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Transcript of DarioHealth

Fourth Quarter and Full Year 2016 Earnings Call

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Participants

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Erez Raphael – Chief Executive Officer DarioHealth
Zvi Ben David – Chief Financial Officer DarioHealth

Analysts

Brian Kinstlinger – Maxim Group
Mindy Han – Francis Capital
Jeff – Berson and Corrado
Gary Andersen – Michal Cab Research
Greg Silva – Silva Capital
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Mitchell Kapoor – Rodman and Renshaw

Presentation

Operator
Good day, ladies and gentlemen, and welcome to DarioHealth Fourth Quarter and Full Year 2016 Earnings Call. All lines have been placed in listen-only mode and the floor will be open for questions following the presentation. [Operator instructions.]

At this time, it is my pleasure to turn the floor over to Rob Fink of Hayden IR. Sir, the floor is yours.

Rob Fink – Executive VP and General Manager Hayden IR
Thank you, operator. I would like to welcome everyone to DarioHealth's Fourth Quarter and Full Year 2016 Earnings 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 for 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 risk factors 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 an assessment of the company's ongoing core operations and prospects for the future.

Unless it is otherwise stated, it should be assumed that any financials discussed in this conference call will be on a non-GAAP basis. Full reconciliations of non-GAAP to GAAP financial measures are included in the earnings press release that was issued earlier today.

With all that said, I'd like to now introduce Erez Raphael, Chief Executive Officer. Erez, the call is yours.

Erez Raphael – Chief Executive Officer
Thanks, Rob. So, good morning and welcome to DarioHealth's fourth quarter earnings call. Thank you all for joining us today. During our fourth quarter, we materially advanced our Dario product in the United States, which in turn meaningfully drove financial results. We delivered record quarterly revenues. We increased significantly our sales device. We meaningfully grew our user base, and we were very successful on converting users into subscribers. We also, along the whole quarter and year, increased drastically our brand awareness of the product and also of the company in general.

We're encouraged by the attraction that we have made in the United States, following the soft launch that we had in March/April of last year. The device sales continue to rise nicely, and our active community of users and subscribers is growing every day. This brings a very positive change to people with diabetes, and we managed to show our product very clearly disrupting the market with a very different approach. A product that is very user-centric, very digital, and, in general, we show that we are conforming the market from a position of medical device to a real digital health solution, with clearer capabilities and advantages from the clinical side for our users.

Sixty-seven percent of our quarterly revenues derived from high margin economy test strips and other consumables. Nearly 95% of the year's users have ordered test strips. As we previously shared, our objective in the company and the software that we are building is about disrupting the current medical device industry with a highly digital and mobile health solution. We truly believe that the [indiscernible] mobile solution is the future, and is why we're creating highly engaging software that eventually will help users improve their clinical outcome.

We are very focused on a user-centric solution, and we are very focused on personalization and big data management. In the last quarter, along the last whole year, we managed to increase our user base in a way that it was believed that our data and our big data strategy will eventually also contribute in a way that we'll monetize on that, and we are very happy with the results so far.

On the other aspect, our digital marketing approach, which is our approach from direct-to-consumer is something that was proved very successful along 2016. We managed, by this strategy, to grow our user base, and early this year we also managed to raise some money from a more strategic investor. It's OurCrowd Qure, an Israeli, digital health-specialized fund.

So, the fund nominated two board members, Yossi Bahagon and Allen Kamer. Allen Kamer is coming from a big line of big data and the combination of a very effective digital marketing direct-to-consumer approach in combination with big data capabilities and highly engaging software is something that makes it very appealing to Qure, eventually invested $2.5 million in around of $5.1 million.

Looking forward into 2017, there are several real-time capitalists in this position, as well, to build on the initial success. First of all, it's our ability to utilize our digital marketing capabilities, also under reinvestment and under insurance. This is something that we expect to happen, and once it has happened, we believe that it will help us accelerate itself. And, there is another capitalist, which is the Android clearance. At the moment, we are cleared for Androids all over the world, not yet by the FDA.

