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DarioHealth, Inc. (Nasdaq: DRIO)

Asymmetric Risk/Reward Opportunity as Business Transformation Drives Inflecting Revenue & Margins…+300% Upside Potential

Recommendation: Buy
Price Target: $18 Base Case ($28 Bull Case)
Return Potential: +300% Upside (Base Case)

Date: September 30, 2022

Key Statistics:

Key Statistics:		
Price:	$4.48	
Market Capitalization:	$103	
Enterprise Value (EV):	$58	
Cash & Equivalents:	$68	
Total Debt:	$23	
Shares Outstanding:	23.0	
Float:	20.0	
Short Interest (% of Float):	6.2%	
Days to Cover (DTC):	8.0	
ADTV (Shares):	0.20	
ADTV ($):	$0.9	
Adj. Beta (6mo):	1.16	
52-Wk High / %Δ:	$19.39	(76.9
52-Wk Low / %Δ:	$3.66	22.4

**Values in millions, except per share data.*
**Source: Bloomberg.*

Sales	1Q	2Q	3Q	4Q	FY
2020a	$1.7	$1.8	$2.0	$2.1	$7.6
2021a	$3.6	$5.3	$5.6	$6.0	$20.5
2022e	$8.1	$6.2	$7.6	$8.4	$30.2
2023e	$11.8	$15.0	$16.5	$17.5	$60.8

Source: Company reports, Jaguar Capital estimates.

<u>**Portfolio Manager Summary**</u>:
We are Long shares of DarioHealth, Inc. (DRIO) and have established a Base case $18 PT. We believe that DarioHealth is one of the most attractive small-cap growth assets in the entirety of the Healthcare sector, with similar attractive value propositions for both Consumer and Technology sector investors. Based on our deep due diligence (significant hours of work spent interviewing management, employees, and industry channel checks) and our fairly conservative financial forecasts that contemplate material upside to current Street consensus estimates, we believe that DarioHealth is at a material inflection point in terms of user adoption (across national health plans, self-insured employers, healthcare provider groups), revenue growth, and margin expansion. These inflecting fundamentals in the business are paired with a very comfortable balance sheet ($68mn of cash; 66% of market cap in cash); a demonstrable pathway to profitability (JCe: 2025); a business model validated by reputable mega-cap strategic investors/partners (i.e. Sanofi, CVS Health/Aetna); and an extremely digestible (and de-risked) valuation at only 1x 2024 EV/Sales for a >60% 2022-2025 revenue CAGR at 70%+ gross margin (vs Comps at ~5x, despite DRIO growing >3x faster)…an impressive setup in our view.

The key tenets of our thesis include…

1) <u>**Structural Growth; Huge Market; Win/Win/Win Value Proposition**</u>: DRIO is a leading DTx company focused on chronic condition management (i.e. Diabetes, Hypertension, Musculoskeletal, Behavioral Health). A transformed SaaS business model will drive material revenue in >$200bn TAM.

2) <u>**P&L Inflection: Top-Tier Growth Profile + Skyrocketing Margins**</u>: We model a best-in-class +64% CAGR for 2022-2025e with GMx of ~3,800bp by 2025e, driven by rapid B2B client uptake and positive mix shift. Clear line of sight to profitability in 2025e.

3) <u>**Major Strategic Partners/Clients are Business Model Validation**</u>: DRIO has executed multiple strategic/channel partners, most importantly Sanofi (SNY). Company recently signed a "Top 5" national health plan (Aetna). Expect more MedTech & Telehealth partners near-term.

4) <u>**Material Upside to Street Estimates Will Drive Tremendous Multiple Expansion**</u>: We model 2023/2024 revenue 74%/81% above Street, respectively. 2024e GM% should beat Street by >1,000bp. Company should cash flow breakeven by YE24 with EBITDA profits in 2025e, ahead of consensus.

5) <u>**Robust Near-Term Catalyst Pathway**</u>: Expect many near-term catalysts that could be transformational: CVS/Aetna update on DTx program, 3Q Beat/Raise, Regional Health Plan deal, a new major MedTech strategic partner signing, a new Telehealth partner signing, and SNY investment.

**continued…*

6) **<u>Cash is a Non-Issue</u>**: Company has $68mn (66% of mkt cap), has access to another $25mn facility, and will sign several new strategic partners that will each bring revenue/investment cash infusions near-term. Burn is rapidly slowing. Funded into 2025 where they turn profitable.

7) **<u>Strong Insider Ownership = Golden Parachute for Shareholders</u>**: Insiders own a healthy 13% of the company, though 57% institutional ownership has room to improve. Several high profile investors have been strong anchors. If push comes to shove, we see the company being sold.

8) **<u>Potential for Shareholder Activism</u>**: Given flagging stock performance since 2021, we believe anchor shareholders or newcomers may potentially push for strategic changes at the company in order to maximize value. We see potential for a range of outcomes in the $15-30 range.

9) **<u>Valuation is Extremely Compelling; Floor Is In; Business Inflection => $18 Base Case</u>**: DRIO trades at a mere 1x 2024e EV/sales vs comps at 4-5x, despite a similar GM% profile but a >3x CAGR profile, which is unwarranted. Our $18 PT blends EV/Sales, EV/EBITDA, P/E, and DCF.

10) **<u>Clear M&A Target in HCIT / Value-Based Care / Digital Health Ecosystem</u>**: M&A in the HCIT/DTx & value-based care sectors is heating up. We see DRIO having multiple potential suitors and tremendous strategic value to many large players (e.g. CVS, CI, AMZN, WBA, BDX, SNY, etc.).

Please see inside for further details on our Bullish thesis….

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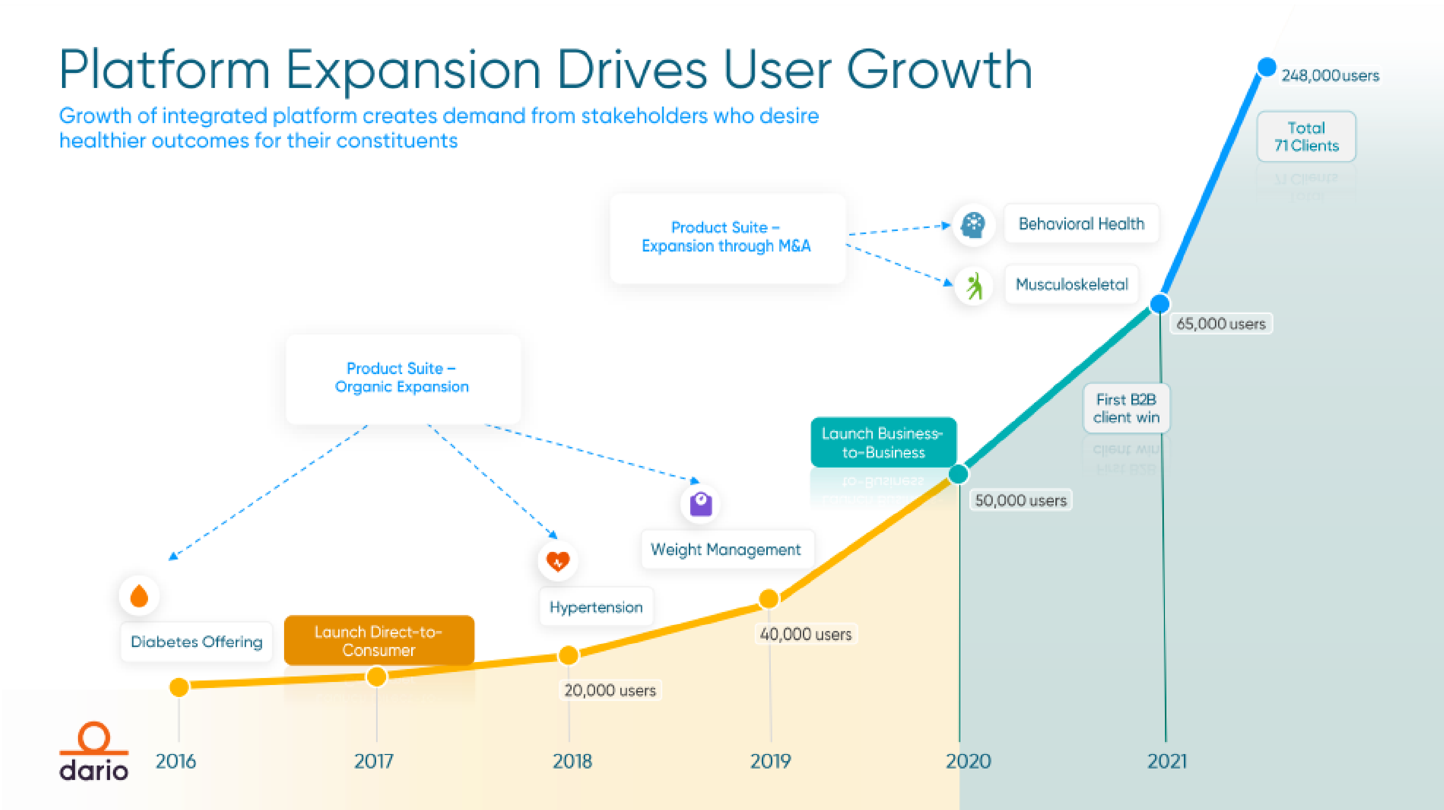
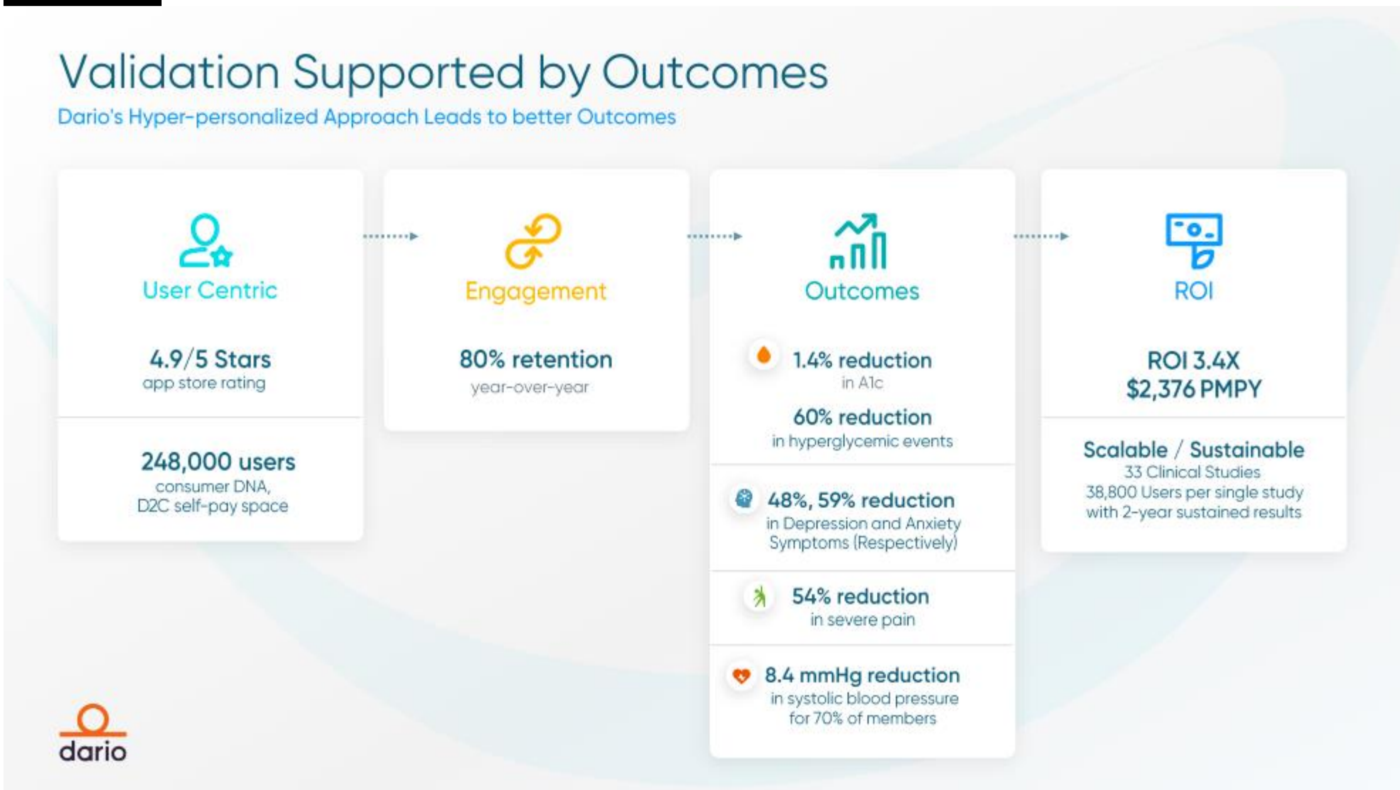
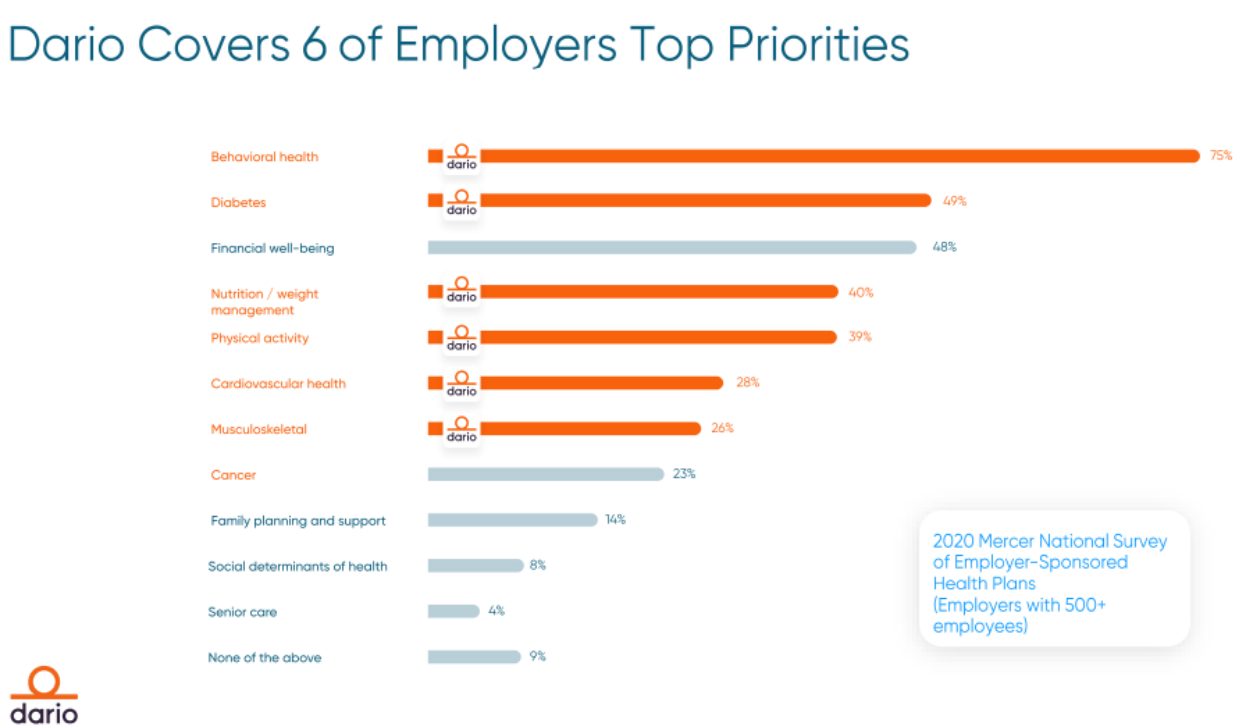
Thesis:

1) **Structural Growth Tailwinds; Huge & Underpenetrated Market; Win/Win/Win Value Proposition**: DRIO is a Digital Therapeutics (DTx) health platform company that offers chronic condition care management using health coaching and its AI-driven infrastructure to continuously promote connected care and improved patient outcomes for those living with chronic conditions (i.e. Diabetes, Hypertension, Musculoskeletal issues, Weight Management, & Behavioral Health). In total, these conditions sport a massive total addressable market (TAM) of >$200bn in the US alone, with ~150mn US patients having some sort of chronic condition and 1 in 4 adults experiencing 2 or more conditions (high comorbidity rates). With improved condition management, patients have better long-term health outcomes (patients win), employers & payers spend less on healthcare expenditures/services (payers win; 3.4x ROI per company data), and the company wins as well (shareholders win). Historically, DRIO had been a niche direct-to-consumer (DTC) diabetes device company (blood glucose monitoring via a discrete SmartPhone interface), but over the last several years management has "skated to where the puck was going" and engaged in numerous acquisitions (i.e. WayForward, Upright Technologies, Physimax) to build out a chronic care ecosystem which has transformed the company into a SaaS business model with highly sticky recurring revenue (billing on a 'Per Member, Per Month' basis, or PMPM) and rapidly inflecting margins, which following recent capital infusions from top-tier healthcare investors, provides a clear path to profitability.







Source: DarioHealth Corporate Investor Presentation (Sept 2022)

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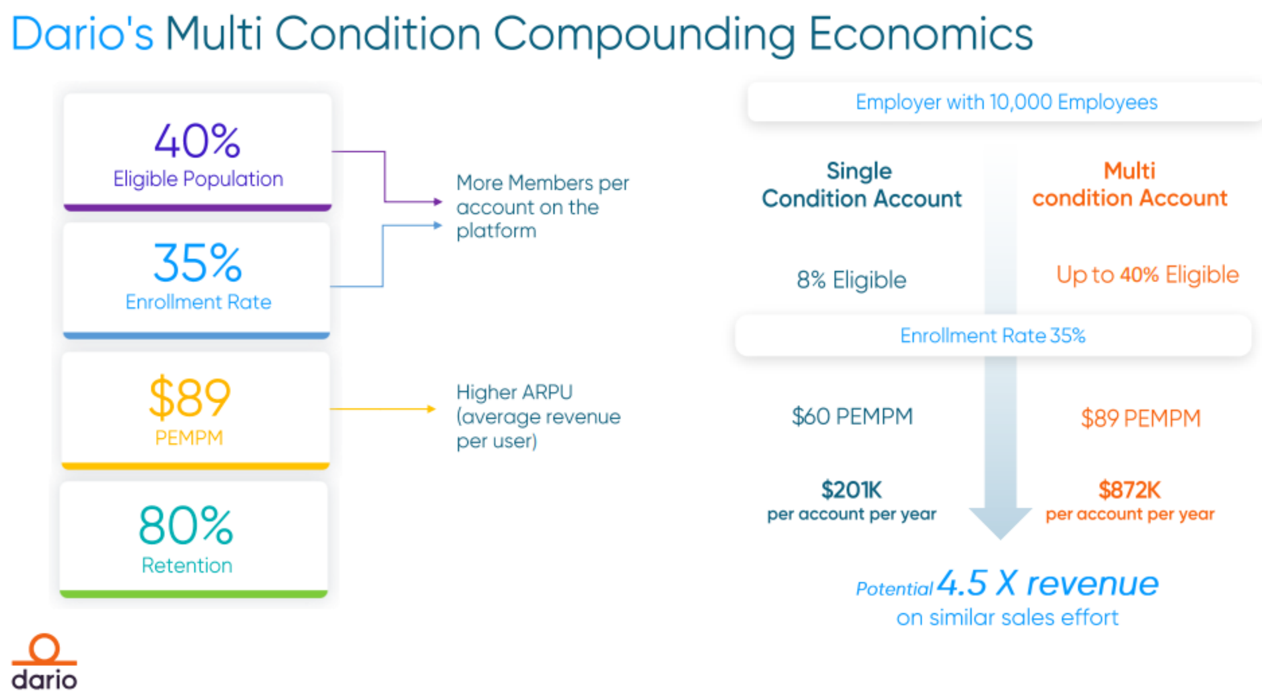
2) **P&L Inflection: Top-Tier Growth Profile + Skyrocketing Margins**: DarioHealth is poised to deliver top-tier revenue growth across our Healthcare universe over at least the next five years. While starting from a modest level a few years ago (2020 revenue of $7.6mn), we estimate they will deliver $30.2mn in 2022 and $133.2mn in 2025 (a +64% CAGR for 2022-2025). DarioHealth started as a DTC company, but in 2020 they made the decision to pivot their business model to a recurring revenue, Digital Health SaaS model, closing their first B2B contract in late 2020. By the end of 2021, the company had amassed an impressive 51 contracted clients and has since guided to reaching 100+ clients total for 2022, or a modest 100%+ growth in clients (national health plans, self-insured employers, healthcare provider groups). The company had reached 71 clients as of 2Q22 end (and 248k users), which places them well on track to exceed prior targets given that 3Q and especially 4Q are the largest contract seasonality quarters and benefit managers sign deals before the next calendar year (~70% of employers are on a Jan-Dec CY cycle). On top of these client objectives, management has already inked 11+ strategic and channel partners that we expect will pay dividends in the future as the platform is promoted in channels outside of the core direct sales force (e.g. Sanofi deal is a prime example of this; discussed later). So, in considering the revenue profile of the company, it is important to analyze trends in both the B2B (SaaS) business segment and the legacy DTC segment.

   a) **B2B (SaaS) Segment**: This is the future business model of the company. The company provides its chronic care condition services to employers, healthcare providers, and insurance payers. In exchange for that service, the company bills the client a "per member, per month" (PMPM) fee for each of their patients/employees that are enrolled in DarioHealth's plan. The company initially began its DTC journey in Diabetes Management, but through organic buildouts and complimentary bolt-on acquisitions they developed a comprehensive platform, which now offers a robust continuum of chronic condition care services (Diabetes, Weight Management, Hypertension, Musculoskeletal, Behavioral Health). This multi-condition platform expansion, which drives a virtuous "flywheel" effect, is important for three reasons:

      i) Many chronic condition patients have multi-comorbidities, and thus have the need to tackle more than a single long-term health concern (e.g. hypertension is often associated with obesity, which is often associated with diabetes), so more comprehensive care generates better patient outcomes;

