



DarioHealth Corporation
First Quarter 2022 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

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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

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John Vandermosten, *Zacks Investment*

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

Operator

Good morning, and welcome to the DarioHealth First Quarter 2022 Results Call.

Please note that this event is being recorded.

Now, I'd like to turn the call over to Mr. Glenn Garmont, Investor Relations. Please go ahead.

Glenn Garmont

Thank you Dick. Good morning everyone. Thank you for joining us today for a discussion of DarioHealth's first quarter 2022 financial results.

Leading the call today will be Erez Raphael, CEO of DarioHealth. He'll be joined by Rick Anderson, President and General Manager of North America at DarioHealth. After prepared remarks, we'll 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 may be listening to the replay or archived webcast, this call is being held and recorded on May 12, 2022.

This morning, we issued a press release announcing our financial results for the first quarter 2022. A copy of the press 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 2021 annual report on Form 10-K as well as the first quarter 2022 Form 10-Q filed this morning. Additional information concerning factors that could cause results to differ materially from the Company's forward-looking statements are described in greater detail in the Company's press release issued this morning and in the Company's other filings with the SEC.

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

With that, I would like to introduce Erez Raphael, Chief Executive Officer. Erez?

Erez Raphael

Thank you, Glenn, and thanks, everyone for joining us this morning.

So, for all of you that know the story, you know that we are very, very consistent with the story for the last few years. We always talked about few pillars, the multi condition direction with the acquisitions that we did in order to develop the best digital therapeutics company in the world, that support multiple conditions. We talked about moving from direct-to-consumer, to B2B. We talked also about a super user-centric business model with SaaS kind of revenue, recurring revenue that end up with high gross margins which is something that's super relevant for software company like Dario.

I think that in Q1, we are starting to show all, how all these strategic decisions are reflecting in the way that we operate, and also in our financial profile. I think that as Management, we knew how the market is going to evolve, we knew that healthcare will be super consumer-centric, and we knew that it will have to be more digital. We made all these decisions. We start to see in this quarter, where it's going to take us to. I think that if you're going to look on all the financial profile of this quarter, you can see that we improved almost all the parameters, starting from the top line, the merge between direct-to-consumer to B2B, the profitability and the gross margins, we have seen a significant improvement. We've seen reduction in operating expenses, mainly because we are shifting the business from direct-to-consumer to B2B. So, we spent less money on digital ads. The most important thing is also the loss. In this environment we showed a significant reduction in the loss for the quarter. I'm going to get into the numbers shortly. But before that, I want to talk about few fundamentals development that we had this quarter.

So, we signed overall 14 new accounts, including to two health plans. Health plans are super important for our business. Usually they're providing much higher revenue per account. Overall, we have 61 accounts so far; 80% of them started the launch. Overall, we have total ARR of \$40 million in the full implementation of these accounts.

If we're looking on another very, very strategic activity that we had in this quarter was the Sanofi agreement. We started the relationship couple of months ago. We are making it progress very well. We have here two elements that we need to consider. One is the offering. We think that with the capabilities of Sanofi and the digital therapeutics platform that we have, we can create an offering that is going to be best-in-class in the market also moving forward. So, the R&D teams are already working together, and we're going to get the best platform in the world.

Also on the commercial side, in addition to a \$30 million that will be paid by Sanofi to Dario from which \$8 million (phon) is going to be paid this year, we are also working together with the commercial team, in order to push the solution into the market. We started in the U.S. with health plans. Rick is going to elaborate about it.

Another important point is the strategy of multi condition that we have. This is something that proved to be a very smart decision, not only from a financial profile, but also from a go-to-market perspective. We are getting more and more demand to the multi condition. We think that a significant portion of the accounts that we're going to sign this year or next year, are going to be for the full suite.

Also on the implementation side, we are making a nice traction and keeping above 35% enrollment rate for the accounts that we are launching.

A few highlights on our financial. So, we ended the quarter with above \$8 million in revenue, which is 124% higher than what we showed in Q1 of 2021. It's also approximately 34% higher than what we showed in Q4 of 2021. So, it was a nice jump quarter-over-quarter sequentially. I think that the merge between B2C to B2B is also interesting. For the first time B2B is exceeding B2C in revenue.

