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DMTK.OQ - Q4 2022 DermTech Inc Earnings Call

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**Kevin Sun** *DermTech, Inc. - CFO*

## CONFERENCE CALL PARTICIPANTS

**Thomas Flaten** *Lake Street Capital Markets - Analyst*

**Mark Massaro** *BITG - Analyst*

**François Brisebois** *Oppenheimer - Analyst*

**Andrew Brackmann** *William Blair - Analyst*

## PRESENTATION

### Operator

Good day and thank you for standing by. Welcome to DermTech's fourth-quarter 2022 financial results conference call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Steve Kunszabo, Head of Investor Relations.

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**Steve Kunszabo** - *DermTech, Inc. - Senior Director, IR*

Thank you. Welcome to DermTech's fourth-quarter 2022 earnings call. Joining me on today's call are Dr. John Dobak, our President and Chief Executive Officer; and Kevin Sun, our Chief Financial Officer.

Our call today will include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements made on this call that do not relate to matters of historical fact are considered forward-looking statements, including projections of future performance based on management's expectations as of today, and are subject to various factors, assumptions, risks, and uncertainties, which change over time.

Actual results could differ materially from those described in such statements. Several factors that may contribute to or cause such differences are described in today's press release and our most recent filings with the SEC. We undertake no obligation to update these statements, except as required by applicable law. Our fourth-quarter 2022 earnings press release and SEC filings are available on our Investor Relations website. Recording and transcript of today's call will be available on our website later today.

And with that, let me turn things over to John.

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**John Dobak** - *DermTech, Inc. - President and CEO*

Thank you, Steve, and thank you, everybody, for joining us. When we were last together in early November, I shared that our capital and energy was focused on two important priorities: expanding coverage of our DermTech Melanoma Test or DMT; and alleviating payer friction in our commercial channel. We've steadily advanced against these objectives and 2023 is off to a great start.

In the last few months, we've expanded our coverage footprint from 91 million lives to 124 million lives, a 36% increase. And again, that is roughly equivalent to bringing on the second largest national commercial insurance provider.

Billable sample volume in the fourth quarter grew 48% to approximately 17,460 tests versus last year. Billable sample volume was solid overall, and we expected a modest sequential decline primarily due to seasonal impacts and lingering pressure from commercial payers that hindered increasing usage. We believe that payer friction may be starting to ease slightly. And based on the trends we've observed thus far this year, we expect mid-single digit sequential growth in test volumes in the first quarter.

Overall, the steps we've taken to stabilize our average selling price or ASP, for current volume, including a greater focus on generating covered billable samples, seem to be showing positive signs. We are pleased to report normalized fourth-quarter ASP of \$239 for the DMT, which is sequentially higher. But we still expect variability going forward, primarily due to fluctuating payments from non-contracted commercial payers. Nonetheless, all this points to monetizing existing demand in the quarters ahead.

We continue to believe the most effective step we can take to accelerate top line momentum is to bring on more commercial payers, to grow ASP, and to remove barriers that increased customer usage, it is still all about the payers and will be throughout 2023. We achieved our first major goal we set adding 30 million to 40 million covered lives by the end of the first quarter of 2023. Specifically, our coverage footprint expanded by 33 million lives in the past three months. And the gains came from a broad mix of regional payers, policies stemming from the second largest lab benefits manager in the US, and its relationship with health plans, and two national government payers.

Importantly, we now have six of the top 10 largest Blues plans in the country, providing access to our test. We also have visibility into adding more covered lives from other regional payers. Our recent momentum demonstrates that certain payers recognize the DMT test results are clinically meaningful and actionable, improved patient care, and reduce health care costs. Overall, pricing for the coverage we've recently added remains in line with our long-term targets.

We remain closely engaged with four national payers and are on track for scheduled comprehensive year reviews throughout 2023. We believe these meetings could lead to coverage that would ultimately increase ASP and revenue. It's important to remember that in all cases where we are awarded coverage, the financial benefit could be delayed one to two quarters or more as additional administrative contracting and billing steps need to be taken by both parties. Overall, we are pleased with the recent progress we've made to expand coverage for the DMT. We have more work to do and bring on at least one national payer in 2023 is at the top of our priority list.