So, at the moment, we are selling in the states only the IOS solution, the only Apple solution, and we're looking forward to getting also the Android clearance. The file is already submitted, and it's in the process with the FDA.

Increasing the percentage of higher margin recurring consumable revenue is something that we expect to happen in this quarter and also moving forward along the year, which is something that will reduce drastically our [indiscernible].

In the medium term, we're having great opportunities, some of them which have already happened this year as well. The first one is our ability to provide a digital and also human coaching support on top of the platform. We have a great advantage, because we have full connectivity to all of our users, so we can coach them on the platform, which is something in turn will improve clinical outcome for [audio disruption]. You need to remember that the industry today is about reducing the costs, it's about providing solutions that are very user-centric, and at the same time also improving clinical outcome.

I think that whole three things that are the fundamentals of the health market today, all of them exist in the Dario product, and all of them are part of the strategy of this company. So, coaching is another very important part of our solution. At the end of the day, we are a digital health company that is selling our consumables, but we are also selling whole management and whole subscription and support for our users.

On top of that, we were very encouraged by the first results from an application that we are selling to people that are pre-diabetic. We have users in our database that claim to be pre-diabetic, and we think that our application can be expanded to provide specific solutions for gestational diabetes and for pre-diabetes, and we're looking forward to expand our application in a way that we'll be able to serve a much wider population.

Given the successes we have on the consumer side, and given the very good feedback that we're getting from users—and this is something that is available online. I mean, if you google about our product, on social media or whatever, you can see tons of really good feedback about the product. The feedback is created in a way that we see a lot of opportunity to sign [indiscernible] the company.

So, we also believe that, during the year, we're going to get more strategic B2B agreements that will enable us to serve in a much more aggressive way than what we've done so far.

With that, I would like to turn the call to Zvi Ben David for a more detailed view of the financial results. Zvi Ben, go ahead.

Zvi Ben David – Chief Financial Officer
Thank you, Erez. As we already disclosed, and as Erez alluded, the revenue during 2016, we sold more than 18,500 Dario blood glucose monitoring systems in the United States, and the pace that we sold them accelerated in the second half of the year, with about 14,000 having been sold in the second half of the year.

At the end of the year, we had more than 18,700 users registered on our servers, comparing to 10,900 at the end of the third quarter. This reflects an increase of more than 17% during the first quarter. Of these users, more than 95% have [indiscernible tape disruption].

During the fourth quarter, the strip quantities we have sold to consumers were 67% higher than the quantities sold in the third quarter. About 61% of the total trips sold since launch were purchased by users under our subscription plan. Turning to the fourth quarter results, revenues in the fourth quarter ended December 31, 2016 were $838,000, a 172% increase from the strip [indiscernible] 100,000, $308,000 in the fourth quarter of 2015, and a 15% increase when compared to the $728,000 of revenue in the third quarter of 2016.

Out of the $838,000, about $662,000 were generated from direct sales in the US and $108,000 was generated in Australia from direct-sales-to-consumers and wholesalers. Revenues for the fourth quarter of 2016 include also

product sales to distributors in the United States, Canada, and New Zealand; 67% of the quarterly revenues derived from sales of test strips and other consumables.

Gross loss of $647,000 was recorded in the fourth quarter of 2016, an increase of $388,000 compared to a gross loss of $269,000 in the first quarter of 2016. This gross loss includes one-time items amounting to $496,000, of which $376,000 derived mainly from the impairment from a production line and related inventory in the United States due to its high manufacturing costs.

An additional $120,000 resulted from loss of inventory due to weather conditions in one of our US warehouses. We expect to be compensated for this loss during 2017. Operating loss for the fourth quarter ended December 31, 2016 increased by $2 million to $3,800,000, as compared to $1,800,000 operating loss in the fourth quarter ended December 31, 2015. This increase is mainly due to our additional direct sales and marketing efforts in the United States.