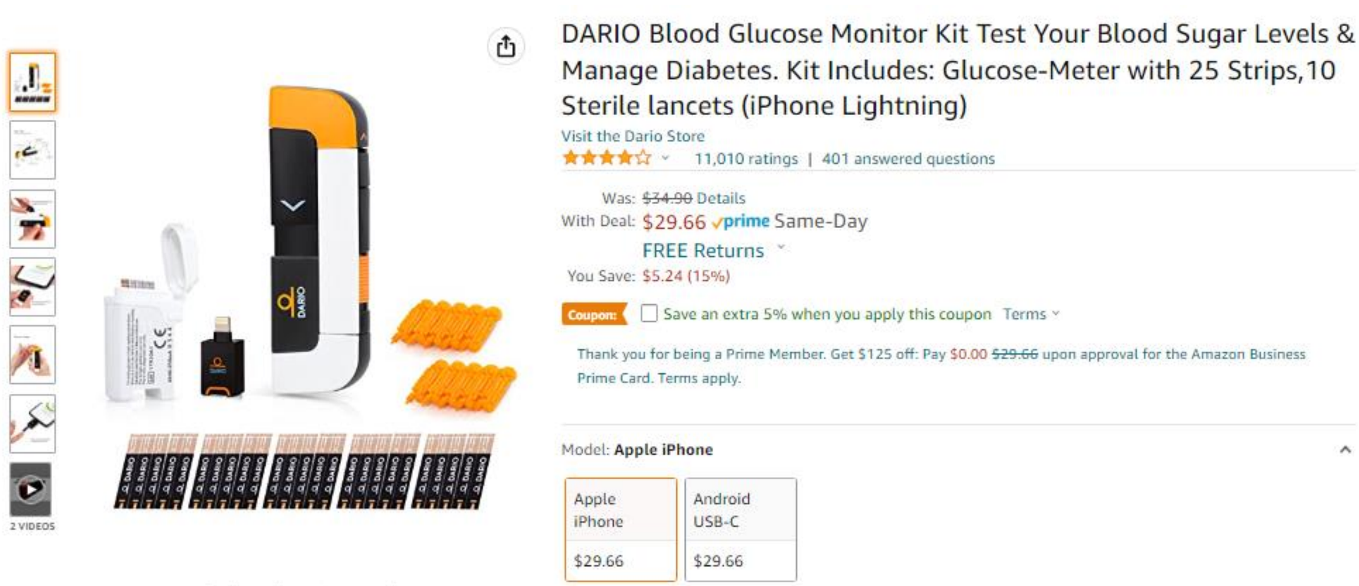
      ii) The likelihood of capturing these chronic patients in the enrollment period is higher if there are more conditions to pursue; historically, management had seen success in enrolling 25-30% of eligible patient populations from clients, but as care delivery sophistication has improved and the company has rolled out multi-condition offerings, that number has trended closer to 40% enrollment rates (well above DTx peers; also makes current contracted revenue 'guidance' of $55mn (2Q22) appear conservative because that only assumes 30% enrollment rates (so that guide has potential upside); and

      iii) Multi-Condition (especially Full Suite) offerings drive the PMPM rate higher, which is pure momentum being added to revenue and margin upside. For example, the Diabetes offering may command a $60 PMPM rate ($720/year per patient) and the company may enroll 25-30% of the eligible patient population from a client. However, if the client bought the Full Suite offering, the PMPM may rise to $85-90 ($1,020-1,080/year per patient; a much higher average revenue per user metric (ARPU)) and the company may achieve 40% enrollment of the client's eligible patient population. It is clear that the positive trends seen in Full Suite RFPs in the company's pipeline (>75% of pending/current RFPs are for multi-condition offerings, based on our estimates/checks vs. 35-40% of existing contracts as of 2Q22 and ~40% of the contracts being signed in 2H22) set the stage for dramatic revenue growth and margin expansion going forward, which is the basis for our highly positive outlook. The compounding impact on the P&L from more multi-condition clients is dramatic: a Full Suite account can generate 5-8x more revenue per user than a single-condition account. In the example below, it is easy to see how a simple multi-condition (not even Full Suite) account can generate 4.5x greater revenue for similar costumer acquisition efforts.



Source: DarioHealth Corporate Investor Presentation (Sept 2022)

b) **<u>DTC (Legacy) Segment)</u>**: DarioHealth used to only sell smartphone-connected/-enabled Diabetes glucose monitoring solutions directly to customers via online retail channels (e.g. Amazon, etc.). Impressively, the company's product always had very positive reviews (4.9 out of 5 app store rating; >4.0 out of 5 Amazon product reviews out of ~11,000 reviews for blood glucose system; 4.6 out of 5 Amazon product reviews for hypertension) and our checks have shown very positive consumer experiences, including ease of use.



Despite being well-received by consumers, the DTC model carried with is much lower margins given high customer acquisition costs (DTC advertising). Further, the DTC channel was not conducive to multi-condition offerings in a scaled format. For this reason, the company and management has chosen to start de-prioritizing this segment. While 2Q22 was the first 'official' announcement that the DTC segment was essentially being wound down (creating some short-term "estimates need to come down" noise), management had long emphasized the fact that the B2B segment would be carrying the torch in the future. As such, consensus numbers for this segment have dropped dramatically, and in our view materially overshot the actual potential remaining revenue stream of the segment. In our conversations with management, we expect that the DTC segment will continue to generate ~$8mn/year in revenue (~$2mn/quarter); however, most Street models now contemplate something closer to $5mn/year. And while we believe the segment will stay in the ~$8mn/year run-rate range, we conservatively model the segment falling annually to just $5mn in revenue by 2026 (vs $11.1mn in 2022e). While being a modest source of upside to revenue (and a deprioritized one), we believe this ongoing offering is important to the company because: i) they provide ongoing to support to existing users as a good show of customer engagement; and 2) this channel offers important patient feedback that aids in the R&D / software development engine of the company which downstream will support traction in the B2B segment (increasing NPS scores, user experience). Again, we are not calling for this to be a critical driver of the company's future valuation, but it could help to improve some investor sentiment that was chapped when the segment's revenue forecast (intentionally) declined.

The most important thing to know about the DTC segment is that with management now essentially setting this on autopilot and reducing DTC advertising spend, the company can run this segment at breakeven and stop generating losses, which will drive material inflection in margins from a revenue mix standpoint and materially reduce the company's cash burn rate, extending their cash runway beyond 2024 (discussed below). While we understand the immediate prior surprise of cutting DTC segment revenues out of Street models, we see this as a very sound strategic move which accelerates the SaaS model transformation of the company (material boost to margins, cash runway, should drive EV/sales multiple expansion from GM% inflection).

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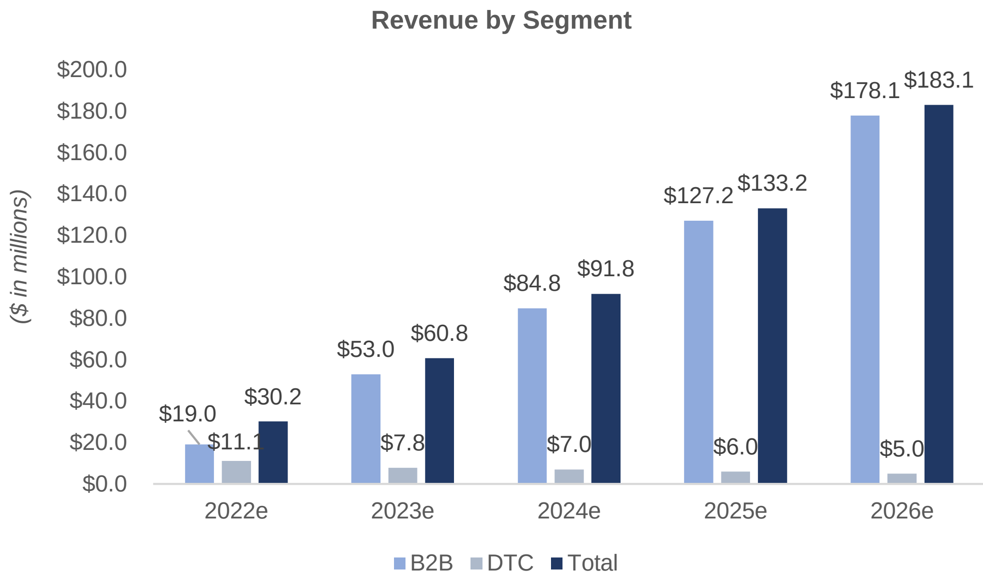
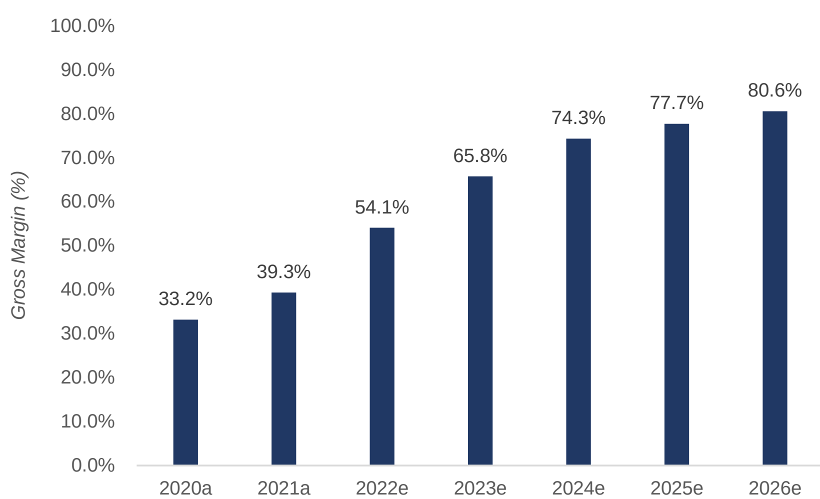


Source: Jaguar Capital estimates.

c) **Margins**: Due to the fundamental transformation of the business model into a SaaS operating model, gross margins are set to inflect in a dramatic fashion. Starting from 33% gross margin (GM) in 2020, we expect DarioHealth to deliver mid-50%'s GM for 2022e and currently model 54.1% (up >2,000bp in two years). For 2023e, aided by increased B2B account wins and deemphasized DTC channel efforts, we see positive mix shift driving GM to 65.8% (>3,000bp improvement since transitioning to a SaaS model). By 2026e, we believe that DarioHealth will be at 80%+ GM, which will be a material driver of profitability and cash flow at that time. Our estimates have also been corroborated by management in our conversations, which reflect 50-60% GM for 2022 (already delivered 50.2% in 1H22 and trending materially higher for the rest of the year) and 60-70% GM in 2023, again aided by scale, fixed cost leverage, and revenue mix shift. It is important to note that of the $55mn(+) of already contracted annual run-rate revenue, that segment is already trending at >70% GM per the 2Q22 conference call. And considering that the B2B segment is the future of the company and DTC is shrinking, we feel our GM estimates through 2026 are quite appropriate, if not beatable. Regardless, there is substantial upside to current Street estimates.



Source: Jaguar Capital estimates.

3) **<u>Major Strategic Partners/Clients are Business Model Validation</u>**: Management has been extremely productive on the Business Development front for the past two years and as of 2Q22 had already signed 11 strategic and channel partners to help drive adoption of DarioHealth's chronic care solutions, including large employee benefits advisors/brokers such as Virgin Pulse, Workplace Options, and MediOrbis.

<u>Sanofi U.S.</u>: Of most important though, was the March 2022 (link) partnership announcement with Sanofi U.S. (SNY). In our view, the Sanofi deal provides crystal clear business model and end market validation for DarioHealth…it's not often that micro-cap companies get premier sponsorship from multi-national, mega-cap pharmaceutical companies. Based on our conversations, Sanofi is spending tens of millions of dollars (if not >$100mn) to enhance its DTx channel strategy and has anchored itself to DarioHealth as its primary chronic care partner. This deal represented a $30mn revenue commitment (structed as $8mn/$7mn/$7mn/$4mn/$4mn for five years spanning 2022-2026) for both commercial and R&D activities, which was 50% greater than total sales for 2021! What we believe the market is missing however, is the fact that Sanofi is helping to promote DarioHealth solutions via their deep relationships in the employer benefit marketplace and in the Pharmacy Benefit Management (PBM) segment. DarioHealth management has indicated to us that the commercial firepower being provided by Sanofi is easily worth a 3-4x sales headcount increase versus DarioHealth alone. And in addition to helping the company penetrate the US market, we believe that Sanofi could eventually expand their relationship and start promoting DarioHealth internationally, as well as be an outright acquirer of the company. Based on social media posts (both companies are very active on LinkedIn), it also seems pretty clear to us that Sanofi is pretty excited about the relationship and has already been promoting DarioHealth solutions at multiple industry events in both the US and internationally. We expect this relationship to produce long-term revenue benefits for the company, and we believe this opportunity is being misunderstood and/or underappreciated by both investors and the sell-side.