The National Comprehensive Cancer Network or NCCN also recognizes that our technology may aid healthcare providers in identifying at-risk lesions for biopsy and surveilling potential melanoma. For the third consecutive year, our technology is included in the guidelines with a 2A recommendation. In a recent update to its guidelines, the NCCN strengthened its recommendation for using the DMT in guiding patient care decisions. We also recently held our national sales meeting. It's always a great event that reinvigorates the entire commercial organization.

This year, we emphasized the DMT's clinical value proposition and an enhanced customer service experience, including electronic ordering of our test, regional billing, concierge services, and health care provider training programs. Importantly, our sales effort is structured to pull through test volumes in geographies where we recently picked up coverage.

In addition, we initiated our TRUST 2 study in 2022. This study is prospectively designed to follow a cohort of approximately 3,000 patients with negatively tested lesions for up to one year. This study also assesses the histopathologic diagnosis of up to 1,000 lesions that tested positive with the DMT and includes analysis of the TERT add-on test. We expect to release top line results in the second half of 2023 to provide additional evidence in support of our payer discussions.

Finally, we continue to see incremental progress from our targeted programs in primary care. Our agreement with Sonora Quest, a reference laboratory partnership between Banner Health, the largest primary care network in Arizona, and Quest Laboratories continues to ramp up. We received unanimous approval from Banner Health's medical review team to incorporate the DMT into their melanoma care pathway. Sonora Quest is now working to complete electronic medical records or EMR integration and is training staff at Banner clinics throughout Arizona. We expect this work to be completed in the next couple of months.

We are also expanding our pilot with an important payer provider IDN due to the initial success of this arrangement. We continue to believe the primary care segment represents a significant market opportunity for our technology. We'll continue to look for ways this year to increase access to this channel through additional distribution and reference lab arrangements.

With that, I'll turn the call over to Kevin for a more detailed financial review and then wrap up with a few closing thoughts on my transition that was announced today and why patients are at the heart of everything we do.

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**Kevin Sun** - *DermTech, Inc. - CFO*

Thanks, John, and good afternoon, everyone. I'll start by recapping key financial and operating metrics for the fourth quarter and full year, then outline how we're thinking about 2023 top line growth.

I'll finish by covering our liquidity profile and cash runway targets. Billable sample volumes were up 48% year over year for the fourth quarter to 17,460 and up 53% year over year for 2022 to 68,230. Assay revenue in the fourth quarter decreased 9% to \$2.7 million, largely due to a \$1.5 million of downward revenue adjustment due to changes in collection estimates for samples reported in prior periods.

Full-year 2022 assay revenue increased 25% to \$13.8 million, which included \$1.8 million of net downward prior-period adjustments. Contract revenue was \$0.3 million during the fourth quarter, up from \$0.2 million in the year-ago period. The fourth quarter benefited from the recognition of deferred revenue upon completion of several contracts. Total revenue for the fourth quarter fell 5% year over year to \$3.0 million, primarily on lower assay revenue. Total revenue for the full year 2022 was up 23% year over year to \$14.5 million primarily due to higher assay revenue.

Looking more closely at our fundamental assay revenue drivers. First, ASP was \$154 per sample in the fourth quarter, down 39% year over year and 19% on a sequential basis. Medicare ASPs continue to trend higher due to last year's code edit update. Non-contracted commercial payers continue to reduce their payment rates leading to the downward adjustment for the quarter. Normalizing for these adjustments in both periods, fourth-quarter ASP would have been \$239, up approximately 10% sequentially.

Second, we had approximately 2,420 unique ordering clinicians in the fourth quarter, up slightly from the prior quarter. With approximately 4,110 unique ordering clinicians during the last 12 months, we penetrated 46% of our current target market of 9,000 dermatology clinicians.

Third, our average quarterly utilization or average number of tests ordered per unique ordering clinician was 7.2 billable samples in the fourth quarter versus 7.5 in Q3 and 6.5 in the year-ago period. Finally, Medicare samples represented about 24% of our billable samples in the fourth quarter, which was unchanged as a percentage from the third quarter and up modestly from 23% last year. We continue to evaluate and implement tactics to bolster penetration of this large market segment, which represents about half of the annual total biopsies for melanoma.

