

**Transcript of
DarioHealth
Fourth Quarter 2017 Earnings Call
March 19, 2018**

Participants

Erez Raphael - CEO
Zvi Ben-David - CFO

Analysts

Yo Simio – Private Investor
Mark Lanier - Pegasus Capital
Grant Shaffer – Private Investor

Presentation

Operator

Greetings and welcome to the DarioHealth Fourth Quarter 2017 Earnings Conference Call. At this time, all participants are presently in listen mode. A question-and-answer session will follow the formal presentation. [Operator Instructions]. As a reminder this call is being recorded.

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 introduce Erez Raphael, Chief Executive Officer of DarioHealth. Mr. Raphael, please go ahead.

Erez Raphael - CEO and Chairman

Thank you, Kevin. Thanks, everyone for the interest in DarioHealth's and for joining us this morning to discuss the fourth quarter and the full year 2017 results.

As you can see from the press release, we continued strong growth in our sales. We gained 15% increase in Q4 comparing to Q3 with sequential increase and we managed also to grow our overall yield sales by 84%, closing the year with \$5.2 million in total revenue. We are very excited about the opportunity ahead of us and therefore we think that we can achieve a growth in 2018 of 60% to 80% and this is the focus that we are also mentioning in this press release.

Looking on the overall financials, I think we can also be very optimistic from the overall improvement in a few figures from the report. First of all, we can see that the gross profit is continuing to improve. We did improve this from 20% to 36% between Q3 to Q4, and for the overall year, we increased our overall profit by 188%. For the overall year, we reached \$1.3 million, which is 258% year-over-year compared to 2016.

Overall, we show that once this platform is reaching more and more users, the gross profit is improving and we can improve the margin as we forward; although, I would think that with this business we can take the gross profit of this company to be close to 70%. So, this is something that we anticipate is going to continue to improve as we move forward into 2018.

The recent things that we did in the Company also include more awareness among investors that will have more insight into what is happening into the Company. We recently hired Westwicke as our investor relations. And I would like to take a step back and mention a few general things about the Company and to give the overall investment perspective around Dario.

So first of all, I would like to remind you that we've built one of the most digital powerful platform that should manage general economic condition, we started with [indiscernible], and this is platform that combines both very strong software capabilities and also hardware medical device capabilities, and we have here what I am calling the Triple Win.

So, we have the win for the user, we have the win for the pair [ph] and we have also the win for the professional. The user is getting one of the best devices and application in the market and this is something that you can see all over the place whether it's over Facebook, Amazon, the App Store, the Google Play, we have a very good comment from users and we think that we have one of the best devices in the market and one of the best applications in the market.

Number two, we have a very powerful digital care delivery that health care professionals can use and this is something that's already starting to scale up and you can the first deal that we signed, one in Philadelphia, that we provide a platform also for healthcare professional. And number three, we have what we are calling a data delivering clinical outcome proof that we can share, with [indiscernible] and we can prove to peers [ph] that our platform in proving clinical outcome.

So with this three big wins, we think that we are providing to the market something that doesn't exist and should help us get more deals whether it's going to be directly from users or from peers or from healthcare professionals, and I think that investors are going to see deals that will come from all this different facets as we move forward into 2018, and other thing is going to be best [ph] with clinical studies that will show that we are improving clinical outcome in this terrible epidemic that is hitting the Western world.

Another thing that I wanted to stress out is the fact that the Company today is standing in a position that a lot of investment was done in order to reach this point where we're having something that is really, really sellable, whether it's regulations clearances by four regulations bodies including CE, CGA, Health Canada and FDA, whether it's reimbursement in multiple territories and countries, it's also about the maturity of the product that is being used by thousands of users all over the world where we have more than 30,000 active users all over the world that are using our platform almost every day, which is something that shows that in very short period of time we managed to create a real impact in the market. Just to remind you the android [ph] clearance for the SBA was received only few months ago and we already have in the space more than 22,000 active users that are on our platform.

So, this is a record that we're achieving very fast and by extending the channels, also from B2C to more B2B like the deal that we've just signed in Philadelphia with a chain of clinics, and other deals that are going to come later this year, we think that we can accelerate the growth of the users and also take the revenue to other records, as we move forward around the year. And the overall progress that we did and the footprint that we put in the market, put us in a situation that we are seeing some awards that the Company got recently.

So and the mobile health journal recognized value health as one of the 100 companies that is going to disrupt the market. This is something that was established less than two months ago. I think this is a great achievement. The world is talking a lot of about digital health and a lot of investment is going there and a lot of companies are trying to be there, and I think that we have here something really that created a lot of users on the platform, and this is something that was notable by the mobile health journal and we were selected as one of the 100 companies.