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Erez Raphael likes this

Alexander Condoleon · 1st
Vice President, Head of the Digital Healthcare - US, General Medicines Business Unit at Sanofi
5mo · Edited ·

Always great to be in NYC, especially when collaborating with Erez Raphael Gustavo Pesquin Jared Josleyn, J.D. and Rick Anderson to realise our shared ambition in digital healthcare #digitalhealthcare #digitalhealth DarioHealth Corp. Sanofi

170 · 3 comments · 3 shares

Like · Comment · Share · Send

Erez Raphael likes this

Alexander Condoleon · 1st
Vice President, Head of the Digital Healthcare - US, General Medicines Business Unit at Sanofi
5mo ·

A pleasure to have spent a large part of the week with Rick Anderson, Dror Bacher and many other members of DarioHealth Corp. as we reimagine how we can help patients with digital health solutions #digitalhealth #digitalhealthcare

173 · 6 comments · 1 share

Aditi Tuteja · 2nd · + Follow
📈 Marketing, Growth Strategy & Product Management Leader
3mo · Edited ·

Glimpses from day 2 at Viva Technology #vivatech2022

Don't miss Tomorrow's Key Events at the Sanofi Booth J48

Jared Josleyn, J.D. opening session at 9:30 AM CET And Alexander Condoleon & Rick Anderson for the DarioHealth Corp. session at 11:30 CET

Thanks to Sanofi Digital, Dario and other Partner Colleagues for the amazing and engaging first 2 days at this biggest event in #digital #technology

Erez Raphael likes this

Felix Lee · 2nd · + Follow
Digital Health | Strategy | Investor | Mentor
3mo · Edited ·

A fruitful 9 days of face-to-face interactions across #ADA2022, our #Sanofi US digital healthcare business growth planning and evidence generation planning with the team at #dariohealth. Advancing the agenda in #digitalhealth with colleagues, partners and stakeholders who have tremendous passion, drive and resilience to bring breakthroughs that will improve the life of people living with chronic conditions.

Alexander Condoleon Edward Han-Burgess, MS, MSc, MBA, CFA Mariano Bendersky Bill Rush Aditi Tuteja Asma N Ali Keni CS Lee Daniel Anggono Laura Wilson Omar Manejwala, M.D. Greg McLane Yifat Fundoiano-Hershcovitz Kati Sadiwnyk Sanofi DarioHealth Corp. Adee Kennedy

59 · 1 comment · 2 shares

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Nicki Salcedo (She/Her) · Following
Vice President, Strategic Partners at Dario | Behavioral health and digital health strategies | DEI and Company Cu...
3mo ·

Day 2 and 3 at Viva Technology had more energy than we could have imagined. Talks on tech, digital health, and the people/ patients we serve. Busy days and many great conversations. Happy to meet new friends at Sanofi and represent DarioHealth Corp. with Rick Anderson and Erez Raphael.

#technology #digitalhealth #digitalhealthcare #vivatech2022 #vivatech #metabolichealth #mentalhealth #movemevent #darioproud #dariohealth #dario #adaptive #habitformation #careforhealth #healthcare

Nicki Salcedo (She/Her) · Following
Vice President, Strategic Partners at Dario | Behavioral health and digital health strategies | DEI and Company Cu...
2w · Edited ·

Great to collaborate with our friends at Sanofi at The Pharmacy Benefit Management Institute. Bill Rush joined a panel conversation about Digital Therapeutics. Big questions around data sharing, integration, outcomes, and engagement. DarioHealth Corp. is the answer! Digital health can offer patients a new delivery model that's unique to each person with the goal of improving health care interactions and outcomes. Thanks to PBMI and Sanofi for shinning a spotlight on what Dario can do for employers, health plans, and PBMs. #PBMI #PBMI2022 #DarioHealth #Sanofi #digitalhealth #digitalhealthcare

Bill Rush, John Caspero, Gilberto Garcia, Cortney Schaefer, MBA, Miranda Walden, David Poole

Olivier Bogillot · 2nd
4d ·
+ Follow

Sanofi has a strong legacy in diabetes. Helping people living with diabetes has been our mission for decades, and this mission has never been more important. I attended the #EASD2022 58th Annual Meeting in Stockholm this week, and I was truly inspired by my colleagues from around the world who came together with one shared purpose: to continue improving the lives of people with diabetes.

Throughout the congress, I had the pleasure of meeting with many patient advocates and leading diabetes experts to discuss developments in research and treatment approaches to help address unmet needs, as well as how we can help address the challenges around access and affordability of medicines. A highlight of the meeting for me was understanding more about the incredible digital healthcare advancements that can help people manage their diabetes holistically, beyond the medicine.

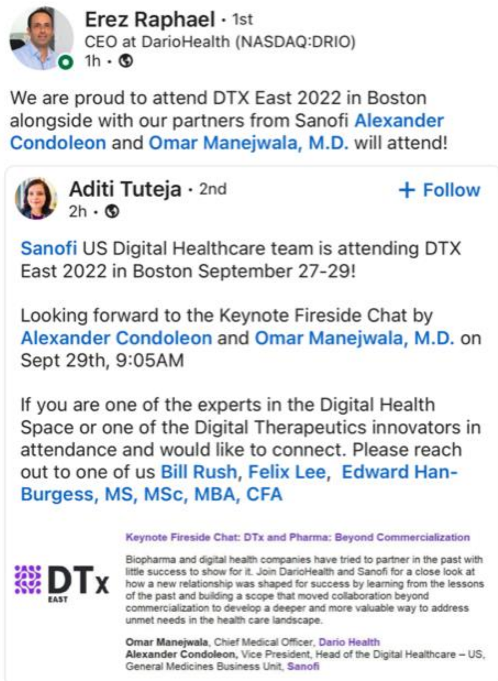
My next stop after Stockholm was back in the U.S. where we met with the DarioHealth Corp. team. Our collaboration with Dario, through the integration of healthcare and technology, accelerates Sanofi's mission to reverse the course of chronic diseases. I am excited to see Sanofi leading this evolution and to continue our journey to advance #digitalhealth for patients.

Up next, I'm looking forward to connecting with the cardiovascular community as we gear up for #AHA22 in a few weeks. More to come!

Aditi Tuteja · 2nd
Marketing, Growth Strategy & Product Management Leader
3w ·
+ Follow

This week Sanofi US DHC got together with the DarioHealth Corp. Team. A fantastic workshop with super talented and passionate colleagues that share the goal of improving #patientcare. So proud to be a part of it, and I'm excited to see what all we can achieve together in #digitalhealth. 🙌

Alexander Condoleon Mariano Bendersky Jan LISKA Felix Lee Monica Bertolini Fabienne Guillemard Raveleau Aditi Tuteja Dror Bacher Chen Arazi Yifat Fundoiano-Hershcovitz Tomer Gofer



Source: LinkedIn.

Looking ahead, management has been extraordinarily clear that they aim to complete additional strategic partnerships similar to the Sanofi relationship as interest in the chronic care space continues to grow and employee benefit managers, healthcare providers, insurance payers, and Pharmaceutical/Medical Device manufacturers stand to benefit from better patient outcomes (higher therapeutic compliance/usage rates for drug and device therapies). Based on our channel checks, we believe that DarioHealth is close to completing two new such strategic partnerships, which are likely to come before year-end 2022 or early 2023. We suspect one will be a "large telehealth" company (we believe AmericanWell (AMWL) fits the bill here…AMWL has a chronic care portfolio gap that makes it more difficult to compete with TDOC+LVGO; both have CVS/Aetna relationships now which would allow the platforms to be integrated into a DTx ecosystem, and there's the "Israeli" connection, which may or may not matter). Second, we believe DarioHealth will soon announce a large "MedTech" (Medical Device) partnership, where potential partners could be Medtronic (MDT), Roche (ROG.SW), DexCom (DXCM), ResMed (RMD), or others. Our best guess though is a partnership with Becton Dickinson (BDX) makes the most sense and completely jives with Becton's consistent public strategic comments about focusing on chronic conditions, moving closer to the patient/consumer, and moving away from more acute healthcare settings (e.g. hospital => outpatient / home solutions). If such a major partner as MDT or BDX were to be announced, we believe that investors would reward DarioHealth's valuation in a material way.

Aetna/CVS Health (CVS): DarioHealth recently signed a "Top 5" national health plan (NHP) (link) as part of their ongoing efforts to provide chronic condition management to patients in need. In this agreement (Phase 2), DarioHealth will provide Behavioral Health solutions and have access to nearly 10 million members, with revenue starting to contribute in 3Q22 (now). This is an expanded partnership from an original pilot program (Phase 1) that began in October 2021 (link). Importantly, there has been some confusion among investors as to "who" the NHP actually is because the press releases have been generic in nature and have not names the client. We offer a few thoughts on the matter: a) any investor willing to do some channel checks can easily determine that the NHP is Aetna (owned by CVS Health); b) generic (blinded) press releases which do not explicitly identify DarioHealth's customers are the norm for the company and thus the practice is consistent with prior releases; and c) does it really matter if it's *not* Aetna?...it's still 10 million lives! Even if the Top 5 NHP turned out to not be Aetna, we believe that investors would be more than comfortable with DarioHealth being attached to another NHP such as UnitedHealth (UNH), Humana (HUM), Cigna (CI), etc. Regardless of which NHP ultimately is revealed, we see this partnership as pure validation of the company's AI-driven chronic care solutions. For Phase 1 & 2 combined, we understand

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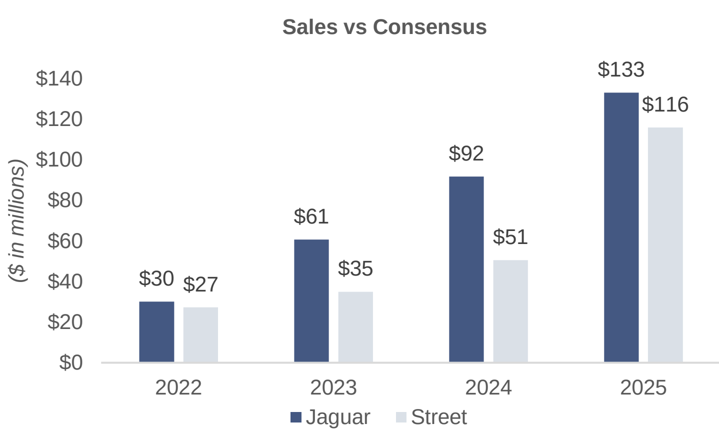
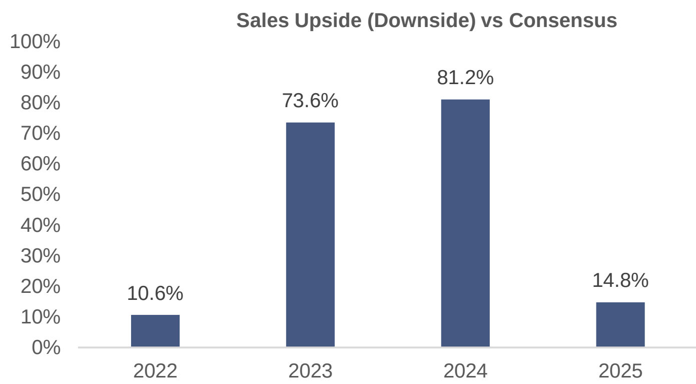
that this is a $25-35mn annual revenue run-rate (ARR) client (could be bigger than total revenue in 2020+2021 or 2022 alone). Importantly, there is also a Phase 3 to be expected beyond this initial Behavioral Health partnership, which would open up multi-condition management to the same covered lives base. We initially thought that this was more of a 2025 revenue opportunity but considering DarioHealth was ahead of schedule on getting Phase 2 implemented and management has been pleased with the sponsor's engagement, we believe Phase 3 plans could materialize more firmly in 2023 with revenue contribution in 2024. To be clear, this would be a *material* catalyst for DRIO shares as it could potentially open up a $75mn+ revenue stream for the company, by our estimates. (More on this NHP catalyst discussed below.)