Focusing next on operating expenses. Cost of assay revenue was \$3.3 million, a 9% year-over-year increase, yielding an assay gross margin of negative 22%. The increase in cost of assay revenue was primarily due to increased demand. The reduction in assay gross margin from negative 1% in the year-ago period was primarily the result of lower ASP.

Sales and marketing expenses were \$13.6 million during the fourth quarter, a 2% year-over-year increase, largely resulting from higher employee-related costs and marketing expenditures. Research and development expenses were \$5.1 million, a 15% decrease from the year-ago period, primarily due to lower lab and clinical study costs.

General and administrative expenses were \$9.8 million, 37% higher compared to the fourth quarter of 2021. The increase was driven by higher infrastructure costs for our new building and increased employee related costs.

As a result of our continued focus on operational efficiency, we expect total cash operating expenses will be slightly down for 2023, despite planned volume growth. Net loss for the fourth quarter was \$28.2 million, which included \$5.3 million in non-cash stock-based compensation expense compared to a net loss of \$26.1 million for the same period of 2021, which included \$3.8 million of non-cash stock-based compensation expense.

Moving now to our 2023 outlook. The commercial headwinds we faced during the last several months have improved, and we're working our way through payer friction that could continue to suppress billable sample volumes and ASP in the near term. We expect to steadily grow DMT volumes during 2023, but ASP is difficult to forecast due to potential delayed positive impact of recent coverage wins and potential reduced non-contracted commercial payments. As a result, we're not providing revenue guidance until we have better visibility on ASP trends.

And lastly, a view of our liquidity profile and balance sheet. At year end, we had cash, cash equivalents, restricted cash, and marketable securities of \$129.8 million. Based on our fourth quarter expenses and expected additional operating efficiencies, we believe we have sufficient funds along with the ability to access capital for cash runway through the third quarter of 2024, or more than 18 months from today.

Now I'll turn the call back to John.

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**John Dobak** - DermTech, Inc. - President and CEO

Thanks, Kevin. As we mentioned today, I am transitioning from my role as DermTech CEO. After 11 years leading this great company, it's the right time. When I look out nine to 12 months at the leadership needs for DermTech, I believe a CEO with a strong background in scaling around a large commercial opportunity will be an ideal fit. We have achieved significant adoption, broad payer coverage with a deep pipeline of additional payer opportunities and built out the infrastructure for scale to capture the tremendous opportunity in front of us.

I remain fully committed to DermTech until a successor is found that can build on my vision to transform dermatologic care for our non-invasive genomics platform. I am grateful for the dedication and perseverance of my team and all the hard work they put in to build a strong foundation for our long-term success. I'm reminded by patients and physicians almost daily why it's important that we succeed as we are potentially saving lives and changing the way melanoma is detected and treated.

With that, I'll share an especially powerful patient story that encapsulates why I have led this company for the past 11 years. One of our patients had a large scar from a previous excisional surgery on a pigmented lesion that ended up being benign, and they therefore refused a biopsy on a different suspicious pigmented lesion.

As a result, she was referred to a different dermatologist office that used our technology. The new physician administered the DMT, which came back positive and was further confirmed through histopathology as early-stage melanoma. While the patient unfortunately was diagnosed with melanoma, she can be effectively cured with a wide excision because it was caught early. If our technology wasn't available and she neglected to have the lesion assessed, this positive outcome may not have occurred. This is a great example of how our non-invasive test was able to accurately inform physician decision making and improve patient care.

With that, I'll turn things back to the operator for Q&A.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Thomas Flaten, Lake Street Capital Markets.

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**Thomas Flaten** - Lake Street Capital Markets - Analyst

Great. Thanks for taking the questions, and thanks, John, for everything and best wishes going forward.

Kevin, I was just hoping maybe you could provide a little bit of extra help on stretching the cash runway out. It seems that it would either require a pretty significant gap up in revenues or a significant gap down in expenses to give you the full seven quarters. From a burn perspective, you're down at, call it, \$18 million a quarter versus what you've been burning in the past. Any additional guidance you could provide to us there?

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**Kevin Sun** - *DermTech, Inc. - CFO*

Yeah. We're committed to finding additional cost savings throughout the year and monetizing our healthy demand. We do expect the recent payer wins to improve ASPs and we've demonstrated that we can support higher volumes through improved efficiency and reduced expenses, even with our already highly efficient operation. We may deploy the ATM opportunistically in the future upon catalysts and if market conditions are favorable, while being mindful of the cost of capital in this environment.