Sanofi is going to contribute \$8 million for the year, had also contribution for this quarter. Just as a reminder, this is a multi-year contract that will contribute revenue also in the next quarters, and also next year and the year after. So, this is also something that is going to strengthen our financial profile.

In terms of expenses, if we're looking on the overall expenses, excluding the stock-based compensation, acquisition expenses and depreciation, on the first quarter of 2022, we managed to reduce the overall expenses to \$14.8 million. If we compare it to Q4 of 2021, it was \$16.4 million. So this is a good reduction. I think that we're going to see this plan moving on to the next quarter, because one of the things that we are starting to stop doing is investing significant budget into the direct-to-consumer. We are moving budget to the B2B, which is something that is more cost effective in terms of customer acquisition. That's something that will also help improve the financial profile.

On the gross margins on the non-GAAP we show 61%. We talked about it in the last quarter. Eventually, the goal of the business is to be above 70%, 75%. That's the goal of the business. We talked about it a couple of months ago when we guided somewhere between 50% to 60%. Now we see that it's around 61% on a non-GAAP basis. We're going to continue this trend overall. It's not going to be super stable in the next few quarters, but overall it's going to be in this ranges. We're going to keep improving it. We are confident with the goal of 70% to 75% moving forward. So, we're very, very positive about the gross margins as well.

On the operating loss, this one we showed a significant reduction. We had \$14.9 million loss, if you're looking in Q4, when we exclude the stock-based compensation, acquisition expenses and depreciation.

We were down from \$14.9 million to \$9.72 million. This is a significant reduction. We are always looking on our losses and how we can operate in this environment and be super effective. So, this is something that we're very proud, in this 35% reduction.

Overall, if we're looking on the burn rate, we had a burn that showed up a bit high. This is something that is not a run rate. It's temporary. We built a significant size of inventories. We're operating in a very challenging environment from a supply chain standpoint. With so many accounts that we have signed, and we need to launch, we felt that in order to put the business in the right situation, we need to have a higher than usual inventory. So, we built more inventory in Q4 and in Q1. So, we paid for that. This is one thing.

Another thing is that payments that we should get or already got from Sanofi and others, showed up only in Q2. So, this is something that was showing a bit higher than the usual run rate. So, I wouldn't be too worried about the burn. It's simply for Q1.

Looking on the overall balance sheet, we raised additional \$40 million in Q1, which is something that was in addition to \$36 million that we ended the year. So, from a cash position, we feel super confident that we have the cash to execute on our plans, and we have cash to get into 2024.

So, with that, I want to hand over the call to Rick to give you additional insights on what's going on the commercial side.

Rick Anderson

Thanks Erez.

Q1 represented a milestone quarter for Dario. We saw substantial increases in revenue both sequentially from last quarter and up over 100% from last year as Erez mentioned. This has been driven by the launch of accounts signed in 2021 and early 2022. We're seeing the expected increase in B2B revenues at higher gross margins. For the first time, B2B revenues in the quarter exceeded B2C revenues, which is a watershed event for us.

We signed two health plan accounts in the quarter, one of which recently launched and the other is expected to launch in the second quarter. Both are expected to contribute to revenue in the second quarter and beyond this year. We also entered into the \$30 million strategic agreement with Sanofi in the quarter. We believe these milestones are substantial validation of our strategy to focus on the B2B market. With the additional contracts we have signed in 2022, we now have 61 contracts on our path to our goal of 100 total contracts for 2022. The majority of the agreements announced in this first quarter are what we call off-cycle, employer health plan and provider agreements, and as such are expected to generate revenue in 2022.

Generally, it takes us about 60 to 90 days to implement these types of customers. The exception to that, as I've discussed in the past is when a customer has a different targeted launch date. In some cases, that will be, but we'll see more of those types of agreements as we get towards the end of the year. With the addition of these new agreements, our contract value is now approximately \$42 million. As Erez mentioned, we continue to see good operational metrics in the launched accounts with enrollment of approximately 40%, which is translating the launched accounts into increasing revenue. We expect that to continue throughout the year.