We recorded, in our financial expenses, warrant revaluation expenses of $1.4 million in the fourth quarter of 2016 as a result of reclassifying warrants issued to investors in March and August of 2016 as a Liability Related to Warrants due to its exercise price protection feature. The exercise price protection feature expired on March 8, 2017, and, as a result, the liability related to these warrants will be reclassified back to shareholders' equity in the first quarter of 2017 while recording related financing income of $7.4 million in the first quarter of 2017.

Net loss, attributable to stockholders or holders of common stock, increased by $3.5 million to $5.2 million in the fourth quarter of 2016, as compared to $1.7 million in the fourth quarter of 2015.

Turning now to the full year results. For the 12 months ended December 31, 2016, revenues were $2,800,000, an increase of 241% from $823,000 for the 12 months ended December 31, 2015. Revenues generated during 2016 were derived mainly from the sales of Dario's components, including the Smart Meter itself, through direct-sales-to-consumers located mainly in the US through the company's online store and through distributors.

A gross loss decreased by $25,000 to a loss of $830,000 in the 12 months ended December 31, 2016, as compared to an $855,000 gross loss in the 12 months ended December 31, 2015. Again, as mentioned before, gross loss includes one-time items amounting to $496,000 as I outlined earlier in the quarterly review.

Operating loss for the 12 months ended December 31, 2016 increased by $3.4 million to $11.1 million, as compared to $7.7 million operating loss in the 12 months ended December 31, 2015. Net loss, attributable to holders of common stock, increased by $3.7 million to $10.9 million in the 12 months ended December 31, 2016 as compared to $7.1 million in the 12 months ended December 31, 2015.

The increases in operating loss and net loss were mainly due to the increase in expenses on digital marketing campaigns, primarily in the US, after the company commenced sales in the US in March 2016.

Turning to the balance sheet, as of December 31, 2016, cash and cash equivalents totaled $1.3 million. As Erez indicated, earlier on January 17th, the company raised $5.1 million in a private placement offering.

Now, back to you, Erez.

Erez Raphael – Chief Executive Officer
Thanks, Zvi. As you can see, we've made meaningful progress against our long-term growth strategy during 2016 and have set the foundation for continued success. We are encouraged by the reactions we have gained, particularly from our users, and the significant growth of our users and subscribers. The goal is to further drive

the predictable stream of high margin economy revenues from new customers that will enhance our visibility and future possibilities.

Looking into 2017, I'm very excited about the year, because we think that we can continue the growth, we can even accelerate the growth, and we are looking into, specifically, a catalyst that will make it happen in a more intensive way. As I mentioned before, one of them is our ability to sell to users in a direct-to-consumer way under insurance, the expansion of our platform into Android. This is a big deal, and this is something that we expect to happen later this year. It will open a whole market for us.

We're also continuing our strategy to be a very global company. Indeed, we are focusing on the states, but we want to launch into more countries. The next country we are going to launch into is Germany. This is something that should happen by the middle of this year. All this kind of event, including the medium-term events, like creating the application and getting into the pre-diabetic market, as well introducing in the coaching [indiscernible] of our platform. All these events should help the company grow itself in a more intensive way and also improve our margins and eventually to take the company to [indiscernible].

As we are now very deep into Q1, I can also state that the growth in our sales is also continuing in Q1, and I'm very positive with regards to the whole year.

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

Operator
Thank you. The floor is now open for questions. [Operator instructions.] Please hold while we poll for questions. Our first question comes from Brian Kinstlinger from Maxim Group. Please state your question.

Q: Hi Erez. How are you?

Erez Raphael – Chief Executive Officer
I'm fine.

Q: So, you mentioned in the comments about US insurance. Can you go over where you are in that process and when you might expect insurance reimbursement might begin in the US?

Erez Raphael – Chief Executive Officer
Yes, so we're working with a few companies that have relationship with insurance companies. In general, our plan is to enable doing the direct sale in a way that users will not only be able to pay for a product out of pocket, they will also be able to ask our service and to claim for their reimbursement by [indiscernible]. So, I suspect we will do it in a gradual way. Eventually, we think that, as of today, we have access to 15% to 20% of the market, because we are only IOS and only out of pocket. We believe that gradually we can get to like 60% to 70% of the market and it's going to happen over the next 6 to 9 months, but we going to build it gradually.