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**Thomas Flaten** - *Lake Street Capital Markets - Analyst*

And I know it's only been a couple of months since you guys had the early January announcements about new payer wins. Anything you can share with us with respect to integration, bringing those up to speed kind of looking forward to when we might be able to see those monetized in the revenue stream?

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**Kevin Sun** - *DermTech, Inc. - CFO*

Yeah. As we mentioned in the prepared remarks, it does take at least one to two quarters or possibly longer to see that benefit. As of thus far, we have seen little benefit so far. We do expect that the different payers coming on board will help us and provide benefit of different patterns. And if we're going to give the specifics, we believe the TRICARE agreement will probably help the most, but we've already known that it will take a few months for them to update some of their policy manuals before we can get paid on a routine basis.

Outside of that one, and I'd say the Louisiana contract is the one that will -- is already starting to see some benefit. And again, we had some healthy volumes from that territory, and it was growing nicely, too. So those are the two that are probably have the most immediate impact.

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**Thomas Flaten** - *Lake Street Capital Markets - Analyst*

Great. And just one final one. The Medicare percentage of revenue seems to be stubbornly stuck at 24%. Is there any way of incentivizing or driving the sales reps towards I'm trying to push for more Medicare volume. I'm sure you've already thought of that, but I'm just curious kind of what's happening on the field level to increase that penetration?

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**John Dobak** - *DermTech, Inc. - President and CEO*

Yeah. This has always been a challenge, Tom, as we've always talked about, and we also ask ourselves why it's been stuck at that. I would just note that as our total volume increases, even though it's at 24%, the absolute number of samples that come from Medicare has been growing nicely. We do provide incentive for our sales force to drive covered billable samples, and that would include Medicare. So we're doing all the things and we're continuing to try a lot of different things to drive that percentage higher. It is a bit of a conundrum, but we're still -- it's part of our top priorities, driving more Medicare proportion and we'll eventually hit on one of these things that really works.

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**Thomas Flaten** - *Lake Street Capital Markets - Analyst*

Appreciate it. Thanks, guys.

**Operator**

Max Masucci, Cowen.

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**Unidentified Analyst**

Hi, this is Stephanie on for Max. Thanks for taking my question, and congrats John, on the long tenure as CEO. So for my first question, I was just curious, so on your Q3 call, you indicated that you have to update the Medicare code edit that was implemented at the beginning of October, and was back dated to early 2020 when the Medicare LCD went effective.

So I just wanted to make sure, have all your Medicare challenges been resolved at this point? And were you able to appeal and recapture any of the commercial payer revenues that were also affected by the code edit?

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**Kevin Sun - DermTech, Inc. - CFO**

Yeah. I'd say many of the Medicare challenges have been resolved with the code edit, if there is a claim that comes in with three or more samples on the same data service, the entire claim is still denied. We do have to appeal that claim, and we do still have a very good track record of overturning those appeals when we got medical records. It just extends our runway of the cash coming in the door.

In terms of the commercial payers, we still haven't seen a lot of benefit from that code edit in terms of being able to appeal prior claims that had more than the one body site being denied. So it's something that we continue to work on.

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**Unidentified Analyst**

Got it. Thanks for that clarification. And then any update you can provide on your progress in conversations with national commercial payers. So I know you recently secured payer wins with Blue Cross Blue Shield plans that are part of the Avalon lab benefit manager, which also has a partnership with Optum. Does this, in any way, help your conversations with national commercial payers?

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**John Dobak - DermTech, Inc. - President and CEO**

Yes. We -- look, we've had very comprehensive meetings and submitted full dossiers to all the national payers in the last three to four months. They've all committed to giving us a comprehensive review this year. We tried to pin them down on exactly when that review is going to occur. They don't really give us the exact date, but we do feel like we're in the best shape ever to try to get a national payer in here.

We like the way the conversations have been going, the tone of those conversations. I think we've gotten through all the steps of what does this technology do. Does it really solve a problem? Do I have a problem that needs to be solved? All those things I think we put behind us. They recognize that this is really a valuable technology. And so we're looking forward to some success on that front this year.