4) **Material Upside to Street Estimates Will Drive Tremendous Multiple Expansion**: We believe that the Street is dramatically under-modeling the revenue, gross margin, and EBITDA trajectory of the company. As continued health plan, employer, and provider contract wins continue to layer on cohorts of patients/users, this highly sticky recurring revenue stream (~80% member retention rates at 12mos) will drive outsized margin expansion and profitability. For simplicity and a starting point, and without diving into the complex details of our revenue build, it is helpful to consider a very easy explanation as a basis for 2024 revenue. As of 2Q22, the already contracted annual revenue run-rate (ARR) of the B2B segment's book of business was $55mn (up +31% from $42mn at 1Q22 due to the signing of national health plan). To be clear, management defines the ARR at "full implementation", which typically takes 4-5 quarters from a contract's initial implementation (despite the company running ahead of internal expectations on enrollment rates). So if we assume a current $55mn ARR, it is simple to assume that an actual forward ARR of $55mn would be for the 2H23-1H24 year (*i.e.* 1-2 years from now). This current ARR doesn't assume any new business is won and it includes much more conservative enrollment assumptions than what is currently being achieved. So if 1H24 will deliver at least $27.5mn (1/2 of $55mn, even though it should be more tail-weighted closer to $30mn), we can annualize that to $55mn for all of 2024 (conservatively). Then add in another modest $5mn contribution from future business wins through 2022/2023 (again, conservative) and add in a $5mn DTC stub contribution and 2024 stacks up to $65mn in revenue (this incredibly conservative estimate in our simple example is already 27% ahead of current 2024e Street estimates at $51mn). To further emphasize our confidence in upside to out-year Street estimates, we believe that management's internally recognized ARR is closer to ~$75mn, which means that there's at least ~$20mn of cushion baked into their publicly issued ARR guidance which could materialize in revenues being both much higher than even our estimates and they could potentially materialize sooner.

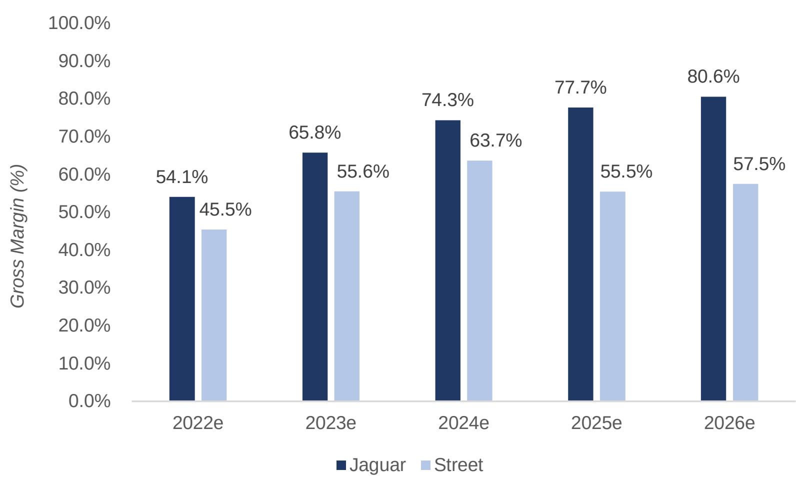
Starting with revenue, we model $30mn/$61mn/$92mn/$133mn for 2022-2025e, which is materially above current Street estimates of $27mn/$35mn/$51mn/$116mn. (We note that the 2025 consensus number of $116mn only includes one analyst estimate who is the Street-high for all time periods; as other analysts roll out 2025 estimates, we see this value declining and thus our upside to 2025 estimates will look even more dramatic.) As for gross margins, we do add back deal-related amortization, but that is fairly immaterial to the long-term financials. For 2022-2025e, we model 54%/66%/74%/78% which compares favorably to Street consensus at 46%/56%/64%/56% (note that the 2025e consensus estimate looks off (down sequentially) due to lack of Street estimates populated in Bloomberg). As for our EBITDA estimates (which feed into our PT methodology below), we note that we penalize the company by *not* adding back stock-based compensation to the Adj. EBITDA metric as a more conservative approach based on our philosophical view on the practice.



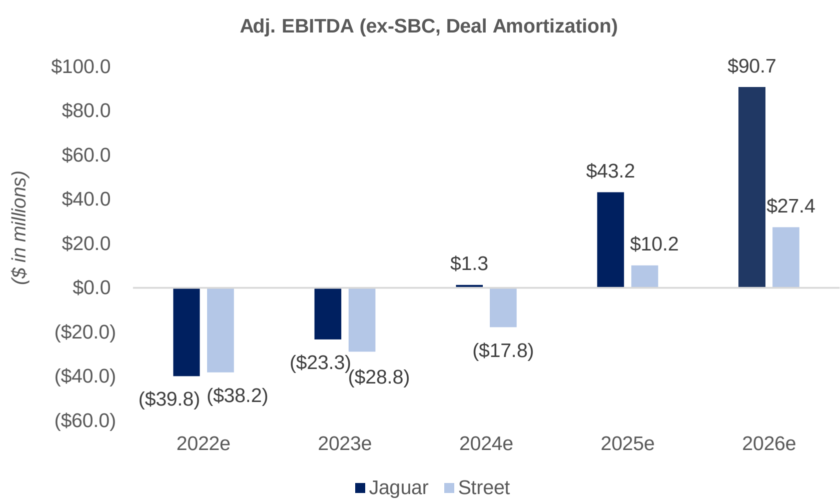
Source: Jaguar Capital estimates, Bloomberg.



Source: Jaguar Capital estimates.



Source: Jaguar Capital estimates, Bloomberg.



Source: Jaguar Capital estimates, Bloomberg.

It is important to note that the above Adjusted EBITDA estimates exclude stock-based compensation (SBC) and deal-related amortization in order to provide a more accurate picture of operating cash flow. However (and discussed below), we *do not* add back SBC to our Adj. EBITDA estimates for the purpose of valuation since it is indeed an ongoing practice and we chose to be more conservative.

5) **Transformational Near-Term Catalyst Pathway**:

a. **Aetna/CVS Update**: As discussed above, we believe that Aetna (CVS) is DarioHealth's Top 5 NHP client and that will be revealed to the market imminently. We believe that there is a complex set of goals that need to be completed by Aetna before making an official announcement (i.e. marketing materials for health plan members ahead of open enrollment periods so as to not create confusion among members). It is very likely that this could be announced near-term in October or November, and given some general investor angst of the name of the NHP, we believe this could be a major (validating) clearing event for the stock. Potential stock reaction on official Aetna/CVS partnership announcement: +10-20%.

b. **3Q22 Beat/Raise**: As we've discussed above, we see material upside to current and out-year estimates versus consensus estimates. That said, we do note that 2Q22 came in below Street estimates on revenue, but that was timing related due to: i) Sanofi revenue that was paid in 1Q22 and not in 2Q22 (analysts had modelled it wrong); there should be more Sanofi revenue being booked in 3Q/4Q ($8mn in total for 2022); and ii) timing impact of development revenue from the NHP (Aetna) that was expected to be booked in 2Q but has now slipped into 3Q. Despite these issues of "lumpiness" with large client revenues (not uncommon for early stage, small-cap companies with large clients), Street estimates for 3Q/4Q revenue have declined materially to $6.4m/$6.6mn, which is essentially flat versus 2Q at $6.2mn. We believe these estimates will prove conservative and we model $3mn of upside across both periods combined for the balance of the year. A solid beat on revenue and gross margin should catalyze the stock after recent weakness. Expected stock move on an above-Street 3Q result: +5-10%.

c. **Regional Health Plan News**: Management has expressed its belief that they will soon sign another large regional health plan as a customer. This will be an incremental positive in terms of sentiment/news flow and corroborates the company's continued execution on all fronts. Potential stock price move: +5%.

d. **New Major Strategic Partner (in "MedTech")**: As discussed above (Section 3), we believe that DarioHealth is in the later stages of signing another multi-year strategic partnership, this time with a "large MedTech" company. While multiple suitors make sense in our minds (MDT, DXCM, ROG.SW, RMD, etc.), we believe that BDX could make the most strategic sense and jives with recent public management commentary. A major partnership such as one of these premier mega-cap companies would likely drive DRIO shares materially higher. While we do not know the terms of this potential deal, our conversations have implied that something similar to the Sanofi partnership makes sense (multi-tens of millions of revenue commercial comments (e.g. $20-40mn), a strategic investment, co-promotion, and R&D development revenue). Potential stock reaction: +20-40%. (We note that DRIO stock rallied ~10% over two days on the Sanofi partnership news, but that was mitigated by a concurrent equity offering of $40mn, so the upside on the partner news was muted, in our view.)

e. **New Major Strategic Partner (in "Telehealth")**: Again, as discussed above (Section 3), management has indicated that they are near signing a new strategic partnership with a "large Telehealth" player. In our view, AMWL makes the most sense, as they likely need a more robust platform to compete on RFP processes versus the likes of Teladoc (TDOC+LVGO) and Omada Health (private). Alternatively, Cigna (CI) could make sense as we are unaware of the company having a large chronic care DTx offering. Cigna did acquire telehealth player MDLive in 2021, so DarioHealth could potentially be a perfect complement to their current offering (and a portfolio gap-filler by outright acquiring DarioHealth). We would expect a strategic partnership announcement with AMWL to yield a share price reaction of +10-20%. For CI, we would expect: +20-30%.

f. **Potential Sanofi (SNY) Strategic Investment by YE22**: Based on Sanofi's intense interest and co-promotion activity, our checks indicate that the company could make a strategic investment in DarioHealth, potentially by year-end 2022 or earlier in 1H22. On our best estimates, we believe this could be in the $20-40mn range and conducted in a private transaction. While this would admittedly create some modest dilution for existing shareholders, we believe

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that investment thesis validation by a major international strategic partner would be multiple expansive. Further, upon such investment, it is easy to see the M&A rumor mill starting to turn. Regardless, the outcome would be an even more entrenched major strategic partner and an even stronger balance sheet. Expected stock move on a Sanofi strategic investment: +5-15%.

6) **Cash is a Non-Issue**: Unlike many small-caps that have cash needs into the future, DarioHealth has already got its house in order, based on our math. Following a $40mn equity raise in 1Q22, the Sanofi revenue commitment ($8mn/$7mn/$7mn/$4mn/$4mn for 2022-2026) announced in March 2022, and a new credit facility inked with healthcare investor Orbimed in June 2022 (link), we believe that future financing risk has virtually been taking off the table. The Orbimed deal was a non-dilutive, senior secured loan facility with a potential maximum value of $50mn ($25mn already drawn at closing; another $25mn available upon future revenue milestones, which gives us high confidence in management's desire to achieve such goals). All said, as of 2Q22, the company had $68mn of cash on its Balance Sheet (vs current market cap of ~$105mn) and another $25mn already available to the company ($93mn total). This also comes before potential cash infusions from the aforementioned potential Sanofi strategic investment ($20-40mn, our estimate), the "MedTech" strategic partnership ($20mn+), and the "Telehealth" strategic partnership ($20mn+), which are both likely to come with revenue/investment commitments. Considering Sanofi was a $30mn revenue agreement, if we assume that the next two deals (terms sheets are already out to our understanding) each carried only a $20mn commitment (we believe a potential single $50mn deal could be out there according to one check, but we'll be conservative for now), that would add another $40mn to the company's cash inflows over the next several years.

According to management, based on rapidly ramping revenues and higher margin mix shift that's driving a profitability inflection, the company is currently funded through 2024 and potentially into 1H25. That said, it is always nice to have a war chest, in our opinion, to execute on potential synergistic growth M&A transactions, so we can never rule out a future equity raise. We are also highly positive on the company's recent pivot to deemphasize the DTC business (e.g. eliminating Google, Facebook ad spend) and other cost measures which have dramatically slowed cash burn. As example, total operating expenses have declined 18% from 4Q21 to 2Q22 and total losses have declined by 26% in the same time period. Further, the cash burn rate from 1Q22 to 2Q22 declined by 38% (DTC slowdown) and that is expected to be a more stable run-rate. To our understanding, the customer acquisition costs for the B2B segment are trending at ~$20/member (or ~70% less than the DTC segment at ~$66/member). It is clear to us that management has a firm grasp on their cash situation and have multiple levers to the upside to fortify their balance sheet. Cash burn is likely to slow to $20-25mn in 2023, so liquidity is essentially a non-issue as the company will still have a healthy cash balance by then and will turn cash flow positive in 2024, based on our estimates.

As a simple illustration, we offer the below "Cash Glide Path" to provide comfort on the company's strong cash flow position (particularly in the context of a high-growth, small-cap company).

