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DarioHealth Corporation

First Quarter 2021 Results Call

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C O R P O R A T E P A R T I C I P A N T S

Glenn Garmont, *LifeSci Advisors*

Erez Raphael, *Chief Executive Officer*

Rick Anderson, *President, General Manager North America*

Zvi Ben-David, *Chief Financial Officer*

C O N F E R E N C E C A L L P A R T I C I P A N T S

Alex Nowak, *Craig Hallum*

Charles Rhyee, *Cowen & Company*

David Grossman, *Stifel*

Joseph Downing, *Cantor Fitzgerald*

Nathan Weinstein, *Aegis Capital*

P R E S E N T A T I O N

Operator

Greetings, and welcome to the DarioHealth Corp. First Quarter 2021 Financial Results Call.

I will now turn the conference over to your host, Glenn Garmont, of Investor Relations You may begin.

Glenn Garmont

Thank you, Shomali, and good morning, everyone. Thank you for joining us today for a discussion of DarioHealth's first quarter 2021 financial results.

Leading the call today will be Erez Raphael, Chief Executive Officer. He'll be joined by Zvi Ben-David, Chief Financial Officer, and Rick Anderson, President and General Manager of North America. After the 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 held and recorded on May 18, 2021.

This morning we issued a press release announcing our financial results for the first quarter 2021, a copy of which 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 2020 annual report on Form 10-K, as well as the first quarter 2021 10-Q filed this morning. 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 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.

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

Erez Raphael

Thank you, Glenn, and good morning, everyone, and thanks for joining our call this morning. Joining me today is Rick Anderson, the President and General Manager for North America, and Zvi Ben-David, the CFO of the Company.

We're very excited this morning to report our Q1 results and also to give some updates about our news that we just put earlier this morning about the acquisition of wayForward. I want to be very persistent and therefore I want to reiterate the main three pillars that we keep mentioning every quarter for the last, I would say, year and a half or two years with regard to how we are planning our strategy, how you see the future business, and how we are reporting our progress.

The main three pillars are the expansion into multi conditions, which is something that we keep repeating. The second pillar is the expansion into a SaaS high gross margin revenue, and that's the second one. The third one, and obviously the most important one, is the transformation into the B2B2C. As we all know, this Company started as a direct to consumer. We are big believers in the consumerization of health care and this is why we started B2C. We created one of the best products and we are transforming the business into B2B.

We believe that the combination of these three pillars together is something that—each of them will have a very important impact on our financial profile. But the combination of the three of them together is going to create exponential growth for our Company and that's how we are looking into the business.

We also consider our digital therapeutics platform as the second generation of the digitalization of health. We have heard a lot in the market about the telemedicine revolution. From our perspective, telemedicine is about scaling up the capabilities of healthcare professionals but when we are looking on digital therapeutics platform like Value Health, we are very, very focused on how we can empower patients and how we can scale the treatment even more by getting patients involved with their own health, and I think that this is the future of digital therapeutics, Digital Health, and Health in general, and this is what the market will see in the next few years in terms of the consumerization of health.

As I keep repeating, we think that B2B2C is the most important part that we're going to report on today in terms of focus. At the same time, we need to make sure that our product will improve its value proposition, and when we are looking on the involvement of the market, we are looking two, three and four years forward how we can win health plans and employers and this is why it's important to improve our positioning in terms of the product, and at the same time, when we have more product lines, it's improving our financial profile in a way that we can: number one, win more clients; number two, we can access more products for clients that we are winning, in other words we also improve the total population that are eligible for our products; and number three, because in more than 50% of the cases patients are suffering from more than one condition, eventually we can sell to one user, more than one chronic condition, and we can provide a solution that is much more personalized. In other words, hyper personalized.

The combination of more clients for our portfolio of products, more eligible members, and higher ARPU, average revenue per user, all these three parameters, all of them are going to improve our financial profile and ensure that we are not just scaling the business, we are also doing that in a very healthy way, hence high (inaudible) and very healthy goals. At the same time, we are increasing our moat in terms of our ability to build with the future market as well. That's the way that we are looking on the business and we always looking into these three pillars.

With that, I want to touch the high level results of our financials that we announced yesterday after the closing. We ended the quarter with $3.6 million in revenue which is 73% growth over Q4 of 2020. If we are counting also the revenue of Upright from the beginning of the quarter, hence also generally, the overall revenue, also known as pro forma, is $4.7 million for the quarter. Usually because of the majority of the revenues today is still coming from B2C and specifically for products like Upright, generally is very strong, so generally generated more revenue than what we have seen from Upright in February and March.

In general, both businesses, Dario legacy business and Upright, both of them were growing between Q4 to Q1 so we feel that we also managed post acquisition of Upright to turn around the business and bring the business back to growth, so we think that it's a good indication that we're going to continue growing the business into the second quarter as well and obviously through the rest of the year.

In terms of gross margins, we ended the quarter with 30.1% gross margins for the first quarter. If we are excluding the acquisition related amortization, again from the acquisition of Upright, we would almost double the gross margins to 44.7% from 24.2% that we had in Q4.

I think that this one is fixed to the second pillar that I'm mentioning, the improvement of gross margins, so I see a very good improvement on that parameter, and as mentioned in previous calls, we think that this parameter will keep improving the more we are extending the penetration into the B2B market..

Few words about the B2B2C transformation and I'm going to give some highlights but Rick will elaborate even more on that one and this is obviously the most important pillar. We are very focused on that one. First of all, just as a reminder, we started the overall transformation when Rick joined, the beginning of 2020. We consider the transformation as a multi-year transformation.

