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PRESENTATION

Operator

Good day. My name is Chantel, and I'll be your conference operator today. At this time, I would like to welcome everyone to the DermTech Second Quarter 2022 Financial Results Conference Call.

As a reminder, today's conference call is being recorded. (Operator Instructions)

Steve Kunszabo, Head of Investor Relations, you may begin.

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

Thank you, Operator. Welcome to DermTech's Second 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.

Forward-looking statements made during this call, including projections of future performance, are 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 these 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 second quarter 2022 earnings press release and SEC filings are available on our Investor Relations website.

A recording of today's call will be available on our website later this afternoon.

With that, let me turn things over to John.

John D. Dobak - *DermTech, Inc. - President, CEO & Director*

Thank you, Steve, and thank you, everyone, for joining us. We have a lot of ground to cover today, as we reported our second quarter 2022 financial results, updated our full year outlook for assay revenue and announced some capital structure items related to our balance sheet. I'm going to jump right in to highlight key commercial trends and outline what we expect from the second half of 2022 for top line growth. I will also touch on steps we are taking to further strengthen our cash runway.

The second quarter of 2022 saw us post records across a range of core operating metrics as our sales and marketing team continued to be effective in driving adoption of our DermTech Melanoma Test, or DMT. We reported 56% year-over-year sample volume growth to approximately 18,320 and a [67%] increase in unique ordering clinicians to approximately 2,390, despite elevated sales rep turnover of 15% to 20% in a competitive labor market. Along the way, in the second quarter we set high marks for daily, weekly and monthly billable sample volumes multiple times.

We also sharpened our focus through an extensive budget and operations review during the last few months, which resulted in essentially flat total operating expenses when compared to the first quarter. In addition, we streamlined our laboratory processes, which reduced the per-unit cost for our DermTech Melanoma Test by 28%, to $177 per test in the second quarter from $246 per test in the first quarter.

Overall, the strong execution of our commercial team and operating discipline is producing excellent results.

On our last earnings call, we noted that we were considering a small contract sales team to better understand the adoption potential and required investment for the DMT in the primary care space. We've since paused this initiative in favor of other potentially more efficient options.

First, we've entered into an agreement with Sonora Quest for primary care distribution in Arizona. Sonora Quest is the largest laboratory testing network in Arizona and serves more than 33,000 patients every day throughout the state. Our agreement establishes a reference testing model where Sonora Quest bills insurance for the samples they generate and pays us a set fee per sample. All testing will occur in our San Diego lab.

Arrangements such as these provide good economics for extending our reach in key markets such as primary care, while also lowering our capital commitment compared to expanding with a direct sales force.

Second, our established integrated delivery network, or IDN, programs in both Florida and the Midwest are seeing steady traction, but it's been moving more slowly than we anticipated, in large part related to lingering COVID impacts.

We also recently kicked off a new pilot program with an important payer/provider IDN to further expand our strategic approach to primary care. These types of pilot programs can provide key market insights across different commercial use cases, and we believe our targeted strategy to address the primary care market is the right course of action.

As it relates to the average selling price, or ASP, component of our assay revenue, we are now seeing pressure from 2 primary areas: ongoing Medicare billing impacts and less favorable collection patterns from commercial payers. We believe these emerging trends may last for a few quarters.

Specifically, Medicare insurance claim processing has been problematic due to code edits that reject claims where patients have multiple body sites tested on the same day. Some commercial payers have also adopted these code edits, further eroding the ASP.

In the second quarter, we engaged with Medicare's billing contractor, NCCI, and expect new insurance code edits to be adopted in the fourth quarter of 2022 that will improve this issue. We also expect commercial payers to adopt this change, but it's difficult to predict exactly when their billing systems will be updated.

We'll continue to closely monitor these coding impacts and other issues that result in denied payments over the coming months to identify how we can further counteract these factors and get the ASP moving higher.

Turning now to our progress with payers, where increasing our covered lives will be an important factor in increasing ASP, we remain actively engaged with patients, physicians and payers through a variety of activities and advocacy channels to drive policy and contract decisions for our DermTech Melanoma Test.

The total covered lives in the U.S. are approximately 91 million, which breaks down as nearly 68 million for Medicare and Medicare Advantage and 23 million for commercial payers, which largely comes today from the Blues of California, Illinois and Texas. We are seeing good indicators that reinforce our belief that bringing on commercial payer coverage is only a matter of time. These indicators include active data reviews, increasing sample volumes, direct feedback from payers that our product fulfills an unmet need and, importantly, contract and policy discussions. There's a lot of activity happening with payers that increases our confidence that additional coverage will happen, but we can't always share the details due to the sensitivity of the dialogue. The strong billable sample volume we're seeing with noncontracted commercial payers also undoubtedly helps make our case.

Overall, we remain confident that we will be able to meaningfully improve our coverage footprint in 2022, and our goal remains to bring on a nationally recognized payer.

Shifting gears to our pipeline and recent developments specifically with Luminate and Carcinome, we continue to make targeted investments to advance our pipeline and are evaluating projects, budgets and timelines given the current economic environment and focus on preserving a healthy cash runway.