Our integrated multi condition platform strategy continues to generate interest in the employer and health plan markets, with customers recognizing the value of both less vendors, and one member journey for

their employees and/or members versus our competitors that generally have modules rather than one integrated platform.

Consistent with past quarters, approximately three quarters of our pipeline is now multi condition, so either full suite, or more than one condition that we have, where the multi condition offering provides more value to both our customers, and approximately four to five times more revenue to Dario than a single condition solution.

We continue to make progress in all three of our B2B sales channels and with strategic partners. For employers, we remain in the early part of the sales cycle for self-insured employers that are on a January 1 to December 31 cycle, which represents approximately 70% of all employers. Consistent with this cycle we will see RFPs or request for proposals peaking during the second and third quarters, and contracting in late third and fourth quarter for those accounts that will launch in the first quarter of 2023. This is the normal employer cycle, and we would expect that we will see those employer contracts, as I said in the third and fourth quarter. What we're seeing in the first and second quarter are primarily off cycle, health plan and provider accounts.

Outside of the main employer cycle, we continue to see strong demand for our standalone BH offering in other off cycle customers, which we expect will generate additional contracts and revenue throughout 2022. All of our recent contract announcements have been these types of off cycle customers.

With regards to health plans during our yearend call a short time ago, we said we expect an additional one to two plans in the coming quarters. Since then, we have announced an additional plan and we still expect additional plans in the coming quarters of 2022.

In addition, we anticipate completing an expanded agreement with our existing national plan in the second quarter, which represents an acceleration of our originally anticipated timing. This expanded agreement has the potential to bring more than 10 million members onto the platform over the next couple of years. In 2022 we anticipate multiple millions in revenue from this agreement.

The implementation of the Sanofi agreement is well underway. Sanofi began promoting the entire Dario suite to health plans in the second quarter, immediately increasing our health plan sales resources by more than 10 times and bringing additional data and targeting resources to the Dario sales team. Revenue earned under this co-promotion is in addition to the \$30 million overall Sanofi contract value we have discussed.

Over the last couple of months, we have been collaborating with Sanofi to define new and enhanced solutions that will be built on the Dario platform beginning in the second quarter of 2022. We're very pleased with the speed which we've gotten off with the launch of the Sanofi agreement.

Sanofi is leveraging its internal data and real world evidence teams to create studies around the Dario solutions. We believe that these will have increasing value as the market moves to demanding increasing levels of evidence for digital health providers in the coming years. With Sanofi well underway, we are continuing additional strategic relationship discussions that we believe could add substantially to revenue at the end of 2022 and into 2023.

With regard to our remote patient monitoring or provider offering, we have continued to see contracts with providers in the first quarter and expect that we will continue to see additional contracts and expanding revenue in the second quarter. Given the traction that we've achieved in the health plan employer strategic markets, we have made a strategic decision to rotate sales resources away from the provider market and into markets with higher near term revenue opportunities, which we believe will increase the efficiency and improve our operating margin.

Back to you, Erez.

Erez Raphael

Thank you, Rick.

So, in light of the recent macro environment, I must say that we are super excited about our positioning as a chronic Management company that is changing one of the big industries in the world. We see, that other health care players are trying to (inaudible) our business model that is super user-centric, recurring revenue driven from tech. We do see and aware to the challenges of companies on the telemedicine part.

I just want to remind again and emphasize that Dario is a user-centric company that try to drive a change from the consumer as opposed to just working with the physicians, in a kind of episodic relationships between patients to physicians here. We are scaling up, chronic condition management from the users and I think that it makes a very, very big difference. We see that the rest of the market is trying going there. We do believe that moving forward, we're going to see more strategic agreements with companies that are coming from the healthcare, more traditional players that are also becoming more and more believers of digital health and digital therapeutics is something that would create a lot of value and will change healthcare.

Therefore, they are looking to have deals with companies like Dario. So, I expect to see more of those moving forward also this year. Other than that, we believe that we're going to show continuous improvement in our financial profile including growth. We are super believers in this SaaS model and hitting our objective of 70% to 75% gross margins with 50% to 60% gross margins on a non-GAAP basis for this year.

