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DarioHealth Corp.

Second Quarter 2022 Results Conference Call

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CORPORATE PARTICIPANTS

Glenn Garmont, *Investor Relations.*

Erez Raphael, *Chief Executive Officer.*

Rick Anderson, *President & General manager U.S.*

CONFERENCE CALL PARTICIPANTS

Charles Rhyee, *Cowen & Company, LLC.*

Alexander Nowak, *Craig-Hallum.*

Rahul Rakhit, *Life Science Capital, LLC.*

Nathan Weinstein, *Aegis Capital Corporation.*

Benjamin Haynor, *Alliance Global Partners.*

David Grossman, *Stifel.*

John Vandermosten, *Zacks Small-Cap Research.*

PRESENTATION

Operator

Greetings, and welcome to the DarioHealth Corp. Second Quarter 2022 Results Conference Call.

As a remind, this conference is being recorded.

It is now my pleasure to introduce your host, Mr. Glenn Garmont, Investor Relations. Thank you. Please go ahead.

Glenn Garmont

Thank you, Donna. Good morning, everybody, and thank you for joining us today for a discussion of DarioHealth's Second Quarter 2022 Financial Results.

Leading the call today will be Erez Raphael, Chief Executive Officer of DarioHealth, and he'll be joined by Rick Anderson, President. 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 August 15, 2022. This morning, we issued a press release announcing our financial results for the second quarter of 2022. 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 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 second quarter 2022 Form 10-Q, which was filed this morning. Additional information concerning factors that could cause results to differ materially from our forward-looking statements are described in greater detail in the Company's press release issued 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 and year-to-date results.

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

Erez Raphael

Thank you, Glenn, and thanks to everyone for joining our call this morning.

Joining me today, Rick Anderson, the President of the Company. As you all know those that are following the story, Dario and the management of Dario were very consistent in the last few years with our objective on how we're going to change health care, making health care much more consumer-centric and much more digital, and we had a few big initiatives. One of them was to transform the business to be a multi condition. Another one is transform our business from the direct-to-consumer into the B2B2C. I think that 2022 is transformational for us because we have seen all the fruits of everything that we did in the last few years, and we enjoy a very big momentum on our B2B2C transformation. It seems like all the decisions that we made a couple of years ago, all of them tends to be very smart and right decisions as it's reflected with the business that is keep developing.

On the B2B2C, we see significant momentum. You probably have seen the press release that we put last week on Thursday on a national health plan with an access for 10 million members on the behavioral health platform at DarioHealth. This is tens of millions of dollars in terms of the contract. Rick will elaborate it shortly. Overall, we are showing contracts that are signed with value of $55 million. We have 69 accounts that are signed. At the beginning of this year, we had a webinar when we were showing total 51 accounts that are signed, then we projected that by the end of the year, we're going to hit 100. But by that point, we have 69 contracts that are signed, and further than that, we feel that a lot of the relationships that we are building with strategic partners, Sanofi is one of them, we have partners like Solera and Virgin Pulse that are also getting us accounts that are wins and can accelerate our growth.

Overall, we are very satisfied with the transformation on the B2B, and we're also satisfied by the fact that we have built this platform as a multi condition because we see that today, more than 40% of the accounts that we are signing on are from more than a single condition. If we look on the nature of our business and how we build this platform, and that's something that we were educating the market for a while, the direct-to-consumer was a very important and essential foundation on whatever we did in order to build the platform. Our philosophy was that if you want to provide the best consumer-centric solution, we need to get users and we need to collect data, and this is why the foundation was direct to consumer first.

Looking on the business today and the confidence that we gained in the last few quarters with our B2B transformation winning accounts, if you're looking on the Company today versus 12 months ago, we have much more accounts, we have strategic partners, we have three national—we have three health plans. One of them is a national health plan. We see partners that are getting us contract. The overall confidence in the business is very, very high these days. At the same time, in order to support the national health plan that we signed with in order to work closely with Sanofi and other partners, we deployed more and more resources into how we're going to make this B2B successful. At that point, we thought that we need to make the business much more focused on the B2B. This is why at that point of our life cycle in the transformation, we made a strategic decision to slow down significantly the B2C business and to move resources into the B2B.

The implication of this decision is starting to show up in Q2 of this year, but it's going to show up even more in the next couple of quarters. In a more practical matter, it means that we're going to get our financial profile by making this decision to be more efficient. We're going to see that the OpEx is going down, the losses are going to go down, also, the run rate is going to be expanded. Gross margins are going to improve. Overall, the path for profitability is something that we'll be able to talk about. The idea of building the business on B2B, multi-condition, where we can generate per every account, 5x to 8x more dollars, this is something that eventually will enable us to operate to the profitability. We have seen a lot of digital health companies that manage to scale up sales in a nice way. But eventually, it was very hard for them to take business to profitability. The way that we are looking into our businesses by having the multi-condition, by being able to extract more dollars per every account, by being able to exceed 70% gross margins, we believe that our business should have a pass to profitability much earlier than other companies that we have seen out there.

