DarioHealth Corp.

Third Quarter 2021 Results Conference Call

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PRESENTATION

Operator

Greetings and welcome to DarioHealth Corp. Third Quarter 2021 Results Conference Call.

I would now like to turn this conference over to your host, Mr. Glenn Garmont, Investor Relations. Thank you, sir. You may begin.

Glenn Garmont

Thank you, Laura. Good morning, everybody, and thank you for joining us today for a discussion of DarioHealth's third quarter 2021 financial results. Leading the call today will be Erez Raphael, CEO of DarioHealth. He will be joined by Zvi Ben-David, CFO, and Rick Anderson, President and General Manager of North America at DarioHealth.

After prepared remarks, we will open the call for Q&A. An audio recording and webcast replay for today's call will also be available online as detailed in the press release invite for this call. For the benefit of those who maybe listening to the replay or archived webcast, this call is being held and recorded on November 16, 2021.

Last night, we issued a press release announcing our financial results for the third quarter 2021. A copy of the release can be found on the Investor Relations page of DarioHealth's website. Actual events or results may differ materially from those projected as a result of changing market trends, reduced demand, or the competitive nature of DarioHealth's industry.

Such forward-looking statements and their implications may 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 third quarter 2021 10-Q filed last evening. 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 last night and in the Company's filings with the SEC.

In addition, certain non-GAAP financial measures may be discussed during this call. These non-GAAP measures are used by management to make strategic decisions, forecast future results, and evaluate the Company's current performance. Management believes the presentation of these non-GAAP financial measures is useful for investors' understanding and assessment of the Company's ongoing core operations and prospects for the future. A reconciliation of non-GAAP measures to the most comparable GAAP measures is included in today's press release regarding quarterly and year-to-date results.

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

Erez Raphael

Thank you, Glenn. Good morning, everyone, and thanks for joining our call this morning. Well, this quarter was one of the most exciting quarters for us as we have seen all the strategic pieces that we put together in the last two years coming together in a very impressive way.

In the last couple of years, we are talking about a few main pillars. Number one is the fact that the Company is moving into platform that is multi-condition. We always thought that the market is going to consolidate, and we are going to see the digital therapeutics industry coming together into one platform.

The second pillar is about the fact that we are moving the Company from direct-to-consumer into the B2B2C, in other words, selling into the peers' market, employers' market, and the provider's market. In the last four, five months, we have seen that these two pieces came together in a very nice way on the multi-condition platform post building organically all the metabolic pieces in the last few years; the diabetes, hypertension, and weight loss. We also made two acquisitions earlier this year, Upright and wayForward for MSK and also for behavioral health. Further than that, we showed the very strong institution capabilities by the fact that we manage to integrate the Upright Solution into the Dario platform, and we launched few weeks ago, the Dario Move which is the MSK solution for Dario and we are going to also integrate the behavioral health part in Q4.

In terms of performing the acquisitions, getting the technology integrated into the platform, we moved very fast, and we created one integrated platform, which is one of the most comprehensive platform today in the industry, and we see a lot of very positive feedback from the clients.

Even more impressive is what we have shown in the last four or five months in terms of getting accounts signed. We keep talking about the three main channels, providers, employers, and health plans, and today we have accounts that have been signed on all the three channels. Actually, we had in Q1 around five accounts. Today we have 47. In the last four, five months, we have seen 85% of the accounts that we have ever were signed in the last few months, and we think that this momentum is going to continue into the end of the year and into next year. It's not about the number of accounts. It's about—also about the quality of the accounts.

One of the accounts, as you probably know, is a big national health plan that's signed with a Company. I think that is something that gives us a lot of durability, and this is something that should have a significant impact on our financial profile.

Further than that, we also showed that few of the accounts that we have signed are also for multi-condition and I think that this is another very important indication that the Company strategy is the right strategy, because today, we are not just selling into the multiple channels, we are also selling multiple product lines, and we are selling the full suite, which is something that we thought from the first place that clients are going to be very interested in.

Overall, we see that we are getting a full validation for both the channels and the offering of the companies, and I think that the fact that all these points had happened in the last four to five months, I am telling the best story about our ability to execute on the strategy.

In terms of the pipeline, we reported that the pipeline is continued to be strong, and it's above $1 billion. Obviously, we deducted from the pipeline the accounts that we signed on. Practically, all those that have been signed and are going into implementation almost of the $1 billion, which means that we had a significant growth in the pipeline as well.

Another very important data point is the fact that 80% of what we have in the pipeline is for a multi-condition platform. Again, it shows that we built the right platform and the right offering to the environment under which we are operating today. Overall, we see more excitement. Overall, we see more interest, and overall, we see that we are operating in the best demanding environment that we have seen since the inception of this Company. Overall, we see the momentum continuing to the end of the year and into 2022, and we think that we are going to have more accounts before the end of the year.