We started with a team of four or five commercial team in the States and today we are around 35, from which we have 14 sales people, client success, marketing and so on, so we really changed the whole foundation of the Company from a product offering standpoint and also from a head count standpoint and we started to show the first few wins in Q4 2020 and in Q1 2021 we started implementation and one of the themes (inaudible) that we had is that we told the market we had one of the best products in the market in terms of user experience, user engagement, user enrollment, and also the ability to improve clinical outcome and save money to employers and plans and I think that after a few months into implementation, I'm very satisfied with the results and I think that these business proves to be true because in 10 weeks into the implementation, we already exceeded 40% enrollment rate.

I think that in terms of winning accounts and winning our fight over the competition, we show that we know how to do that. In terms of implementing accounts, we are showing so far a very good indication that we are hitting all the KPI's so the product that proved to be very effective on B2C seems to be very effective also on the B2B including enrolment and our ability to engage with users, and follow the acquisition of Upright and in discussions, closed discussions that we have with clients.

I think that also the pillars, that clients want to see a multi chronic condition platform. They want to talk with one vendor. They want to know that their users are getting one voice for multi conditions and they want to also buy solutions from an integrated company. I think that the thesis of multi condition, that will accelerate our wins and will get us more sales and also more revenue.

This is also supposed to be true because more than 30% of our potential clients are interested also on the MSK solution and potentially also into the behavioral health solution that we just announced the acquisition this morning.

With that, I want to provide you words about the acquisition that we just announced. The idea to extend into behavioral health is out there for awhile, and those that are listening carefully to our earnings calls know that this is a management strategy, in terms of extension within the behavioral health, is the basis in order to treat any chronic conditions, and we cannot see how we can keep improving our performance in terms of helping more and more people and improve more outcomes without having a very good solution on that end, that is integrated to the rest of the platform, and more important, we hear it from clients. Clients want to get this solution as well. The B2B2C transformation would be successful anyway, even if we wouldn't acquire wayForward. But we went forward.

We believe that's going to strengthen our position, it's going to improve our moving forward in the next few years and this is why we made a decision to acquire wayForward, and Rick will elaborate shortly why wayForward is one of the best solutions in the market and why we made this specific choice.

I think that the knowledge that our Company had on the metabolic side and also on the behavioral health side (inaudible) are bringing put us in a position that we will know how to integrate these solutions together into the best of suite, so to say. We are not positioning ourselves as a holding company. We are positioning ourselves as a portfolio technology software company and this is why it's so important to know how to connect the solutions together into one integrated harmonized experience for our users

With that, I want to hand over the call to Rick to provide additional information about the B2B2C transformation and potential wins, as well as the acquisition of wayForward. Rick?

Rick Anderson

Thanks, Erez.

One of the keys to our strategy to moving to the B2B account is generating enrolment and revenue from those accounts. That's a key factor, not just winning them, but actually being able to enrol people, engage them and continue to generate revenue and as Erez said, we launched several accounts in the first quarter. We've been very pleased with where that enrollment is running. We're running north of 40% enrollment in under 10 weeks, which exceeded our internal goals, and as I've stated several times, we use 35% enrolment in our pipeline and in our internal models. Since we are substantially above 40%, that really shows what we're able to do and it bodes well for converting from contracts to revenue.

It also happens to be, from what we know, best in class in terms of enrolment of our competitors, and we continue to be excited about that.

The other operational piece I wanted to touch base on was the partnership that we announced with MediOrbis. This is really a virtual care offering and we're offering it directly to patients in partnership with MediOrbis. We believe, as do many people in the industry, that virtual care is going to be a significant part of the future, a significant part of the healthcare future. In this case, MediOrbis is providing the telehealth care to members and we're providing the remote patient monitoring coaching to MediOrbis in support of those patients.

We started in our existing population and we've now started expanding out beyond that. We believe that this is a significant opportunity to generate revenue and the early pieces that we're seeing are just reinforcing our views about that. One of the other things we think is exciting is that this is based largely on the remote patient monitoring codes that you heard us talk about several times for MediCare members, but what we're seeing in the marketplace is that more and more commercial payers are actually starting to reimburse for the same code. We have an expanding market opportunity as well there, so we're very excited about that.

From a business development perspective, our pipeline is now north $700 million. We continue to make progress in all three channels. I'll start with health plans. As we've stated, we expect—we continue to expect that we will have health plan agreements this quarter that will generate meaningful revenue in the second half of 2021. We are on track for delivering that based on where the contracts are with our customers and we're excited about that, obviously. We also have several other opportunities for health plans in the late stage and we expect to see additional contracts in the later part of the year. Those just won't generate as much revenue in 2021 or revenue in 2022, but we still anticipate that we will have contracts in this quarter.

We also continue to progress some of the earlier stage opportunities through the pipeline and health plans do remain a significant part of our pipeline. For us, though, also employers are a very exciting data point, I think, over the last quarter. As I've stated in the past, the majority, call it 70% of employers, maybe a bit more, are on a January 1 to December 31 cycle, which means we're in the sales cycle for 2022 launching contracts as we speak, and most of the increase in the pipeline in the last quarter is related to those employers. We anticipated we would see that. We're seeing that. We're very excited about that. I think that speaks to the work that we've been doing but also it'll be the name recognition that we're seeing, the fact that benefit consultants are seeing the opportunity with Dario and we're getting opportunities for pitch, as I've said in the past. When we get opportunities or at-bats, we tend to do very well. We're very focused on increasing those, so we're excited about that.