I just -- we just don't know the exact timing because they never tell you exactly when they're going to pick it up unfortunately. We tried to get it out them, but we have submitted them, have very thorough discussions, multiple champions within different payers to try to drive success of those national payers. So I feel like we're teed up as best as we could for the year going forward.

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**Unidentified Analyst**

Got it. Understood. Thanks for that color. And then if I can squeeze in one more quick one. So you now estimate that you have cash runway through Q3 '24. Can you just remind us what are -- from the changes to the operational efficiencies that you're making to extend the runway? Is there like any specific initiatives that have changed since last quarter that allows you to extend your cash runway?

**Kevin Sun** - *DermTech, Inc. - CFO*

We just continue to look for ways to reduce discretionary spend categories. We've delayed many planned hires and we are working to sublease extra space in our new headquarters building, since we haven't grown as quickly as originally thought two years ago when we first were identifying the building. And we also continue to only make limited targeted investments in our pipeline. We don't expect to move forward with broad commercialization activity for any new products until we see improvement in our ISP for melanoma test.

**Unidentified Analyst**

Got it. Understood. Thanks so much for taking all my questions.

**John Dobak** - *DermTech, Inc. - President and CEO*

Thank you for.

**Operator**

Mark Massaro, BTIG.

**Mark Massaro** - *BITG - Analyst*

Hey, guys. Thanks for taking the questions. John, you'll be missed, but look forward to working with you for the remaining several months that you're at the helm. I guess, yeah, I'd love to ask about the volumes in Q4. They were down 3% sequentially. I know on the Q3 call, you guys called out seasonality, holiday impact, fewer working days. Was that, in your opinion, do you think that was probably what caused the slight dip sequentially? And then maybe just -- can you clarify, I think you talked about mid-single digit growth quarter over quarter in Q1. Just confirming that that's on volumes and perhaps revenue. Maybe could you clarify that?

**John Dobak** - *DermTech, Inc. - President and CEO*

Yeah. That's really on volumes. We had some hangover from the payer friction early in the year, but I would say now, we have a very healthy selling environment. Now we've really figured how to address all the sort of -- I refer to it as payer hazing that sort of the redirection notices that the payers tend to send our customers. We figure out how to address that and turned into a positive, and we're really working through that. So I think the environment's gotten better. So we do see the volumes now starting to pick up and we do expect to grow this quarter. We thought we knew that the fourth quarter was going to be a little bit softer. We just seen that.

Dermatology is a specialty where around holiday periods they take a lot of time off, and we have to anticipate that. We still had our maximum interference from payers during that time period. So that probably added it to it. But that's just kind of what we see with our business around the holidays. Derms will take off the entire last two weeks of the quarter in many cases. And so those are things that we have to plan for and that's what we thought, and we anticipated that. So we're actually pretty happy with where we wound up, given the things that we are seeing, and we knew that seasonality that was approaching.

**Mark Massaro** - *BITG - Analyst*

Yeah, that makes sense. And then, Kevin, on the guidance, I know for 2022 volumes were pretty solid, up 53% year over year. I know, for 2023, you're not initiating full-year guidance. But is it reasonable to think that you could potentially repeat somewhere in the magnitude of 40% to 50%



volume growth in 2023. I guess what I'm asking is, are there any changes to the underlying environment, whether it's commercial or, you know, your intention to commit to investing in commercial this year that would impact the volume trajectory in 2023?

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**Kevin Sun** - *DermTech, Inc. - CFO*

As we mentioned in our prepared remarks, we do expect that mid-single digit sequential growth in volumes for Q1. But given the uncertainty when the payer pressure on the demand fully decreases, fully subsides, we're just not going to provide any additional guidance on future periods beyond that until we have some reliable trends.

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**Mark Massaro** - *BITG - Analyst*

Makes sense. And then can you guys speak to your R&D pipeline and any changes there? I know perhaps you may put on pause one of the programs, but just give us a sense for an update with respect to where that program stands and your commitment to continue to advance that product?

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**John Dobak** - *DermTech, Inc. - President and CEO*

And you are you asking about the Luminate product?

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**Mark Massaro** - *BITG - Analyst*

Yeah. Luminate.