We're going to be super cautious in terms of how we are spending our capital. We're going to keep lower the investment into the direct-to-consumer, and we're going to grow the business from the B2B, and not from the direct-to-consumer. So, this is something that will continuously improve our financial profile and reduce our overall expenses.

Other than that, again, on the cash position we feel comfortable with where we are and with the run rate into 2024. We do believe that in case capital would be needed, we'll be able to find sources that are not dilutive for the Company. The environment is something that we understand, and we look into what's happening in the environment. But especially in this environment, we believe that a very successful business that have a future is something that would thrive and create value for investors. So, we're going to keep execute on the fundamentals.

With that, I want to open the session for Q&A.

Operator

Thank you. First question comes from Alex Nowak, Craig-Hallum. Please go ahead.

Chase

Good morning, everyone. This is Chase on for Alex. First of all, congrats on the quarter. Thanks for the questions.

So, first from me, revenue in the quarter from B2B now exceeding consumer is great to see. Any additional granularity you can give as far as the breakdown you saw this quarter? Maybe, how it

compares to sequentially or year-over-year? Then maybe what kind of growth rates you're seeing from the two franchises would be helpful for us. Thanks.

Rick Anderson

So, appreciate the question. I would say that a lot of what we're seeing is the culmination of the efforts that have been taking place over the last year, and two years associated with that. We had a significant number of launches in the first quarter, as we expected. We're not doing a breakdown in terms of on the individual customer basis, but I would say that we saw growth across all of our market channels in terms of revenue and we expect that we will see that continuing. I would say that probably the smallest contribution relative to the other markets would have been health plans in the current quarter, as that continues to ramp up, but we expect that that will catch-up rapidly in the second and third quarters with the new health plans coming online.

As I mentioned, one of which—one of the new ones has already launched and the other one we expect to launch in the near term. With that, we expect that, that will add to the first one that we have in the current year, and I think we'll see acceleration of that catching up to the other segment.

Chase

That's helpful. Thanks. Then, you had previously mentioned and you mentioned on the call today the additional phases, you expect with your large national plan customer. Previous comments was expecting those additional phases to come maybe as early as Q2. Any further clarity, if that's still the case. Then what these add-ons might add to your ARR?

Rick Anderson

Yes, we expect that that will happen in Q2 from an agreement point of view. Once that's concluded, we'll add it to the AAR, but from a potential ARR value once fully implemented, we'll approach eight figures.

Chase

That's good to hear. Then concerning gross margins, you gave that 50% to 60% guide last quarter and certainly on track there. Can you talk a little bit more about what your expectations are maybe for the rest of the year? Do you expect that it's up sequentially from here, or do you expect some noise, or should we think things pretty constant through the year? That's helpful. Thanks.

Erez Raphael

Yes. I think that we might see some noises, because it's ramping up, and because there are revenues that are coming from different channels. It's something that we're going to see fluctuations, but overall that's going to be the kind of the baseline. So, I wouldn't be worried if it's going to go 2% down or 3% up. When we are launching an account usually, the first three months we are shipping a lot of hardware and devices and this is something that show up, has a very low gross margin of the first couple of months of the account.

After four months or five months that the account is in production, we are starting to generate revenue that is much more from software. So overall, a single account will get to 75%, 80% overall gross margin. The average 75% to 80% might happen after six months or seven months or eight months once we are finishing all the enrollment and we are playing only the software kind of game. So, it depends a lot on how many accounts we are launching in every quarter and what is the intensity of the accounts.

But, the more accounts we have in production, the higher going to be the gross margin. So, one of the things that it's very hard to anticipate is the intensity of the launch for every month and every quarter, and then this is something that creates the fluctuation. But overall, the business should be in this 60% figures for the next few quarters until it's going to go to the next level and achieve the 70%-plus. That's how you should look at it.

Chase

Got it. I'd say we're seeing there directionally. Then if I could sneak one more in. As far as how the ramp is looking compared to your guys' internal model would be helpful. I mean, it certainly seems like these accounts are ramping nicely in Q1. Is it kind of progressing what you guys were expecting, or maybe a little bit of ahead of expectations, and then maybe how you're thinking about the rest of the year?

