DarioHealth Corp.

First Quarter 2023 Results Call

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PRESENTATION

Operator

Good morning, and welcome to the DarioHealth First Quarter 2023 Results Call. (Operator Instructions)

Please note this event is being recorded.

I would now like to turn the conference over to Chuck Padala. Please go ahead.

Charles Padala

Thank you, Operator, and good morning, everyone. Thank you for joining us today for a discussion of DarioHealth's first quarter 2023 financial results.

Leading the call today will be Erez Raphael, CEO of DarioHealth and he'll be joined by Rick Anderson, President. After the prepared remarks, we will open the call to 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 an archived webcast, this call is being held on May 11, 2023.

This morning, we issued a press release announcing our financial results for the first quarter of 2023. A copy of the release can be found on the Investor Relations page of DarioHealth's website. Actual events

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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 first quarter 2023 quarterly report Form 10-Q filed this morning. Additional information concerning factors that could cause results to differ materially from our forward-looking statements are described in greater detail in the Company's press release issued 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 this morning's press release.

With that, I'd like to introduce Erez Raphael, CEO of DarioHealth. Erez?

Erez Raphael

Thank you, Chuck, and thanks to all of you for joining this morning call.

Q1 financial results continue to demonstrate the success of the multi-year strategy we implemented in the last few years. We continue to see the trend of financial profile improvement that we saw in Q3 and Q4 of 2022. We moved our business from direct-to-consumer to B2B and from single point solution to an integrated multi-chronic condition platform.

Let's reexamine the strategy, the market trends against the strategy, and the indications for success in the financial results we are reporting today. First, our transformation from direct-to-consumer to B2B. We have succeeded and continue to succeed in making significant advances in the financial profile of the Company. This is because of the significant reduction in the cost per member acquisition, the ability to scale, and more efficient economic model for members on the platform. Key indicators for financial results for the success of this strategy is evident in that 70% of revenues came from B2B. Also, the continuation of the sequential improvement in our gross margins, and a significant reduction in the Company burn rate.

Second, is the multi-condition strategy in our B2B business, where we manage five different conditions on one integrated platform. This strategy is not only aligned with the market, but also ahead of the macro digital health market trends of consolidation and consumer centricity. In fact, our current model is better suited to the global financial macro environment we are all facing today. The market trends of customers looking for an innovative digital solution, with more conditions and from smaller number of vendors and adopting solutions for partners continues.

The majority of our new contracts continue to be multi-conditions. We generate more revenue per customer than a single chronic condition point solution. We believe our platform has strategic advantage because it not only covers a large number of conditions but does so through an integrated user experience with high member engagement. We're also seeing real-world evidence in our voice of customer data, which focuses on ROI, a trend which will certainly position us as a value differentiator to benefit from, as recently demonstrated in the clinical data published by Sanofi earlier this week.

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Another strategy is accelerating penetration through partnership, which is an approach we have been executing on for the last few quarters to accelerate both the sales cycle and the accounts implementation. We have collected a meaningful list of partners, including Solera, Virgin Pulse, Alliant, Sanofi and Aetna and are looking to accelerate our footprint further. This quarter we added significant new partners and secured new customers through these partners. We announced a very significant new partnership with Amwell, one of the largest telehealth companies in the country, with 90 million people having access to their platform. Rick will elaborate about this significant deal for us. In addition to that, we announced our first customer through the co-promotion efforts under our strategic partnership with Sanofi. This is a multi-condition agreement, with a Pharmacy Benefit Manager.

Third, we demonstrated tight collaboration on real-world data and clinical evidence with Sanofi, through the presentation of the first Sanofi conducted study earlier this week. We are very excited about this study, and what this represents not only for Dario, but with the digital health industry as a whole. We believe our partnership strategy, including the traction we saw in the first quarter, will drive accelerating revenue in the second half of 2023 and even more in 2024.

Let's take a deep dive into the financial results. Q1 shows continued improvement of the Company financial profile, a trend we demonstrated in Q3 and Q4 of 2022. We are presenting, real evidence that shows that the model is working and creating a long-term Shareholder value. Let's start by looking into the revenues and its components.

First quarter 2023 revenue was $7.07 million, a sequential increase of 3.8% compared to the Q4 of 2022. This is 12.3% decrease compared to the revenues of $8.06 million in the first quarter of 2022. This decrease resulted mainly from lower B2C revenues in Q1 2023, which is part of our previously discussed strategy to manage the B2C business, to a breakeven—to a decreased investment in B2C customer acquisition cost. We believe we will see revenue acceleration as we continue to get signed accounts launched.