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**John Dobak** - *DermTech, Inc. - President and CEO*

Yeah. So that product we've -- in general, as Kevin mentioned, we slowed all the things down. We're continuing to progress those programs but at a slower pace. We saw some -- obviously, we saw some improvement in R&D spend. The Luminate product actually works fantastically well. It's been pretty much validated and can demonstrate that it shows picking up patients that have an increased risk for skin cancer. So we're excited about the product, but we aren't going to do anything major from a product introduction.

We will pilot that. We want to get some of the selling metrics around that. It's already incorporated into our budget and our plans for a reduced spend this year. So we will do some test piloting of that in the middle of this year. We're excited about it. I mean, it really works phenomenally well. We were -- we're exceeded our expectations on how well the product works.

And so we're excited to sort of test it out. But we're not -- we're going to -- it's going to be controlled. But until the environment improves, we've got to be very cost-conscious. We can't be excessive with a big product launch. We're going to just test it out, get some of the metrics and then form our planning going forward with that product.

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**Mark Massaro** - *BITG - Analyst*

Got it. And then, what are --

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**John Dobak** - *DermTech, Inc. - President and CEO*

The other products, we're making progress. Go ahead.

**Mark Massaro** - *BITG - Analyst*

Awesome. Awesome. Thank you for that. John, I have received a couple of questions from investors. Really, I know you addressed it in the prepared remarks but perhaps another executive can come in with maybe some more commercial acumen, if you will. But you've done a pretty good job driving strong volume growth. I guess, can you maybe elaborate as to why now is the right time to -- after 11 years at DermTech, to move on?

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**John Dobak** - *DermTech, Inc. - President and CEO*

Sure. It's never easy. These transitions and the timing has always, always seems difficult, but this is really just about long-term planning, and my job right now is to anticipate the needs of the company looking out nine to 12 months. And if I look at where we are going to be with payers, with the commercial progress, with the infrastructure that we have, it's going to be the perfect fine -- fit time to find someone that's got that leader that's adept at scaling around a very large commercial opportunity. I've always said I'm a company creator and a builder. That's my skill set. And I think the next phase of growth can be driven by someone with a different skill set.

That's really it. I mean, it's an unselfish move. I just feel like it's in the best interest for DermTech. And it looks funny the timing maybe now. But when you look -- it's going to take six months. We don't want to be rushed with it. Six to nine months, and we'll give ourselves plenty of time to find the best person at that point, where we are in our growth rate is going to make sense to everybody.

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**Operator**

François Brisebois, Oppenheimer.

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**François Brisebois** - *Oppenheimer - Analyst*

Hi. Thanks for taking the question and congrats, John, on the long tenure here. So I think just -- I was just wondering, in terms of the national payers, can you just maybe discuss there's been a lot of wins on the regional side, but what a win this year from one national payer would do and how it would impact the business? And then is there any correlation between -- it seems like you've already proposed that to the payers, but can you discuss maybe TRUST 2 and the readout and what that can do for reimbursement?

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**John Dobak** - *DermTech, Inc. - President and CEO*

So is your first question around the impact of the ASP that the national payer would have, is that what you're asking?

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**François Brisebois** - *Oppenheimer - Analyst*

Yes.

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**John Dobak** - *DermTech, Inc. - President and CEO*

Yeah. It's going to be a very meaningful impact. We can't -- we have never quantified that, but it will be a very meaningful impact. I think that's just the best to leave it there. We don't want to get out in front of those things, as we said, until we see the numbers, but it would have a meaningful impact. And that's why it's very important to us to get those national payers.

In terms of the TRUST 2 study, we think this is going to be a great study. We did the TRUST 1. The TRUST 1 had a component of a prospective element with that had about 300 patients that were prospectively followed. But this study is going to be much larger, 3,000 patients prospectively followed for up to a year. That's really tells you what's going on with the pigmented lesion, and if there's melanoma, and by following it to see if it changes.

And so that's what we're doing in that study. It would be a very robust dataset. We'll also have a very big dataset on positive cases. And we think it's just a good follow-up study to the TRUST 1, much larger. And it's just going to add to our tremendous database of publications and evidence that says this test is very important, does what it's supposed to do. We're excited to get it done and announce the top line results in the back half of the year.

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**François Brisebois** - *Oppenheimer - Analyst*

Okay, great. And is there maybe a clear impact correlation here on the impact it would have on reimbursement or?