For Luminate, our direct-to-consumer offering that assesses skin cancer risk, we have locked the assay design and will soon complete processing validation samples that were collected in a large multicenter clinical study. Our market research continues to indicate Luminate is a compelling opportunity. However, given our focus on growing volumes for the DMT and the current economic environment, we believe that it is prudent to push the introduction of Luminate to the first half of 2023.

As for Carcinome, a test to detect the presence of nonmelanoma skin cancers such as basal and squamous cell carcinomas, we continue to methodically navigate through the development challenges for the squamous cell portion of the test. As you may recall, we successfully identified a classifier for basal cell cancers earlier this year. We are working diligently to validate the basal cell classifier and develop plans for utility studies.

It is important to remember that these product candidates were never intended to have an impact on 2022 revenue, and we'll continue to be mindful of allocating capital to these programs in a disciplined way.

In closing, we're executing well against a robust commercial plan, while addressing headwinds that have crept up recently that we believe will have a short-term impact on our revenue trajectory. We also believe the increase in insurance claims denials is due in part to our success in driving product adoption and payers pushing back.

We are confident that sustained commercial traction, combined with our robust payer activity, will ultimately drive payer adoption and long-term ASP growth. Growing billable sample volume and supporting activities that bring on commercial payers are clear priorities in 2022 and where most of our capital allocation is earmarked.

I look forward to updating you again in the months ahead.

With that, I'll turn the call over to Kevin for a more detailed financial review.

Kevin Sun - *DermTech, Inc. - CFO, Treasurer & Secretary*

Thanks, John, and good afternoon, everyone. I'll start by reviewing our key operating and financial metrics for the second quarter and then recap the 2022 assay revenue guidance we revised today. I'll close by summarizing our liquidity profile, recent balance sheet activity and future capital requirements.

Assay revenue in the second quarter increased 43% to $4.1 million, largely due to a 56% year-over-year increase in available samples to approximately 18,320. Assay revenue and billable sample volume grew at a healthy sequential rate of 18% and 27%, respectively.

As John noted, we're executing well despite a few challenges, and we continue to post records for many operating and sales metrics.

Total revenue for the second quarter increased 36% to $4.2 million, up from $3.1 million in last year's period, primarily on higher assay revenue.

Digging in a bit deeper on our key top line drivers. First, we had approximately 2,390 unique ordering clinicians in the second quarter, another record, and a 17% increase from roughly 2,040 unique ordering clinicians in the first quarter. [With] approximately 3,660 unique ordering clinicians during the last 12 months, we penetrated 41% of our current target market of 9,000 dermatology clinicians.

Second, our average quarterly utilization, or average number of tests ordered per unique ordering clinician, was 7.7 billable samples in the second quarter, versus 7.0 in the first quarter and 8.2 in the year ago period. Overall utilization increased sequentially, even with a record number of new quarterly ordering clinicians. Important touch points such as the American Academy of Dermatology meeting in March and improved sales call frequency directly correlate to higher utilization rates by existing prescribers to offset the typically lower utilization rates of new ordering clinicians.

Third, Medicare samples represented about 24% of our billable samples in the second quarter, which was unchanged as a percentage from the first quarter and up from 19% last year. While the proportion of Medicare in the second quarter was essentially unchanged sequentially, the absolute number was over 900 samples more, due to a growing number of total billed samples. It's important to highlight that Medicare represents half of the total biopsies for melanoma each year and that we remain focused on accelerating penetration of this market segment.

Fourth, ASP was $226 per sample in the second quarter, down slightly on a sequential basis. As we've shared before, ASP improvement will not be linear and may fluctuate in the short term. There is a clear path to significant long-term improvements in ASP by expanding payer coverage.

Lastly, one statistic to showcase the incredible value of an appropriately scaled and trained sales force. In the 6 months spanning January to June 2022, our overall rep productivity nearly doubled, from averaging roughly 50 billable samples per rep per month to over 90 billable samples per rep per month. Our goal is for all reps, on average, to generate at least 175 to 200 billable samples each month. Our higher-performing reps and some reps in established territories are already performing at or above this level.

Contract revenue declined modestly, to $0.1 million, during the second quarter and remains unpredictable, as it's closely linked to the clinical trial progress of our biopharma customers.

Focusing next on operating expenses. Cost of revenue was $3.2 million, a 24% year-over-year increase, yielding an assay gross margin of 22%. The improvement in assay gross margin from 11% in the year ago period and 0% last quarter was primarily a result of streamlined laboratory processes that reduced per-unit labor and supplies. In addition, increased billable sample volume also absorbed some excess capacity.

Total cost of revenue was $3.3 million, a 25% year-over-year increase, yielding a total gross margin of 23%. Total cost of revenue increased largely due to growth in billable sample volumes.

Sales and marketing expenses were $15.0 million during the second quarter, a 90% increase from the year ago period, primarily due to higher employee-related costs from increased headcount and marketing expenditures.