Another important metric is the gross margins. This is where results are even more exciting as we are showing a true software-driven business, with SaaS, Software-as-a-Service-oriented characteristics. Pro forma gross margins was above 60% for the first quarter of 2023, up from 58% of revenues in the fourth quarter of 2022. As I mentioned, in the last few calls, we are targeting an average gross margin of above 60% for 2023 and above 70% for 2024.

Looking at operating loss, we are seeing true operating leverage on the infrastructure that we have built, and real economic advantage for multi-condition approach. We continue to reduce the cash used in operating activities in the first quarter with only $4.76 million used, further reduced net loss excluding stock-based compensation acquisition-related expenses and depreciation for the first quarter of 2023 to $6.8 million compared to $10 million for the first quarter of 2022 and $9.6 million in the fourth quarter of 2022.

Looking into the balance sheet, we also have a strong cash position. Pro forma cash balance as of the end of Q1, inclusive of the private placement funds and the loan refinancing, was $61 million, which leaves us with a significant runway to execute on our strategies.

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

Rick Anderson

Thanks, Erez.

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In the first quarter, we continued our revenue growth trend, with increasing year-over-year and sequential quarterly growth. As expected, we are maintaining our B2C revenues at levels consistent with the fourth quarter of last year and it remains a self-funding strategic innovation platform. We expect to maintain the B2C business at these levels throughout 2023. On the other hand, we continue to see growth in our B2B revenue in the first quarter, with the B2B revenue now accounting for approximately 70% of total revenue. While we continue to increase the number of B2B contracts in the first quarter consistent, with the normal self-insured employer benefit cycle, the number of contracts signed was less than the fourth quarter of 2022.

More than 70% of self-insured employers are on a January to December benefit cycle, with the majority of employer contracts signed in the late third and fourth quarters, though we are currently in the early stages of the annual employer buying cycle. Our overall contract value is approximately $67 million, a modest increase over the end of last year. However, this does not include any value for distribution partnerships, unless we have visibility to the distributors in customer contract value. For example, we have not reflected any value related to the Amwell contract despite the fact that Amwell is already in discussions with some of their downstream customers about adding Dario to their offering.

The market trends of customers looking for more conditions from a smaller number of vendors and accessing care management solutions through partners continues. The majority of our new contracts continue to be multi-condition, which generates more revenue per customer than single condition contracts. We believe our platform has a strategic advantage because it not only covers a large number of conditions that are high priorities for customers but does so through an integrated user experience with high member engagement.

We are also seeing increasing focus from customers on ROI, a trend that we believe we are well positioned to benefit from. Our solution delivers significant clinical and cost improvements for our customers on some of the most costly chronic conditions. This was validated in the first Sanofi conducted study that was released earlier this week. We are very excited about the results of this study and what it represents not only to Dario, but the digital health industry as a whole. The study was conducted by Sanofi and their third-party data partner, which makes it one of the only independent digital health studies and it was conducted with a much higher level of rigor than most of our competitor studies, including the use of a propensity matched comparison group.

The results demonstrate that Dario does impact healthcare costs. The study showed with a high level of statistical significance, the Dario members had a 9.3% reduction in healthcare utilization and a 23.5% decrease in hospital admissions. In this environment of increasing focus on cost and ROI, and with increasing demand for evidence from customers and prospective customers, we believe this study will accelerate adoption of our solutions.

Distribution and strategic partners are an important part of our strategy to accelerate sales and make implementation and management as easy as possible for our customers. We had two significant partnership developments in the first quarter. We announced our first customer through our Sanofi co-promotion efforts. This multi-condition agreement with the Pharmacy Benefit Manager or PBM is one of the two health plan type customers that we discussed last quarter. We anticipate that it has the potential to generate multiple millions of revenue once fully implemented.

Implementation is underway and we expect to launch this customer in the second quarter of this year. We are very excited to see our first customers through our collaboration with Sanofi and look forward to more developments from the growing pipeline with them.

Second, we announced the partnership with Amwell, one of the largest telehealth companies in the country with an installed base of approximately 2,000 health plans and health systems that reach over 90

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million people. Amwell is integrating our cardiometabolic solution into their platform and will distribute it to their current and prospective customers. Given Amwell's past success distributing another digital health solution through their platform, we have high expectations of this partnership and believe that it could represent high tens of millions or perhaps more in revenue, as the relationship ramps up over the next several quarters. While we know that Amwell is actively selling the Dario solution, we have not yet included any contract value in our 2023 forecast or reported contract value. We will adjust the contract value as we gain more visibility to the initial customer size and timing.