So, we might be able to sign with specific insurance companies and increase our coverage by another 20%, and we're going to do it in two stages. In order to get wide coverage, we'll have to sign a three-part agreement, and we're working on all of them now, so I see that happening in the very near future, especially the first one and the second one.

Q: So, the first or second is about six months away. Is that what I'm reading through all your comments?

Erez Raphael – Chief Executive Officer

No. No. Getting everything done is between six to nine months, but the first one might happen in a matter of weeks or days.

Q: Great. Then, when users are purchasing strips, what's the average order size right now?

Erez Raphael – Chief Executive Officer
The average is somewhere between 70 to 100 strips a month. This is what users are using. As we are moving forward with the introduction of our product, so we're getting more Type IIs. So, this is something that we believe over time will get to an average of around 60 to 80 strips a month.

Q: Great. Then, if we want to look at retention, you mentioned a year ago you had about 10,000 or so users and you're close to 19,000 now. If you look at those, roughly, 10,000 that have been with you for a year, how many of those are still ordering? I'm just curious, outside of the initial month or two of people using them, getting comfortable with the product, how many still are using? Are you able to give a rough percentage of how you're able to retain those customers? How many?

Erez Raphael – Chief Executive Officer
So, this really depends on the region and type of customers that we are getting onboard and the way that we are running the digital engagement and so on. But, I can say that the overall number that is typical and something that Dario should be able to do, which is much better than direct through the market, we should be in the range of 60% to 70% if we're still on the platform after a year.

Q: Right. But, taking a look at your 18,700 or so users, how many have ordered strips in the last 3 months?

Erez Raphael – Chief Executive Officer
I don't have the accurate number. I think that we are talking about 60% to 65%.

Q: Great. The last question, you mentioned development for the android phones. Is that in testing? Is it still being developed? Take us through the process of where that is right now.

Zvi Ben David – Chief Financial Officer
Yes, so the android is something that has been close to development for a year and a half. The devices we are selling today is also supporting android. So if you are [indiscernible] living in UK or in Canada, you can use it on android. So, all over the world, we are selling androids. So, we are selling the device for android, so there is no development here to be done. We've sold thousands of android devices.

The only thing that we are missing is that the FDA will also clear our existing device to be used with an android phone. So, practically this is something that all the other regulation bodies, including the CE, Health Canada, and PGA have already cleared us a year ago, but the FDA requires a specific clinical study and separate studies and tests for these two platforms separately. So, this is what we are doing, and I'm confident that it's a matter of time in the short to medium term that we're going to get this clearance from the FDA, and then we can sell it immediately like we are doing in other regions.

Q: Great. Thanks so much.

Zvi Ben David – Chief Financial Officer
Thanks Brian.

Operator
Thank you. Our next question comes from Mindy Han from Francis Capital. Please state your question.

Q: Good morning. Given that digital marketing is such as key component to creating awareness for Dario, can you give us an update on your plans to increase the efficiency and perhaps improve the ROI over the course of the coming year? Thank you.

Erez Raphael – Chief Executive Officer
Yes, sure. This is, as you're saying, a key point, but it's a key point [tape disruption] create, let's say the first 100,000 users that can take the company to breakeven and also to generate a significant revenue. Down the road, we do see a specific strategic B2B deal that will be able to take the sales up. When it comes to the efficiency of the overall platform, when I'm talking about the availability of the market in terms of Android, in terms of reimbursement, and selling under insurance, this is something that might make the market bigger for us.

So, once we have more access, it helps us to reduce the cost of acquisition, the CPA. In part, we're also investing time, money, and capacity into a specific telemarketing unit that can work closely with users in order to increase the customer volume while reducing the CPA. So, this kind of activity is going to reduce the CPA, and in part and also including the increase in sales, and I believe that we're going to see it along Q1, Q2, and moving forward into Q3 and Q4 of 2017. Investors, I believe, will be able to see that the burn rate is shrinking in a way that the CPA reduction will reflect in a very high shrink in the burn rate of the company.