Rick Anderson

I would say generally speaking they're ramping as we would have anticipated, maybe a little bit better. As you know, I'm reluctant to move numbers upward until we have more proof points around that. So, I mean, I would say it's been a little faster than what we anticipated, but internally we're keeping our ramps where we've had them historically.

Chase

Got it. That's helpful. Congrats again, guys. I will hop back in queue.

Erez Raphael

Yes. One more thing that I want to emphasize on the gross margins is that you need to remember that we have also the strategic agreement with Sanofi, which is also something that is adding a component to the gross margins that are generally improving the gross margins. This is why I think that in the next few quarters we're going to see fluctuations between the traditional B2B Sanofi and potential other strategic deals, plus the B2C that is getting a smaller portion in the overall revenue. So, all these components have different contribution and that's something that will impact on the fluctuation. But overall, it's going to be higher than what we have seen in the last two years.

Chase

Thank you.

Erez Raphael

Next question.

Operator

Thank you. Our next question comes from Charles Rhyee of Cowen. Please go ahead, sir.

Charles Rhyee

Yes. Hey thanks for taking the questions, guys. Congrats on the quarter.

Just a follow-up. For Sanofi, it sounds like you're saying that that first \$8 million payment comes in the second quarter. What is the accounting for that? Does that show up as revenue and drops to the bottom-line? Can you just give us a sense for how we should accommodate that in our models first?

Rick Anderson

Hi, Charles, it's Rick. In the second quarter, we would not expect \$8 million. We would expect a portion of the \$8 million in the current year and the revenue recognition for Sanofi is dependent on when the elements are delivered. So, some of that is in the second quarter and then as the development is ongoing in the second, third and fourth quarters, we would expect that the remainder of that revenue would be recognized. So, we're going to see revenue recognition across the year as it relates to that.

Charles Rhyee

Okay. So, we'll see an increase in receivables? Then—or is there a separate asset created for that? But then, we'll see revenue recognition across the rest of the year, if that's the right way.

Rick Anderson

We'll see—depending on the timing, you'll either see receivables or deferred revenue.

Charles Rhyee

Okay.

Erez Raphael

Just something to emphasize. We did recognize Sanofi revenue also in Q1. We had a nice portion of that in Q1 as well. So, it's going to go along the whole year. We're going to see it every quarter and we're going to see it also in the next few years. There are multiple portions of this revenue. Some of it is going to development services, some of it is kind of license-related and market access related and data related. So, there are a few portions there. Each of them have a different gross margins, but overall, this is something that—I wouldn't call it recurring, but this is something that is happening every quarter and also every year for the next few years. So, I think this is something that should be modeled as well.

Charles Rhyee

Okay. So, when you talked earlier about the fact that B2B revenues were greater than B2C revenues this quarter, the Sanofi revenue you count it as part of B2B. So, that would then correspond to the other comment that health plan contribution still was relatively small. Is that right?

Rick Anderson

Just in terms of the ramp on health plans it was less of a ramp than say the employers because employers were—we launched basically all of the January to December cycle customers, that we announced in 2021 and some of the stuff that was announced really in early in 2022, launched in the first quarter. So, that's got your most significant ramp to it, but yes, we did recognize revenue related to Sanofi as well in the first quarter and some health plan too. My comment was with more health plans coming on, you're going to see that ramp continue to happen in the second, third and fourth quarter.

Charles Rhyee

You treat Sanofi as B2B, right?

Rick Anderson

Correct.

Charles Rhyee

Okay. You talked about \$42 million in contract value. Does that suggest that as we exit the year, we should be looking at sort of a run rate on a quarterly basis, including the Sanofi, call it \$12-ish million? Is that sort of the right range that—should we ramp up to that kind of level? Does that sound about right?

Erez Raphael

Yes. So, when we started to show this model at the beginning of the year, we talked about the time for implementation. We call it, like, two to six quarters time for implementation. So, the idea is, yes, I mean, we need to get there towards the end of the year beginning of next year, once the accounts are fully implemented under the metrics of the objective of 35% to 40% enrollment rate, and we are on track with this number. So, we think that that's more or less should be the run rate getting them.