We have one additional health plan that we continue to anticipate launching through a partner in the near-term. We have seen several delays with this customer that are occurring between our partner and the health plan, but we continue to anticipate the launch in the second or early third quarter. Encouragingly, this partner has asked us to expand the number of conditions that they can distribute to their customers, which are all health plans, and we are currently in contracting on that expansion.

As previously reported, we also expect Aetna will launch their new digital platform, which they are selling through to their employer, customers, on July 1. We earn revenue for members that are contracted to have access to the platform, which we expect to grow over several quarters post initial launch. Throughout 2023, we will continue to invest resources in our existing partnerships to assist with customer pull-through and we will seek to expand our partner roster to a select number of additional partners that we believe can accelerate our revenue and service specific subsets of customers. We have demonstrated that we can convert contracts into revenue by expanding the number of contracts that are multi-condition, achieving an average enrollment rate of 30% or better and significant levels of engagement.

Over the last year we have more than doubled the number of records accounts, which based on experience is the basis to accelerate growth of customers on the platform, especially as we continue the 2023 selling season for 2024 employer launches. We believe our partnership strategy including the traction we saw in the first quarter will drive accelerating revenue in the second half of 2023 and 2024.

With that I would like to turn it back over to Erez.

Erez Raphael

Thank you, Rick. To summarize, we believe that further into 2023 and 2024, we'll continue to strengthen our financial profile. The losses will continue to decline. Gross margins will improve with a target of about 60% for 2023 and above 70% for 2024. Despite macroeconomic factors and a possibility for recession, we don't see a slowdown in the digital health market. In fact, we continue to see tailwinds, as sales and employers seek to better manage their patients and reduce healthcare costs. The market trends of customers looking for digital health solutions with more conditions from a smaller number of vendors and adopting to partners continues.

Further, our commercial capabilities matured considerably in the past few years with a larger sales team and more strategic partnerships, which we expect to accelerate, not just more contract wins, but more meaningful contract wins, such as Aetna and other large accounts. We are seeing a trend of big traditional healthcare players in large pharma such as Sanofi and other big medical devices companies looking to tap into digital health space by partnering with companies like Dario so they too can extend their footprint in healthcare transformation. We expect to make more large and strategic partnerships like those.

We have made and continue to make substantial progress in building our relationship with Sanofi, which we believe can take us to the next level in terms of our relationship with Sanofi as a big pharma. Our relationship with Aetna is forming, and we recognized revenue this quarter, in the last few quarters, and we are anticipating that revenues will accelerate throughout 2023 and beyond.

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We believe that we are positioned to accelerate growth in 2023 and 2024 as the overall foundation for client wins is improving, with larger sales team and meaningful partnerships that should give us significant larger access to clients.

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

Operator

(Operator Instructions) Our first question comes from Alex Nowak with Craig-Hallum Capital Group. Please go ahead.

Alexander Nowak

Hi, great. Good morning, everyone. Maybe just talking on that last point, thinking about the enterprise revenue, just how much of the B2B enterprise revenue, how much of that B2B revenue in Q1 is now, call it, purely recurring versus what I would say would be more milestone like payments?

Erez Raphael

Thanks, Alex, for the question. The way that we are looking into the revenues that is coming from Sanofi and Aetna, some of it is also recurring revenue. I would say that on a high level, around half of the revenues that we have today are kind of recurring. Some of it is coming from employers and some of it is coming from data that we are getting paid for. I wouldn't say that everything that we are getting from Sanofi is services. The way to think about it is that around 50% of the revenue is recurring.

Alexander Nowak

Okay. That is helpful. We talk a lot about the strategic deals, but also you signed 100 contracts now or over 100 contracts now, $67 million in contract value. Where are we in ramping through those contracts? Are we half the way through that contracted value, or—my math would probably say we're probably 25% of the way to that contracted value. If the revenue is recurring. Just help us think about that. When can we ultimately reach full $67 million of revenue coming from those contracts, 100% penetration?

Erez Raphael

Yes. Sixty-seven million dollars in contracts, you need to take into account that we are counting in Aetna, with somewhere between $30 million to $35 million as part of the $67 million. Aetna, we recognized revenue between Q3 and Q2, Q3 of last year and Q2 of this year. The revenues that we recognize were only services, not recurring revenue. This is why we consider that Aetna is zero ramp-up. If you remove Aetna from the $67 million, you end up with around call it, $32 million. From this $32 million, I would say that 70% is ramped up. We have a couple of accounts that are not launched yet. I would say that overall, it's only 35% to 40% of the $67 million is launched.