Other than that also on the consumer side, we see that we are gaining a lot of traction, the top ten reviews their journal recognized us as one of the top 10 data and devices in United States. We were also selected by Philips accelerator, and we're also selected in UK the CCG of UK as the First Choice for Type 1, which is something that also shows that it's not just about the consumer user experience, it's also about a clinical achievement and clinical outcomes that we are managing to get.

Other than that, the recent deal that we signed in Philadelphia with a chain of clinics of than 5,000 users shows that we have a lot to offer also to the healthcare professional and other than that the deal that we signed with the pharmaceutical company in order to run a Phase 3/4 [ph] study on top of our platform shows the vision is coming through, I mean we have a platform that can be used for remote management and also for clinical studies and trials, which is a whole market that is growing by itself and Dario has also a lot to offer also in this area.

So, if I will have to summarize so far, we have a very strong software, we have very strong hardware, cleared by regulation bodies, very recognized by users that are using it, showing improvement of clinical outcomes. And as we move forward, we are showing that the customer value and the lifetime value per customer is increasing and the number of channels that we are approaching the market is also increasing.

We started with a pure direct to consumer approach and this approach is expanding into B2B and B2B2C, which means that we are working with clinics that are getting this device into the hands of their patients, and we are also working with players like employers in a direct way and also in a non-direct way through distributors, getting these devices into the hands of their employees.

Therefore, I believe that as we move forward, expanding these channels will get us more users and improving the overall customer value will also help us grow the sales up. So, I am very optimistic about of our ability to take the revenues up while improving the gross profit of the Company.

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

Zvi Ben-David - CFO

Thank you, Erez. On the call this morning, I will review DarioHealth's fourth quarter and full year 2017 financial results. I will provide some commentary around our recent capital raise and I will provide our initial outlook for 2018.

During the fourth quarter of 2017, we sold about 11,500 Dario Blood Glucose Monitoring Systems in the U.S. Revenue for the fourth quarter was \$1.6 million, an increase of 88% compared to the fourth quarter of 2016, and a 15% sequential increase over the sale of third quarter of 2016. This increase was primarily a result of continued

growth in the United States as well as encouraging initial sales in Germany and product sales to distributors in the United Kingdom and Canada.

Gross profit reached \$569,000 in the fourth quarter of 2017, an increase of more than \$1.2 million compared to the fourth quarter of 2016. This represents a gross profit of 36% in this quarter. This improvement is a result of increasing quantities sold and higher average selling prices and the write-offs of one-time items that were recorded in the last quarter of 2016.

Operating loss in the quarter decreased by \$700,000 to \$3.1 million compared to a loss of \$3.8 million in the first quarter of 2016. This improvement in operating loss was mainly due to the improvement in the gross profit partially offset by the increase in our operating expenses. Net loss attributable to holders of common stock decreased by \$600,000 to \$3.26 million in the first quarter of 2016, as compared to \$3.86 million in the first quarter of 2016.

Turning to the full year of 2017, revenues reached a record of \$5.2 million, an increase of 84% compared to the \$2.8 million in 2016. Our revenues in 2017 were derived mainly from sales of the Dario components including our smart meter through direct sales to consumers located mainly in the U.S. and Australia and Germany through the company's online stores and through distributors in Canada, Italy and the United Kingdom.

Gross profit increased meaningfully from 2016, reaching \$1.3 million for the full year of 2017, an increase of \$2.1 million compared to the full year of 2016. This represents a record gross profit for DarioHealth of 25% resulting primarily from the increase in quantities sold and in overall production line impairments like the ones we had in 2016.

Operating loss in 2017 increased by \$3.1 million to \$14.4 million, primarily due to the increase in the operating expenses, partially offset by the improvement in the gross profit. In the first quarter of 2017, we recorded in our financial income, warrant [ph] evaluation income of \$7.4 million. As a result of reclassifying warrants issued to investors in March and August 2016, as the liabilities related to warrants in 2016 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 this warrant was 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.

During the year end preparation of our financial statements, we determined with our auditors to revise the accounting approach to this evaluation of warrants, and as a result, we have revised our first quarter financing income to a finance expense of \$1.2 million. As a result of this change, we have resubmitted our quarterly report. This change has no effects on the shareholders equity, nor has it any effect on the Company's cash position.