Rick Anderson

Just to clarify one thing in terms of that is that, there's two pieces to that, when Erez says that number of course. It usually takes us 30 to 60 days to launch an account, unless it's an account that is—the customer says we want to launch on a specific date like January 1, for example. So, that could take longer in those cases, from contract signing to launch, and then it takes us a couple of quarters to ramp up the revenue. So, it doesn't take us that long to implement it. It's just to get to full run rate on those kinds of contracts, it takes a few more quarters.

Charles Rhyee

Okay. That's helpful. Then, just to clarify, the large natural health plan, I think you said that, it's not—the second phase is not in the ARR, but if it was, that would be an eight-figure type of deal. Is that just for sort of the second phase, or is that in total?

Rick Anderson

The easiest way to think about it is, in the second phase. That's really what the numbers I was speaking to were coming from.

Charles Rhyee

Okay. Perfect. Great. I'll stop there. Thanks for the questions and congrats again.

Rick Anderson

Thank you.

Operator

Thank you. Our next question comes from Rahul Rakhit, LifeSci Capital. Please go ahead.

Rahul Rakhit

Hey, guys. Thanks for taking the questions.

Rick, I know you commented on the sales cycle for the employer market and provided some guidance on how we should think about the rate which you guys kind of add those employers throughout the year. But I was wondering if you could provide some color on the other two segments as well? I guess broadly speaking, how should we think about the number of customers that you'll guys be adding in Qs 2 and 3 versus Q4?

Rick Anderson

So, thanks for the question. When we think about health plans, the health plan sales cycles are 12 to 18 months. Obviously, now we've had the opportunity to get through to that sales cycle and that's why we're starting to see accounts come in. I would expect, we'll probably see another one to two health plans in 2022 based on where we currently sit. Maybe we'll do a bit better. It's a little hard sometimes to predict their exact timing, on when they're going to do things.

Providers, I would expect that we'll see a small handful of providers in the second and third quarter coming through as I said in—during the presentation is that we're rotating sales resources out of that segment.

So, I think we'll see a little slower growth as that goes forward. We're doing that because of the fact that we believe that we'll be more efficient on top line and bottom line by doing that, and that that will give us the best growth rate around that. But, that's the kind of rate that I would expect. All of those are, I call it off cycle just because the employer January 1 to December 31 cycle is such a defined cycle and none of the other market segments are on any kind of cycle like that.

Rahul Rakhit

Got it. Okay. I really appreciate that. I guess, kind of based on prior guidance, I guess, we're expecting 35 or so more customers there. So I guess just for clarification, you kind of still expect the majority of those to come in late Q3, Q4 but we could expect I guess a handful or so in Q2 or early Q3?

Rick Anderson

Yes. I mean, I think we'll continue to see the types of numbers that we saw in the first quarter. We'll see in the second and third quarter probably a bit of acceleration. Then I would say, the third and fourth quarters where you're going to see more accounts because of the fact there are more contracts, because that's when we'll start to see the employers that are on a January to December cycle, which is 70% of employers, that's when they'll come in in (inaudible). It's just by defined cycle.

Rahul Rakhit

Got it. Okay. No, that makes sense. Then yes, I guess you kind of touched on the health plan market. So, I know on its most recent earnings call, Teladoc management team kind of commented on the elongated sales cycle and greater competition in the health plan market. I guess, I would love to hear whether you guys are kind of seeing the same thing? If not, I guess could you comment on what's kind of contributing to that disconnect between what they're seeing and what you guys are seeing in this market?

Rick Anderson

Sure. I mean, I don't think, we are seeing anything that is different than what we would have expected in the health plan market. Obviously, I don't have visibility to their internal expectations versus what is happening. I would guess that there's—their product mix in terms of what they're selling into health plans has changed and historically they haven't really sold into fully insured health plan business. It's mostly been ASO, meaning that it's really for their downstream employer customers, not for their fully insured book of business where they hold the risk.

So, maybe there's some adjustment there, because there's certainly a difference in timeframe, but we're still seeing things happen in that 12 to 18 month sales cycle that we've talked about for many quarters, not seeing a slowdown in terms of health plans interest. If anything I would say we're seeing more interest in digital health solutions and health plans than we did a year ago let's say, just to pick a timeframe.