Before handing over to Rick, I want to go through a few of the metrics that we have seen this quarter and also in the last few quarters and what we should expect in the future. As I keep mentioning in our calls, we are targeting gross margins of above 70%. In Q2 of this year, we have seen a slight reduction in the non-GAAP gross margins. This is due to the fact that our National Health plan revenue that was supposed to be recorded in Q2 is slipping probably into Q3. But the good news is that when we are looking on the pure B2B2C business in Q2, it is exceeding 70%. We are getting there, and that's where we should be. We are confident that the B2B2C business should take us there.

Overall, in terms of OpEx between Q4 of last year to Q2 of this year, we reduced the OpEx by 18%. The reduction in the loss between those quarters was 26%. The burn rate between Q1 to Q2 of this year is down 38%. Overall, when we are looking on our ability to acquire a single user on a B2C versus B2B2C, we see a CAC, cost of acquisition that is lower 70% comparing to what we have seen in the direct-to-consumer, and that's something that should be reflected big time in our financial profile. Overall, by making the decision to slow down the B2C, we're going to get an extended run rate with the cash position that we have.

In this slide, you can see how the OpEx is going down, how in Q2 the non-GAAP OpEx is going to $13.4 million, not including equity and stock-based compensation, and that's something that should continue to go down further.

In Q3 and Q4, we're going to see additional reduction. Very important to mention that practically the savings or the reduction in the OpEx is mainly due to the direct-to-consumer slowdown. The investment that we are having into the B2B is, in fact, growing. Overall, we're going to see the continuation of this momentum of slowing down the OpEx or reduction of the OpEx, but not into the B2B. In the B2B, we have more confidence. We're going to read out more budget into the B2B. Looking on the overall gross margins, you can see how on a non-GAAP basis for the first two quarters of this year, we are above 50%.

As I mentioned before, the pure B2B2C business in Q2 is above 70%. In this quarter, we have seen a slow reduction comparing to the previous quarter. This is due to still inventory that we have from Q4 of last year that had high shipment prices. That's something that we are still selling on the direct-to-consumer and have a negative impact on our gross margins. But if we put that portion aside and we are looking on the pure B2B2C business, and with the potential additional couple of millions of dollars that we were supposed to have from this national health plan, we are very confident that moving forward, we should be back to somewhere between 50% to 60% for the next few quarters. For the full year, we expect to be above 50%, and we expect to grow it above 60% next year where the majority of the revenue will be for the full year from the B2B.

In terms of our revenues, as I mentioned, we had a miss this quarter. That's because the agreement that we had with the health plan was slipped by one quarter. That was not something that we were planning for. Having said that, on the overall, we are confident that the account that we have signed on, and Rick is going to elaborate about, it is something that will continue the—a very good momentum that we have. The practical decision of slowing down the B2C is going to show an impact also in Q3 and Q4, hence, revenues that we were planning to have from the B2C in Q3 and Q4 are going to be lower. We are not shutting off the B2C, but we are slowing it down drastically.

Overall, we're going to see a reduction in these revenues in Q3 and Q4. But because the B2B2C is progressing in a very satisfied way, we think that the impact of this decision to slow down B2C is going to have a very low impact on 2023 and 2024. Overall, with these health plans that we have with a potential additional health plan that we're going to sign shortly with more strategic accounts that we're going to get in, we believe that we are making the right decision in terms of reducing the B2C. The impact is very short term and medium term, hence, 2023, 2024, the impact should be very marginal.

On the balance sheet, we ended the quarter with $68 million, which is something that is giving us a significant run rate for 2024. We have additional $25 million credit line that we can grow if we want from OrbiMed, and that's something that is giving us additional capital. We have also additional sources of capital from strategic partners, those that are surrounding us. We see interest around the Company. It doesn't mean that we're going to raise money, but it does say that we are being surrounded by strong partners. Our Company, as it seems shouldn't be depending on public market in order to fund the business, where we have a significant run rate.

With that, I want to hand over to Rick to elaborate on the commercial side.

Rick Anderson

Thanks, Erez.

We continue to see strong traction across our employer health plan channels with wins in the employer side, both off-cycle and our recently announcement of the National Health Plan. We're very pleased with our traction and have not yet even moved into the point in the year where we would anticipate the majority of our employer cycle contracts to happen; that should happen really in the late third quarter and in the fourth quarter. We're pleased with the traction that we're getting both in our behavioral health stand-alone product, as well as our full suite product off cycle. The health plans that we've previously announced have now launched in this quarter and are contributing revenue in a small amount, and we'll continue to generate more revenue in the future. As Erez mentioned, obviously, the National Health Plan coming online, and we expect revenue from that in the third quarter. We are also seeing our strategic partners become recurring revenue stream for us, which we are pleased about. We now have a total of $55 million in contract value.