A few words about the industry. We see that the industry is becoming moving from a book fulfills what the telemedicine companies are selling into consumer first, and it's very important to understand the difference between telemedicine to digital therapeutics. We are creating a consumer first platform. The industry is moving into digitalization and into value-based and this is all the pieces that digital therapeutics platforms are providing including Dario and we are selling it in a model that we like to call it digital Therapeutics-as-a-Service.

Overall, we see that we are starting to be a leader in the category. From here, I want to move to a few of the financial results of the quarters. Overall, we were growing by 176%. This is a very robust growth, and in terms of the pro forma gross margins, we reported 45% gross margins in comparison to 26.9% that we had a year ago. Overall, we still think that we are in the trajectory to generate gross margins that are above 70%. We think that the more we are going to move into the B2B, the more revenue is going to come from the B2B, the higher is going to be with the gross margins, and we think that we are going to operate a kind of SaaS model Company.

We see how all these strategic initiatives of multi-condition, plus the movement into the pills market is creating—these two vehicles are creating a compounding impact on our ability to generate revenue, and we think that this is something that will have a significant impact on our numbers in 2022 and we are going to see in 2022 the significant ramp-up in our run rate.

On the financial profile side, I just want to remind you how these two vectors are working together. On a single account that we are signing a company that have a single condition, and most of the digital health companies are managing either diabetes or hypertension, or MSK. Usually, 8% to 15% of the population have a single condition. When we are moving from single condition to multi-condition, we have few KPIs that are improving drastically.

One is the number of eligible members that are eligible to one or more of our products. On a multi-condition, we see the numbers going from like A, 15% to 40%, and the ARPU, the Average Revenue Per User is something that is much higher. It's going from $60 to $90.

These two parameters together under the same assumptions of (inaudible) is something that is generating between 5x to 7x more dollars for every account under which we are implementing, and this is something that is not reflected yet in the revenues that we are generating today but definitely will be reflected in the revenues that we are generating next year.

Overall, on the implementation side, we are doing a good job here, as well. We are on the accounts that we are already implementing, we are above 40% enrolment rate, and the retention rate is in the trajectory of 80% retention year-over-year.

With that, I want to hand over the call to Rick to give you a deeper insight into the accounts and into the implementation. Rick.

Rick Anderson

Thanks, Erez. I wanted to start with a few highlights on the operational side, and some of these are ones that Erez that just spoke about, but we continue to see enrolment for our standard accounts being greater than 40%, which is above the 35% that we use in both the pipeline calculation and our internal models.

Current trends suggest that we remain on track to achieve 80% annual retention consistent with our historical trends, and we have grown the users on the platform to approximately 210,000 people. We are in implementation for most of the recently announced agreements, with the majority for a first quarter 2022 launch and a few for fourth quarter 2021 launch. We believe that this positions us well for significant revenue growth starting in the first quarter of 2022 from the B2B pipeline.

On the sales side, the pipeline continues to grow, now more than $1 billion despite winning multiple deals in the last quarter. This is a net pipeline. We have seen significant progress in all three channels in the third quarter, expanding from five contracts at the beginning of the year to 47 as of now, including plans, employers, providers, and channel partners, with 80% of those coming in the last six months. We have about a dozen contracts that we have not yet announced that we anticipate closing before the end of the year and launching in 2022. These are either signed and not yet announced or in negotiation or contracts at this point.

As to the individual channels, starting with the health plans, we were very pleased to announce our first health plan contract this quarter with one of the top five national health plans. We anticipate that the health plan will contribute millions of dollars in revenue beginning in the first quarter of 2022, and we are already in discussions with the plan on expanding our relationship. As I talked about before, especially in health plans, landing and expanding is a large part of the business. We have an additional plan in the final stages of contracting and another few that are very late stages of this process, so we anticipate to continue to see more health plans as we go through 2021 and into 2022.

It has been approximately 18 months since we began selling the health plans, a channel that has an 18- to 24-month sales cycle, generally speaking. We remain pleased with the progress that we are making.

On the employer side, employers represent the largest growth in contracts in the third quarter as we continue in the 2021 sales cycle. Many of the wins that we've announced and those that we will announce in the coming weeks are through the competitive RFP process with some of our largest competitors. Announced our first contract for the entire product suite, and we anticipate more full suite product announcements before the end of the year.

These wins will not only add substantial revenue in 2022 but the number and quality of accounts and the consultants that we've dealt with should significantly increase our reference customers and opportunities that we can leverage to even greater number of wins and larger accounts during the 2022 selling season for employers which will start in the first quarter of 2022.

We've also entered into agreements with several channel partners including Virgin Pulse, which increase our visibility and distribution and should further accelerate our revenue growth in 2022. I would like to call out that we continue to have good success with our behavioral health only product in off-cycle sales, a steady trend we see continuing into 2022.