Rahul Rakhit

Got it. Okay, that's good to know. Then last one for me. I was just kind of hoping you could touch on the broader M&A strategy for 2022. I know we already have Physimax locked in. But I guess, what kind of company are you guys looking for, if you are looking for any, at this point to kind of strengthen that platform?

Erez Raphael

Yes. So, the blueprint, that we see forward is to have the most comprehensive user-centric platform in the market. We are super interested in other areas. In light of what's happening in the market and the current valuation, it's a bit challenging. But we think strategically also with our partners with Sanofi on how we can get things moving forward in a way that we can dominate the market in the next few years. So, this is something that we are still very active about. I don't know that we can pull the trigger in this environment, but we see what's happening. We have a very well-defined strategy on how we want to go there.

Rahul Rakhit

Understood. Appreciate it, guys. Thanks for taking the question.

Erez Raphael

Thank you.

Operator

Thank you. Next question comes from Nathan Weinstein, Aegis Capital. Please go ahead.

Nathan Weinstein

Hey, good morning, Erez, Rick and DarioHealth team. Thanks for taking my question. Congrats on another strong quarter with revenue exceeding my expectations.

So, actually just one follow-up for me and that would be on the behavioral health platform. What are you seeing with wayForward in terms of customer engagement, use patterns interest, or any insights there would be appreciated.

Rick Anderson

Do you mean on the customer side or on the member side?

Nathan Weinstein

Yes, I'm curious about the interest you're seeing from—on the B2B side in terms of customers being interested in using it. Then also for their individual users, what kind of use patterns are you seeing in terms of engagement? Just any insights on how that's going would be appreciated.

Rick Anderson

Sure. So, I mean the behavioral health offering comes in two flavors if you will. One is as part of our integrated solution. As I mentioned, most of our current accounts that are in the pipeline are multi-condition and behavioral health is a popular one amongst our customers to include in the bundle and definitely it's in the full suite. Then on the standalone basis, the majority of the—what I would say our off-cycle sales include behavioral health either as a standalone or as part of a broader offering. So, I think that behavioral health continues to be in strong demand in the current marketplace.

I think if you think about the marketplace in general, there's starting to be some considerations for some of the other solutions for digital behavioral health that are out there in the marketplace in terms of cost effectiveness and how that really works. But, the Dario solution that is built out of the wayForward acquisition as you mentioned is really focused on navigation and management of what I would call low to moderately severe patients with referral out for the higher severity patients. That model is definitely getting traction from that perspective.

Engagement on the platform as you would anticipate for the types of acuity that I'm talking about is episodic. So we're still seeing good engagement of members on the platform, good screening of members on the platform. I would say in 95% of the cases, the utilization as we measure it is and do it in our contracts and the way we make sure for our customers is consistent with expectations and historical results.

Nathan Weinstein

Okay. Fair enough. Thanks for the color there, Rick.

Rick Anderson

Sure.

Operator

Thank you. The next question comes from John Vandermosten of Zacks. Please go ahead.

Rick Anderson

John?

John Vandermosten

...gain access to other state Medicaid plans?

Rick Anderson

I'm sorry I think we missed the beginning of that. Could you repeat it?

John Vandermosten

Yes. No problem Rick. So, regarding the Colorado Medicaid plan, are there any specific considerations for this type of business? Then broaching into this, does it enable you to gain access to other Medicaid plans?

Rick Anderson

We've actually seen fairly strong interest from Medicaid plans in general. I mean, let me just start there. I think if you think about where is the biggest demand for chronic condition management from a health plan sector, commercial Medicare/Medicaid, there's obviously a significant number of people with chronic conditions in Medicare and Medicaid. So, we would always expect that there would be a level of interest in that area.

Yes, Medicaid has different considerations. I think that the fact that we have Medicaid plans does open the market to additional Medicaid plans. Medicaid in general is driven on a state-by-state rather than a federal or overall level. So, there are variations in terms of what's covered, how it's covered, how that works. So, that's some of the complicating factor in that marketplace. Then, there's also considerations around—as we do outreach, what are the communication pathways and implementation timelines, because the state involvement in Medicaid tends to be a little bit longer than commercial plans.