Next slide, if you will. On the next slide, we can see the commercial traction that we're starting to get. If you don't mind moving to the next slide. All right. With the win of the national health plan, with up to approximately 10 million users that we'll have access to, if that is implemented, we're anticipating that,

that is about a $25 million to $35 million recurring revenue client once it's fully implemented and online. We have a total now of 69 accounts that have been signed. We're well on track for our projected growth of 100 accounts. The partnerships, as Erez mentioned, are really starting to pay off in terms of Virgin Pulse, where we've already won business and are seeing the pipeline of business with them grow as well as Solera, which we're anticipating contracts coming through in the relatively near-term.

The multi-condition solution continues to get traction in the marketplace. The buyers like both the idea of having more conditions with less vendors as well as the fact that we're providing an integrated solution. It's one member journey, one coach, one solution for members across that rather than being in modular terms. We're anticipating that we are going to bring in at least one additional health plan this year. We're seeing sustained traction actually with Sanofi, especially on the commercial side, where we're co-selling with their market access team into health plans and have strong traction in terms of doing that.

If we look at what we promised at the beginning of the year, in January, we had come out with where we are here at this midyear. We are anticipating a 100% growth in our client base, and we're running at about 35% right now, which positions us well. We think we will definitely meet or exceed that 100% growth this year. We were looking to add three to five health plans. We've added two, as I mentioned, we're anticipating one at least coming in. So, we should be online for that. Multi-condition, we're seeing about 35% of our signed deals at this point are multi-conditions, so as the later-stage deals come into fruition in the third and fourth quarter, we should be in that 40% range being multi condition. Then from a strategic partnership perspective, we were looking for one to three strategic partners in 2022. We already have one and, which is Sanofi, and we are working on some additional there. We definitely believe we'll see some additional traction on the strategic partnership side.

Then if you—on the next slide, really, that's just showing the fact that we're growing from 51 contracts in 2021 to 100 or 100 plus in 2022. We think that we're well on target to meet that strong growth in terms of the number of contracts that we have online. Then thinking about the implementation and what are the metrics that really are happening once we have customers that are implemented. What we are seeing is about a 70% to 80% retention of members on the platform at a year. We're very pleased to continue to have that level of high engagement with our members. Our enrollment rates are averaging above 30% for all of our customers on the B2B side. Eligible lives in any given population can reach up to 40% of that population. That speaks to the five to eight times more in revenue that we get in an account versus a single condition or a diabetes alone account.

Our B2B2C cost of acquisition of customer is now below $20, which is significantly below what we are seeing on the direct-to-consumer side. That really plays into the overall financial profile of the organization, along with the fact, as Erez mentioned, that we are seeing 70% and above margins from business. One of the things that I think is really important in terms of the way that our business continues to develop is strategic relationships like Sanofi are creating a recurring revenue stream for us in showing robust traction. Just to remind everybody, the Sanofi partnership is a multiyear $30 million agreement. It's got three main areas where we're collaborating with them.

One is on the commercial side where we're co-selling into health plans alongside their market access teams, which has substantially increased our health plan sales resources into those areas. We have seen strong traction over the second quarter in terms of penetration into account, and that will continue to go forward. This does not change the sales cycle of a health plan. These accounts will still take 12 to 18 months in order to develop as we go through, but we're seeing a strong uptake in terms of customers being very interested in what we're doing, interested in the Sanofi relationship and the partnership that we have.

Second, we are developing enhanced solutions, leveraging the Dario platform alongside Sanofi and that continues to progress well. Then also really kicking off the generation of real-world evidence to support the future commercialization in the health plan channels. Then really just talking about the partnerships for a moment. I've spoken about them, Erez has spoken about them. But we think that this is a very important part of our business, and we're definitely seeing acceleration through these partnerships.

Sanofi, obviously, I've talked about, Virgin Pulse in terms of medium-size to large-size customers that enables us to reach those customers more efficiently and then implement them very quickly on the Virgin Pulse platform, and we've already seen traction in customers on that side and are growing, as I mentioned, a pipeline of customers behind that. Solera, which we announced in the second quarter, is turning into a very strong partner, and we anticipate that we'll be seeing business with them shortly, which of course, we'll share with everybody.

Then lastly, I just wanted to show the graph of really what it looks like in terms of our transformation over the last couple of years from starting in 2020 when we launched the B2B business for the first time, and we've grown our user base from 50,000 to almost 250,000. We've added additional conditions and continue to see strong traction on the win side. With each account that we add on the B2B side, the ability to add users to the platform substantially increases our ability to add them one by one in the B2C business.

Erez, I'll turn it back over to you.

Erez Raphael

Thank you, Rick.

Overall, we are very satisfied with where we are today. Q2 was an important milestone after a couple of years that we are talking about the transformation from B2C to B2B. We have enough accounts, we have enough implementation in place, and we see all the key parameters in terms of gross margins, in terms of recurring revenue, enrollment trade, all the performance parameters, not just for a single condition, but also for multi condition. We have seen everything going to the right direction. We have all the accounts in hand. Our confidence is very, very high, and this is why we made a thoughtful decision.