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**John Dobak** - *DermTech, Inc. - President and CEO*

Well, I think payers always love more evidence, right? And it's always important to be putting out evidence, so do doctors. So we have a few publications that should be coming out here on some smaller studies that we've done in 2022. But this is really the biggest effort we took in 2022 to start was around this long-term TRUST 2 study. I just -- we always believe it's important to generate data. Payers love more data. If there are some that are still on the fence, I think this study is going to do a lot to push them over. And so we just want to get it done and add to that tremendous database that we have.

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**François Brisebois** - *Oppenheimer - Analyst*

Okay, great. And then in terms of penetration of the docs, you mentioned 46% penetration. Where would you like to end up or what would you think would be reasonable in terms of the peak penetration of the doctors?

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**Kevin Sun** - *DermTech, Inc. - CFO*

Well, I think if you look at any kind of technology through there getting heavy levels of penetration, more than half would be ideal. As we noted, we've only targeted the first 9,000 doctors based on efficiency of scaling and sizing the sales force appropriately for the best bang for the buck.

Once we talk about expanding beyond the 9,000 to the full 11,000 doctors, it's more investment to get the entire reach of it. But I would say we would target whatever a good penetration for a typical dermatology or genomics types products are. And again, I would estimate that to be more than half of those doctors.

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**François Brisebois** - *Oppenheimer - Analyst*

Okay, great. Thanks. And then just lastly, when you mentioned that you believe the payer friction is easing, can you just maybe give us a little color as to what you base that statement on?

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**John Dobak** - *DermTech, Inc. - President and CEO*

Well, so one, we've been able to get out in front when they're sending redirection letters and explain to our customers what that means. And we actually turned the customer into an ally of ours and help us go back to those plans that send those letters. And so we've turned that around and we're out in front of that now and the sales reps know to be on the lookout for any of those things. And so we've seen that dropping off. We haven't seen as much of that in this quarter. We've been able to get some of the folks that got those letters and kind of shut down. We've got them back on track.

The other thing we've done is EMR integration. So one of the challenges that payers are doing that creates friction is they require medical records even for the first claim submission. So we've now done some technology integration where instead of us having to go have the doctor pull records and provide them to us, it is going to be done seamlessly electronically with our EMR integrations.

We've got a tremendous scale up in the EMR integrations with our customers and we have that functionality that will now be added in and we can just pull those records without having to have put a lot of burden and administrative pain on the customer. We think that's going to be important. And so we're excited about those opportunities that reduce that friction.

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**François Brisebois** - *Oppenheimer - Analyst*

Thank you.

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**Operator**

Alex Nowak, Craig-Hallum Capital Group.

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**Unidentified Analyst**

All right. Great. Good afternoon, everyone. This is Connor on for Alex. Let me first, John, appreciate the color on what we're looking for in the next leader of DermTech kind of looking for somebody with a different set of skills. I wanted to just follow on that a little more. I mean, what sort of individual is needed to really take DermTech to the next level?

And I mean, is this primarily an external search or has there been an effort to build out an internal bench?

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**John Dobak** - *DermTech, Inc. - President and CEO*

So we have not started the process. We're going to be spending in the next few weeks to really kind of scope out what that job description looks like and figure out how we're going to source candidates. Like I said, we don't want this to be rushed. We're announcing it now so it gives us the time, and we don't feel like it's rushed sometime in the future. And we'll build out that description for the ideal candidate.

But I think, we have a huge opportunity with the melanoma test. And clearly, somebody who has brought that kind of scale to commercial opportunity like we have is going to be important, along with public company experience and things like that. So, those are some of the things. But we'll scope that out in the coming weeks and we'll get started on it and work through it. I'll be here. I'm not looking to leave until that person is identified, and we'll take as long as it takes and to get it done.

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**Unidentified Analyst**

Got it. That makes perfect sense. And then maybe -- I mean, I understand the cadence of reimbursement timing is hard to predict. And I won't ask you to give a specific impact. But I mean, just from the comments on the call, like the small regional payer wins and the TRICARE win over the last few weeks. It was mentioned that this kind of addition to covered lives is similar to adding the second largest national payer. And then it was also mentioned that adding a national payer would have a meaningful impact to ASPs.

So I mean, is it reasonable to think that ASPs can potentially reverse course in maybe second half '23 or early into '24?