Q: Thank you.

Erez Raphael – Chief Executive Officer
Thank you.

Operator
Thank you. Our next question comes from Jeff from Berson and Corrado. Please state your question.

Q: Hi. Congratulations on great progress, and I've used the product and the service, and it's been great. So, the question I have for you is can you articulate or sort of expand upon the competitive landscape a little bit, namely from a hardware or software and an ecosystem point of view, how you think you size up compared to other companies out there who are in the same market, and then sort of racing ahead in this fashion?

Erez Raphael – Chief Executive Officer
Yes, absolutely. If you are looking on the overall glucose monitoring market, then the four big players like Roche, Johnson & Johnson, Bayer and [Indiscernible] but they're in the monitoring market. I think that the market is going to go into a full division management, where the insurance companies will no longer pay for just a device or supplies, they'll want to get a one-stop-shop. They'll want to get someone that will manage the users in a way that the users will eventually [indiscernible] clinical outcome.

So, I see a new world that is digital, and in this new world you're going to see companies that are providing the software, and the service on top of the software. Where those companies that the software will be able to coach in a very automatic way. So, for example, the rationale between a human code to a user, this is something that we believe that our software can be built in a way that our digital coaching is going to be very, very efficient.

And, once you having coaching and have the supplies and also the monitoring, and everything is done from one platform, then, you can scale up the treatment. And, once you scale up the treatment, you can improve the hemoglobin A1C and clinical outcome of not just hundreds of users but millions of users. And once you're doing it on a mobile platform, which is a platform that was developed by giants like Apple or Google or others that are developing very powerful software, then you manage to scale up the whole industry.

So, when I'm looking at our competitors, we're trying to look at those that are doing a focus on this management and this is what we want to sell. So, if we're looking on the monitoring side, yes there are a lot of competitors. But, if we are looking on the full division management, and how you can scale up treatment, [indiscernible] while improving clinical outcomes, then you don't have too many competitors that have all the solutions, and specifically you don't have too many competitors that are doing it in a way that it's on a maintained mobile solution, which means that we are literally taking a smartphone, turning it into a medical device, and then allowing users to use it, and then we are approaching them on top of the platform.

In this space, we don't see too many competitors. One of them is Livongo, a company that just raised last week to $52.5 million. And this company, and I think that by seeing this investment, this is the exact signal that investors should see that the market is going there. I mean, investors understand very well that the future is not about paying for the medical device, or for the supplies. The future is about taking over the overall management of the patient, helping insurance, and helping healthcare clients to scale up the treatment. This is the name of the game. Although Livongo is a competitor, I'm very glad to see that they grow such an investment, which means that the market is starting to understand what we are trying to do here. I believe that their solution is a very scalable one, because we are running—unlike Livongo we chose a different approach. We think that we cannot have a dedicated device. Users don't want to have two devices, one is a smartphone and the other one is a glucose monitor. They want to have everything on the smartphone, and this is some of the differences between these two initiatives. So, on the management side, I believe that we are positioned very well. Having said that, obviously, our company will have to raise more money in order to be a big player, which is something we are planning to be anyway.

Q: Just switching gears a little bit, do you think there is an opportunity as it relates to marketing to find thought leaders and have them promote or endorse the ecosystem that you're developing?

Erez Raphael – Chief Executive Officer
Absolutely. This is something that we are working very intensively on. We have been keeping many of the [indiscernible] that is supporting us. We think that once the Android will be there, it will be easier to provide the whole platform to everyone, almost, so it's going to make our life easier. So, we have specific plans and specifics individuals in our pipeline that we're going to have an agreement with that will enable us to go there, and I'm talking about people that are very known in the states that will help us push it forward in a very intensive way.

Q: Terrific. Thank you.

Erez Raphael – Chief Executive Officer
Thanks, Jeff. We appreciate it.

Operator
Thank you. Our next question comes from Gary Andersen from Michal Cab Research. Please state your question.

