health issues or could benefit from behavioral health treatment, that are not driving significant costs in the environment, historically we have not done a great job of providing services to those folks on a broad-based scale. You then have your middle bucket of people who may be driving some level of behavioral costs, some level of treatment cost, but are not generating a large amount of costs, and then you have the more severe people and at the very top of the pyramid, you have seriously and persistently mentally ill, which is a different set. You have to look at each of those general buckets differently.

The one you're really referring to is broadly the people at the bottom, and digital gives the ability to provide low cost treatment to people to help them with their behavioral health conditions. I really see an opportunity for that going forward, whether that's working with Medicare and Medicaid plans directly or through the managed area, or there may be other opportunities as well to provide those kinds of services.

Nathan Weinstein

Thanks for addressing that question with such a thoughtful response, and thank you all for taking my questions.

Rick Anderson

Thanks for the questions.

Operator

Thank you. There are no further questions at this time. I would like to hand the call back over to Management for any closing comments.

Erez Raphael

Thank you. Thanks, everyone, for joining us this morning, and we'll see you on our next earnings call. Have a good day. Bye-bye.

Operator

Thank you for your participation. This does conclude today's teleconference. You may disconnect your lines at this time. Have a great day.