First of all, because we want to make sure that we are focused. Second, because it makes sense from a financial profile standpoint and makes sense in terms of how we are running this business with the mindset to get it to profitability. We are very happy that we are seeing a significant reduction in the OpEx. We are happy that we are on track, hitting the 100 accounts by the end of this year. Overall, we feel that we are very secure in terms of the cash that we have in hand in order to continue to execute. When we are looking on this specific quarter, and this miss in the top line, we know that it was done—that it was happening due to the fact that the National Health Plan was shifted by a few weeks.

Other than that, we are on track to continue to execute. We believe that the positioning of the Company as a multi-condition and our ability to compete in the space is very, very high, the value proposition is high. We are seeing a lot of demand to the platform that we have built, and we think that we are positioned in a very good place in order to continue the execution and to grow the Company significantly in the next few years.

With that, I want to open the conversation—call for Q&A.

Operator

Thank you. The first question today is coming from Charles Rhyee of Cowen.

Charles Rhyee

Yes, thanks for taking the questions, guys. Erez, I just want to talk a little bit about the B2B2C revenue in the quarter about $2.8 million. I guess, in relation to the slippage of the national health plan client, last quarter, B2B was more like $4.6 million. Can you give us a little sense on the dynamics there? Last quarter, were you recognizing revenue or getting revenue from the National Health Plan client and then some project slipped? Just trying to understand the sequential change, understanding that some things slipped. Maybe you can characterize a little bit what is slipping and what gives you confidence we'll see that in the third quarter?

Erez Raphael

Yes, absolutely. If you think about our revenues aside of B2C, we have three buckets of revenues. We have the strategic partnerships, including Sanofi. On the B2B2C, we have employers and we have health plans. When we are having these strategic partnerships, the revenue recognition is not being done in a sequential way. That's probably what you have seen between Q1 to Q2. Some strategic that was higher in Q1 and was lower in Q2. In terms of the B2B2C, the pure business employers and health plans, this is something that is growing quarter-over-quarter.

Charles Rhyee

I see. Now, is my follow-up. Is the difference here largely revenue related to Sanofi then? Because I think we were—you had talked about maybe $8 million contribution from Sanofi. Is it that we got some in the first quarter, but we didn't really get as much in the second quarter?

Erez Raphael

Yes, the way that the strategic revenue and Sanofi, and I don't want to talk about specific clients, but overall, yes, this is something that is not splitted in an equal way between the quarters. This is why we might see a quarter that is going down and then it's going up. Just to remind you, as an example, on the contract with Sanofi, we're getting revenues for three different things. One is market access. Second one is development services for integration of Sanofi medical devices to our platform. We have also revenue that is coming from data. Each of them has its own life cycle and revenue recognition. We talked about $8 million for the full year. I'm not sure that, that's going to be the case this year. It might be a different number. But overall, it's not growing sequentially. Each quarter, we are recognizing according to the specific delivery of each of these teams.

Charles Rhyee

Great. Thank you. I'll jump back into the queue.

Operator

Thank you. The next question is coming from Alex Nowak of Craig-Hallum.

Alexander Nowak

Great. Good morning, everyone. I was hoping we could talk on the transition of the DTC side just so the competitor model about. Do you take the DTC business this quarter? It looks like it's coming in about 60% of sales in the quarter. How quickly is that 60% of sales could have declined to 0% as you cut the spending there? Then what is the annual operating expense budget DTC today? Just how much is going to be eliminated on that spend and how much shifts to the B2B channel?

Erez Raphael

Yes. Thanks, Alex. Overall, the DTC is going to slow down. I mean, if you're looking from last year Q3 and Q4, we are down by around 25% on the DTC. We're going to see that it's going to continue into Q3 and Q4 in terms of the reduction on the direct-to-consumer. We're going to see additional slowdown between Q3 and Q4. I don't know to say the exact number, but it's going to decline. What we are keeping on the DTC is the pure members that are generating the recurring revenue. We are not willing to spend any significant budget on digital advertising. Overall, if you are looking on the OpEx reduction, as I mentioned, it's 18% down between Q4 of last year to Q2 of this year. We're going to see additional at least 10% reduction between Q2 to Q4 of this year. In terms of the OpEx, the majority of it is expenses that are related to the direct-to-consumer advertising or headcount that is associated with that.

Rick Anderson

(Multiple speakers) Sorry, we don't expect the B2C to go to zero. What we're doing is rationalizing the spend around it, as Erez was saying, in order to make sure that what we're achieving on the B2C side, which is important to us from a lab, if nothing else perspective, and continuing to generate data, and we try some of our product pieces on that side. But what we've done is change the financial profile such that it's going to be breakeven or better on that side rather than strive for growth at all costs. That's the difference.

Alexander Nowak

Understood. That makes sense. Bigger picture question here. When you take all the commentary, you add up the $55 million in contracted deals currently, 100 accounts you want to have signed by year-end, a number of health lands that are ramping in there. It sounds like a funnel very strong behind all of that. Then you also combine it with DTC declining here just due to the focus reduction. What does that imply for revenue in 2023? Just how are you thinking about putting the guidepost out there for next year?