Then on the RPM side, we have several contracts pending final signature. We believe that RPM will generate meaningful revenue in 2021. It's obviously already generating revenue. We expect that to continue to increase and one of the interesting things is that we are seeing an increasing interest from health systems. Strategically, we went after customers that can move faster earlier. Most of that was going to be based on grants that they were getting. Then also, of course, the RPM code that I mentioned a minute ago, and we're continuing to see the larger systems who tend to move a bit slower have an increasing interest in that.

The other thing that we've seen over the last quarter is an increasing interest from what I'll call partners. That means everything from device companies that are looking for potential partnerships with us, to distribution partnerships, and also includes partnerships with other digital health companies. We're continuing to see an interest in what Dario is doing. We believe that relates not just to the success we're having with customers, but our expanding portfolio—product portfolio, and at this point, really, our product has expanded to us selling an integrated offering that's beyond the original metabolic syndrome.

At this point, we are offering diabetes, pre-diabetes, hypertension, obesity, obviously MSK with the Upright acquisition, which is taking two forms: one, the Upright Go Posture Monitor, where we're seeing interest in the marketplace with that on the B2B side, as well as the B2C side. Then also the newer offering that's going to incorporate more sensors and movement related items. We continue to get interest in both the employer and health planning channel for the MSK offering so we think that that's exciting since we just added that a couple of months ago, and we have been partnering over the last few months with wayForward to include behavioral health in our offering, so we truly are selling an integrated offering.

We're also, though, offering each of those as an individual point solution and that is consistent with our strategy of having an integrated front end and back end, and in the middle, we're integrating best in class point solutions in a way that allows people to have a holistic experience and we can manage the multiple chronic conditions that folks have, within the platform. But we can also sell those as individual point solutions and we will integrate because we're an open, by design, architecture. We will integrate with other players in the ecosystem, and that has also been well received in the marketplace.

Lastly, we continue to grow the team. We've been adding, of course, on the sales side, but we also added a new Vice President of client success, who is coming to us from Hello Heart. We continue to be able to attract talent from our competitors and other digital health companies that are in the marketplace. I think that speaks volumes to the fact that they can see Dario's unique value proposition and offering. These are people that have a front row seat to what's going on in digital health and with the customers, and they're seeing the differentiation that Dario offers.

Just a few words on the wayForward acquisition. As Erez mentioned, our strategy has always been to be an integrated multi condition platform. Post-acquiring wayForward, we believe that we are one of the most robust platforms covering the most conditions in the industry. As we look at why we want to add behavioral health, and we've talked about this in the past, we looked at conditions where behaviors play an outsized role in the outcomes for that condition. Behavioral health obviously has significant behavioral drivers that are part of it. It also has significant comorbidity with chronic conditions.

Depending on whose numbers you look at, 30% to 70% of all chronic conditions have a coexisting behavioral health condition because behavioral health underlies all of these conditions and this is an opportunity for us to help provide, in an integrated way, that support for our members. It's a large addressable market, and as Erez mentioned, our customers are looking to add behavioral health solutions, specifically digital behavioral health solutions. That's been true throughout the pandemic but continues to be true, and it's consistently in the top five priorities that they have to reduce cost and improve outcomes.

It also increases the number of customer opportunities that we can participate in. The number of RFPs and the breadth of those RFPs and/or selling directly to health plans, and there also is an opportunity with providers, especially providers that are at risk but also providers that are looking to address behavioral health as part of their other remote patient monitoring solutions. It increases the number of people per customer that we can help. We estimate that we can now serve approximately half of a given population if we're using our entire integrated suite of product solutions. We believe that this will also—and this is being validated in the market with the interest that we're getting—will increase the average revenue per member that we can achieve. It increases the overall opportunity in terms of customers and increases the number of members and the average revenue per member that we can serve.

Why wayForward? We believe wayForward has a unique offering. Most of the other digital health providers, all of the big names, certainly that have gotten a lot of attention over the last year, are primarily offering at tele-behavioral health service. Yes, they may talk about things that they have in advance of that, but the main focus of their offering is really a tele-behavioral health. wayForward actually focuses somewhere else. They're focusing on the hole that exists in most behavioral health offerings, that does not address those members that need to see a provider. If you will, the hole that exists between nothing or EAP and a provider network is really where wayForward is focusing.

They're doing that through an AI based screening mechanism which helps identify where members should go in the process. What are the appropriate resources and level of care that they could get, and then provides a digital cognitive behavioral therapy, or CBT, in both self help and in combination with coaches, and then where appropriate, can refer to a customer's existing face to face or tele-health provider network. If somebody wants them to bring a network to the table, then they can do that, but it's really focused on something that's different and that provides an opportunity to really partner with the other people that are in the system and not, in fact, compete with the provider networks that exist or have an incentive to send people to the highest level of care. You can address people, more people than you do now, and address those people at a lower unit cost throughout the system.

It's very efficient way to approach that. It enables different kinds of partnerships, including with the digital health companies that I mentioned—or the digital behavioral health companies that I mentioned earlier. Their architecture fits well with our existing products and philosophy of being open and willing to integrate with other parts of the ecosystem as well, which we felt was important. Bringing with them approximately 20 employer customers and will add about 20,000 members to our existing platform, but they also provide the digital technology for several EAP platforms which is—actually runs into the several hundred thousand folks that are out there as well. We have a significant cultural and vision alignment with them, which was important.

We look at everything at Dario though a cultural lens as well. They were really a good fit for us and part of the way that we've understood that, as I mentioned, is that we've been partnering now with wayForward for several months, and it was just clear that we had a good alignment between the teams and the way that we were looking at things as we went, and mutually pitched customers. It was a good fit from that perspective as well. The entire wayForward team, including the two founders, will be joining the Dario team and we're excited to have them on board as part of Dario.

