

Transcript of
DarioHealth
Third Quarter 2017 Earnings Call
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Participants

Stephen Hart - Hayden IR
Erez Raphael - CEO and Chairman
Zvi Ben-David - CFO

Analysts

Ben Haynor - Aegis Capital
Michael Ainbinder – Westpark Capital

Presentation

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the DarioHealth Corporation's Third Quarter 2017 Results Conference Call. All participants are presently in listen mode. Following management's prepared remarks, instructions will be given for the question-and-answer session. As a reminder, this conference is being recorded.

By now you should have all received the company's press release. If you have not received it, please visit the Investor Relations section of DarioHealth website at www.dariohealth.com or contact the Investor Relations team at Hayden IR.

I would now like to turn the call over to Stephen Hart of Hayden IR. Mr. Hart, would you like to please begin?

Stephen Hart - Hayden IR

Thank you, operator. I'd like to welcome everyone to DarioHealth's Third Quarter 2017 results call. Hosting the call today are Erez Raphael, Chief Executive Officer, and Zvi Ben-David, Chief Financial Officer.

Before I turn the call over to management, I'd like to remind everyone that this conference call may contain projections or other forward-looking statements regarding future events or the future performance of the company. DarioHealth does not assume any obligation to update that information. Actual events or results may differ materially from those projected as a result of changing market trends, reduced demand and the competitive nature of DarioHealth's industry as well as other risks identified in the documents filed by the Company with the Securities and Exchange Commission.

In addition, certain non-GAAP financial measures will 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 to investors' understanding and assessment of the company's ongoing core operations and prospects for the future.

And with that, I'd like to now introduce Erez Raphael, Chief Executive Officer. Erez, the call is yours.

Erez Raphael - CEO and Chairman

Thanks, Stephen. Good morning and welcome to DarioHealth's Third Quarter 2017 results call. Thank you all for joining us today.

I'd like to start with the third quarter results where we showed again that we managed to deliver the record quarterly revenues, we managed to empower sales and deepen the penetration into the U.S.

We also managed to show in parallel that we are reducing our burn rate, we reduced the burn rate by around \$350,000, which is 13% compared to the second quarter of 2017, and this is our second consecutive quarter where we are reducing the burn rate. We think that we can continue the momentum and grow the sales and reduce the burn rate as we move forward and I'm going to talk about the other catalyst later on this call.

And we managed to sell more than 10,000 devices overall in the U.S. We managed to almost get to 45,000 devices. In parallel we showed that we can increase the disposable sales and we have shown that 71% of our quarterly revenue comes from disposables and other consumables.

We showed that these disposable sales will increase by 40% comparing to Q2. So, all in all it's very important to show that we're going to sales but it's also important to show that these sales are coming from users that are operating on the platform, and most of them are under subscription and they are generating recurring revenue which is very important parameter to show that we will be able to continue reducing the burn rate and drive the business towards profitability.

On top of that we also showed that the gross profit of 20%, and this is again, as a result of more sales of the disposables and also by some higher average general sales price.

So, all in all, this is what makes our results look better in terms of the overall sales and also in terms of the burn rate. Looking forward into the rest of 2017 and into 2018, we need to look into several near-term catalysts that can position our business in a continuous goal but also with some capabilities even to accelerate our goals and our sales.

So, there are a few areas that investors should look at. One is that the channels where we're working, as you know, at the moment we're mainly doing direct to consumer D2C, we also need also to look into different territories and we just launched in Germany. We also need to look into regulation passes [ph], and clearances that we keep getting from the various regulation bodies.

So, as such [ph] by the fact that from a regulation and clearances standpoint, we got the clearance of the Android in Q3, and this is something that will contribute to the acceleration of our sales, while the clearance was in Q3 the majority of the sales of the Android will be reflected in Q4, as it only impacted one month of this quarter, so these numbers I believe will be reflected as we move forward.

And from the Android we had another clearance by the [indiscernible] for iPhone 7 and 8 and now we're going to launch also in the UK market so this is also something that will help us accelerate the sales where we're getting more market access.

On top of that we have the launch that we just did in Germany. We're talking about 82 million people in Germany, around 10% of them are living under diabetes, so this is another market where we can launch our subscription product.

All in all we're selling in nine countries, so this is something that will also help to accelerate the sales and on top of all that we are adding another channel to our overall sales and we are starting more intensively to work on a B2B level. So far we managed to show that we can collect tens of thousands of users, these users are happy, we

show that these users can improve clinical outcomes. We've demonstrated our capabilities and we showed the poster at the ADA, so we have users that are happy with good engagement, with good overall satisfaction and this is something that helps us to take the business to the next step and introduce B2B with clinical partners with employers and others that will help us replicate the success in a much more scalable way.