On the RPM provider side, we have also recently announced additional provider contracts, and we have several additional contracts that are pending final agreement that we expect in the fourth quarter or early next year. In addition, we are also seeing the size of the deals that were getting done increasing, which is a very favorable trend for us.

We continue to see strong demand in the market for the multi-condition solution such as ours. 80% of the pipeline is now multi-condition or whole suite offering. The feedback that we are getting from the market is it's not only the integration in the front-end and the back end for the customer making it easy for them, but they are also responding to the fact that we are one of the few in the industry that has a fully integrated solution.

Many of our competitors, even if they have multiple conditions, are doing it in separate modules where we've taken a different approach and really combine the user experiences, the one coach-one experience, and that's responding or resonating very well in the marketplace. The metabolic suite is the backbone of the integrated solution, but our Dario move, which is the MSK solution and the behavioral health solution are helping us build additional momentum and creating additional opportunities for us to pursue. There is significant economic impact from moving to multi-condition deals. We expect that revenue from a full suite deal will be five to six times that of the single condition to the same size customer.

As we look into 2022, we are confident that we will see strong growth. We have seen our efforts translate into contracts that will generate revenue primarily starting in 2022. We continued to grow the pipeline. We have strong operational trends with our first employer customers that demonstrate our ability to translate contracts to revenue.

We see strong growth of numbers of the platform. We have grown our leadership team with the addition of Jerrod as Chief Commercial Officer, which we announced yesterday and are very excited about. We continue to see wins in competitive RFP processes against the most established competitors in the space, which personally I find one of the most exciting times that we are seeing.

With multiple channels and multiple partners, we have multiple growth engines. We are not dependent on any individual channel to achieve our growth objectives through the end of 2021 and into 2022.

With that, I'd like to turn it over to Zvi.

Zvi Ben-David

Thank you, Rick. Revenues for the three months ended September 30, 2021 were $5.6 million, a 7% sequential increase on the three months ended June 30, 2021, and 176% increase on the $2 million for the three months ended September 2020.

Gross profit for the three months ended September 30, 2021 was $826,000, an increase of $277,000 or 50.5%, compared to a gross profit of $549,000 for the three months ended September 30, 2020. Gross profit margin was 14.7% for the three months ended September 30, 2021 compared to 26.9% for the three months ended September 30, 2020.

Pro forma gross profit excluding $1.7 million of amortization of expenses related to the acquisition of Upright and wayForward was $2.5 million or 45% of revenues for the three months ended September 30, 2021.

Operating loss for the three months ended September 30, 2021 was $22.5 million, an increase of $15.9 million or 241% compared to the $6.6 million operating loss for the three months ended September 30, 2020. This increase was mainly due to the increase in our operating expenses and stock-based compensation.

Net loss was $22.4 million for the three months ended September 30, 2021, an increase of $15.5 million, or 243%, compared to the $6.65 million net loss for the three months ended September 2020.

Non-GAAP adjusted net loss for the three months ended September 30, 2021 was $11.9 million, an increase of $7.2 million or 151% compared to $4.7 million non-GAAP adjusted net loss for the three months ended September 30, 2020. This increase was mainly due to increase in our operating activity. Cash and cash equivalents totalled $51.3 million as of September 30, 2021.

I'll turn now the call back to Erez.

Erez Raphael

Thank you, Zvi. I want to wrap it up with three main points, three main takeaways that is important that all of us will understand. Number one, I want to talk about the healthcare industry that is changing dramatically now. We used to think about the healthcare industry as a doctor first. Now, we see that it's becoming more consumer-first, digital-first, and more value-based. Therefore, we think that digital therapeutics, as opposed to telehealth or telemedicine, digital therapeutics is going to lead this transformation, and we believe that Dario is very well positioned to be the king of this category, and the category is having a huge potential. We are just now scratching the surface in terms of the potential of this industry.

We see it all over the place where the client environment is changing as well. It's not about whether we need to adopt solution. It's about what is the solution that we are going to adopt. We see the client is going to be part of the ecosystem, and it's not anymore about just early adopters that are buying something from innovators. It's about really getting in-bound requests from clients that want to adopt this kind of solutions. The industry is there, and it's happening.

Point number two is related to the strategy and our ability to execute on the strategy; I think that we were clear, and those that are following the Company in the last few years we were very, very consistent with the pillars multi-condition, moving from B2C to B2B, providing the best solutions to peers. I think that we are executing very well along the pieces, and the last four months are telling the best story about that.

Overall, we think that the momentum into the end of the year is going to continue, and we are going to sign additional six to twelve contracts, including health plans and we also think that we are going to build the momentum into 2022 where we are going to see a significant high revenue in 2022. This was point number two.

Point number three related to the previous two points. Number one, because the industry that is transforming and going digital therapeutics and digital in general, we see that more and more giants that are coming from the healthcare industry, I would call them a non-digital giant. Think about pharma companies. Think about big medical device companies. Let's understand that this is where the market is transforming, and they want to be part of this category.