Cash Glide Path

	2022e	2023e	2024e	2025e	2026e
Current Cash*	$56.0				
Jaguar Adj. EBITDA**	($39.8)	($23.3)	$1.3	$43.2	$90.7
Balance:	$16.2				
MedTech Partner	$20.0				
YE Balance:	$36.2				
Balance:		$12.9			
Orbimed $25mn:		$25.0			
Telehealth Partner		$20.0			
YE Balance:		$57.9			
YE Balance:			$59.2		
YE Balance:				$102.4	
YE Balance:					$193.1

**$56.0mn YE22 cash balance assumes $12mn burn in 2H22 vs 2Q22 $68mn balance.*
***Adj. EBITDA includes add-back of stock-based compensation & deal amortization.*
Source: Jaguar Capital estimates.

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7) **<u>Strong Insider Ownership = Golden Parachute for Shareholders (aka: "Plan B")</u>**: As of this writing, Insider Ownership at DarioHealth was a healthy 12.9% according to Bloomberg. On the other hand, Institutional ownership of the tradable float was only 57.3% (room for improvement as our thesis gains traction). We are particularly proud to see both senior management and Directors as significant owners of stock, as it is clear that they've got considerable "skin in the game" and have a demonstrable interest in seeing the stock price move higher. As highlights, we call out insider ownership by Erez Raphael (CEO, 5% owner / #7 holder overall), Oded Cohen (Senior VP – Strategy & M&A, 1.9% owner / #10 overall), Zvi Ben-David (CFO/Treasurer/Secretary, 1.5% owner / #12 overall), Dror Bacher (1.2% owner / #14 overall), Yoad Shakev (Director; Partner – Sequoia Capital, 0.7% owner / #16 overall), and Hila Karah (Director; Partner (former) – Perceptive Lifesciences, 0.7% owner / #18 overall).

Management is no doubt unhappy with DRIO's stock erosion in value over the past two years (partly related to the reversal in market sentiment related to perceived "pandemic beneficiaries" and the collapse of public market SMID-cap growth valuations broadly, and acutely for Healthcare Diagnostics and Healthcare IT (HCIT) sub-sectors. That said, we aggressively dismiss the idea that DarioHealth should be considered a "telehealth player", which is essentially commodity offering at this point. Instead, we view DarioHealth's highly patient-centric, AI-driven platform as a premium offering in the Digital Therapeutics category. (Recall that Teladoc (TDOC) offered to acquire Livongo (LVGO) in August 2020 at a then current valuation of $18.5bn which represented ~16x 2-year Forward EV/Sales, because the largest player in the space knew that they were "skating to where the puck was going" in the chronic care management space. That valuation compares to DRIO's current 2-year Forward EV/Sales multiple of just 1x, despite DRIO growing materially faster than LVGO and its entire valuation comp group. (We do believe that Teladoc dramatically overpaid for LVGO and it was at the height of the pandemic HCIT valuations which also allowed Teladoc to use their own overvalued shares as currency at the time; nevertheless, we believe this transaction highlights the strategic importance of the asset in the DTx space, which should also ring true for DarioHealth, as they are in many ways considered a "little LVGO" (despite growing faster and having a broader platform offering).

We strongly believe that if push comes to shove (i.e. if public market ignores clear value creation from management strategic decisions; if public market valuations stay depressed relative to private market valuations; or simply if the intrinsic value of the company is not being discounted properly by the markets), management will be happy to sell the company for an easily achievable (in our view) +200-300% premium from current levels, particularly considering the extraordinary potential strategic interest surrounding the company (i.e. Sanofi, CVS/Aetna, etc.). And beyond management desires, we believe that the Board of Directors and senior management could be swayed to pursue a sale of the company at the appropriate direction of top core shareholders ("Plan B"). Simply put, there is so much value unrecognized here that we believe there are multiple ways to win on this investment thesis.

<u>Key Insider Ownership Statistics:</u>

Holder	Title	Shares	% of S/O:	# Holder Rank
Erez Raphael	Chief Executive Officer (CEO)	1,151,135	5.01%	7
Oded Cohen	Senior VP - Strategy & M&A	430,764	1.87%	10
Zvi Ben-David	CFO / Treasurer / Secretary	347,821	1.51%	12
Dror Bacher	Chief Operating Officer (COO)	265,926	1.16%	14
Yoav Shaked	Director; Partner - Sequioa Capital	167,860	0.73%	16
Hila Karah	Director; Partner - Perceptive Lifesciences (previous)	149,290	0.65%	18
Adam Stern	Director; CEO - Sternaegis Ventures	139,841	0.61%	21
Richard Anderson	Presidient; General Manager - North America	108,877	0.47%	22
Dennis McGrath	Director; CFO - Lucid Diagnostics	84,616	0.31%	24

Source: Bloomberg.

As for Institutional ownership, we see several marquis investment managers that we always like to see sponsoring our high-profile picks, including smart healthcare investors at Perceptive Lifesciences (fundamental), Millennium Management (fundamental & quant), Citadel Advisors (fundamental & quant), Renaissance Technologies (quant), and Goldman Sachs (fundamental). We also see stability from several large index strategies that tend to be sticky money (i.e. Vanguard, Geode),

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as well as some long-term asset management (usually long-only) and insurance firms that have also proven sticky over time (i.e. Nantahala, Clal Insurance, Phoenix Co's, YD More). Lastly, we highlight shareholder newcomers Kershner Trading Group (5.4% owner), which based on our diligence is a rapidly growing proprietary asset manager based in Texas who has acquired some top talent in recent years, as well as MAI Capital Management, which runs both long-only asset management and healthcare hedge fund strategies, and equally employees some strong healthcare talent.

Key Institutional Ownership Statistics:

Holder	Firm Type	Shares	% of S/O:	# Holder Rank
Nantahala Capital Management LLC		1,730,810	7.53%	1
Clal Insurance Enterprises Holdings Ltd		1,554,126	6.76%	2
YD MORE Invest		1,480,306	6.44%	3
The Phoenix Co's, Inc.		1,341,027	5.84%	4
Kershner Trading Americas LLC		1,233,524	5.37%	5
Collaborative Holdings Management LP		1,221,033	5.31%	6
Erez Raphael		1,151,135	5.01%	7
Appian Way Asset Management LP		913,935	3.98%	8
Millennium Management LLC		488,772	2.13%	9
Oded Cohen		430,764	1.87%	10
MAI Capital Management LLC		348,546	1.52%	11
Perceptive Advisors		327,869	1.43%	13
The Vanguard Group, Inc.		217,682	0.95%	15
Geode Capital Management LLC		161,280	0.70%	17
Citadel Advisors LLC		145,609	0.63%	19
Renaissance Technologies LLC		96,200	0.42%	23
The Goldman Sachs Group, Inc.		68,528	0.30%	28

Source: Bloomberg.

8) **<u>Potential for Shareholder Activism</u>**: Based on our industry channel checks and our proprietary work, we believe the company has significantly more intrinsic value than is currently being ascribed by the public market. Given the concentrated and historically sticky nature of top shareholders (let's not forget huge insider ownership that would like to be paid) and chronic underperformance of the stock price, we believe the environment is ripe for a would-be stakeholder activist, leading up to a potential forced sale of the company. In a strategic transaction, we see potential per share deal values in a range of $15-30, depending on the acquirer and potential earn-out terms.

9) **<u>Valuation is Extremely Compelling; Floor Should Be In; Business Inflection Next => $18 Base Case</u>**: We initiate with an $18 Price Target for shares of DarioHealth (DRIO) for year-end 2023. Our methodology is derived by using an equal-weighted combination of multiple common valuation techniques, including: EV/Sales (25%), EV/EBITDA (25%), P/E (25%), and DCF (25%). For EV/Sales, we apply a 4x multiple on 2024e sales (vs comps in the 4-5x range), which we find as highly conservative considering DarioHealth as in-line gross margins with comps but is growing >3x faster on a 2022-2025e CAGR basis. For both EV/EBITDA (15x multiple) and P/E (30x multiple) on 2026e (when the company becomes materially profitable and we then discount those values back 3-years at an aggressive 20% discount rate (WACC is only 9.1%) to arrive at our year-end 2023 PTs. Lastly, we use a 10-year DCF, which embeds a 1.25 Beta, a 20% intermediate term FCF growth rate ((2027-2032), a conservative 3.0% terminal growth rate (company has a 64% CAGR for 2022-2025e), and application of the company's net operating losses (NOLs) for tax purposes. (**Importantly, for the purposes of valuation, we *DO NOT* add back stock-based compensation (SBC) to our Adj. EBITDA or DCF models. (If we did add back SBC, our DCF would be closer to $40/share, and it would be even higher if we add back contingent consideration / earn-out payments from past M&A, as one could argue that those are not true ongoing embedded expenses beyond the deal period…but we choose to start conservatively.)

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Regarding DarioHealth's comp group for relative valuation analysis, we focus on EV/Sales for earlier stage, high growth assets and use a sample of HCIT/Disruptive Healthcare, Tech-Enabled Consumer Discretionary, and Growth SaaS companies. DRIO has an in-line 2024 GM% with the group, which typically should inform similar EV/Sales multiples, yet DRIO is trading at a paltry fraction of the group's valuation despite have a 3.3x better growth profile (we're dumbfounded by this, especially considering a solid cash profile). Even more staggering is the cheaper valuation when we strip out the worthless options/RSUs (share count drops from 31.5mn to 23.0mn shares, which is highly material).

***Comparable Valuation Table*:**

**Fully-Diluted, including worthless options*

	Price as of 9/29/2022	Market Cap	EV/Sales NTM	EV/Sales 2023e	EV/Sales 2024e	GM% 2024e	'22-'25e CAGR Sales
Digital Health / Healthcare Disruptors							
DH	$16.58	$2,579	10.7x	10.1x	8.1x	89.1%	21.4%
DXCM	$82.10	$32,231	9.5x	9.1x	7.7x	66.1%	18.8%
GDRX	$4.81	$1,915	2.2x	2.1x	1.8x	91.1%	15.3%
HCAT	$10.17	$557	1.4x	1.4x	1.2x	53.1%	13.3%
IRTC	$125.69	$3,774	7.6x	7.3x	6.2x	70.0%	18.2%
PGNY	$38.65	$3,559	3.5x	3.3x	2.5x	23.2%	32.2%
PHR	$25.32	$1,330	3.4x	3.2x	2.5x	70.2%	27.3%
OMCL	$87.84	$3,890	2.8x	2.7x	2.4x	50.4%	12.0%
TDOC	$26.23	$4,240	1.8x	1.8x	1.6x	68.0%	14.3%
VEEV	$164.81	$25,592	9.6x	9.2x	8.0x	75.4%	14.3%
Median			**3.5x**	**3.2x**	**2.5x**	**69.0%**	**16.8%**
Average			**5.2x**	**5.0x**	**4.2x**	**65.7%**	**18.7%**
Tech-Enabled Consumer Discretionary							
ALGN	$211.01	$16,482	3.6x	3.5x	3.1x	72.6%	17.8%
BMBL	$21.90	$4,124	4.1x	3.9x	3.2x	72.4%	20.8%
MTCH	$48.25	$13,654	4.9x	4.8x	4.2x	70.0%	13.0%
Median			**4.1x**	**3.9x**	**3.2x**	**72.4%**	**17.8%**
Average			**4.2x**	**4.1x**	**3.5x**	**71.6%**	**17.2%**
Growth SaaS							
COUP	$60.63	$4,604	6.4x	6.1x	5.1x	74.6%	20.8%
FIVN	$76.31	$5,350	6.2x	5.9x	4.8x	63.9%	23.3%
HUBS	$274.35	$13,174	6.3x	6.0x	4.8x	82.6%	25.2%
OKTA	$56.80	$9,022	4.1x	3.9x	3.2x	77.5%	25.8%
PAYC	$334.43	$20,075	12.5x	11.9x	9.8x	85.8%	22.3%
PCTY	$246.39	$13,620	11.8x	11.4x	9.3x	71.4%	19.3%
SPLK	$77.80	$12,659	3.9x	3.8x	3.1x	79.1%	21.7%
VEEV	$164.81	$25,592	9.6x	9.2x	8.0x	75.4%	14.3%
Median			**6.3x**	**6.1x**	**5.0x**	**76.4%**	**22.0%**
Average			**7.6x**	**7.3x**	**6.0x**	**76.3%**	**21.6%**
Peer Total							
Median			**4.9x**	**4.8x**	**4.2x**	**72.4%**	**19.3%**
Average			**6.0x**	**5.7x**	**4.8x**	**70.6%**	**19.6%**
DRIO	**$4.48**	**$141**	**2.1x**	**1.6x**	**1.1x**	**74.3%**	**64.0%**
						Relative / Excess Growth:	
Upside to Comp Group Median Multiple			***132%***	***202%***	***304%***		**3.3x**
Upside to Peer Comp Average Multiple			***183%***	***262%***	***356%***		**3.3x**

Source: Jaguar Capital estimates; Bloomberg.