And with regards to this one we announced a few weeks ago that we are launching the value engage. Value engage is our software platform where we can get a specific healthcare provider that want to run the clinical programs and provide, for example, coach to their users on top of the platform, and by partnering with them we can reach out to main users and again accelerate the sales in all of the user collection into our platform.

And so to summarize at this point, we show that we managed to grow the sales while reducing the burn rate from a capital standpoint investors should expect that we can continue the growth and even accelerate it because of the more territories, because we are getting more clearances to more devices, because we are getting into the B2B and working with partners in order to help them digitalize their services, which is something that the traditional market is looking into, and in parallel we also managed to show that when we are increasing the sales and reducing the burn rate, we also can be innovative in terms of releasing new products to the market so the value engage that we announced only a few weeks ago, demonstrate our ability to keep innovate and to take the business to the next stage and make it more and more digital and more and more scalable.

So, with that, I would like to turn the call to Zvi, for a more detailed review of the financial results. Zvi, please go ahead.

Zvi Ben-David - CFO

Thank you, Erez. As Erez have mentioned before, during the third quarter of 2017, we sold more than 10,500 Dario blood glucose monitoring systems in the U.S.

Revenue for the three months ended September 30, 2017, was \$1,375,000, an 89% increase on the \$728,000 for the three months ended September 30, 2016 and a 14% increase sequentially from the second quarter of 2017. The increase in revenues is mainly a result of our continuous market penetration into the American states.

Revenues were derived mainly from the sales of the Dario Components, including the smart meter itself, so direct sales to consumers located mainly in the United States and Australia, through our online store and through distributors.

Gross profit of \$275,000 was recorded in the third quarter ended September 30, 2017, an increase of \$200,000 compared to a gross profit of \$76,000 in the third quarter of 2016. This represents a gross profit of 20% as a result of increase in quantities sold and higher average sale prices, together with an increase in consumable sales. During this quarter we recorded a one-time write-off of old production fixtures and related inventories amounting to \$102,000 that reduced our gross profit accordingly.

Operating loss for the three months ended September 30, 2017 increased by \$263,000 to around \$3 million, compared to a \$2.7 million operating loss in the three months ended September 30, 2016. This increase is mainly due to the increase in our operating expenses partially offset by the increase in the gross profit. The third quarter of 2017 operating loss declined by \$1.5 million from \$4.1 million loss in the second quarter of 2017.

Net loss for the three months ended September 30, 2017 increased by \$2.4 million to \$3 million, compared to a loss of \$600,000 for the three months ended September 30, 2016. This increase is mainly due to the reduction in financing income from revaluation of warrants. As of September 30, 2017, cash and cash equivalents totaled around \$6.3 million.

Revenues for the nine months ended September 30, 2017 was \$3,592,000, an 83% increase from \$1,965,000 for the nine months ended September 30, 2016.

Gross profit of \$742,000 was recorded for the nine months ended September 30, 2017, which is an increase of \$925,000 compared to a gross loss of \$183,000 for the nine months ended September 30, 2016. This represents a record gross profit of 21% as a result of increase in quantities sold and higher average sale prices, together with an increase in consumable sales.

Operating loss for the nine months ended September 30, 2017 increased by \$4 million to \$11.3 million compared to \$7.3 million operating loss in the nine months ended September 30, 2016.

Financial income of \$7.5 million was recorded in the nine months ended September 30, 2017, compared to a financial income of only \$200,000 in the nine months ended September 30, 2016.

This change was mainly due to reversing the warrant revaluation expense recorded in the fourth quarter of 2016, due to a price protection feature included in warrants issued to investors in March and August 2016. This price protection feature expired on March 8, 2017, and as a result we cancelled the liability related to these warrants by recording a financing income of \$7.4 million.

Net loss of \$3.8 million for the nine months ended September 30, 2017 compared to a loss of \$7 million for the nine months ended September 30, 2016. The decrease in net loss for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016, was mainly due to our financial income related to the revaluation of warrants.

Now, back to you, Erez.

Erez Raphael - CEO and Chairman

Thanks, Zvi. So, as you can see we have continued to make our meaningful progress against our long-term growth strategy and we are encouraged by the overall results. We've seen a significant growth in the overall user base in our subscription. This is something that gives us the comfort that we have some significant revenue also secured there continue into Q4 and into next year because of the razor blade models.