In terms of deal structure, within the press release, the acquisition was $25 million up front and a $5 million earn out based on the 2022 revenue. The vast majority of that was paid in equity using a 60-day VWAP. It was really important to wayForward to do a primarily equity deal in order to be able to continue to share in the vision of building an integrated offering and the upside that we anticipate that we will create together. Of course, it also minimizes the impact on our cash balance and we don't anticipate very significant continued investment. There's a nice synergy between the two companies in terms of the ability to use Dario sales and marketing organization and some of the organizational pieces of wayForward, so we don't believe that that will have a significant increase in burn, and will contribute to revenue in 2021, but a much larger contribution in 2022. All of the stock that is part of the transaction is subject to lock up of six to 18 months, much similar to what we did with the Upright transaction.

With that, I will hand it over to Zvi.

Zvi Ben-David

Thank you, Rick. Revenues for the first quarter ended March 31, 2021 was $3.6 million, 73% sequential increase from the fourth quarter ended December 31, 2020, and 116% increase from the $1.7 million in the first quarter ended March 31, 2020. Revenue generated during the first quarter ended March 31, 2021 was derived mainly from the sales of Dario's products and services and from the consolidated revenues of Upright, commencing February 2, 2021.

Gross profit in the first quarter of 2021 was $1,081,000, an increase of $302,000 or 38.8% compared to the gross profit of $779,000 in the first quarter of 2020. Gross profit margin was 30.1% in the first quarter of 2021 compared to 46.7% in the first quarter of 2020.

Pro forma gross profit, excluding $526,000 of (inaudible) of expenses related to the acquisition of Upright Technologies was $1.6 million. Pro forma gross profit margin excluding the amortization of expenses related to the acquisition of Upright was 44.7% in the first quarter of 2021, a sequential increase from 24.2% in Q4 2020. Total operating expenses in the first quarter of 2021 were $15.4 million compared to $10.9 million in the first quarter of 2020, an increase of $4.5 million or 41.6%. The increase resulted from an increase in our research and development activities, sales and marketing expenses, and from the consolidation of Upright Technologies, partially offset by reduction n install base compensation.

Operating loss in the first quarter of 2021 was $14.3 million, an increase of $4.2 million, or 41.7%, compared to the $10.5 million operating loss in the first quarter of 2020. This increase was mainly due to the increase in our operating expenses.

Net loss was $50 million in the first quarter of 2021, an increase of $5.1 million, or 51.3%, compared to $94.9 (phon) million net loss in the first quarter of 2020.

Cash and cash equivalents totaled $81.1 million at March 31, 3032.

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

Erez Raphael

Thank you, Zvi, and thanks for the overview. A few closing remarks and first I want to reiterate that the B2B2C transformation and winning employers health plans is—and providers is our first priority. As Rick stated, we believe we will have a win of a health plan this quarter.

Another very important data point that I think that investors should understand is that in terms of implementing employers, we are showing that we know how to do that. We managed to take the B2C capabilities and transform them into the B2B. From a product standpoint, from a team standpoint, we have all the tools in order to be successful in this transformation, and I think that the fact that we also managed to conclude two acquisitions in four months, this is another indication on our aggressiveness in terms of, in a positive manner, on how we want to lead the market, in terms of being the digital therapeutics platform, and I want to emphasize digital therapeutic platform for chronic condition management, and hence, consumer centric, scalable, and we are integrating with telemedicine platforms in order to provide one integrated experience. But we believe that the future of the market and scalability will be achieved only by involving the users with their own health, and that's why we keep improving our strategic position.

I'm very glad that after we raised more than $100 million in the last 12 months, I would say we are utilizing the capital in a very smart way. The two acquisitions that we did were minimal in terms of spending cash and also the acquisition of wayForward is not going to add on our burn rate something that is meaningful. Practically, we are utilizing the capital in a very small plan. We feel that we have a long runway.

As Zvi stated, we ended the quarter with more than $81 million in cash, and we already see, inside Q2, that we will be able to continue the growth from Q1 to Q2 and I'm talking about goals that is organic.

With that, I would like to open this call for Q&A.

Operator

Our first question is from Alex Nowak with Craig Hallum Capital Group. Please proceed with your questions.

Alex Nowak

Good morning, everyone. Thanks for the call here. We've continued to see the pipeline get built up here, $700 million now, $600 million last quarter, but it also looks like the conversion to deals has been quiet the last few months, maybe a little bit slower than you would have thought. I think last quarter the expectation was 20 to 30 different deals could be signed over the course of 2021. You mentioned the health plans, you mentioned a couple employers that are in the works, a couple providers, but can you provide an update on the deals that you expect to sign over—into customers during 2021 and just the status across providers, employers and payers? Thanks.

Rick Anderson

Sure, Alex, thanks for that question. Yes, the pipeline has continued to grow and part of that was just where we are in the transition. Really, starting in mid 2020, for the most part, for most of the markets that we're pursuing, from a very low number and then continuing to expand that as we go forward. We're not expecting that the pipeline will continue to grow at the rate that it's been growing. In the future, as the deals—most of the sales cycle for health plans, as you've heard me say several times, are 18 months to two years. We're very pleased that we have some that look like they will come out of the pipeline in essentially a year or under a year, which is pretty quick and I think that that speaks to the value proposition and the opportunity that's there.