We started to get a lot of inbound request. We are talking about it in the last few quarters, and we are saying that it might get to a maturity where the Company will have the opportunity to have strategic relationship with one of the big eyes which is something that will help us push the platform faster into the markets. These are the main key takeaways. In that overall, we are creating a very good momentum into 2022.

I'll pause here, and I will hand over to the Operator for Q&A now.

Operator

Our first question comes from the line of Alex Nowak with Craig-Hallum. You may proceed with your question.

Trenton McCarthy

Great. Good morning. This is Trent McCarthy on for Alex. Can you provide more detail on the health plan win, the initial contract size, when that could start converting into sales, and what additional investments, if any, you need to make to get the platform ready for?

Rick Anderson

In terms of launching it, we anticipate that it will be launched by the first quarter of 2022. The ongoing activities to implement it are just about done. There is a small chance it will happen still this year, but we are really looking at it starting next year. What we said is that the contracts is in the millions of dollars that will be more detail forthcoming as we go.

We are in a discussion with them right now to expand this beyond what they are already doing. This is with their ASO clients. They are selling our solution through as their own effectively. The lift to do this as indicated by the (inaudible) is not very significant. We expect that we will have a bit more of a significant lift to launch Phase 2 when we get there, but it's nothing that's going to be significant in terms of the dollar expenditure or time. We are very bullish on this continuing to expand and into other opportunities in other areas in this health plan.

Trenton McCarthy

Got it. That makes sense. Just from a broader perspective, with the deals that you have won and are expecting to win before the end of this year, can you just expand on how revenue is expected to ramp throughout 2022? More specifically, do you still believe you can double sales next year, as the Street indicates?

Erez Raphael

Yes, thanks for the question. We think that we are going to see more accounts getting signed. We think that also health plan is something that we have few more in the pipeline that are in contracting stage. We are very confident that we are going to get it, as well. We are very confident in our ability to grow the revenue intensively.

I don't think that the Company is in a stage where we can say precisely if we are going to see the run rate jumping in Q1 or Q2 of next year, but we are very confident that we have enough accounts in the pipeline plus acceleration in the numbers of the accounts that we are going to sign on also next year that is going to grow the sales in a very intensive way.

We cannot be precise on whether it's going to happen, but we are going to see the hope is picking in Q4 of this year or Q1 of next year. This is too early to say. But we are talking about a significant account. But

I can just give you an example. The health plan that we are talking about is something that can go in few stages to double-digits in terms of millions of dollars to the Company.

If it's going to happen in 2022, the two digits, it's one story. If it's going to wait for the beginning of 2023, it's a different story. The ability to predict is a bit challenging at this point, but at the same time, because we are selling into multiple channels and multiple conditions, we have multiple growth engines.

The bottom-line to your question, yes, we are confident that we can grow the revenue. Accuracy is not something that we have at the moment.

Trenton McCarthy

Okay. That's helpful. Just if I could squeeze one last one in here. Could you walk through the elevated spend? Is this current Opex spend a go to run rate, or do you expect that to increase? If you could just speak to the capital plans or how the cash burn is going to trend over 2022, that will be great.

Erez Raphael

Yes. I think that now we are seeing some peak in the run rates because we spend a lot of money in order to prepare ourselves to the launch of many accounts, plus, we also put together the few pieces of the multi-condition. We are investing also into R&D in order to take all these pieces together. In only nine months, we are connecting three companies together into one platform.

This is something that created more expenses. When the accounts that we have signed on, including the big health plan, are not yet generating revenue, most of them, and it's going to take another a couple of months before we see that. We see a pick in the overall run. We expect that it's going to relaxed into next year.

Once significant revenue is going to get in on top of the run rate that we have today. Overall, we feel comfortable with the cash balance that we have. We know what is ahead of us in terms of the pipeline. We know what are the next accounts that we might sign on. We know about the strategic discussions that we are having. We feel comfortable with the cash balance that we have, and we think that we still have a very long run rate, and we still have the ability to make the right decisions in terms of how in the future we want to fund the Company in between the strategic opportunities that we have to the long run rate that we have.

Trenton McCarthy

Great. Thanks for the questions.

Erez Raphael

Thank you so much.

Operator

Our next question comes from the line of Charles Rhyee with Cowen. You may proceed with your question.

Charles Rhyee

Yes. Hey, thanks, guys, and congrats on all the new business and the momentum that you are seeing. Maybe if I could just ask a little bit about the makeup of these new wins, 40 something contracts, I think you said the majority are employers. If we pull the national health plan client out of that for a second, can you give us a little bit more, maybe just directional kind of guidance in terms of what's the average size of these deals look like? What is the implementation length, and how will revenue get recognized? If we are looking at 40% enrollment, is that within the first month, or should we be thinking about it over the course of maybe three to five months? Any color around that will be helpful.