Finally, our net loss increased by \$4.8 million to \$15.7 million in 2017 compared to a loss of \$10.9 million in 2016. Turning to our recent capital raise, subsequent to the end of 2017, on March 6th, we raised a total amount of \$6.6 million in a private placement offering. This brings our cash balance to a level that should be sufficient to fund our growth plans for 2018.

Before we open the call to questions, I would like to provide you with our initial outlook for 2018. For the full year, we anticipate revenues to be between \$8.3 million to \$9.3 million, a 17% year-over-year increase at the midpoint of our outlook range.

I will now turn the call back to Erez for some concluding remarks. Erez?

Erez Raphael - CEO and Chairman

Thank you, Zvi. So as you can see, we have a lot of things going on and we are looking forward to build the momentum even strongly into 2018. We have all the foundation, and as we mentioned, we recently raised \$6.6 million. The fund raise was led by a fundamental investor that led the whole deal, and together with existing shareholders, we raised overall \$6.6 million.

So the Company has the funds to move forward into next year and we also have all the foundation in terms of regulation, technology, and also the challenge that will be [ph]. So with that we are very excited and very optimistic about our opportunity to create a real change in the healthcare market, a change that will put users and customers in the front, help them improve the clinical outcome.

I see this overall need in the market and I am very excited that we can really create the change. This is something that everyone can see. If you are looking on the overall social media and all over the place, people are happy with the product, and we believe that this is something that will be recognized by the sales like employers and eventually the business will be able to scale up to hundreds of thousands of users that will create a very big company, DarioHealth.

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

Operator

Thank you. We will now be conducting a question-and-answer session. [Operator Instructions]. Our first quarter is coming from Yo Simio [ph] a Private Investor. Your line is now live.

Q: Erez, you mentioned in the PR that the investment was led by a specialized healthcare technology fund. Can you tell us who is the fund or it's going to be a [indiscernible] investor in Dario or it's—who is investor?

Erez Raphael - CEO and Chairman

Thanks for the question. So, the investor is investor that is from Israel. The investor allocated a significant amount of money that will be able to fund the Company as we move forward based on the overall performance of the Company. The investor is specializing in digital health and also healthcare technology, and this investor is not a usual investor that is playing in the public market. He is more playing on the private market and he stands behind significant investment behind healthcare companies in Israel. Some of them already exited and he had a lot of followers that were following his investment. So for us, it's a very good sign.

Unfortunately, Yo, I will also not be able to disclose the name at this point but this is something that people will be able to see as he bought more than 5% in the Company, so this is something that will be disclosed probably in our next report. In general, I can tell you that the fact that such an investor got into a big position in the Company together with other investors that already invested in the Company and also joined this round. We can see that in the last 18 months investors that were investing into Dario are more and more fundamental and are more long term investors.

And I believe that it will also help us moving forward building a real value in the market and creating also high returns for our investors. This is what we believe should happen and we're very proud that this investor decided to take a step. If you notice also from the press release, I mean and the 8-K that we put around this financials, this investment was done by [indiscernible] was led by the Company. So, we are using some advisors, but other than that there was no banker that led this investment. We chose that the Company have a true capability to attract re-investors and in this low valuation, we managed to do it by ourselves without involvement of the banker in this overall round.

Q: Thank you. I know that you're doing great work. Keep up the good work and hopefully that next quarter we will see the same extent of revenue growth. Thank you.

Erez Raphael - CEO and Chairman

Thank you.

Operator

[Operator Instructions]. Our next question today is coming from Mark Lanier from Pegasus Capital. Your line is now live.

Q: Erez and Zvi, I congratulate you and the team on the fourth quarter results, and my question has to do with two aspects. Would you discuss a little bit more your plans for the United States in 2018 including the addition of employees in this country? As well as I wanted to ask whether you expect to enter any new countries in 2018? Thank you

Erez Raphael - CEO and Chairman

Hi, Mark. Thanks for the question. Yes, so we do believe that given the fact that the Company already built the technology and also regulation, we are going to see more budget, going into the sales and marketing, this is number one. And within the sales and marketing, we're going to route budget to more B2B activities. As you know the majority of the user base that we built was done by direct-to-consumer channel. As we already announced on the deal that we signed in Philadelphia and also with the pharmaceutical company, I believe that investors are going to see more deals like the last two, and also with employers or with distributors that have relationship with employers that will help us penetrate into this market.