Erez Raphael

Rick, do you want to take it or?

Rick Anderson

(Inaudible) Go ahead.

Erez Raphael

Yes, so the way that we think about 2023 is that B2C, as Rick stated, is not going to go to zero. It's going to stay in a run rate where we are maintaining our users that are on the platform. We have a very, very small budget that is maintaining some level of direct-to-consumer. It's important for us to keep generating data and to keep, so to say, sandboxing, everything that we are building first on a direct-to-consumer and then move it to the B2B2C. That's part of—the way that I'm thinking about it is more like R&D kind of investment that is helping us improving the platform. It will generate some amount of revenue that is going to be less than double digit. That's probably what will happen in 2023. We think that the B2B2C transformation is going to get us the very large—a very big portion of the revenue for next year. As I stated on the call itself, we're going to see an impact on Q3 and Q4 of this year by reducing the B2C, but we think that the impact on 2023 and 2024 is going to be marginal because of the big accounts that we are signing on and because what we have also in the pipeline. B2C is going to be in percentage-wise, 2023 and 2024, very small comparing to the revenue that we're going to generate.

Alexander Nowak

(Multiple speakers) Would you want to double the number—go ahead.

Rick Anderson

No, sorry, go ahead. I'll fill in after.

Alexander Nowak

I was just going to say, would you want to double the number of B2B accounts again in 2023, take that 100 number to 200 million? Then I'll jump back in queue.

Rick Anderson

I mean short answer to that is, yes. Think about the contract value as being something that over the next four to six quarters will translate into recurring revenue. Then as you said, we have additional things that are in the pipeline that will come in and come online during that time frame as well. If you want to think about 2023 through that, that sort of a lens as well.

Alexander Nowak

Okay, thank you.

Operator

Thank you. The next question is coming from Rahul Rakhit of Life Science Capital.

Rahul Rakhit

Hey, guys. Thanks for taking the questions. I was just hoping to get a little bit more clarity on where you guys are in terms of phase, with the first national plan. I think before you guys spoke about shifting into that second phase, just want to hear a little bit about the progress there. If you could just remind us how many phases are left and what might each of the subsequent phases add to your ARR?

Rick Anderson

This is what we announced is the second phase, which combined with the first phase is really what we're seeing in terms of the traction, and we're embedding our technology into their behavioral health platform at this level, and it is basically composed of a couple of pieces, one of which is the straight up per member per month that we're getting paid for having the platform. Then there are two buy-up levels for their customers on top of that and depending on what the portion of folks that buy up to that is what the range of the revenue options are that forecast from an ARR perspective that I spoke about earlier. We will recognize revenue in 2022 related to this, and then it will be increasing in 2023. That's what we're anticipating in 2024.

In the meantime, there is an opportunity to take this and expand it into the planned additional membership that it has and also expand potentially what we are pushing through the platform itself, in which case, that would have the opportunity to substantially increase the amount that we're getting in each of those additional phases. What we're happy about is that this phase really was pulled forward from when we are anticipating having these conversations and while it did happen a couple of weeks later than what we were initially anticipating, we're pleased to have that behind us. So, we have that fully up and moving forward at this point. We're very pleased about that.

Rahul Rakhit

Got it. I appreciate that. And that expansion opportunity that you mentioned, you're saying that could that come in like '23 or '24? Or is there kind of an unknown time line on that at this point?

Rick Anderson

It's more of an unknown time line at this point, but I would tend to think about it more in 2023. If we're going to expand again that, that would more be the timeline that we'd be looking at for an additional expansion in sort of the second half of 2023. But, I'll also say that I didn't anticipate that the second phase would happen this quickly. It's very hard to predict in terms of on an overall basis, and we're dependent on our partner in terms of what their goals are and how fast that they want to move.

Rahul Rakhit

Yes, sure. No, that makes a lot of sense. I guess, just for my follow-up. Obviously, this most recent national health plan you guys announced, a major contribution, I think, upon peak enrollment to your ARR. I guess how should we think about that ramping up as well? Can it be—is going to be similar to what we're seeing with this first plan? Are there certain phases and levels to it, which have their own kind of revenue values? I guess, any kind of help there would be appreciated.

Rick Anderson

This is they're selling this platform through to their self-insured book of business. It is dependent on how fast they convert people onto the platform. But, I tend to think about it in the context of being a bit front-loaded, but happening over the next couple of years, starting in 2023. We have revenue associated with it in 2022, but then it will expand sort of think about it, 2022, 2023, 2024.

Rahul Rakhit

Got it. So, there are incremental wins within this. Then those kind of have their own enrollment processes, revenue can kind of grow from there?

Rick Anderson

Yes.

Rahul Rakhit

Got it. Very cool and I appreciate it, guys.

Operator

Thank you. The next question is coming from Nathan Weinstein of Aegis Capital. Please go ahead.