Rick Anderson

Let me start at the end, and I'll go forward and just help me out if I drop one in the middle and happy to come back to it. In terms of the revenue ramp or the enrollment ramp, we've seen pretty much, so far, reaching the enrollment rate that you are talking within two months.

I would say, for the most part, it should be somewhere between eight to twelve weeks that we would reach that level of enrollment, and then obviously, we have ongoing efforts to keep it at that rate or maybe move it up a little bit in a couple of cases that we've seen from there.

In terms of average deal size, it really varies a lot between those. We are looking forward to giving averages as we go forward, but these are everything from $100,000, $250,000. The full suite product is probably about $1 million or just under $1 million a year run rate. They are all over the place, and so, it's a little challenging to give you an average over the whole 47 or 46 if we take out the health plan contract.

Charles Rhyee

Okay. It sounds like, if we thought of it that way, we are still averaging somewhere low mid-six figures. If we were to ballpark it, is that—we would be in the range?

Rick Anderson

Yes. If we are talking about a metabolic or multi-condition, we are probably talking in that range, and as we get a full suite for your average-sized customer, now I am not talking about jumbos here, because average size customer here probably approaching $1 million.

Charles Rhyee

Okay. Then, when we think about—you noted that the majority of these contracts are going to start January of next year. Can you give us a little bit more—what percent of these new contracts will start here in the fourth quarter? Because I am looking at consensus for next quarter, and it ticks up and at least, directionally, is where consensus is, do you think a fair approximation for—obviously of the Upright integration, you've got some new starts coming in the fourth quarter. Any sense directionally that where the market is, is probably pretty close?

Rick Anderson

Let me just answer the question because I missed it from the core. I apologize. As it relates to the launch of the contracts, other than one of the contracts for the metabolic and multi-condition we'll launch in the first quarter of 2022, some of the behavioral health-only contracts are launching across the platform. Those are on the smaller end of the size range. Just, some of those are like 30-day implementations. The others for the most part are going to be 60-day implementations unless we got started earlier and they've got a January launch consistent with the benefit cycle. But Erez, do you want to talk about it?

Erez Raphael

Yes. Yes, I just want to add on top of that, we were talking about this health plan for a while, and some of them has been delayed. The big national one is something that we also expected, and it changed the whole trajectory of the revenues for the Company. At the same time, I think that some revenue that we wanted to appear in 2021 will not be there from the health plan. It's going to go only into the first quarter of next year.

Probably, this one will have a significant growth in the B2B revenue, because of all the accounts that we are going to launch in Q1 of next year. The whole organization is on fire because we have significant amount of wins that a lot of them are going to be launched in Q1.

At the same time, Q4, we also expect a nice growth from Q3 to Q4, because of few other implementations that we have, because we still have users on the platform from the B2C, because usually, in Q4, there is a seasonality of the B2C. I still see a ramp-up from Q3 to Q4 and then a more significant impact of all the accounts that we signed in a hockey stick in Q1 and Q2 of next year if I can paint how this chart should look like.

Charles Rhyee

That's really helpful. Last one for me here, Erez, you talked about competitive RFPs and winning against your larger competitors here. For those accounts, though, did they already have something in place, and they were looking for a replacement? Or are these mostly clients that didn't have any solution in place and were looking for the first time? Thanks.

Rick Anderson

Yes, no, thanks for that question. I think it's important as we look forward, and let me expand on that a little bit in terms of—I would say, probably, 70% to 80% of the accounts that we are looking at have at least some portion of what they are—some of the conditions that are looking at that are new to them.

In some cases, they would already have a diabetes solution or some other solution, and now they are going to multi-condition. We are seeing that. The rest are, what I would call, replacement, and a lot of contracts are going to be coming up over the next year, as well for folks that had signed on a couple of years ago, and we think that we'll probably see the number of folks that are looking for replacement. Replacement and expansion at the same time in terms of multi-condition happening as we go through the rest of 2021 and then, really as a trend in 2022, we are seeing strong demand for multi-conditions from a smaller number of vendors, and as I mentioned in my comments, the integrated solution is really resonating also in the marketplace.

Charles Rhyee

Great. Thanks a lot, guys.

Rick Anderson

Yes. Thanks, Charles.

Erez Raphael

Thanks, Charles.

Operator

Our next question comes from the line of David Grossman with Stifel. You may proceed with your question.

David Grossman

Good morning. Thank you. Erez, you mentioned in your prepared remarks about the new partners, including pharma, med-tech some large pharma med-tech companies. First of all, did I hear that right, and if I did, perhaps you could elaborate a little bit more on the type of relationships and just what those may look like down the road?

Erez Raphael

Yes. Number one, you heard that correctly what I said. I was talking generally about the healthcare market that is becoming more digital, and when I am saying digital, I am talking about digital therapeutics and digital health. I am not talking about telemedicine.