In parallel we managed also to launch the product in another territory, Germany, we got clearance of the Android in the States. We also got the CE Mark for iPhone 7 and 8 for Europe, so this is something that will help us drive sales forward as we move into Q4 and also into next year.

In parallel, we managed to show that we can improve the overall profitability and we are selling more and more disposables, so this is also something that works with our strategy.

And now we can move forward and also introduce some B2B builds that will help us accelerate the growth in our users which is something that can take the business to the next level and put us in a much higher run rate and revenue and everything obviously, needs to be done in a very efficient way as we want to make the business more and more profitable and reduce the burn rate.

The introduction of the Dario Engage platform will help us for more of this B2B strategy and to accelerate the pace under which we are collecting users into the platform.

So, we are very positive that the business is mature enough to move to the next level and to the next level in its lifecycle into the B2B. It's going to be mainly in the U.S. We are going to work with employers, with other health

provider partners and overall, we think that investors will be able to see a how numbers are being impacted by this additional strategy.

So, we are going to have the two main challenges, direct-to-consumer and also B2B, and this is something that will intensively contribute to our sales in the next few quarters.

With that I would like now to open the call for questions. Operator?

QUESTIONS AND ANSWERS

Operator

Thank you. The floor is now open for questions. If you do have a question, please press star then one on your telephone keypad at this time. Again, ladies and gentlemen, if you do have a question, please press star then one on your telephone keypad at this time. Please hold while we poll for questions. Our first question comes from Ben Haynor from Aegis Capital. Ben, state your question.

Q: First from me, I know last quarter you spoke about following the Android launch and you got a number of leads on the B2B side of the strategy, can you maybe talk a little bit about the reception you've gotten so far with the Dario Engage and how soon should we expect patients to be kind of onboard the B2B component of your strategy?

Erez Raphael - CEO and Chairman

So, the overall reception is very good, so when we are talking about companies that know how to deliver coaching and services to people with diabetes, obviously the fact that we have a digital platform where you can get data directly to the coaches and also, we can provide the capabilities to communicate with the patient in two directions, coaches can send messages, coaches can get information from the users themselves. So, this is something that makes the overall solution that we have very appealing and you need to remember that our solution is 100% running in real time.

The practicality is that our piece of electronic integrated to smartphone directly, so when a user a might have a severe event, the coach can get it in real time, which is something that gives us a very big advantage. Also, the cost of [indiscernible] of our device is relatively low if you're comparing us to other players in the market.

So practically, when we are partnering with coach providers and others, medical device distributors or those that want to provide service on top of the platform, we have a big advantage, and when it comes to the overall cost, the overall user experience and also the real time connectivity that we have. So practically we have a few leads here and we are discussing it with a few potential partners. We are very, very positive that we're going to close something very shortly and we think that it's going to be reflected somewhere between Q4 to Q1, and next year in terms of the numbers.

And we're talking about potential few thousands or tens of thousands of users that we want to get into the platform. This activity overall involves also some kind of implementation work, because we need to integrate the systems there of our partners. We already started to integrate with one of our partner's systems and once we have something that is concrete in terms of numbers that investors that translate, users into dollars then we will provide further information to the market, but this is something that is very close, like around the corner.

Q: Very nice, very helpful. And then with the Android approval, have you seen any difference in the ability to support devices, there's so many different flavors of Android, so many different handsets out there, as opposed to the kind of the walled garden of the Apple ecosystem, is there any impact that you have to support costs or how should we think about that?

Erez Raphael - CEO and Chairman

Yes, so you are right that the iPhone platform is much more closed, and less open than the Android. From the first place, because we have experience from other markets like Australia, UK and so on, we knew where we can get users that are more engaged and so on, and when we approached the FDA in order to clear our Android handsets we were choosing from the first place specific phone families that are very wide, in the States, for example, Samsung.

So practically, in terms of how we can translate this one to numbers, it's something that when thinking about the B2C we believe it will continue the growth and the growth can be accelerated with the Android, but I think when you are looking on the overall picture you need to look at it mainly from a B2B perspective because now when we can provide the solution from both Android and iOS, we can move faster in terms of closing the B2B business because theoretically nothing can prevent us from providing our solution to a wider population and this is something that makes it more appealing to the potential partners that we have where we can offer it to everyone.

So, looking at the overall U.S. market after the clearance of the Android, we are like two or three months into running with a full solution and I think that looking on the overall sales cycle of B2B and forward to eight months cycle closing a deal is something that is realistic and we are already three to four months into the process.

So, the Android will accelerate the direct-to-consumer however it's much more powerful in terms of helping us closing the B2B deal. This is how I think investors should look at it.