**John Dobak** - *DermTech, Inc. - President and CEO*

Look, I think we're already seeing it. That's why we talk about it. If you look at the intra-quarter ASP for the up-to-date accruals for the fourth quarter, it was -- almost \$240. And that's our peak, I think. In prior the quarters is around \$250, \$255. So I think it's already happening. Now we need to see. We need to really confirm that. And we could still see some erosion with the current non-contracted payers. But I like what we're seeing now.

I think the worst of it is behind us. The low ASP is just because we have all those prior period write-downs. We believe we flushed the majority of those through, but we'll have to see. We just got to see what's happening. That's why we don't want to give guidance because we've got to see what's happening to make sure things have stabilized. We believe that's happening and we'll know more in the next quarter.

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**Unidentified Analyst**

Okay. Got it. Thank you for the update.

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**Operator**

(Operator Instructions) Andrew Brackmann, William Blair.

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**Andrew Brackmann** - *William Blair - Analyst*

Hey, guys. Thanks for sneaking me in, John. Certainly, I've got the sentiment here on what you've built. A lot has been asked, but John, I think you called out in your script the NCCN improvement sort of building throughout 2022. Can you sort of just level set us on that specifically and how you're -- how that's helping you in the field? Thanks.

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**John Dobak** - *DermTech, Inc. - President and CEO*

Well, I mean, the NCCN has continued to improve that guideline they issued several years ago. What they did this year is they said that our test was useful in dermoscopically suspicious lesions. We think that's an important improvement because if you read some policies out there, where they have a negative or an ENI-type policy, they'll say, well, we're not sure how much the DermTech melanoma test adds over dermoscopy. But NCCN now is basically saying that this does help even in a dermoscopically suspicious lesions.

So we think that's a good addition and a good improvement to the language of our NCCN guidance. It's a 2A recommendation. That means it's a unanimous -- by the 21 members on the panel unanimously are proving that language. There's only one rung higher, which is a 1. Very few technologies get a 1. So we're very pleased with the progress we've made with the NCCN and their continued endorsement of the test.

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**Andrew Brackmann** - *William Blair - Analyst*

Okay. Thanks for that. And then, Kevin, maybe one for you. I think I got the comments on spending for the year, but I may have missed any comments around pacing of that spend. Anything we should consider there on the OpEx line? Thanks.

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**Kevin Sun** - *DermTech, Inc. - CFO*

No, no. I think we look at the run rate that we're exiting Q4. And in Q4, we already demonstrated some cost-saving initiatives and being able to reduce OpEx. We continue to take that mindset going forward. We do have our plans for 2023 already settled, but we'll continue to look for more savings beyond those plans.

**Andrew Brackmann** - *William Blair - Analyst*

Got it. Thanks, guys.

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**Operator**

Mason Carrico, Stephens.

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**Unidentified Analyst**

Hey, guys. This is Jacob on for Mason. Lot's been covered here, so 'll just ask a couple of quick ones. Following up on the improvement to the NCCN recommendation for the DMT, with having discussions with private payers, did it seem like that was something that could be key to bringing on more of those payers that are, in the sense, on board?

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**John Dobak** - *DermTech, Inc. - President and CEO*

Yeah. We believe so. We think it's important. And when you follow the three-year history of that improving recommendation, we think that's very impactful, and we make sure that that's in front of the payers. So we're going to use that. You can't get a better endorsement from that than from the NCCN. So it's got to hold well. We know it does, and we think it's going to be helpful, for sure.

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**Unidentified Analyst**

Okay. Got it. And then could you just update us on utilization trends for clinicians utilizing your tests? Have you seen stability in your mix for three or more tests per patient visit? Or has that trended higher recently? Thanks.

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**Kevin Sun** - *DermTech, Inc. - CFO*

Yes. we've seen some stabilization in that. And so the pressures that come with that is subsiding. And then when we look at the broader buckets, we saw a little bit of a decrease in the average utilization, as we had mentioned in the fourth quarter sequentially. And again, we think that's also due to the payer friction, right?

So a physician has difficulty scaling up and increasing usage when there's more and more requests for medical records for each test that they're running. So as we implement those EMR integrations, and as we've figured out the right, appropriate way to respond to the redirection letters, we think that friction will go down and will lead to increased utilization in coming quarters.

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**Operator**

Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect.

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