Nathan Weinstein

Hey, good morning, Erez and Rick, and your team. Two questions here. One, regarding the multi-condition platform, which is a key component of our thesis, can you talk about the degree to which you continue to see that as an advantage versus competitive solutions in the current environment?

Rick Anderson

I think, it's a key element to what we're doing. As I mentioned, employers, especially but health plans also are looking to reduce the number of vendors that they have and the number of conditions that each vendor that they maintain continues to cover. That really reduces the burden on the customer in terms of how they manage their overall vendors and lowers their costs associated with doing that. But what we're really finding people are interested in is the idea that Dario is completely integrating those solutions together. If you have—we're making it easy on the users. If you're a musculoskeletal and you want to come in and do some digital physical therapy, we provide the ability to directly go into that part of the solution and work on that. But then without exiting what you're working on, you can move over to hypertension, for example. But it's an integrated solution. The user themselves is getting one coach, one journey. The recommendations are integrated across those platforms, and it really enables you to engage with a member based on what they want to engage in at that given time, which changes over time.

They recognize that if you give people multiple different options time, they're likely to engage in one or none of these options, whereas if you give an integrated solution to it, then they can actually take advantage of all of the different pieces that are there.

I think what we've seen is that, that got changes also where we're competing in the market. We're competing with less other companies out there when we are competing against RFPs, or what we'll see is that we will be the only one that's consistent throughout a potential RFP versus having different competitors in different portions of that for different conditions. That tends to work out for us very well. We believe that, that continues to be a major value proposition that Dario is providing alongside of the outcomes and retention and the way that we go to market with our pricing, etc., which are also competitive advantages for us.

Nathan Weinstein

Great. Thank you for that color, including from the perspective of users, which is very interesting to hear. Just for the follow-up question, in terms of the Sanofi related revenue, I think you guys mentioned three buckets, including market access development services and data. Could we just talk about that last piece, data, and at a high level, not just related to Sanofi, but in general, how valuable commodity of the data coming from the platform? Do you guys think there's additional avenues where you can monetize that?

Rick Anderson

Well, the third bracket is really about evidence generation, which is really more about outcomes generation and validating that in a real-world context. What we're seeing—starting to see really in the marketplace is the fact that plans and employers are looking for their vendors to have evidence that their solutions work. We expect that while we have 20-plus studies at the moment that are showing that, we're starting to—some of these most recent studies are showing the effect of having a multi-condition platform, all of which is very strong. But we're anticipating that the demand for evidence is going to go up over the next three to five years. One of the beauties of our relationship with Sanofi is they're bringing their capabilities to the table, which are substantial and are probably worth several million dollars to us, Dario, in terms of helping us generate the evidence on our platform that we think will really put us in a position to be one of the big beneficiaries of that, as the market moves to wanting more and more of that.

In terms of the data on the platform, yes, we do think that there is value in that data and the ability to leverage that across a number of different areas, but it is not a current significant focus of what we're trying to do.

Nathan Weinstein

Great. thank you. I appreciate you taking my questions.

Rick Anderson

Absolutely.

Operator

Thank you. The next question is coming from Ben Haynor of Alliance Global Partners. Please go ahead.

Benjamin Haynor

Good morning, guys. thanks for taking my questions. Firstly, I was impressed by the customer acquisition cost for the B2B2C customers going under $20. That seems quite compelling. Can you share what all goes into that $20 CAC?

Erez Raphael

Okay. Absolutely. Rick, do you want to take it?

Rick Anderson

Go ahead Erez. No, no, go ahead.

Erez Raphael

Yes, okay. The way that we are looking into that is that when we are having account that is getting—where we are getting users enrolled to the platform, we have multiple ways to enroll the user app, some of the elements are purely digital. We are running campaigns. Some of it is being done over phone calls. Some of it is being done with webinars. We are investing human resources as well as other technical capabilities in order to enroll users to the platform. Everything that we are spending from the point where we are starting to launch the account until users are getting on the platform, that's the overall cost that we are having in order to get to this number. The salesperson, and this is why we mentioned in the presentation that it's not including the sales person that is running this wholesale is not counted into the cost per acquisition. This is, from our perspective, a fixed price that we are paying in order to get the accounts.

Benjamin Haynor

Okay. That makes sense. Then I apologize if I missed it. But could you characterize kind of the nonstrategic B2B2C growth sequentially? I mean, maybe take Sanofi out of the mix, what are the B2B2C growth look like?

Erez Raphael

Yes, so overall, we are growing around 30% quarter-over-quarter sequentially. It's not super accurate, what I'm telling you now, but practically, this is the growth that we have. Also here, there are some revenues that are getting in big buckets, for example, the National Health Plan. It's not something that is very linear. It might go even higher in terms of sequential growth percentage-wise.

Benjamin Haynor

Okay. Got it. I'll hop back into the queue. Thank you for taking the questions guys.

Erez Raphael

Thank you.

Operator

Thank you. The next question is coming from David Grossman of Stifel. Please go ahead.