Q: Thank you. Hello, Erez and Zvi, and congratulations on a strong growth in the last quarter and last year. Can you give an update on the launch in Germany? Are you expecting it in Q2 or in the second half of the year?

Erez Raphael – Chief Executive Officer
In Germany, we are also planning to do a direct-to-consumer. We're working on getting the agreement established and so on. We also are talking with specific partners that might help us scale it up. We think that we can launch the product in the second half of the year, but at the earliest it can happen somewhere around June or July.

Q: Okay. Thank you.

Erez Raphael – Chief Executive Officer
Thanks a lot.

Operator
Thank you. Our next question comes from Greg Silva [ph] with Silva [ph] Capital. Please state your question.

Q: Hi, guys. Nice progress on the revenue front. Could you give us a rough monthly revenue run-rate that gets you guys to breakeven, and also how many devices would you need to get there?

Erez Raphael – Chief Executive Officer
We believe that in order to be breakeven, we need—it's a bit early to say, but the number that we think that would take us there is around $1.2 million a month. This is where we can be breakeven. I'm not sure that the strategy of the company is to be breakeven tomorrow morning. Given the fact that we have a digital marketing machine, it's a matter of how much you invest and how fast you are going in your user base. Timing wise we control it. From a revenue standpoint, it should be around $1.2 million a month. This is the number that we think should take us to breakeven, we believe.

In terms of devices, it's something that's a bit hard to say at this stage, because there are a lot of countries in a lot of cases. Our strategy is not just about increasing the user base but also increasing our coverage around the world. Because we want our money tied on the data, it's very important for us to have a very global coverage, a very global launch pin, which means at some stages if we fail to add another 10,000 users in Germany versus another 15,000 users in US, because we believe that the monetization strategy is something that will require a very wide coverage. So, we're probably talking about more than 200,000 such devices that we'll have to go out to the market in order to reach the $1.2 million a month.

Q: Great. Thank you.

Erez Raphael – Chief Executive Officer
Thanks.

Operator
Thank you. Our next question comes from Robert Ainbinder from WestPark Capital. Please state your question.

Q: Sure. Good morning, gentlemen. A very exciting time here for Dario, and I want to follow up on the statement you just made about big data and selling—looking for the company to sell some of its data. There was a recent press release regarding a new board member, and forgive me if I mispronounce his name, Allen Kamer, who came from Humedica, and that company was a company that actually specialized in monetization of big data. And, I'm just wondering what he might be doing to assist in that regard. Seeing a man of this caliber join the board is always exciting because it's always about the people at a company that either makes the company really work or not. In this area, it can get very, very exciting for Dario, as the user base continues to expand, so I'm just wondering with all the assets that Dario continues to amass, can you give us a little more color as to what he might be doing to help the company in this regard?

Erez Raphael – Chief Executive Officer
Yes. So, Allen Kamer joined—he's one of the two partners of OurCrowd Qure that invested into the company, and Allen joined as a board member, but, as I said, Allen's not just a board member, he's an active board member

that is literally working closely with me in order to promote the big data initiative and the personalization initiative. Allen came from Humedica before being acquired by Optum and UnitedHealth.

What these guys did, they knew how to take clinical data and structure it in a way that you can get the business intelligence and monetize on that. And, they did this in a very nice way, the clients were from pharmaceutical companies, and some of the reason why Qure thought that Dario is a very good solution, given the fact that we are running everything on the smartphone, and we have 100% data capturing, this is a gold mine that Allen thought that, in the future, the company can leverage on.

So, we're working closely now. At the moment, we didn't do any [indiscernible] when it comes to big data, but we think that later this year, once we get a few more thousands of users in a combination of the work that we are doing now closely together on the R&D side, and structuring the data in the right way, and giving Allen connections and so on, we believe that later this year toward the end of the year, we'll be able to do something here that will create a total and separate revenue-stream for the company, and then we are in a totally different space.

So, this is something that I'm really excited about, and we are working now closely together to increase the [indiscernible] that are working on the big data to be able to provide Allen whatever he needs in order to help us monetize on the data.