But there are also ones that will continue to move on what we would think would be a normal cycle. As I mentioned, employers, most of the employers that we're working with that are in the pipeline, although not all of them are 2022 launches which means those contracts which you're referencing will be coming to play in the fourth quarter. We have a couple, including some things that are fairly large that we would anticipate would come probably in the third quarter, based on where we are in terms of the contracts, with some revenue in 2021. But the majority of it really launching into 2022.

Then on the RPM side, that's where we anticipate certainly a larger volume of contracts over a period of time and at the moment we have a fairly healthy number that are sitting out waiting for signatures. It may be the nature of the beast that sometimes we get a bunch in clumps as it relates to that. We still anticipate the same number of contracts that we were anticipating last quarter. Nothing has changed from that perspective. If anything, we probably see an increase in the potential for contracts, especially through partners, around that. All of those comments are pre acquisition of wayForward which we anticipate will also contribute now to that as well.

Excluding that, I would say we're in the same or a little bit better place than we were last quarter in terms of having those come out. Certainly understand the frustration as it relates to seeing those on a regular basis. I think we'll see more RPM contracts on a regular basis. Health plans, like I said, we really aren't going to see a ton of those until we get later in the year because those are 2022 revenue launches with a few exceptions, and health plans tend to be a little bit further in between. But we are—we believe we are well positioned for this quarter and then going forward for the rest of the year, we also anticipate some additions.

Alex Nowak

Okay, that's great. That's really helpful. Okay, on the behavioral health, with the wayForward acquisition, Rick, you've obviously experienced—have experienced behavioral health companies before. You mentioned the reason why this drew your attention to wayForward, but you also said you don't need to make any major investments to it, so just expand on that because I'm sure you want to shape wayForward into a little bit of the vision that you've had from your prior experience.

Then ultimately, what do you need to do to modify the wayForward platform to fit the Dario network? Is it going to be something similar to what you're doing with Upright? I didn't necessarily get that message.

Then just last question of the bunch here. Among the 20,000 customers that wayForward has, what is the revenue from that and do you expect to expand the diabetes solutions into the 20 employer plans that wayForward has?

Rick Anderson

Sure. Let me try and make sure I get all of those. If I miss something, let me know. I probably wasn't as clear as I could have been in terms of we don't expect it to add a significant burn to what we're already spending, so we're not expecting a very large additional incremental burn associated with that. Part of that is because they are generating revenue and part of that is because they already have a robust software development team. Their software development team is located in India, and has really been doing some great work and we anticipate that they will continue to do that great work and continue to refine the offering of wayForward.

But they have built the platform, they are operating that platform so a lot of that heavy lift has already been done as it relates to that. The primary pieces in terms of bringing wayForward in with Dario is really the integration, as I talked about. We want to make this available and by this I mean the different offerings available to members, not necessarily all in the same application. We don't think that that is the best member experience, so we anticipate we will continue to maintain different applications but have integration as it relates to things like members being able to see where they are across different conditions that they have, and have ease of use back and forth between them, consistent looking feel, so you feel like you're in an integrated experience, and of course, the whole thing is supported and underlied by our AI journey engine which enables us to do a more personalized, and hyper personalized approach to those members. We will be integrating the data feeds and then the recommendation engines, etc., that come from that AI engine into the wayForward piece.

We anticipate that that will happen over the next couple months, but wayForward is a little different than Upright to the extent that they're already operating—most of their customers are self insured employers; whether that's direct contracts or through resellers that they have, so their offering is already a B2B offering, and like I mentioned, we have been partnering with them on RFPs already, throughout the first part of this year, as we've entered, especially on the employer side. There's not a lot that needs to be done for us to start that process. Over the next few months, we'll be integrating them into that overall look and feel from that perspective and I feel like I missed one or your questions.

Alex Nowak

Just on the revenue contribution that you'd expect once the deal closes.

Rick Anderson

We don't expect it to be terribly material to our existing revenue that we have in the current year. You asked a question in terms of the billing. The 20,000 members approximately that they're bringing, like I said, that doesn't include their technology solution. They're a little different in terms of the way that they're billing, in that they are billing per user—or, excuse me, per member per month, so they're actually a fixed charge every month related to those folks because of the way that their platform works. It has the ability to screen people and then provide the digital CBT and the CBT plus coaching. Most of the rest of our solutions are being billed on an engaged member basis. They have existing customers that are on a PM/PM basis and they have ones that are in process of being implemented as well. We'll continue to see—so there's contracted revenue there that will continue to come into play over the rest of 2021 and really building into 2022 as they continued to expand.

Alex Nowak

Okay, understood. Then just any update how the Upright acquisition, that that transformation is happening, moving that into more of a B2B platform.

Rick Anderson

In terms of from an offering perspective, we've already integrated, as I mentioned, we have several opportunities actually through MSK as a standalone, and we also have several where it's integrated, where we're working with a couple of different health plan customers and we've been including it from that perspective. We've also seen an interest, by the way, in the Upright Go from a B2B perspective as well. That is obviously an existing product that is in process and we expect that we will have all of the pieces that we need from a B2B side in the late summer.

Erez, do you want to add anything to the B2B integration for MSK?

Erez Raphael

Yes, so that's something that, as we stated in our last earnings call, we're going to get this MSK offering (inaudible) package into the B2B market for Q3. That's still the plan that we have. We start to commit to clients to get it delivered for Q3 and the existing product, as Rick stated, Go 2, is distributed now for some of the B2B accounts.

Alex Nowak

All right, that's great. Last question, just to confirm, what was the revenue of just Dario organic, splitting Upright in the quarter?