***Comparable Valuation Table*:**

**Excluding worthless options*

	Price as of 9/29/2022	Market Cap	EV/Sales NTM	EV/Sales 2023e	EV/Sales 2024e	GM% 2024e	'22-'25e CAGR Sales
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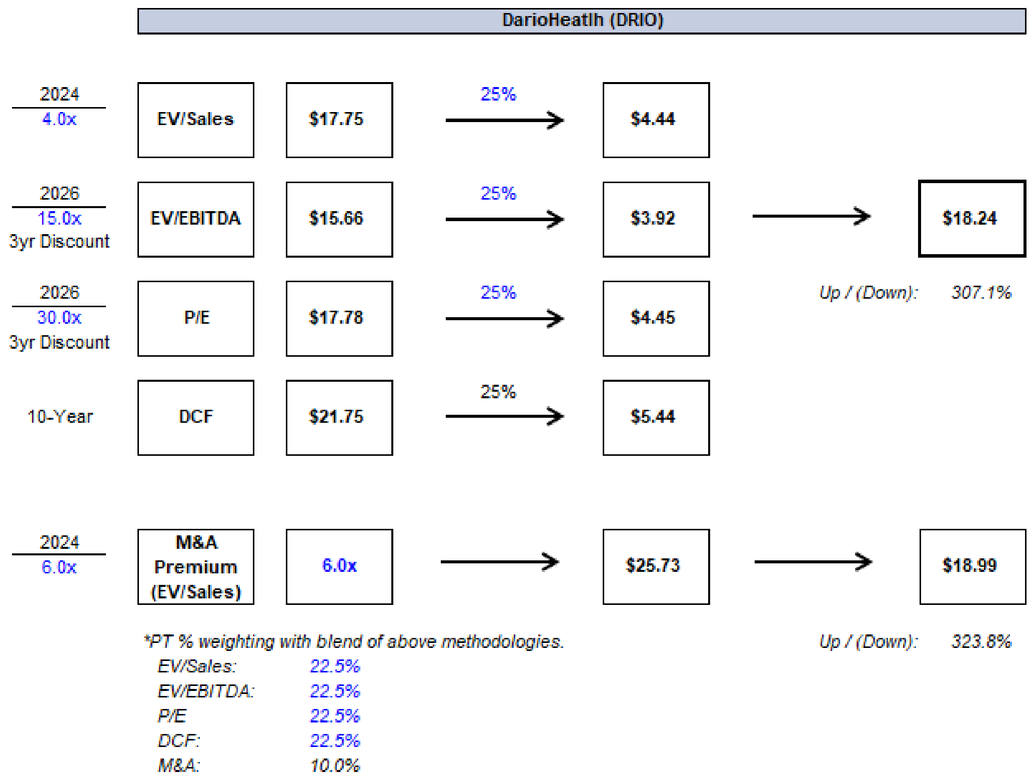
HCAT	$10.17	$557	1.4x	1.4x	1.2x	53.1%	13.3%
IRTC	$125.69	$3,774	7.6x	7.3x	6.2x	70.0%	18.2%
PGNY	$38.65	$3,559	3.5x	3.3x	2.5x	23.2%	32.2%
PHR	$25.32	$1,330	3.4x	3.2x	2.5x	70.2%	27.3%
OMCL	$87.84	$3,890	2.8x	2.7x	2.4x	50.4%	12.0%
TDOC	$26.23	$4,240	1.8x	1.8x	1.6x	68.0%	14.3%
VEEV	$164.81	$25,592	9.6x	9.2x	8.0x	75.4%	14.3%
Median			**3.5x**	**3.2x**	**2.5x**	**69.0%**	**16.8%**
Average			**5.2x**	**5.0x**	**4.2x**	**65.7%**	**18.7%**
Tech-Enabled Consumer Discretionary							
ALGN	$211.01	$16,482	3.6x	3.5x	3.1x	72.6%	17.8%
BMBL	$21.90	$4,124	4.1x	3.9x	3.2x	72.4%	20.8%
MTCH	$48.25	$13,654	4.9x	4.8x	4.2x	70.0%	13.0%
Median			**4.1x**	**3.9x**	**3.2x**	**72.4%**	**17.8%**
Average			**4.2x**	**4.1x**	**3.5x**	**71.6%**	**17.2%**
Growth SaaS							
COUP	$60.63	$4,604	6.4x	6.1x	5.1x	74.6%	20.8%
FIVN	$76.31	$5,350	6.2x	5.9x	4.8x	63.9%	23.3%
HUBS	$274.35	$13,174	6.3x	6.0x	4.8x	82.6%	25.2%
OKTA	$56.80	$9,022	4.1x	3.9x	3.2x	77.5%	25.8%
PAYC	$334.43	$20,075	12.5x	11.9x	9.8x	85.8%	22.3%
PCTY	$246.39	$13,620	11.8x	11.4x	9.3x	71.4%	19.3%
SPLK	$77.80	$12,659	3.9x	3.8x	3.1x	79.1%	21.7%
VEEV	$164.81	$25,592	9.6x	9.2x	8.0x	75.4%	14.3%
Median			**6.3x**	**6.1x**	**5.0x**	**76.4%**	**22.0%**
Average			**7.6x**	**7.3x**	**6.0x**	**76.3%**	**21.6%**
Peer Total							
Median			**4.9x**	**4.8x**	**4.2x**	**72.4%**	**19.3%**
Average			**6.0x**	**5.7x**	**4.8x**	**70.6%**	**19.6%**
DRIO	**$4.48**	**$103**	**1.3x**	**1.0x**	**0.6x**	**74.3%**	**64.0%**
						Relative / Excess Growth:	
Upside to Comp Group Median Multiple			***283%***	***398%***	***566%***		**3.3x**
Upside to Peer Comp Average Multiple			***367%***	***497%***	***652%***		**3.3x**

Source: Jaguar Capital estimates; Bloomberg.

***Price Target (PT) Methodology*:**



As another check on our valuation methodology using EV/Sales as a basis, we provide the following Bear/Base/Bull Case scenarios, with the Base Case estimates being our currently modelled 2024 estimates, which we think are more than achievable. Using a conservative 4x EV/Sales multiple (again, recall comps are 4-5x and DarioHealth has >3x the growth profile), we arrive at an $18 PT, which is also reflected in our above methodology. If investors fail to recognize the intrinsic value of the company (impairs the multiple) and financial targets come up short, even our Bear Case sports an impressive ~100% upside from current levels to $9. Alternatively, if targets are exceeded (we see this as highly probably), we would expect the EV/Sales multiple to expand even more as investor enthusiasm would be reflected against materially higher revenue and margin results, yielding our Bull Case of $28.

Bull-Bear EV/Sales Scenarios:

	2024 Scenario Analysis		
	Bear	**Base**	**Bull**
Sales:	$80.0	$91.8	$100.0
GM%:	68.0%	74.3%	76.0%
Cash @ 3Q22	$68	$68	$68
Cash % of Mkt Cap:	66%	66%	66%
Debt:	$23	$23	$23
Implied EV:	$58	$58	$58
EV/Sales Multiple:	2.0x	4.0x	6.0x
Equity Value:	$205	$412	$645
Price Target:	**$8.90**	**$17.92**	**$28.05**
Upside / (Downside):	*99%*	*300%*	*526%*

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10) **Clear M&A Target in HCIT / Value-Based Care / Digital Health Ecosystem**: M&A in the space is heating up as evidenced by recent take-outs of One Medical (ONEM) by Amazon, Signify Health (SGFY) by CVS Health; Humana, CVS Health, and UnitedHealth pursuing Cano Health (CANO), multiple reported offers for TalkSpace (TALK; by MindPath, American Well/AMWL), Teladoc's acquisition of Livongo (LVGO), Cigna Evernorth's acquisition of MDLive, etc. In fact there were multiple bidders on the former assets above as well, which means that the 'losers' of the bidding war are still in the hunt for premier Digital Health / Therapeutics assets. We believe that DRIO fits this mold as a premier asset in the DTx space, as evidenced by multiple validating strategic partners and extremely attractive valuation. Further, we believe that major strategic parties (i.e. AMZN, CVS, HUM, UNH, WBA, etc.) are likely to continue on their spree of asset consolidation to continue building out their Digital Health infrastructure/ecosystems.

Risks:

1) **Execution Risk**: if execution lags relative to expectations, shares could underperform. Specifically, missing targets for customer adds or experiencing delays in revenue recognition related to large strategic partners (e.g. Sanofi). Other execution failures could include the loss of major customers.

2) **Market Risk**: This is a volatile micro-cap stock with a small market cap and lower levels of liquidity, although top holders have tended to be very sticky and partially explains the low float (tightly held).

3) **Financing Risk**: if management burns more cash than expected, there would be risk of equity dilution and/or debt financing. We believe this is a low risk at this point given accelerating revenue and margin inflection, reduced DTC segment spending, a healthy balance sheet securing them through at least 2024, as well as the expected addition of future cash infusions from new strategic partners.

Disclosures and Disclaimers:

1) We are long shares of DarioHealth (DRIO), Inc. We may also trade options on DRIO, both long and short.

2) We have no responsibility to update readers on our views, proprietary trading strategies, or to discuss positioning including the exit of our position(s). Reader takes full responsibility for their own trading strategies and related profits or losses. Our views are only applicable as of the timing of this publication.

3) Our investment research is based on our fundamental work and valuation analyses. Other investors may differ in their views versus those of Jaguar Capital. This document/report does not constitute any offer to buy or sell any security, interest in any security, or interest in any form of pooled investment vehicle.

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Appendix:

Revenue Build Summary:

DarioHealth, Inc.
Quarterly segment sales
($ in millions, except per share data)

	2021A FY	2022E FY	2023E FY	2024E FY	2025E FY	2026E FY	'22-'25 CAGR
Commercial (B2B2C)	0.851	19.040	53.000	84.800	127.200	178.080	88.3%
Y/Y growth	*NA*	*2,137.4%*	*178.4%*	*60.0%*	*50.0%*	*40.0%*	
Consumer (DTC)	19.662	11.146	7.800	7.000	6.000	5.000	(18.7%)
Y/Y growth	*NA*	*(43.3%)*	*(30.0%)*	*(10.3%)*	*(14.3%)*	*(16.7%)*	
Total Corporate Sales	**20.513**	**30.186**	**60.800**	**91.800**	**133.200**	**183.080**	64.0%
Y/Y growth	*170.8%*	*47.2%*	*101.4%*	*51.0%*	*45.1%*	*37.4%*	
Organic Growth	*170.8%*	*47.2%*	*101.4%*	*51.0%*	*45.1%*	*37.4%*	
Segment mix							
Commercial (B2B2C)	4.1%	63.1%	87.2%	92.4%	95.5%	97.3%	
Consumer (DTC)	95.9%	36.9%	12.8%	7.6%	4.5%	2.7%	

Source: Company reports; Jaguar Capital estimates.