And to achieve that, we will have to reroute budget from the DTC, from the direct-to-consumer, to the B2B activities. And therefore, we are going to see our company expanding the size the team in the United States where already working with our partners in order grow the team, and I believe that in the next few weeks the team will be expanded, and we are going to see a higher deal flow of B2B within the United States. So, we are going to definitely grow the team here. It's also work in process and this is something that will be resolved in deals that will happen in the next few weeks and as we move forward deeply into 2018.

With regards to the other countries, actually the fund that led the deal has a lot of relationship in China, and together with them, we are looking into this country. We don't have a decision yet. But given their relationships that are extensive in China, it's an Israeli fund with a lot of relationship in China, so we are looking deeply into China. We didn't want to go into China without the right partner and without the right financial backup. Now, we feel that we have it with this fund, and this is something that will help to make a decision in the next couple of months.

Another market that is very hot and recently we presented the themes [ph] in Las Vegas like two weeks ago and we got a lot of requests and comments from Brazil, so this is another country that we are looking into, but we don't have a concrete decision to penetrate into this market in 2018. This is something that we'll have to decide. Just to remind you, Mark, we're already operating in seven countries, and we recently launched also into Germany. So, we believe that we have a lot to achieve in this market and the question that the CEO asked himself every day is focus. So with a lot of opportunities, it's very easy to be unfocused. So, this is something that we will have to explore and I believe that by the next quarter will have a concrete decision with regards to these two countries, China and Brazil.

Q: Thank you. That's very helpful. I wish you all good luck.

Erez Raphael - CEO and Chairman

Thank you, Mark

Operator

Thank you. [Operator instructions]. Our next question today is coming from Grant Shaffer [ph], a Private Investor. Your line is now live.

Q: Congratulations on the quarter. I am noticing quarter-over-quarter your R&D has gone from \$800,000 to roughly \$3.3 million. I'm wondering, if you can speak to your roadmap for products or features coming out for the future?

Erez Raphael - CEO and Chairman

Yes, sure. So when we are looking on the overall roadmap that for the R&D, along the last year, we transformed more budget into the software capabilities. We believe that in the future, it is going to be the software and the features that will help us gain very good AP and differentiation from the market and here we have few parts. We have the part that is fronting the user what everyone can see, which is the application. We have what we are calling the digital care delivery, which is the front end that we are providing to clinician, and we have what we are calling the backend, or the Dario Intelligence, which is a very strong backend that help us analyze data and create artificial intelligence on top of this data.

Specifically for example, by collecting the data and analyzing the data that's related to food, medication, blood sugar levels and so on, we can create prediction model for other diseases, for other complication of the chronic condition, we can create prediction on blood sugar levels, you can create prediction on [indiscernible] and other severe events, and we can also provide our clinicians insight that will help them manage a big population of people with diabetes.

So as we move forward, we're going to invest more and more into the big data and into the artificial intelligence that we leverage on the overall data collection. The device that we have is an integral part of the overall system and without the device, we wouldn't have the data. So it's very important to integrate the device, directed to the Smartphone, collecting the data in real time, having the time spent on the blood sugar level and the time spent to the other data points that we have on the smartphone, capturing into the platform and then implement AI on top of this data and providing this features or capabilities to the users whether it's going to be the end patient or it's going to be the clinician.

And these are the capabilities that we built and this is where we see the future of R&D. So, our users are getting a new application to the app store every quarter and our clinicians are getting also a version of our Form-10 every quarter, but on the back end of all this, we are investing more and more into the AI, the artificial intelligence, which is something that we believe will create a real differentiator, and as we collect more users, the stronger the AI that we are developing. So, it goes hand-in-hand with growing the user base.

Q: Great. Very good information, thank you. And just one final question. Can you give any guidance on a timeline to breakeven?

Erez Raphael - CEO and Chairman

This is something that at the moment will be hard for me to provide this guideline. The Company is growing and for companies that are fast growing, we need to decide whether we want to gain as many users as possible as fast as possible, which is sometimes not going hand in hand with getting to breakeven. The number that will put the Company in a breakeven point is somewhere around \$3.5 million to \$4 million a quarter which is something that can happen not too far, but I am not sure yet about our strategy, whether we want to do it this year or we are going to continue with extensive growth. Generally speaking, keeping 250,000 users will generate for the Company around \$100 million in sales. This is the goal that we see here.

Q: Got it. Okay. Thank you very much. Appreciate your answers today.

Operator

Thank you. Ladies and gentlemen, we have reached the end of our question-and-answer session. I would like to turn the floor back over for any further or closing comments.

Erez Raphael - CEO and Chairman

Okay, thanks everyone for joining us today. I am looking forward to communicate again in the quarter from now. Thanks.