Erez Raphael

That's something in the ranges of $2.3 million or $2.4 million, and I'm not sure the exact numbers, but that's the ranges. We had the growth in Q4. In the Upright …

Alex Nowak

That makes sense. Understood on the Upright. All right. Excellent. Thank you. Appreciate the update.

Erez Raphael

Thank you, Alex.

Operator

Our next question is coming from Charles Rhyee with Cowen. Please proceed with your questions.

Charles Rhyee

Yes, hey guys, thanks for taking questions. Maybe first, just to follow up on Upright, so you talked about that the—I think in the release you talked earlier, a good chunk of the first quarter revenue is typically captured in the first quarter. Is that just a function of seasonality and so when we think about revenue for Upright for the rest of the year, should we be using February, March monthly run rate as a run rate through let's say the middle of the year, and then more of Upright revenue comes in the fourth quarter and first quarters of the year?

Zvi Ben-David

Yes, thanks for the question. Yes, since the majority of the revenues that we are generating today is still (inaudible), and that's also the case for Upright. There is a seasonality, so usually January is very strong and this is why January is higher than February and March for Upright, and then towards the end of the year, November, December are going to be again high comparing to the month before. Between, I would say, February and September, October, these are the months, and as you said, we should consider the run rate and the potential growth of this run rate from February, March and onwards. That's the way to think about it.

Charles Rhyee

Okay, that's helpful. When you guys talk about—I think at one point in the release, or I think you've made mention once that there was about 90,000 active users for Upright? Does that represent the steady state membership of this February to September period? Because my guess is, right, if you're paying monthly PMPM, and maybe correct me if I'm wrong, the fourth quarter/first quarter effect, is that really a lot of people trying it out because of the holidays or they want to get better or whatever reason, but then they can't—people cancel, right? Maybe they choose not to continue and what you're really seeing in February, September are the consistent active users?

Erez Raphael

Yes, so first of all, I just want to emphasize that we put a new deck on our website this morning and we provided the link on the press release and also on our 8-K. Information about number of users and so on is disclosed as part of the presentation. It's out there. Just as a comment. With regards to your question, we have a—the major majority of users that are coming from the metabolic are moving into a membership program and that’s the transformation that we had in the last couple of years. In terms of the Upright users, those that are coming from the B2C are buying the device as one-time and then trying it and then they are getting (inaudible) the platform and keep trying it and so there are more on the program that is one time and the others that are joining us out of the B2B are getting on programs that are more like a membership program and that's the way to think about it.

Charles Rhyee

I see. It's a little bit less about the subscriptions (inaudible) but it's also the device charge as part of the Upright that are people purchasing more in the—more as gifts or at the start of the year.

Erez Raphael

Yes, people are buying more online towards the end of the year and the start of the year. This is why we see the seasonality and it's less about the membership program because that's the nature of the B2C sales that we are doing, and when I'm talking about the transformation of the Upright business into B2B MSK, I'm talking about turning it into a membership under the yearly program where you're going to see something that is more (inaudible) and more stable.

The more we move the business and overall revenues into the B2B, you're going to see this ability improving. Obviously this is something that you also already see in the Dario metabolic diseases because we started doing this transformation a year and a half ago. That's something that you're going to see towards the end of the year, also for the MSK business.

Charles Rhyee

Okay. But just on the B2C part of Upright, just to be clear, right, we should be modeling more of the February, March run rate, through September and then ramp up in fourth quarter and first quarter for not only this year, but as we think of next year as well, right?

Erez Raphael

Yes, that's exactly right.

Charles Rhyee

Okay. I just want to ask one more question around wayForward. You talked that it sits in this middle part between either not getting share or getting all the way to like a real full blown tele-behavioral health business. What part of the market—because if you think about—and looking at your slide deck right now and you show this Venn diagram of the addressable market of 9 billion; is this just the segment of the behavioral health that you think that wayForward represents? Or is this you're just saying this 1% penetration? Because I'm trying to understand what part of the behavioral health market fits into where wayForward is trying to play in.

Rick Anderson

Yes, that represents where we think that they're playing right at the moment, but if you think about behavioral health as a pyramid for the moment, where you're looking at the number of people that would be in a level of acuity, let’s just call it, for the moment—it’s probably not exactly the right term—at the very top of the pyramid you’re going to have a small number of people who are seriously persistently mentally ill and they have very high costs associated with them on the behavioral health side, and also, by the way, on the physical health side, the next group of people down is a little bit bigger number of people but those are people that are usually incurring significant amount of costs, maybe on the medical side instead of the behavioral side, but they have significant behavioral health issues, and then there's, depending on how you want to look at it, two to three categories below that, that have decreasing severity of behavioral health conditions, and also decreasing cost.

If you really look at that on an overall basis, the base of that pyramid is the largest group of people that have behavioral health conditions that would benefit from care and if care is not provided, a significant portion of those will continue to progress into higher levels of acuity and cost associated with that. The challenge with the bottom end of that pyramid is that they don’t cost a lot of money. They're not spending money on behavioral health. They don't really need a traditional provider visit, the way that we would think about it necessarily in a lot of cases; some do. But a lot of them really could benefit from other interventions.

The trick has always been how do you provide services to that low end of that pyramid there at a very cost effective way. What I think is unique and interesting about what wayForward is doing is that they're really focused upon using sophisticated screening to understand who is in what category, what kinds of treatment or care would be appropriate, and then helping direct them to those pieces, and in some cases providing that carrier themselves, and in some cases, sending folks to care outside of themselves as part of the referral, and don't get me wrong, that referral is part of the value, the ability to do that referral is part of the value as well.