Income Statement:

DarioHealth, Inc.
Quarterly Income Statement
($ in millions, except per share data)

	2019A	2020A	2021A					2022E					2023E					2024E	2025E	2026E	'22-'25
	FY	FY	1QA	2QA	3QA	4QA	FY	1QA	2QA	3QE	4QE	FY	1QE	2QE	3QE	4QE	FY	FY	FY	FY	CAGR
Commercial (B2B)			0.053	0.129	0.309	0.360	0.851	4.549	2.847	5.450	6.194	19.040	10.000	13.000	14.500	15.500	53.000	84.800	127.200	178.080	88.3%
Consumer (DTC)			3.542	5.132	5.320	5.668	19.662	3.510	3.336	2.100	2.200	11.146	1.800	2.000	2.000	2.000	7.800	7.000	6.000	5.000	(18.7%)
x **Net sales**	**2.242**	**7.576**	**3.595**	**5.261**	**5.629**	**6.028**	**20.513**	**8.059**	**6.183**	**7.550**	**8.394**	**30.186**	**11.800**	**15.000**	**16.500**	**17.500**	**60.800**	**91.800**	**133.200**	**183.080**	64.0%
Y/Y growth	*NA*	*237.9%*	*115.7%*	*194.4%*	*175.7%*	*189.8%*	*170.8%*	*124.2%*	*17.5%*	*34.1%*	*39.3%*	*47.2%*	*46.4%*	*142.6%*	*118.5%*	*108.5%*	*101.4%*	*51.0%*	*45.1%*	*37.4%*	
Cost of goods sold	0.000	5.063	1.988	3.033	3.097	4.326	12.444	3.142	3.951	3.378	3.398	13.869	4.460	5.300	5.460	5.585	20.805	23.556	29.640	35.554	
x **Gross profit**	**2.242**	**2.513**	**1.607**	**2.228**	**2.532**	**1.702**	**8.069**	**4.917**	**2.232**	**4.173**	**4.996**	**16.317**	**7.340**	**9.700**	**11.040**	**11.915**	**39.995**	**68.244**	**103.560**	**147.526**	
R&D	0.000	4.433	2.655	3.742	5.506	5.316	17.219	5.927	4.137	4.530	4.533	19.127	5.310	6.000	5.775	5.250	22.335	25.704	26.640	27.462	
S&M	0.000	15.227	7.132	9.648	10.696	12.230	39.706	9.535	9.297	8.305	7.974	35.111	8.850	10.800	10.725	10.850	41.225	45.900	46.620	51.262	
G&A	0.000	12.756	5.621	6.121	7.123	4.667	23.532	4.395	5.059	4.681	4.617	18.752	5.310	6.000	5.775	5.250	22.335	25.704	27.972	31.124	
x **EBITA**	**2.242**	**(29.903)**	**(13.801)**	**(17.283)**	**(20.793)**	**(20.511)**	**(72.388)**	**(14.940)**	**(16.261)**	**(13.344)**	**(12.128)**	**(56.672)**	**(12.130)**	**(13.100)**	**(11.235)**	**(9.435)**	**(45.900)**	**(29.064)**	**2.328**	**37.678**	
Interest expense (income)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.240	0.229	0.469	0.275	0.316	0.353	0.387	1.330	(0.022)	0.333	0.510	
Other expense (income)	0.000	(0.458)	0.639	(0.238)	(0.055)	(0.111)	0.235	0.044	0.672	0.000	0.000	0.716	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	
x **Pre-tax income**	**2.242**	**(29.445)**	**(14.440)**	**(17.045)**	**(20.738)**	**(20.400)**	**(72.623)**	**(14.984)**	**(16.933)**	**(13.584)**	**(12.357)**	**(57.858)**	**(12.405)**	**(13.416)**	**(11.588)**	**(9.822)**	**(47.230)**	**(29.042)**	**1.995**	**37.168**	
Tax rate	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*(0.2%)*	*(0.0%)*	*0.0%*	*(0.0%)*	*0.0%*	*0.0%*	*(0.0%)*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*20.0%*	*20.0%*	
Income taxes	0.000	0.000	0.000	0.000	0.000	0.032	0.032	0.000	0.001	0.000	0.000	0.001	0.000	0.000	0.000	0.000	0.000	0.000	0.399	7.434	
x **Net income**	**2.242**	**(29.445)**	**(14.440)**	**(17.045)**	**(20.738)**	**(20.432)**	**(72.655)**	**(14.984)**	**(16.934)**	**(13.584)**	**(12.357)**	**(57.859)**	**(12.405)**	**(13.416)**	**(11.588)**	**(9.822)**	**(47.230)**	**(29.042)**	**1.596**	**29.734**	
Fully diluted shares, post-split, post-IPO	96.5	6.0	14.0	15.7	16.5	20.2	16.6	19.6	22.4	23.0	23.6	22.2	23.6	24.2	24.8	25.4	24.5	26.0	27.5	29.0	
Earnings per share	**$0.02**	**($4.94)**	**($1.03)**	**($1.09)**	**($1.26)**	**($1.01)**	**($4.38)**	**($0.76)**	**($0.76)**	**($0.59)**	**($0.52)**	**($2.61)**	**($0.53)**	**($0.55)**	**($0.47)**	**($0.39)**	**($1.93)**	**($1.12)**	**$0.06**	**$1.02**	
Margins																					
x Gross profit	100.0%	33.2%	44.7%	42.3%	45.0%	28.2%	39.3%	61.0%	36.1%	55.3%	59.5%	54.1%	62.2%	64.7%	66.9%	68.1%	65.8%	74.3%	77.7%	80.6%	
R&D	0.0%	58.5%	73.9%	71.1%	97.8%	88.2%	83.9%	73.5%	66.9%	60.0%	54.0%	63.4%	45.0%	40.0%	35.0%	30.0%	36.7%	28.0%	20.0%	15.0%	
S&M	0.0%	201.0%	198.4%	183.4%	190.0%	202.9%	193.6%	118.3%	150.4%	110.0%	95.0%	116.3%	75.0%	72.0%	65.0%	62.0%	67.8%	50.0%	35.0%	28.0%	
G&A	0.0%	168.4%	156.4%	116.3%	126.5%	77.4%	114.7%	54.5%	81.8%	62.0%	55.0%	62.1%	45.0%	40.0%	35.0%	30.0%	36.7%	28.0%	21.0%	17.0%	
EBITA	100.0%	(394.7%)	(383.9%)	(328.5%)	(369.4%)	(340.3%)	(352.9%)	(185.4%)	(263.0%)	(176.7%)	(144.5%)	(187.7%)	(102.8%)	(87.3%)	(68.1%)	(53.9%)	(75.5%)	(31.7%)	1.7%	20.6%	
Pre-tax income	100.0%	(388.7%)	(401.7%)	(324.0%)	(368.4%)	(338.4%)	(354.0%)	(185.9%)	(273.9%)	(179.9%)	(147.2%)	(191.7%)	(105.1%)	(89.4%)	(70.2%)	(56.1%)	(77.7%)	(31.6%)	1.5%	20.3%	
Net income	100.0%	(388.7%)	(401.7%)	(324.0%)	(368.4%)	(339.0%)	(354.2%)	(185.9%)	(273.9%)	(179.9%)	(147.2%)	(191.7%)	(105.1%)	(89.4%)	(70.2%)	(56.1%)	(77.7%)	(31.6%)	1.2%	16.2%	
Y/Y Growth Rates																					
x Sales	NA	237.9%	115.7%	194.4%	175.7%	189.8%	170.8%	124.2%	17.5%	34.1%	39.3%	47.2%	46.4%	142.6%	118.5%	108.5%	101.4%	51.0%	45.1%	37.4%	
COGS	NA	NA	123.9%	163.5%	107.4%	182.6%	145.8%	58.0%	30.3%	9.1%	(21.4%)	11.4%	41.9%	34.1%	61.7%	64.4%	50.0%	13.2%	25.8%	20.0%	
Gross profit	NA	12.1%	106.3%	250.3%	361.2%	210.0%	221.1%	206.0%	0.2%	64.8%	193.5%	102.2%	49.3%	334.6%	164.6%	138.5%	145.1%	70.6%	51.7%	42.5%	
R&D	NA	NA	115.7%	353.6%	477.1%	273.6%	84.5%	123.2%	10.6%	(17.7%)	(14.7%)	11.1%	(10.4%)	45.0%	27.5%	15.8%	16.8%	15.1%	3.6%	3.1%	
S&M	NA	NA	74.3%	269.9%	194.3%	149.9%	288.4%	33.7%	(3.6%)	(22.4%)	(34.8%)	(11.6%)	(7.2%)	16.2%	29.1%	36.1%	17.4%	11.3%	1.6%	10.0%	
G&A	NA	NA	0.9%	361.6%	178.0%	41.6%	160.8%	(21.8%)	(17.4%)	(34.3%)	(1.1%)	(20.3%)	20.8%	18.6%	23.4%	13.7%	19.1%	15.1%	8.8%	11.3%	
EBITA	NA	(1,433.8%)	36.5%	319.2%	215.0%	126.3%	142.1%	8.3%	(5.9%)	(35.8%)	(40.9%)	(21.7%)	(18.8%)	(19.4%)	(15.8%)	(22.2%)	(19.0%)	(36.7%)	(108.0%)	1,518.5%	
Pre-tax income	NA	(1,413.3%)	46.0%	325.5%	216.6%	126.7%	146.6%	3.8%	(0.7%)	(34.5%)	(39.4%)	(20.3%)	(17.2%)	(20.8%)	(14.7%)	(20.5%)	(18.4%)	(38.5%)	(106.9%)	1,762.6%	
Net income	NA	(1,413.3%)	46.0%	325.5%	216.6%	127.1%	146.7%	3.8%	(0.7%)	(34.5%)	(39.5%)	(20.4%)	(17.2%)	(20.8%)	(14.7%)	(20.5%)	(18.4%)	(38.5%)	(105.5%)	1,762.6%	
EPS	NA	#########	(67.8%)	11.8%	40.8%	4.8%	(11.3%)	(25.8%)	(30.5%)	(53.1%)	(48.4%)	(40.4%)	(31.2%)	(26.7%)	(20.9%)	(26.1%)	(26.2%)	(42.1%)	(105.2%)	1,666.4%	
Other ratios																					
x Operating leverage	NA	(1,671.7%)	(79.2%)	124.8%	39.3%	(63.5%)	(28.7%)	(115.9%)	(23.4%)	(70.0%)	(80.1%)	(68.9%)	(65.2%)	(162.0%)	(134.3%)	(130.7%)	(120.4%)	(87.7%)	(153.1%)	1,481.0%	
Financial leverage	NA	20.4%	9.5%	6.3%	1.7%	0.5%	4.6%	(4.5%)	5.3%	1.3%	1.4%	1.4%	1.6%	(1.3%)	1.1%	1.7%	0.6%	(1.8%)	1.1%	244.2%	
Tax leverage	NA	0.0%	0.0%	0.0%	0.0%	0.4%	0.1%	0.0%	0.0%	0.0%	(0.1%)	(0.0%)	0.0%	(0.0%)	0.0%	0.0%	(0.0%)	0.0%	1.4%	0.0%	
Share leverage	NA	#########	(113.8%)	(313.7%)	(175.8%)	(122.3%)	(158.1%)	(29.6%)	(29.8%)	(18.6%)	(8.8%)	(20.1%)	(14.0%)	(5.9%)	(6.2%)	(5.6%)	(7.8%)	(3.5%)	0.3%	(96.3%)	
Earnings leverage	NA	#########	(183.5%)	(182.6%)	(134.8%)	(185.0%)	(182.1%)	(150.0%)	(48.0%)	(87.3%)	(87.6%)	(87.6%)	(77.7%)	(169.3%)	(139.4%)	(134.6%)	(127.6%)	(93.0%)	(150.3%)	1,628.9%	
Incremental EBITA	100.0%	(602.6%)	(191.2%)	(378.8%)	(395.6%)	(289.9%)	(328.4%)	(25.5%)	110.8%	387.8%	354.3%	162.5%	75.1%	35.9%	23.6%	29.6%	35.2%	54.3%	75.8%	70.9%	

Source: Company reports; Jaguar Capital estimates.