Practically, those that are selling into the chronic condition market, whether it's medication, and pharma companies, or medical devices companies, or the combination of the two, are looking to get into this space, and the space is evolving over time. More and more money is going into VC, and the category is literally created any further.

They want to be part of this future. They want to get digital access to the patients. On both cases, if they are pharma companies or medical devices companies because they think that the future is about managing the daily routine of the user, and this is something that creates for them a lot of opportunities to provide a better-personalized treatment to patients.

Under this kind of thought, they are thinking strategically ideas forward, and they want to be part of the category, and this is where we started to get a lot of inbound calls. We are in touch with few of them, and we are trying to figure out what's the best way to partner. There are multiple ways to partner. For example, it might be licensing the platform for a specific territory.

One of the things that I want to remind all our investors is that Dario, as opposed to all the other platforms in the market, Dario is a digital therapeutics platform that is multi-region, multi-language, cleared by multiple regulation bodies, and can go global. It might be licensing on other territories. It might be licensing in the U.S. territory and help us push the solution into the market.

Obviously, if a big player wants to be part of the category, they are also thinking in terms of how they can take it more strategically, and they have in mind in the future also equity thinking and stuff like that. It's still early to talk about the equity part. But in terms of strategic partnerships, this is something that is definitely in discussions.

David Grossman

Got it. Thanks for explaining that. The other thing I wanted to ask is, you referenced that, and I think you mentioned before is that the national health plan has different potential phases to it. Can you give us any more specifics on what are the milestones required at Dario versus those milestones just that are internal to that client that? Are they gauging factors that to move from Phase 1 to 2 to 3 or whatever the progression could be?

Rick Anderson

Sure. The first two phases are really tied together. The health plan wanted to go faster than their internal capabilities would really allow them to push, and so, they split the first piece into essentially two groups. With the first one, so that they can meet some of the commitments that they wanted to have coming in the beginning of this year. The second phase, basically, immediately started thereafter. There is not milestones that are needed. They'll be—as I mentioned in—during the call, there is going to be some additional integration and branding work that we are going to do, none of which is terribly significant, and also then, doing a little bit more of the back end work that health plans like to do in terms of understanding the structure of the technology and things of that nature that will happen. But there is not a specific milestone. As we complete those pieces which are already underway, then we would anticipate that the second phase would start.

The third phase is the one that I also mentioned where we are already in discussions on the potential to expand this relationship into a different segment of that same health plan, which is as big or bigger opportunity than the first two phases that we are talking about. Then, I believe that land and expand tends to be the way that health plans work.

I think that there are opportunities beyond those three. But those are the ones where there is substance discussions going on and/or stuff, right.

David Grossman

Is it still at least your expectation that you would go from Phase 1 to Phase 2 sometime by the end of the second quarter of next year. Is that the rough timing?

Rick Anderson

Yes. That would be our current level of expectation.

David Grossman

Got it. I know I think this question came up before, but I just wanted to see if there is any incremental context you can provide for us in terms of, based on the backlog that you have, you've had a great six months of new contract wins, and customer wins, and just curious, can you give us any sense of what the run rate revenue looks like when those clients are fully implemented?

Erez Raphael

Yes. It's a tough question, David, because if we think about the health plans, as I said, it's on full implementation; it's double these tens of millions of dollars. This is for the health plan. For the rest of the accounts, as Rick stated, the accounts are somewhere between—all of them are in the ranges of like six digits. You can make the calculation. One of the things that we don't know, as you can understand, is how quickly we can get all of them to be on a full run rate, but on a full run rate, the numbers that we see as a consensus by the analyst is something that we can achieve. That's even an understatement on a full run rate.

Now, we need to see how quickly we can implement them and how quickly we can go between the few phases. The health plan is like, on a few phases, it's tens of millions of dollars, but we need to get there. To go to Phase 3, we need to go first through the Phase 1 and 2. That's the most accurate assumption that I can give you.

David Grossman

I got it. Just one other thing on that. I am just excluding the large health plan. Is most of the lack of visibility related to just client activity, or do you feel like you've got adequate capacity on board, all this new business with the uncertainty being more client-driven, or are there other factors that come into play?

Erez Raphael

Yes. This is a very important point. The Company was operating as a B2C for a while. Actually, today we are managing more. We are managing approximately 208,000 users on the platform. We already implemented accounts on both provider sides and on the employer side. We know how to—in all users, we know how to retain users. I think that we do have the ability. We do have the capacity.

We do have a more important—and we do have all the pieces in place in terms of the headcount, the management, Rick and his team and also, the rest of the team, the R&D team.

We feel that we are very, very prepared to go into a wider implementation. I don't think that this is a risk from our perspective. Yes, we took few conditions together, and we are integrating them together as we speak. We just launched the first one.