But this is really addressing that lower end piece of the market on a cost effective basis and because they are not providing and making their money, so several of the players that are out there are essentially charging for telehealth visits or tele behavioral health visits at significant cost, oftentimes actually in excess of what it would cost for an in person visit. If that’s where you're making your money, you're incentivized actually to send people to that level of care which is not necessarily appropriate or needed for those members. It’s a better member experience. It's more convenient. It gives them what they need and also allows you to address this very large portion of the market.

In doing that—the only way you can do that is through a digital approach to doing that. That's also why they—their structure from a business model perspective is a true PMPM versus an engaged member piece. We think that the opportunity is even potentially larger than that, Charles, but we're starting with something that is smaller but we think appropriate.

Charles Rhyee

Okay, last question. Can you give a rough estimate of what the PMPM is for wayForward?

Rick Anderson

It really depends on what the underlying services are, but it's going to run somewhere between $250 and $400.

Charles Rhyee

Okay, great. Thanks, guys.

Erez Raphael

Thanks, Charles.

Operator

Our next question is from David Grossman with Stifel. Please proceed with your questions.

David Grossman

Good morning. Thank you. I know you gave us some good statistics for the pro forma numbers for the first quarter. I was just wondering, if you’d look at the clients that are currently under contract and ramping, can you give us a sense for what the run rate revenue is under that definition (inaudible) all of the visibility that you have that’s in the process of ramping and what that run rate would look like?

Zvi Ben-David

The run rate of the revenue at the moment, in between—we need to count in both the B2C of the Metabolic, the B2C of Upright, and the B2B that started. I would say that the run rate is above—at the moment is above the $4.7 million pro forma that we presented to Q1, because we are in the middle of Q2, so it's above that number. I cannot provide the accurate split on how it's divided between B2C to B2B, but I would say that it's more like in the range of (inaudible) 15% B2B and 85% B2C. That’s high level and we don't have an accurate number for that one.

David Grossman

Right, and similarly on the Opex for the balance for the year, was the first quarter, the EBITDA loss, is that a high watermark do you think for the year, Erez, or is there—how do you want to think about how that trends for the balance of the year?

Erez Raphael

Yes. I think that some of the expenses that we had in Q1 were higher because of the acquisition, so we had the expenses of legal and communication. From a cashflow perspective, we had to cover debt and other things. I think that, in terms of losses and burn, you shouldn't think that Q1 is going to be the run rate for the rest of the year. I think that we're going to see a gradual decline in the losses and in the burn. I would say, as we move forward, something in the ranges of 15% decline as we move forward. That's on high level.

Q1 was a very special quarter with this acquisition (inaudible). The impact of wayForward there with regards to cash, as Rick stated, is going to be very minor because, again, for wayForward we are not making any B2C investment because everything is on the B2B side and in terms of the commercial teams and the (inaudible), wayForward is relatively small, and we're going to ramp up the sense of wayForward with the team that we already had on board from Dario, and this is something that is reflected into our Opex already.

In terms of the operational team of wayForward, including AI and the software development team, and because they are lower than the average that we have in the Company, because it's in—the majority of the team is in India, so with regards to that, we think that from a cash flow perspective and P&L perspective, the impact of wayForward to the Opex is going to be very low and in fact it also gives us an opportunity, when we are expanding our teams, to rely on the development center in India, and moving forward, to improve our financial profile, also in terms of cost when we want to grow with additional employees, we have also the India side. That's an operational opportunity also for the rest of our business that we are very happy about.

David Grossman

Got it. Just to be clear, when you said that it'll have nominal impact on your losses, does that mean that they're losing less as a percentage of revenue, or that they just have nominal absolute losses currently?

Erez Raphael

They have absolute losses that are relatively low if we are considering the revenues that is getting in (inaudible) and the losses are very low and the idea of doing M&As and this is something that we—I did before in my previous company. Usually what we are seeing in year one is that the two P&Ls are getting together and we're not going to see cost reduction here. But at the same time, wayForward are not losing a lot of money. It's relatively very, very small comparing to our overall expenses, and usually in the second year we start to see an improvement and cost effective activity that will improve the overall P&L.

To your previous point, we think that moving forward toward the second half of the year, we're going to see improvement in the P&L, and obviously into 2022, we want to be in a much better position in terms of losses.

David Grossman

Got it. Thanks very much for that. Then just on the revenue model, I think a question came up a moment ago about the PMPM in wayForward. When you go in to sell a bundle, are each of these products going to be sold separately? Are you going to have a base price for the platform like you were talking about when you closed Upright? I just want to get a sense of how to think of new clients coming on and how to think of base revenue for clients and how that may scale by adding the different products?

Rick Anderson

Yes, so I would think about that—as I made mention in the comments, our primary objective is really to sell an integrated solution. We're getting a lot of interest and traction from that, from having that integrated solution because that does make a difference from other things that are out there in the marketplace, and we have been market testing different kinds of pricing models in looking at that. We will be offering it on both an engaged member, per engaged member per month, so really translating (audio interference) and offering stand alone, as well as on an integrated basis.

The reality in the marketplace is that different players want to address different things in different ways. We do pride ourselves on our flexibility in terms of both the offering and the ability to integrate with others, and then also how we deliver on that value to our partners. The way that I would probably think about it, just because it’s probably easier, is to think about it on a per engaged member per month basis from a model perspective, and it's just a matter of adding additional dollars to that, to cover that on an integrated basis.

David Grossman

Got it. Just one other question was, I was just wondering, if you look at how you’re selling today and what you may look like 12 months from now, do you have any change to the channels that you're using, and the ones that you’re using today, maybe give us a sense for how those are performing, and what I mean is channels outside of the internal direct sales effort. Just trying to get a sense for how your partners are performing now and what you're expecting to add over the next several months, if anything.