David Grossman

Hi. Good morning. Thank you. Erez, you've done a really good job of laying out these various moving pieces. I think I've got the consumer dynamic for the balance of the year. But there seems like there's a lot of moving pieces in the commercial business. Could you just quickly summarize at least based on where you sit today, what the various puts and takes would be sequentially in the back half of the year in terms of revenue flow because it sounds like whether it be Sanofi or this large health plan, there may not be perfect visibility on how those revenues flow. Any milestones or kind of guidepost you can give us to how to think about that in the commercial business as we model the back half of the year and how it may flow?

Erez Raphael

Yes, absolutely. If we are looking on the 69 accounts that we signed—I'll start from the B2B2C, the 69 accounts that we have that are signed should—we should keep enrolling users to the platform, which is something that will take our revenues on the pure B2B2C higher moving forward. The national health plan that we are—that we just expanded and signed, this is something that should add to our revenues starting from Q3 of this year. That's something that should be added on top of what we have today. In terms of the strategic. If we are looking on the overall revenue that we are recognizing in Q1 and Q2 versus the second half of the year, we should see additional revenue recognition, but probably lower than what we have seen in Q1 and Q2. Overall, the B2B2C, hence, employers and health plans, we're going to see a relatively high growth between the first half of the year to the second half of the year. If we are looking on the strategic, probably we're going to see a decline between the first half of the year to the second half of the year, and this is due to the way that we are delivering each of the streams that I mentioned, data, development services, and also market access.

David Grossman

Right. Just to be clear, though, the strategic partnerships, the sequential growth is going to be down versus the first half, or the actual contribution to commercial revenue will be lower in the second half than the first half, in total value?

Erez Raphael

Yes, so overall, because of the way that we are delivering it milestone-wise, the revenue recognition is going to be lower in the second half of the year comparing to the first half of the year, based on the milestones, the project that we have at the moment. It doesn't mean that the business is slowing down or stuff like that. It just means that that's the—this is how we plan the project and how we are delivering the project. Based on that, we are recognizing the revenue. It doesn't mean that it's a slowdown. To Rick's point, we do see strategic partnership and we think that we're going to have additional one before the end of the year. We do see strategic partnership as additional revenue stream that is going to get us more revenue in a recurring way.

We shouldn't look into Sanofi or other strategic as something that is one-year revenue. That's something that will continue in the next few years. That's something that will help offset the OpEx expenses that we have on building the platform and other things that we are doing. The way to look at it is like recurring every year. But the way that it's being splitted by quarters, it's not being done in a growth way or sequential way. It's being done according to the specific deliverables that we have as part of the project. In fact, the Sanofi relationship is getting accelerated. We are getting very good results on all the streams that we are managing with Sanofi. We are very positive that this relationship will be expanded in the short or medium term.

David Grossman

Got it. That's really helpful. I think I got it. So, the major headwinds, if you will, to this year are really whatever is happening in your DTC kind of business, and the lumpiness, if you will, of the Sanofi relationship? But beyond that, everything else is more or less growing according to plan. Am I understanding that right?

Erez Raphael

That's correct. That's super correct. The DTC is something that we expected. The big decision that we are talking about in this quarter is that we are, in fact, saying, "Hey, the company has a lot of projects to deliver." We signed three health plans that we are implementing. We have strategic partners that we are working closely with that is expanding our access to market. We have another two partners that are expanding our access to market. We don't want to be in a position that we are diluting the chances to be successful on the B2B. This is why we want to focus our efforts purely on B2B. If you would ask me a year ago, I would tell you probably that I would do it by the end of this year. But given the intensity of the B2B, we made the decision to do it at least two quarters earlier than what we anticipated from the first place. This is why, to your point, we have this kind of headwind from the B2C. That's the story. A very simple story.

David Grossman

Right. Sorry to take one more question here. But just on the cash burn then, you were down sequentially. Given all these different dynamics, can you reduce sequentially the cash burn, the balance of the year, or are these dynamics going to distort the cash burn in the back half of the year at all?

Erez Raphael

Yes. The changes that we made in terms of the slowdown, as I stated, the OpEx was down by 18% between Q4 of last year to Q2 of this year. Having said that, you haven't seen yet all the implication of the decision that we made on the DTC. So, the expectation that is in Q3 and Q4, we're going to see a continuation of the reduction in the OpEx expenses and the overall burn is going to continue to go down in Q3 and Q4, and stabilize at the end of Q4 into the growth of the B2B that we're going to see next year. Overall, burn rate is going to continue to go down after Q2 in the next two quarters, Q3 and Q4.

David Grossman

Got it. All right. Very good. Thank you very much.

Erez Raphael

Thank you.

Operator

Thank you. Our next question is coming from Charles Rhyee of Cowen. Please go ahead.