To your second question, I think that a lot depends on the implementation of Aetna and the velocity that Aetna is going to get in. I think that it's going to take us three to four quarters to get to the levels of this full recognition of deployment of these signed contracts into revenues. To Rick's point, just to reemphasize, Amwell is a huge deal. We have other huge deals that we are having with partners. None of it is counted into the $67 million. Through Amwell, as we said, we have potential access to 90 million users. The more accounts we are getting from Amwell, Solera and others, the more we can add to the $67 million. The way to look at it is that only 40% is kind of recognized and the rest will happen in the next four quarters. This is our best visibility that we have at the moment.

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Alexander Nowak

If I remember correctly, I think the pipe, or the funnel of deals out there was about $900 million worth. This is going back several quarters now. I guess, as you think about new deals that will be signed up on the platform here, it seems like you're targeting these more larger names like Amwell, for example, where they're going to bring a large group of customers to Dario platform versus targeting more employer-by-employer basis. Is that the right way to think about the ramp of new deals going forward?

(Multiple speakers)

Erez Raphael

Yes. I think that the way that we are looking into the future ramp-up is that number one, we're going to have bigger employers on the platform when we started the B2B, and we had to gain recognition and we had to gain reference customers. We started with relatively small employers' accounts, and we are going now into bigger employers' account. Second trend that we're going to see is that we're going to probably get more bulk of accounts that are bigger for our partners. Eventually through Amwell we're going to get to plans that eventually are going to get us to employers. Through Aetna we are getting into employers that are getting us into users.

Eventually we believe that more than 50% of the employers that we're going to have on the platform will come through partners and not directly by us. That's the trend that we're going to see like two years from now, three years from now. Eventually we believe that more than 50% of the revenues are going to come from these partners like Aetna, Sanofi, American Well, Solera. We do have our own direct sales team, 12 or more sales representatives that are working directly and are also working inside these partnerships. We dedicated our own sales team into the relationship with American Well and others in order to leverage on these connections. We think that eventually this is something that is eventually reducing the cost for acquisition of single account. That's the way to view it.

Alexander Nowak

Okay. That is helpful. Then last question, we talked about this in the past, but we've been seeing this big uptick in called digital health around weight loss. What is the Company's thoughts about adding on drug prescriptions on this platform? It could be weight loss like Ozempic, Wegovy drug prescriptions. What are you thinking about that? How does that play into the Sanofi relationship?

Rick Anderson

Obviously, those medications are having a significant impact in the market, and we anticipate that they will actually have a significant impact on wellness vendors that are only managing weight management solutions. The market perspective on those medications, in other words our customer perspective on that depends a little bit on who the customer is. Our approach to that at the moment is we're really targeting a digital approach and experience for our members that's then tied into what their doctors are doing and providing information and tools into that process rather than in some cases where folks are integrating that.

Now that said, we are having discussions with one of our partners about how we would potentially integrate more closely on looking at that for members. Unlike for example some diabetes medications where companies are looking to take members off of those medications, we don't think that's realistic in the longer term. What we're looking to do is provide members with tools to help manage their overall health and weight around that including the utilization of those medications. We're not planning on being

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in the business of having providers and prescribing that, but we are looking to partner closely with some of our existing partners around those drugs.

Alexander Nowak

Okay. Understood. Appreciate the update. Thank you.

Erez Raphael

Thanks, Alex.

Operator

Our next question comes from Charles Rhyee with Cowen. Please go ahead.

Charles Rhyee

Hey guys. Thanks for taking the question. I wanted to just jump back. I missed it a little bit at the beginning. Can you just, Rick, maybe just quickly go over again, through Sanofi what is the customer that you're getting through Sanofi? Can you just fill me in again real quick? Apologies.

Rick Anderson

Sure. It was the one we previously announced Charles, which is the PBM or Pharmacy Benefit Manager. It's a national PBM. It's actually a several million-dollar revenue opportunity to have a current diabetes solution, which we're replacing and then bringing the rest of our suite into that. Actually, they've recently seen some very high growth and are fairly aggressively growing as well. We think that's a good opportunity. That was the first one.