The second one will be launched in the next few weeks. Talking about the behavioral health and all of it together will have to be launched in January 1. This is a piece that there is an integrated offering. We are going to launch at beginning of next year.

Overall, I think that we are ready from capacity perspective, from experience perspective, and from a headcount perspective. The only unknown is how quickly we can realize the potential of the revenue for the 47 accounts. This is something that is still early to say if it's going to take us two months or five months, that's the big unknown that we have at the moment. This is why it's really hard for us to guide the market specifically how each quarter is going to look like.

David Grossman

All right. Thanks very much and good luck.

Erez Raphael

Thank you.

Operator

Our next question comes from the line of Nathan Weinstein with Aegis Capital. You may proceed with your question.

Nathan Weinstein

Good morning, Erez, Rick, and Zvi. Thanks so much for taking my questions, and congrats on the progress so far. A really nice quarter. Starting with the pipeline. For the 20% that is not described as multi-condition, generally, is there a reason why the client would want a more limited set of conditions or a point solution, and then how do you think about that in terms of the future upsell potential?

Rick Anderson

I think that's a good question. There are customers that are just looking for a specific solution because that's what fits with their strategy. As they go through and say, hey, here is the pieces that are most relevant to our current offering. Maybe they have some pieces in place, or they are looking at the spend that they have in their claims data and saying, hey, our real issue is in this area.

For example, diabetes, we do have some opportunities that are in the pipeline where just by the nature of the business that they are running and where they are geographically located, they are going to have an outsized challenge with diabetes from a cost perspective and so, they may decide that this is where we want to focus first.

I do think that that creates an opportunity for integrated solutions and whether that be another one or two conditions to that, because if you have diabetes, it's a significant issue in your plan, and you likely have some behavioral health that's underlying that. Then, of course, you also are going to have weight management and MSK challenges within that, as well.

Those are supplemental things. We definitely will work towards expanding that with customers that we land, and we really look at it as sell the customer what they want to buy and then make sure that they are super happy because then they'll look at more expanded solution and we can create the economic and member experience arguments for them.

But many, two-thirds of the pipeline is looking at more than one solution. I think that that speaks to the fact that there is more recognition of the broader base. But there is definitely always going to be customers that want to look at one condition.

Nathan Weinstein

Okay. Great. Thank you for the color there. Then, just one follow-up from me on the mental health side, what's the feedback so far, what's the covered labs' understanding of how they access the solution and then also if you could just pine on what the mental health practitioner awareness is and appreciation for digital therapeutics as a usable tool?

Rick Anderson

Sure. We are seeing roughly about 20% of our population is screening and then, as you may recall, our solution is really what I would call fills the hole between—almost everybody has, which is between nothing or EAP solutions and the provider networks and it focuses on screening people and presenting them with options generally into three buckets.

One being digital self-help with CBT modules, and that category of folks can include very low levels of behavioral health up to moderate levels of behavioral health. Then, you have the middle category, which is really coaches, plus the digital therapeutic tools and modules that they can utilize.

Then, the third bucket is referring people to a provider network, and we don't provide ourselves the provider network solution, which makes us a little bit unique in terms of the industry, but we can connect into anybody's network whether that'd be brick and mortar or telehealth or however they want to deliver that, and we can bring partners to the table, and we do in some cases where they want us to provide that capability, but we are really looking at it from that perspective.

Most providers, at least as it relates to our solutions, are going to see it as an inbound referral essentially and because of the fact that just it's the nature of the mental health industry, there is often wait times going into these other networks. This allows us to coach on the back of that. We are seeing about roughly 10% of the people that are going through the screening process are being referred out to a provider.

It's an attractive opportunity for a customer because they can get more services to more people at a lower average price point that is based on what the member actually needs. There is also an experience point here because somebody has a low level—right, relatively on a clinical scale - it may not feel that way to an individual, but they have a relatively low acuity, anxiety problem for example, maybe best served by just coaching and not going to a provider and as a matter of fact, if you refer them to a provider which would normally be what their option is, they are not going to go. They'll get nothing. It's a much better solution from that perspective.

I think to the more generalized industry question that you asked, I think there is a greater and greater awareness, especially coming out of the pandemic with a lot of the telehealth-based solutions for behavioral health. I think there is a greater and greater understanding in the mental health community around digital tools and how the digital tools can be used.

But I think that they have the same challenge that you see on the medical side. A lot of the pieces that are out there, a lot of the well-known pieces even, that are out there are not very clinical in nature, and there is some tools that are clinical in nature, and there is some tools that are more navigation-based. I think that those are the ones that the professionals are really looking to utilize. But it's still a highly, highly fragmented industry from that perspective without a lot of consolidation and use of, for example, electronic medical records, but that's changing.

Nathan Weinstein

Great. Thank you so much for the thorough answers. Really helpful. I appreciate it.

Rick Anderson

Sure. Thank you.