Q: Excellent, excellent. This leads me, I guess, to my next question, which is something that all of us as investors are most interested in, which is sales growth and revenue growth, ultimately, turning this company profitable. In the press release and some of the comments you made, you're saying you expect to see transformational sales growth to show up in a multitude of ways, one of which is in lower customer acquisition costs, as well as significant increases in topline sales. Can you tell me what specifically you see driving the majority of that sales growth and what will assist in lowering that cost from acquisition cost?

Erez Raphael – Chief Executive Officer
Sure. It's about market accessibility, and you get market accessibility when you have insurance that is covering the cost for the user, and you have market accessibility when you have the Android cleared, and you have market accessibility when you're launching in Germany, and for sure you have more market accessibility when you are creating an adjusted offering that is not just for Type I and Type II, it's also payload for gestational and it's also payload for pre-diabetes, which is another thing that we are bridging together with Dr. Bahagon, who is one of the two partners at Qure that also invested.

So, this was part of the vision of the company to provide the devices to use as a pre-diabetic, and this, together with a lot of things that I just mentioned, can drastically grow the sales of the company and, at the same time, reduce the cost of acquisition. Now, you need to remember that we are also investing not just for pure performance and cost of acquisition, we are also investing into growing the wellness.

So, for example, if the costs for acquisition to date acts when we don't have the Android, a lot of users and a lot of customers that [background noise] now, so far, are waiting, waiting for us to get the insurance or to get the Android. And, once we get that, then we can re-approach them and do remarketing. Then, we believe that, down the road, once these clearances are out, the cost of the acquisition will be much lower.

Q: Excellent, that sounds exciting. So, we'll obviously be looking forward to seeing some of these events take place, and, if you don't mind, I just have maybe one more question or two, and this typically pertains to something that you mentioned that I found in doing my due diligence. Here at WestPark, we always look for companies that are similar companies in the space, and compare those companies to the companies that we like, and try to make an assessment as to what we believe a fair valuation is relative to the long-term potential of the company.

In one of those companies, that you actually mentioned, that we found was a company called Livongo, which also seems to be transforming the diabetes management industry by doing something very, very similar to Dario. And, investors, as you mentioned, have paid a significantly high valuation of the most recent raise of $52 million, which, from what I read, I believe it's somewhere around $250 million. Maybe even north of that. We're currently sitting at roughly a $37 million market cap. So, I'm wondering what they have, because I couldn't find it and, though the product seems to be very similar to Dario, I'm trying to understand what it is that they have that really separates them, makes them different from Dario. In what ways they're different. So, if you can help give us all a little clarity as to what Livongo has versus Dario and why a valuation of that number makes sense for investors versus where we sit today?

Erez Raphael – Chief Executive Officer
Yes, so, as I mentioned before—first of all, I was very excited about this investment, because I feel that investors that are investing into this specific space—I'm not talking about monitoring. I'm talking about digital management of a chronic condition, and this is what Livongo is doing. They're saying we are not just selling the device and testing strips, we're selling a whole subscription, and we can commit for improvement of the specific clinical outcomes, which is what we are intending to do or we're already partially doing.

So, [indiscernible] they grow such a big investment in this valuation, assuming that it's right, it's something that is very positive also for us, which means that the market understands that this is where the overall industry is going, and I'm glad that we are positive. I think that there is a fundamental similarity between us. Both of us believe that in order to do a pure management, and in order to drive for [indiscernible] to full management, you need to have 100% data capturing in real-time. This is how you can create an automated way to perform coaching on top of the platform and scale-up treatment.

Millions of millions of people have diabetes or have pre-diabetes. If you want to scale it up, you need to automate the coaching and you can do it on top of the platform with real-time. The major difference is in the user experience and the belief of how you can get this real-time data and measuring. We believe that the future of the world is the smartphone, this is why our solution is coupled to the smartphone.

Livongo created a dedicated device, which means that users that want to get 100% connectivity, need to carry the two devices; one is a smartphone and the other one is a Livongo device. So, practically, Livongo users were looking to two screens. One is the iPhone and the other one is the Livongo device. Our users were looking to one screen, which is the smartphone, the iPhone. Everything is there, including Dario.