If you think about it on a sales cycle basis it came in a little bit faster than I would have otherwise anticipated. I think that we will see more customers coming out of that relationship a little bit faster than we see in the past. Part of that is we're just further into the sales cycle. I think that's also about the fact that we're further into the relationship. I think that we've figured out how to make things work a little bit better than we did, call it, last February when we started.

Charles Rhyee

In the $67 million contracted value, is there some estimate for that in that number?

Rick Anderson

There is.

Charles Rhyee

Okay. Just to be clear that's like, what is your part in selling in this case? Are you brought in as a technical consultant towards the end of a sale, or are they handling all the selling on your behalf? Can you just talk a little bit more how that works? Is there any population where it's automatically rolled out to?

Rick Anderson

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Yes. I start with the end and go backwards. The existing population will be transferred over to Dario as we launch the solution over the first month or two months. There is an immediate revenue opportunity once that customer is turned on, which as I said, we anticipate here fairly shortly. Then in terms of—for the rest of the customer base and as they go forward, yes, we are investing resources in that partnership as well as others to help them sell it through. In that particular case it is more of what you just call the technical consultant where we're assisting with the switchover of the existing members and then we're providing marketing materials as well as consultation on the sales and working as they ask it.

In other cases, in our partnerships, we're more involved in the sales. Attending the sales meetings et cetera. It sort of depends partner to partner. That one is a little bit more on the lighter lift side.

Charles Rhyee

Okay. Then when we think about the revenue ramp for the rest of the year it sounds like what you're saying is expect the B2B—sorry the B2C revenue kind of in this low $2 million a quarter range. This is sort of a breakeven part for your business. Obviously, a good quarter in B2B, but it sounds like we would think of sequential improvements in revenue for B2B and one coming sooner from this arrangement. Then if you think about Aetna rolling on, correct me if I'm wrong I think that's still slated for a third quarter start. Then we should have that $35 million ramping up over the course of the year. Is that the right way to think of it, on top of the existing B2B base?

Erez Raphael

Yes. That's what we think we're going to see. I mean as we said Aetna is planning to launch the platform July 1, and we think that it's going to take a few quarters to ramp up for this full revenue. This is from the visibility that we have at the moment for the Aetna relationship. On this baseline we're going to see—we're supposed to see a more significant ramp up into the second half of this year. I did also for Alex the calculation of the $67 million, how much is coming from Aetna. We have visibility to that as well.

Charles Rhyee

Okay. I guess last question for me then. If we think about any kind of incremental spend as we think about particularly the OpEx line? Obviously, you guys have done a good job bringing Adjusted EBITDA loss down. Should we expect continued sequential improvements in that line as well even with having spend related to some of these new partnerships, or is this a function where it's more driven by leverage on revenue and gross margin?

Erez Raphael

Yes. I think that we did an amazing job taking the burn rate down to only $4.7 million in this quarter. This is a transformation that was done over three to four quarters along 2022. Just to remind Investors we slowed down B2C. We did a lot of activities of offshoring, and we have seen a lot of digital health companies out there in the US that have a very, very high OpEx. We are very offshore driven. We also consolidated all the acquisitions that we did in a very efficient way. I think that we're going to see stabilization of our OpEx on this kind of run rate. It might be a few hundreds of thousands of dollars every quarter moving to here or there but that's going to be a baseline.

On this baseline we're going to grow gross margins. On this baseline we're going to grow the revenues up and this is something that is going to take us to cash flow profitability. That's the OpEx that is kind of baseline to how we want to move forward.

Charles Rhyee

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Great. Last question for me. As we think about the gross margins expanding, can you remind us where you think sort of your target gross margins are at—where do you think that it can get to?

Erez Raphael

Yes. We were clear that this year we should stabilize on 60% plus. I think it's going to be 60%, 62% this year. We're already showing this quarter that we are above 60%. I'm talking about non-GAAP. We think that for a single account we see numbers that are closer to 75%. We think that moving forward and we want to see it already next year 2024 that we're going to exceed the 70%. That's how we look into the business. I think we can do higher but conservatively I think that Investors should think about it as a 70% gross margins.

Looking purely on the B2B if you take out the B2C we are already in this number for the last three quarters, including this quarter. It's not something that we are dreaming about. It's something that we are already doing. The B2C is in the range of 45%, 49% and this is why the full business is still not on the 70%. This is something that will arrive once the merge is going to be in the higher favor of B2B.

Charles Rhyee

Great. Thanks a lot, guys and congrats.

Erez Raphael

Thank you, Chuck.