Operator

Our next question comes from the line of Ben Haynor with Alliance Global Partners. You may proceed with your questions.

Ben Haynor

Hey, good day, gentlemen. Thanks for taking my questions. I am just wondering, I want to understand the mechanics of the backlog a little bit better. I know on a net basis you added, I think $100 million, you went from $900 million to $1 billion during the quarter. Now, is the right way to think about that $100 million increase, let's say you were to land all of that tomorrow, would the right way to think about that be, okay, there is a $100 million opportunity, now we are going to—we just need to enroll these patients. But we are not going to get them all. Multiply the hundred by the 35% or 40% or whatever you expect for the enrollment rate?

Rick Anderson

You are talking about the pipeline that we have that we are selling into, which is, we are trying to get people visibility to the demand for the product and where we are competing. Those are not one deals. We would expect over the next year to be more like 10% of the pipeline would come out in terms of contracts. Of that, we would expect—what we use internally is—it depends on whether it's a single condition or a multi-condition in terms of what the prevalence rate is that would be eligible. If you are talking about diabetes, you are talking about 8% to 12% of the population would be eligible. If you are talking about full suite, you are probably closer to 40%.

The mix of the yield is we would look at that as being the eligible, and then we'd multiply that by the 35% that we use as our standard enrollment rate. Then, we put a couple other factors in there. But basically, that's how we are building up both the pipeline and then that's how we look at the revenue coming out of it.

Erez Raphael

But we always made these calculations—yes, just to clarify, you don't need to take down the $1 million and multiply it because the 35% enrollment rate and the eligibility members for full condition, for full suite 40% of only diabetes 8%, everything is already factored into the pipeline. It's a pure potential revenue.

Ben Haynor

All right. In actuality, let's just say that everyone has something wrong with them in the opportunities that you had. We would multiply that by six or something like that, just because—and they all enrolled, just because, if you are 40% for full suite of the addressable patients, you'd multiply by 2.5. That would be $2.5 billion if everyone has something wrong with them. Is that correct?

Rick Anderson

No. I wasn't very clear. The way that we build the pipeline number to the $1 billion is basically the size of the population multiplied by the prevalence rate within that population for the conditions that we are talking about with that customer. That would be, say it's 20% of the population would have a condition. It'd be what's the total opportunity for that customer times the 20%. Then we multiply it by the overall enrollment rate of 35% and then by whatever the pricing is to get the amount that's actually in the pipeline. The pipeline represents what we would anticipate the customer actually could provide. Then, from that, we would expect that we will get some amount of that going forward, and typically what we are looking at is 10%. You just need to say, okay, this is the portion that's going to come out of the pipeline, and you don't need to multiply that by a bunch of other things.

Ben Haynor

Just like a win rate. Okay, we (inaudible) this year (inaudible) we've got $100 million potential, so to speak.

Rick Anderson

Yes.

Ben Haynor

Okay. Got it. Thanks for the clarification. That's helpful. Then, when you are assigning these B2B contracts and you're announcing them, are you guys asking the firms whether you can use their name in the press release and they are saying no, or is it something where, just for competitive reasons, that you have not given the name of that customer?

Rick Anderson

Generally speaking, customers will not allow us to use their name because they don't want to be seen as really pushing for—their lawyers don't want them to be seen as advocating for a particular solution. In some cases, they'll allow us to, for a variety of reasons. In some cases, they'll probably allow us to in the future do so, but that's why we don't. We almost always ask or put it in the contract and they take it out. But that's a pretty standard practice, the way that that happens.

Ben Haynor

Okay. Fair enough. Then, lastly, for me, just looking at the category sales rankings that you see for the blood glucose monitor on Amazon. It seems to me like you are attracting a pretty significant number of users from that channel. Maybe even 10,000, 15,000 over the course of the quarter. Does that sound like that's in the ballpark?

Erez Raphael

Yes. Actually, the B2C is still operating. I don't know to tell you what is the portion between Amazon to other marketplaces. We still generate revenue from the B2C side, and Amazon is a very important channel. We are getting a lot of consumer interest on our application and medical devices through this channel.

Ben Haynor

Okay. I am sorry, one more. Is there a chance that you can give us a sense of what you are spending on, on digital marketing on a monthly or quarterly basis?

Erez Raphael

Yes. It's in the ranges of a few hundreds of thousands of dollars every quarter.

Ben Haynor

Okay. Got it. Thanks for taking the questions, gentlemen.

Erez Raphael

Thank you.

Operator

Ladies and gentlemen, we have reached the end of today's question-and-answer session. I would like to turn this call back over to Mr. Erez Raphael for closing remarks.

Erez Raphael

Thanks, everyone, for joining us this morning, and looking forward to seeing you as we keep building this business in the digital therapeutic space. Looking forward to seeing you in the next quarter. Thanks, everyone.

Operator

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