Q: Okay, that makes a lot of sense. And then lastly from me. Just any additional color on the launch in Germany that you can provide I know it's still relatively early days but just wanted to see if there are any details you can give that might help investors.

Erez Raphael - CEO and Chairman

Yes, so in Germany and this is something that for us it [indiscernible] ourselves, but first you want to gain market traction, you need to win the belief and the feedback from the consumers, and this is why also in Germany we are starting in the direct-to-consumer.

Our day-to-day decision making is well to put the sales and marketing budget whether it's going to be in the States, Germany, UK, Canada, Australia and so on, we are doing it in a way according to the best ROI that we can get at the same time. So far, we've just started in Germany and we are trying to crack [ph] the funnel, something in terms of digital marketing and direct-to-consumer, something that worked in UK or worked in the States, doesn't mean that it's going to work in Germany and usually it takes like two months before you get the sense and the overall system is running and then you start to ramp-up sales.

So practically we did real [ph] sales in Q3 so you don't see the numbers of Germany reflected into Q3, in Q4 we're going to start to see the numbers, big numbers will get into Q1. We have enough things that we did, which is mainly the Android in the States to fill up the sales of Q4, and when it comes to the end of Q4, Q1, we're going to see the B2B and then Germany.

So, the short answer is that big numbers will get into Q1 when it comes to Germany, and overall, the average user in Germany is educated on direct to consumer and digital marketing, so we are very positive that we can do something that is in terms of customer acquisition, and user engagement, something that is not that far out from what we're doing in the U.S.

Q: Okay, great. That's very helpful. Thanks for the color, gentlemen.

Erez Raphael - CEO and Chairman

Thank you, Ben.

Operator

And our next question comes from Michael Ainbinder [ph] from Westpark Capital. Michael state your question.

Q: Hi, guys. Nice quarter. Looking to see when you guys feel you're going to having a meaningful contribution of revenue from the Android approval?

Erez Raphael - CEO and Chairman

Hi, Mike. Thanks for the question. So, in Q3 the numbers were very low, we just started because from the moment that we were cleared until we launched it took us few weeks, so the numbers will be reflected in Q4 and into Q1, and again if talking about the overall catalyst, so investors should expect sales goals, they are going to see it in Q4, and Q1, because of the Android, because of the B2B, because of the launch in Germany, so there are a few elements that can give us the comfort that we can grow the sales significantly in Q4 and Q1 next year.

Q: Okay, very good. If I might follow-up a bit, what does the revenue contribution look like by country? I mean U.S. versus everywhere else it's been approved.

Erez Raphael - CEO and Chairman

So, the U.S. is at the moment I don't know the exact numbers but generally we are like 65% to 75% in favor of the U.S. I suspect that with introduction of the Android and with the introduction of the B2B strategy it's even going to go higher in favor of the U.S., so as [indiscernible] company we need to make a very day to day decision where we want to put the budget into sales and marketing, and for good or for bad, this is the U.S., talking about 300 million people living there, one in every three people are either diabetic or pre-diabetic, so it's a huge market and this is the best potential for us at this point and we're going to do it, intensively into the U.S.

Q: Do you see any of these other countries, catching up or picking up in a meaningful way going forward?

Erez Raphael - CEO and Chairman

We believe a lot in the other three countries or four countries that we have. I'm talking about the UK market, the Australian market and also the German market, and so we're going to ensure that this company will be global.

Some of the partnerships that we are assigning require a global presence so if for example you are signing with an employer that have employees both in the U.S. and in the UK then our overall umbrella is something that is very helpful in order for us to close a B2B contract. Some of our competitors are not global and this is something that gives us the advantage. And so, this is something that is very important. Specifically some B2B opportunities we have, a few of them are also in other countries, not only in the U.S. so we do want to grow these major five markets in parallel and obviously the U.S. would be the biggest.

Q: Alright, very good. Thank you, Erez.

Erez Raphael - CEO and Chairman

Thanks, Mike.

Operator

Again, ladies and gentlemen, if you go have a question, please press star then one on your telephone keypad at this time. Please hold while we poll for questions. And there appears to be no further questions. I'll turn the floor back over to Erez Raphael.

Erez Raphael - CEO and Chairman

Thank you. Thank you everyone and I would like to thank those who joined us this morning for the call. I'm looking forward to share the next update along by March and I'm sure that the company will continue to communicate with the market on an ongoing base as we move forward with other news and other specific deals that I believe we are going to sign that will give investors the understanding about the focus of the business. So, thanks, everyone and have a good day.