Operator

Our next question comes from Rahul Rakhit with LifeSci Capital. Please go ahead.

Rahul Rakhit

Hey guys. Thanks for taking the questions. Rick on the last call I think you'd mentioned that the platform's high customer satisfaction rates of when some customers discussing the potential of expanding conditions or to the broader platform beyond the current scope of their contracts. I apologize if I missed this earlier, but I was just wondering if you could provide any update on, one how those conversations are progressing. Two, if you could give us a sense of how many of those existing customers are exploring this option?

Rick Anderson

Thanks for the question. We have two types of customers, probably more than that but two big portions of customers on the platform. One are the behavioral health customers that came in as behavioral only. We have several of those that are, I would say, on the larger side of our behavioral health customers that are now looking at expanding into the overall solution. We have a number of our early customers to say they came on in 2021 and 2022 with single conditions that are now looking at expanding to additional conditions or in some cases the full suite of those.

Those conversations are continuing as part of the '23 sales cycle for launch in 2024. We're pleased with where we are in terms of those expansions. I guess the positive and the negative to some extent is the customers that we signed in 2022, especially in the back half of 2022, a lot of those were already full suite or multi-condition deals. There's less ability to expand in those as it relates to that.

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I would say, of those that would be good targets for what we're doing we're seeing 70%, 80% of those are looking at further expansion and we'll see how that concludes throughout the rest of the year. I think we're pleased in terms of where those are in the conversations.

Rahul Rakhit

Got it. That's helpful. Then just one more from me. Of the contracts that were added in Q1 can you just help us understand what percentage were full platform versus multi-condition versus single condition? Maybe if you can just provide those percentages for the broader customer base as well. Thanks for taking the questions.

Rick Anderson

In terms of adding in the first quarter, I don't have the exact numbers in front of me, but I would say that it's probably about 10% were single condition, most of those being behavioral health versus multi-condition. I don't believe on the non-behavioral side we added a single one that was a single condition like diabetes ailment.

Operator

Our next question comes from Benjamin Haynor with Alliance Global Partners. Please go ahead.

Ben Haynor

Good day guys. I just have a couple of quick questions. It looks like some nice data on the healthcare utilization rate study. I was curious on the reaction that you've gotten from folks out there with those current customers potential customers. Maybe what the response has been there?

Rick Anderson

We just released the data obviously on yesterday.

Ben Haynor

Few days old yes.

Rick Anderson

It's a little early for me to give you a full response on that. I think that people, the feedback—I will give you the anecdotal feedback to that in the last day which has been extremely positive. The feedback that we're getting from the more sophisticated customers, especially what we're seeing in the marketplace, is health plans especially are looking for better and better data that's out there. I think that it's hard to understate the significance actually of the overall design and size of the study. There's close to 10,000 people in total that were in it, if you take the Dario Group and the comparison group.

The way that propensity matched comparison group was done, Sanofi really brought their entire evidence team to it. They controlled the study. They did it. There's not many if any independent studies that are out there. I think all of those things are very positive. I would say that it gets more reception in the health plan market than the employer market, mostly because the health plans are looking for that.

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If you think about the fact that health plans are also providers, I guess of services to downstream customers, and the fact that customers are really on the employer side are looking for partner-based solutions, I think that this also supports that (audio interference), plus percent reduction in hospitalizations, which is obviously one of the largest cost drivers that's out there, is very significant. It's both the actual results that we saw in the study, which are quite good, alongside of the study design itself.

Ben Haynor

Okay. Then if you had to put a savings dollar figure on it, would there be somewhat ballpark way of doing that just saying like the average inpatient cost for admission is X and multiplying it by the differential between the two groups and come up with a savings thing, or isn't it quite that straightforward?

Rick Anderson

Yes, no, I mean, directionally, that's right. I mean, obviously hospitalization costs depend on geography as much as anything else in terms of how much hospitalization is. If you think about a hospitalization is probably going to be somewhere in the range of $15,000 on average. Maybe in some cases you could argue a bit more associated with that. I think that gives you a generalized idea. I mean, we also saw almost a 10% reduction in overall utilization. That one is a little harder to translate into cost exactly in terms of the way that you were doing it, but that's overall healthcare utilization.

Given the fact that we're talking about members that have chronic conditions, the cost reductions there are significant in terms of dollars. I think that one of the things that we've definitely seen accelerate in the last quarter is there is more and more focus on cost reduction and ROI across the board. That's always true in health plans, I would say, but we're seeing it more and more in the employer side of the business as well.