Rick Anderson

Yes, we're seeing additional interest from—if I understand your question correctly, we're seeing additional interest from distribution partnerships and we look at those in two broad buckets, one being making it easier for our customers to adopt what we're doing, so they have some ability to either pass data or facilitate payment, or they already have contracts in place and can fit or tuck in underneath that as part of their offering. We think we will see some expanded relationships there over the next couple of quarters. Then we look at it as folks that are truly really reselling what we're doing and there’s fewer of those opportunities, but we have gotten—definitely gotten some traction with some of the ones that we have. We’re not really pursuing those in a significant way right now, from that perspective.

We’re more interested in the first part of partnerships, the first category in partnerships and the direct sales pieces that we’re doing, but that will continue to evolve and we’re always reassessing where's the market going, how is it doing deals, who can we partner with? I think that there's more and more emphasis in the marketplace right now in terms of—and I think there was a Wall Street Journal article that was timely and appropriate, is there is a certain amount of point solution fatigue in certain parts of the market, but the other thing that's interesting thing that's going on is because digital health has been in the market now for a while, but it's primarily been larger employer part of the market, is there’s now an interest that says, okay, how do we get this into smaller customers that just aren't economically feasible for somebody like a Dario to pursue, a 100, 200, 500 employee type of contract, and there's some interesting partnerships that are happening in that area as people are looking to how they can leverage their existing base of customers at that level and pursue that. I think we'll see some activity there as well.

David Grossman

All right, great, thank you. That’s it for me.

Erez Raphael

Thanks, David.

Operator

Our next question is from Steven Halper with Cantor Fitzgerald. Please proceed with your questions.

Joseph Downing

Hey guys, morning. This is Joe Downing on for Steve. Just a quick question from me. Given the experience with the management team at (Inaudible), do you guys expect integration of the wayForward business to be—go more smoothly than past acquisitions, and could this potentially lead to future behavioral partnerships with some other companies?

Rick Anderson

It absolutely could lead to other partnerships. As I said, I think wayForward is well positioned to be a partner in the ecosystem which fits with our philosophy versus compete with a lot of the offerings that are out there directly. Now, they can definitely—they have partners, we have partners that we can bring to the table to provide those offerings and we anticipate we’ll have more partnerships to do that in the future.

We do have behavioral health expertise in the organization, but I think we're also—that is part of the reason for doing the wayForward acquisition is that we’re bringing their expertise and their platform to the table. But we certainly understand how behavioral health fits in the overall offering that we're doing and how those pieces are integrated, and we also have several advisors that are assisting us with that as well that are coming from other places that have that behavioral health experience, and our clinical coaching leads also coming from a variety of different companies that are out there, including Signa (phon), etc., that are very familiar with how the behavioral health pieces work in relation to overall chronic conditions.

Yes, on an overall basis, yes, we believe we are well positioned to integrate wayForward into the overall offering and operations of the Company given the breadth of experience that exists within Dario today and we're really pleased to bring the offering and the expertise that wayForward brings to the table as well. We also think, by the way, the wayForward will enhance our behavioral science approaches as well. That's an additional benefit that they're bringing to Dario.

Joseph Downing

Great. Thanks, guys.

Operator

Our next question is from Nathan Weinstein with Aegis Capital. Please proceed with your question.

Nathan Weinstein

Hey, good morning, Erez, Rick and Zvi. Congrats on the wayForward acquisition and thanks for taking my questions. Just one quick one. There's been a lot of discussion about how the pandemic has had a deleterious effect on mental health and luckily we're seeing an influx of innovation in this space. I'm just wondering, when we think about the next few years, for this acquisition and for DarioHealth, how are you seeing the opportunity evolving in the market, especially as the country goes through reopening?

Erez Raphael

We are part of this industry for the last eight, nine years. I think Rick is almost 14 years. From our perspective, health care is managed in an inefficient way and the idea of starting all these businesses is to digitalize the space and we think that the consumer is the way to digitalize it. We have seen the pandemic accelerating our vision which is good and we are happy about it. We fully think that eventually all the changes are here to stay and we're going to see the continuance of the transformation.

From our perspective, the strategy is to provide the consumer centric, to get the users under one journey. I think as one of the statements that I had in this earnings call is that we are not a holding company. We are a technology company. We are going to eventually integrate the solutions so that users will have one journey, in a thoughtful way. It's not that we're going to have one app necessarily. We're going to have a very high profile personalized experience, and as I said, we think that it's the next generation of the digitalization of the space. We have seen in the last 15, 20 years, a lot of telemedicine solutions. We have seen that companies are trying to scale up treatment by getting a software solution to help the professionals. We are going one step forward with our digital therapeutics platform. We are scaling up the capabilities for the users and we are supporting them with health care professionals, and not the other way around, and I think that that's the future if we want to create scalability and if we want to create the high margin business that will be able to scale up treatments, and that's what we are focusing on.

Today, with this acquisition, you're seeing the seed for all our plans in the next two or three years. We really think strategic, and we really think few years in advance.

Nathan Weinstein

Thank you very much. Appreciate the insight. Thanks, Erez.

Operator

We have reached the end of the question-and-answer session. I'll now turn the call back over to Management for any closing remarks.

Erez Raphael

Thanks, everyone, for joining our call this morning, and just want to reiterate that we have a new presentation loaded to the website with additional information that can be complementary to the press releases that we put this morning, and also to this earnings call. Thanks for your continued support. Have a good day. Bye-bye.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.