Charles Rhyee

Yes, thanks. I just had a couple of quick follow-ups. First, on the B2C business, obviously, we are reducing our emphasis on this. I would imagine that's just a function of the market dynamics where customer acquisition costs have increased dramatically, and it doesn't really make economic sense to continue to pursue this line of business at the moment. Do you foresee a time in the future when customer acquisition costs come back down? I think, we've heard from other people in similar areas that are facing the consumer market that there's this big bolus of VC money over the last few years, partly driven by COVID that has driven people into the market. Obviously, that has increased ad spending costs as they compete for limited sort of ad space. Does that reverse at some point in the future? Do you think that there will be a time when you might want to reaccelerate the B2C business?

Erez Raphael

Yes. This is a very, very good question. I hear you. I mean, we also know and see that during COVID, a lot of companies did it out of digital. Google, Facebook, and others started to be more and more expensive. We see the cost of acquisition going down now when the market is a bit slowing down. I think that the way to think about our big move is mainly focus. I would say that the momentum that we are getting from the B2B, the accounts that we are signing on, the huge accounts that we are signing on, the national health plan and others that we have is something that requires a lot of focus. I would say that the decision is first about how we want to deploy our resources and how we want to focus our resources. That's reason number one.

It doesn't mean that we don't want to grow intensively. We are planning to grow intensively, and we believe that the B2B2C is going to create an intensive growth. It's about making sure that we are deploying the resources into the place that is going to give us the best value and the most effective growth from a financial profile standpoint.

Never say never, but at the moment, it seems that we're going to stick with the decision that we're going to deploy the resources into the B2B. If things will change drastically, maybe we'll decide differently. But at the moment, it doesn't seem that a 20%, or 30%, or 40% reduction in the cost per acquisition on Google or Facebook is going to change our mind. We see much, much, much bigger opportunity on this B2B2C, working with these huge health plans and expanding our platform within this organizations.

Charles Rhyee

All right. Then one last other follow-up is around membership and the national health plan. Can you remind us—I don't know if you guys had mentioned before, but is this targeting the commercial membership only, or is this targeting also Medicare membership? If it's in commercial, is it within the fully insured book or is it both (inaudible) the ASO? Thanks.

Rick Anderson

Yes. This portion of it would be within their ASO book on the commercial side. That's where I make reference to the fact of expansion opportunities that's into the fully insured and some of the other pieces.

Charles Rhyee

Okay. Is there any plans to move into Medicare at all within the sort of framework of your discussions?

Rick Anderson

That is not currently in the discussion. I think that there is an opportunity for that discussion in the future. The other two health plans that we're in are actually in the Medicaid space. We're seeing a lot of demand in Medicaid and Medicare outside of this particular plan for our solutions basically. On the health plan side, we are seeing demand from commercial, but we're seeing pretty strong demand, as you would expect, from a Medicare population where there's a high prevalence of these kinds of conditions.

Charles Rhyee

Great. Thanks a lot.

Erez Raphael

Thank you.

Operator

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

John Vandermosten

Hey, everyone. Good day to you. Just a question on the behavior health. It seems like if I'm looking at the last five of nine contracts that you signed, and that doesn't even include the multi-condition contracts, and they all include behavioral health. Now is that from just a lot of contracts that were in motion before you made the acquisition, or is there just a lot of demand for that service specifically?

Rick Anderson

There does continue to be demand for behavioral health services. What you're seeing in part is the distortion due to the fact that those are more likely to happen off cycle than what I would call our full suite product kind of sales happening off cycle. We definitely have seen both happen off cycle, which is a very good indicator. But more of our full suite products will happen with the on cycle, 70% of all employers are on a January to December cycle, and therefore, really tend to launch new programs in the first quarter. We're in the RFP, finalizing RFP, starting to go into contracting kinds of phases for those, and that's what the majority of it.

What we saw during the pandemic, especially was increased demand for behavioral health, and that demand is continuing, we expect that there will be some changes in the market that are more likely to impact our competitors than us in the behavioral health as we go forward here. But we do continue to see strong off-cycle demand for behavioral health.

John Vandermosten

Okay. Great.

Rick Anderson

Those were not in the sales cycle when the acquisition was done. This is all post acquisition.

John Vandermosten

Okay. Very good. Then if you look, excluding obviously condition, but if you look at kind of the four major areas, diabetes weight, blood pressure and behavioral, how would you rank those in terms of prospect interest?

Rick Anderson

Like I said earlier, I think the prospect interest is in the integrated solution because if you look at those conditions, there is a significant amount of comorbidity between hypertension and diabetes, for example. It's not that it's one versus the other. I think it's really the ability to provide that full suite solution that is in the strongest demand, not with an individual solution.

John Vandermosten

Okay, great. Thanks, Rick.

Rick Anderson

Yes.

Operator

Thank you. At this time, I'd like to turn the floor back over to Mr. Raphael for closing comments.

Erez Raphael

Thank you. I would like to thank everyone for joining our call this morning and looking forward to seeing you on our next earnings call as the business is processing. Thank you. Have a good day.

Operator

Ladies and gentlemen, thank you for your participation. This concludes today's event. You may disconnect your lines at this time, and enjoy the rest of your day.