Ben Haynor

Okay. Got it. That's helpful. Then lastly for me. Maybe this is a silly question, but on the Index date for the two groups of users versus non-users for Dario users was the registration date. But then, for the other users, I think it was their first medical encounter in the—I presume in the same month or quarter time period based on the matching. Let's just say that, first medical encounter was a hospitalization and that got included in the look-back period rather than the go-forward period. Wouldn't that tend to make the comparison of the non-users versus Dario look better than otherwise?

Rick Anderson

Yes. I understand your question. I would defer and I'm happy to get you more information with the clinical staff that did the study to give you an exact answer to that. I can tell you that members were matched on a 3:1 basis. When you look at that across the population, I believe that they controlled for that, but I'd be happy to get you somebody more knowledgeable in the exact details.

Ben Haynor

Okay. I would be curious on that. I don't know if it's meaningful and I presume that given the folks that it was well considered. I was just curious on that. Okay. Great. Well thanks for the color, guys. That's all I have.

Rick Anderson

Thank you, Ben.

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Operator

Our next question comes from David Grossman with Stifel Financial. Please go ahead.

David Grossman

Thank you. Good morning. I'm wondering if we could just go back to Aetna and Sanofi for a minute. I think you laid out a couple of important milestones for this year including getting it up and running in the second quarter or in the third quarter, and Sanofi about transferring some of the activity from the PBM customer onto your platform. Are there any other milestones that we should be aware of or focused on for those two partners this year?

Erez Raphael

Yes. Let's start by Sanofi, just in terms of clients, I mean, pipeline is growing, and the teams are out selling. This PBM that we have signed on is not the last one. We see a trend. We see a very healthy pipeline. I think that we should expect additional deals that will come from this partner that this month, I think it's the 13 or the 14 month since we started this strategic partnership. This is number one. Number two, that I mentioned on my summary is that overall if you look into the Sanofi and Dario relationship both sides consider the relationship as successful for multiple aspects.

From a development service aspect, we continue together share a vision for where digital health is going and the teams are collaborating on expanding the platform. From a data perspective, I think that the Dario platform that collected users for many years. We have a lot of data. This is something that is very meaningful and valuable for Sanofi. The result that we published earlier this week is something that was super important for them, and we think that we're going to see more of those coming. In terms of commercialization, we had the first PBM and we think that we're going to have a few more clients this year. We see a success in all three categories. We see a very good relationship and collaboration.

The two parties are exploring together how this relationship potentially can be expanded in some ways. It might be another milestone. We don't have a concrete decision yet, but we do look into more ways to collaborate and expand relationship because we are sharing the same vision and we believe that both of us have the right assets in hand in order to dominate digital health in the future.

With regards to Aetna, at the moment, we have the planned launch date. This is something that was postponed. If you would ask me a year ago, I would think that it would be already launched at the beginning of this year. It didn't happen. Now there is a commitment to launch it by the beginning of July, and that's something that will drive higher revenue. We need to remember that behind Aetna, there are also employers that they are selling into and that's something that dictate the velocity of the ramp-up. At the moment we have a certain expectation that we need to see that it's working in the velocity that we think it's going to work, but we are also confident there that we're going to see the revenues.

David Grossman

Got it. As we think about Aetna it just to start, is a July 1 kind of go-live date or early July go live date is that early enough in their selling cycle for next year given most employers are on a calendar year benefit cycle?

Rick Anderson

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Yes. It is early enough. From what they've communicated, I believe they are also out there in the market currently even though in advance of the launch date. Yes, I would say that for 2024, they are actually sort of in the thick of it at the moment.

David Grossman

Okay. Then for the Sanofi PBM that you're transferring, do you have any visibility right now since that revenue is just being transferred over—it sounded at least to me, that it was just being transferred over to your platform. Do you have any visibility on how large that is, in terms of revenue to Dario?

Rick Anderson

Yes, we have some visibility to it, because we know how many members that they have on the other solution, let's say, and we know what the overall rest of the population looks like. As I mentioned before, we believe that that opportunity is kind of in the lower end of the single-digit millions of dollars on an overall basis. There is significant revenue that would be attached. Now the absolute dollar value that, that will represent is also dependent on what portion of the current membership transfers over. Internally we've taken a bit of a haircut to that. I don't necessarily expect a hundred percent of those currently using one solution will transfer another.