John Vandermosten

Okay. Having this one under your belt, does that help in future negotiations? I mean, I guess, I'm wondering if other states like to see you have experience with it, because it is a little bit different type of business.

Rick Anderson

Yes, absolutely. I mean, taking into account the fact that every state has a little different implementation of it, yes. I mean, when you can say, hey, look, we solved for x when they ask a question and here's how we solve for it, in a real client that has real weight.

John Vandermosten

Okay, great. Yes, that's all for me. Thank you, Rick.

Operator

Thank you. Next question comes from David Grossman of Stifel. Please go ahead.

David Grossman

Good morning guys. Thank you.

So, I'm sorry I joined a few minutes late, but I'm wondering if you could go back to the ARR comment. I just want to make sure that I fully understand what is embedded in that \$42 million? How much of Sanofi is in there relative to full run rates and similarly for the national health plan?

Rick Anderson

So, Sanofi is currently outside of the numbers that we're talking about there. Obviously, all of the other agreements that we have are in that and health plans are significant. So, it makes up a good portion of that number.

David Grossman

Okay. So, the first phase of the national health plan would be in that number and the second phase would not. Is that it?

Rick Anderson

Yes.

David Grossman

Okay. I think you, Rick I think you actually mentioned what the total would be—or maybe it was Erez, that eight figure kind of number at full run rates. But can you give us any better sense of the cadence of how Sanofi and the National Health plan will impact that number as the year progresses?

Rick Anderson

I mean, I think as we've talked about, we're anticipating approximately \$8 million in revenue in total throughout 2022 from Sanofi. That's the current expected amount. In terms of what the final ARR is on the agreement and the contract value on an overall basis with the agreement with health plan that we're negotiating, that will be dependent on what the final contract is, and I mean I think we're close. But, until that's done, that's a lot harder to comment on other than the comments that I made.

David Grossman

Got it, okay. Thanks for that. You guys have talked about gross margin going up and redeploying the OpEx etc. So, any comments at all about how we should think of cadence of cash burn again as the year progresses? Should we expect to decline as the year progresses?

Erez Raphael

Yes. I think that we're going to definitely see a decline. I'm not sure if you joined when I talked at the beginning and I talked—I mean, I talked about all the improvement of the parameters in the financial profile, top line reduction in expenses mainly because of less investing into B2C, improvement of gross margins and the bottom line. The loss in non-GAAP if we exclude the stock-based compensations and other non-cash elements was down from around 14.5 or 9 (phon) to 9.7 million in Q1.

We haven't seen this reduction in the burn rate, and something that I stated very clearly is that what we have seen on the burn rate is one time for this quarter. Because of inventory buildup, we are launching a lot of accounts. Plus we are in world kind of a challenging environment from a supply chain standpoint. So, we spent more money on building the inventory. This is one reason why we had this relatively high burn rate. Reason number two is that the payments that we are getting from some of the parties including Sanofi showed up in Q2. So, this is something—and not Q1 and that's something that added to higher burn.

Moving forward, the loss and the burn should show up the same number. So to your question, yes the burn rate is going to go down, definitely go down from Q1 to Q2 and moving forward we're going to also

keep—optimize our spend on the direct-to-consumer. We're going to spend less money there. So, that's another reason why the burn rate should go down.

When it comes to investing into our—what becomes the core business, which is implementing B2B account accounts, we're not going to spend less. We're going to spend a bit more. But, overall the expenses are going to be down, because the portion of the B2C is significant and this one is whopping.

So overall, that's the way that we are kind of call it rebuilding the business from B2C to B2B.

David Grossman

Got it. Great. Thanks for that. Why don't we just take the rest offline? Thanks again.

Erez Raphael

Thank you so much David.

Operator

This concludes our question-and-answer session. Now, I'd like to turn the call back over to Mr. Erez Raphael for closing remarks. Please go ahead sir.

Erez Raphael

Yes. Thank you so much. So, thanks everyone for joining us today. We are looking forward to keeping the Company and execute. As always, feel free to approach us, Rick, myself over email. Thank you and have a good day. Bye-bye.

Operator

Conference has now concluded. Thank you for attending today's presentation. You may now disconnect.