This is a fundamental difference between the two technologies of these two companies, and this is our belief. By the way, in a lot of cases, it's more expensive to do it over the smartphone and, as you can see, sometimes the road is a bit longer, because we are not yet cleared by the FDA for the Android drove. Although the solution, the [indiscernible] solution of Dario is exactly the same, it's taking a bit longer, but eventually this is what users want. And, if you want to get the real engagement, you need to give users what they want. I'm very proud that we have product that they really like, and I'm also very hopeful that the market will be able to see the differences between companies that are private or public and so on. I think it was a very good question and a very valid question.

Q: Okay, alright. So, I've been looking for other companies that are similar to Livongo and Dario, and I haven't found any other companies that, I believe, have 100% real-time data collection capabilities. Am I wrong about that or are Dario and Livongo the only two companies you know of?

Erez Raphael – Chief Executive Officer
At this moment, as for companies that are doing that, yes, these are the two. I believe that there needs to be some kind of difference also in the cost of goods, because we are creating a very small piece of electronic that is

integrating into a smartphone and the competitors are creating a full solution with the full hardware that is operating partially like a phone. So, it's us and them.

Q: Forgive me if you kind of answered this already. I just want to really make sure I fully grasp and understand what the practical advantages of these type of capabilities are for us as investors. Can you really just give me what this ultimately means in terms of monetization for us as investors?

Erez Raphael – Chief Executive Officer
Monetization means that the potential to [indiscernible] technology in a way that we are capturing 100% of the data in real-time, and not just the data of the blood glucose, but also the data that is surrounding the blood glucose. I'm sitting now in my office and assessing my blood sugar. I was writing an hour ago, and I was eating an apple, and I'm talking now on a conference call. Everything is captured to the smartphone, and the context of the data is crucial.

Once you have all of this data, that is consumer data, clinical data, nutrition data, everything into one database, you can get an insight that can provide a lot of advantages to further a company, from a typical company based on this data and analysis that can drive much smarter business decisions. And, they are willing to pay for that piece. It's very simple. I mean [indiscernible] is not simple and the big data technology is not simple, but what they are looking for is very simple.

Q: Great. Thank you so much guys. I look forward to continued progress. I look forward to the next conference call. Thank you.

Erez Raphael – Chief Executive Officer
Thank you.

Operator
Thank you. Our next question comes from Mitchell Kapoor from Rodman and Renshaw. Please state your question.

Q: Hi there, thanks for taking my questions. What's the current breakdown of usage distribution for the DarioHealth system between Type I and Type II diabetics?

Erez Raphael – Chief Executive Officer
So, at the moment I don't have the actual number. I believe we are somewhere in the range of 65% to 70% Type II and 30% Type I. It depends on the region, and it depends on other parameters. There is also pre-diabetes and gestational diabetes. If we had to give a rough number, we're talking about 30/70, 35/65.

Q: Okay, great. Thank you. How are you combatting the lack of a headphone jack on the iPhone 7? Do you guys need to manufacture a separate insert?

Erez Raphael – Chief Executive Officer
Yes, we already announced three months ago that we have a solution for iPhone 7. We're integrating through the charging jack. So, we have a solution for this one already. It's under a special price and code, which is running now in front of the FDA. So this is something that I'll use as—again, we always believe in the very extreme user experience. We don't want our users to use a connector, and this is why we are providing a special dongle that will come with our integration. It is not only a jack, but also the charging jack. So this is something that we've already solved, and we've published videos. It's already out there. You can google and you can see how it works.

Q: Perfect. Thank you so much.

Erez Raphael – Chief Executive Officer
Thank you.

Operator
That appears to be our last question. Erez, would you like to give any closing remarks?

Erez Raphael – Chief Executive Officer
Okay. I would like to thank everyone for joining us today and for the questions. I'm looking forward to sharing announcements with you in May when the report of the first quarter 2017 financial results is out. Thank you, everyone, and have a good day.