I do believe that we will get based on past experience where we've transferred out for other populations, we will get the vast, vast majority of those folks. What we see actually in the market especially because this is the diabetes solution is people really like the Dario solution. I think that comes from the direct-to-consumer background the device, which people like a lot relative to the other devices that are in the marketplace and add that to the application we've seen good results with that. That's my overall expectation as they go forward in terms of initial launch probably something in the area of a third of that revenue that we've got visibility to.

Then other remaining two-thirds would kind of build in over the remainder of—on a run rate basis over the remainder of 2023 and early 2024.

David Grossman

Okay. Got it. Then a couple of quick financial questions. If I heard you right Erez that you talked about the DTC margin improving. If I heard that right what are the dynamics that you expect to drive that up other than just volume because it sounded like it was supposed to be flat.

Erez Raphael

Yes. The DTC in terms of gross margins fundamentally is the same, okay? However, we have seen improvement mainly because of inventory and supply chain issues, when we had post the COVID period, we created relatively high inventories. Some of it was at Amazon. What we have seen last year mainly in Q3 and Q4 is that—some of it we had to eliminate, and this is something that destroyed the gross margins of the B2C, is down is like 19%. I think that at some quarter, we had a negative. This is something that took down the whole B2C gross margins.

On a steady state, the B2C gross margins in the range of like 45%. That's in a steady state if we are not considering issues of supply chain and inventory. This is why we have seen improvement but it's not a fundamental improvement in the business itself. As I stated on the B2B, we're already above 70%. The way to calculate the future gross margin for the full business will be the combination of the two and what is going to be the merge between B2C to B2B. We think that B2C is more or less in a kind of a steady state.

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We are not losing money on the P&L of the B2C and we're going to manage it from the bottom line. We don't want to burn money on the B2C. We want to look at it as a sandbox for data collection, steering our product teams, steering our R&D team. That's the mindset behind the B2C.

David Grossman

Okay. Just to be clear, the direct-to-consumer business that business is not quite at that 45% range currently. Is that right? It's getting there but it's not there yet?

Erez Raphael

It's in the range of 40%—yes, it should be in the 40% to 45%. At the moment, it's in the range of 40%, I think.

David Grossman

Okay. Got it. All right. Then just, if you could provide us some pro forma data given that you did the financing post quarter in terms of pro forma share count we should be using as well as pro forma interest expense and interest income if you could?

Erez Raphael

Yes. The deal that we did—very also important to mention. Number one, pro forma cash position, as of the end of Q1, is $61 million. That's number one. Number two, we refinanced the debt in a way that we are not amortizing it. The combination of $15.4 million that we raised plus the refinancing, this is something that is extending our run rate by at least four, five quarters or even more comparing to where we have been before. That's number one.

Number two, as you can see from the report itself, the burn rate was significantly lower than the previous quarter and the year before only $4.7 million burn. That's point number two. In terms of the share count, the way that we were running this deal, we created a deal that is in a preferred structure. This is something that was successful for the Company in the past. We did it in 2019. As opposed to other deals that we see for microcap companies, that companies are raising money in deals that provide immediate discount to the Investors here. We did the deal at market. Hence the deal was at $3.33, without discount.

This was according to the NASDAQ rules. It was no discount. It was the average of the last five days. This is the definition of at-market by NASDAQ rules. We were providing dividend that is given in shares as Investors are holding the shares. We are providing dividends for five quarters. It's 5% every quarter and the fifth quarter is like 10%. The amount of shares that we added immediately is the $15.4 million divided by $3.33 and this is something that you should add on top of the existing share count. You're not going to see it on Yahoo Finance or other places, because usually they don't show the preferred shares. Those that are going to convert the shares, we'll be able to sell it but they're going to lose the dividend. That's the way that the mechanism is working.

David Grossman

Okay. Got it. What does that do to interest expense then compared to where you've been? Does it–?

Erez Raphael

Yes. I wouldn't connect the preferred structure, the equity deal in terms of–

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David Grossman

Got it. Okay. Got it.

Erez Raphael

Just being paid in shares. We know in advance the amount of shares that are getting paid.

David Grossman

Right. Okay. Got it. We just need to dilute the share count as opposed to adding anything to the P&L. Right. Got it.

Erez Raphael

Okay.

David Grossman

Very good. Thank you.

Erez Raphael

Thank you so much, David.

Operator

This concludes the question-and-answer session. I would like to turn the conference back over to Erez Raphael, CEO. Please go ahead.

Erez Raphael

Thank you. I would like to thank everyone for joining our call and for following the Company. I wish you all a nice day. Thank you.

Operator

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

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