Research and development expenses were $6.9 million, a 92% year-over-year increase, largely resulting from higher employee-related and lab costs.

General and administrative expenses were $8.9 million, 41% higher compared to the second quarter of 2021. The increase was driven by higher employee-related and infrastructure costs.

As a result of the extensive budget and operations review, we've cut some planned increases across all of our OpEx line items, including delaying some planned hires for the rest of the year, and now expect total operating expenses to be flat in the second half of the year despite growing billable samples and prudently advancing our product portfolio.

Net loss for the second quarter of 2022 was $29.6 million, which included $4.8 million of noncash stock-based compensation, compared to a net loss of $17.1 million for the same period of 2021, which included $3.5 million of noncash stock-based compensation.

Moving now to our outlook for assay revenue, which we revised lower today. We now forecast full year 2022 assay revenue between $16 million and $19 million, which represents year-over-year growth of approximately 59% at the midpoint of the range. As we outlined earlier, this revision is largely due to the softness we're seeing in ASP compared to the modest improvements we previously expected throughout the year as well as some potential pressure on billable sample volume from an uptick in sales force turnover. We've onboarded terrific new sales reps who need to go through a training and ramp-up period before they typically reach productivity levels similar to established reps.

And finally, a review of our liquidity profile and balance sheet. At the end of June, we had cash, cash equivalents, restricted cash and marketable securities balance of $177.4 million. We believe we have sufficient funds to meet our operating and capital requirements through the first quarter of 2024.

We did take 2 important housekeeping steps as it relates to our balance sheet and access to capital. First, we filed a new shelf to replace our previous shelf, which is substantially depleted. Second, we filed a new at-the-market, or ATM, facility of $75 million, although we have not provided our sales agent any immediate parameters related to its usage. Overall, we're comfortable with our cash runway and don't anticipate any immediate capital needs, but we may use the ATM opportunistically in the future while being mindful of the cost of equity capital in the current environment.

In summary, we're executing well in the first half of 2022 and grew our commercial business at a healthy pace despite the temporary headwinds and economic challenges. Most of our core operating metrics are moving in the right direction, and our commercial and payer teams are making excellent progress. We look forward to updating you again soon.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Alex Nowak, with Craig-Hallum Capital.

Alexander David Nowak - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

I was hoping we could start off with the Medicare billing code issue. Maybe I specifically missed what you said, but the ASP dropped in Q2. So I'm curious what ultimately happened to that eroding of the ASP here in Q2? And then what are the billing code edits that you're trying to push through? Any additional information would be helpful.

Kevin Sun - *DermTech, Inc. - CFO, Treasurer & Secretary*

So with Medicare billing and the LCD, there is a limitation of number of body site tests that can be done on the same patient on the same date of service. We've seen a trend where that proportion has been increasing. And as that increases, it just pushes delays for when we can actually collect on those claims and when we can recognize the revenue for those.

So the code edit that's being put in, we expect it in the fourth quarter. It changes the code edits to actually match what the LCD approves, and so where we can get paid on 2 tests on a date of service without having to file any appeals or require any additional medical records to get paid.

Alexander David Nowak - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

I see. So the current LCD is set up for -- excuse me, the current billing code is set up for one test per date of service today, versus the LCD at 2.

Kevin Sun - *DermTech, Inc. - CFO, Treasurer & Secretary*

The current code edit is set up for 1, but then also if there's 2 or more, the entire claim gets denied. So under the LCD, we should be paid now at least for 2 tests on the same date of service without anything else. And then again we would have to appeal with medical records when it's 3 or more body sites so that we can demonstrate the medical necessity to Medicare.

Alexander David Nowak - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

Okay. Understood. And regarding, I guess, the big drop in the ASP this quarter, it doesn't sound like those code edits went into effect this quarter. That's been kind of an ongoing trend. It's really due to more of the samples are coming from the same patients. So maybe the question is, how many -- or what is the average number of samples per patient today compared to, let's say, last year?

Kevin Sun - *DermTech, Inc. - CFO, Treasurer & Secretary*

We haven't disclosed those metrics, but what we can say the trends are is that there are more tests that are being done on average per patient now than there were a year ago in this period, and that is what is causing some of the pressures we're seeing on the ASPs. John Dobak

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Alexander David Nowak - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

Okay. Understood. That makes sense. And then last question, just regarding the new guidance. If you're assuming the ASPs are unchanged here from Q2, it looks like the guide assumes a small, call it, 1,000-test sequential step-up in Q3 and Q4, despite DermTech doing about 4,000 more tests in Q2. So I'm curious, why are the sequential test gains dropped so much in Q3 and Q4?

Kevin Sun - *DermTech, Inc. - CFO, Treasurer & Secretary*

So there's -- we continue to expect robust billable sample volume growth through the rest of the year. And like we said, the revision that we made to the guidance, it's largely due to the softness that we're seeing in the ASP, which has always been difficult to predict. We've seen ASP fluctuations during similar stages of commercialization in our space. We do expect those NCCI code edits to update, to positively impact ASP through the rest of the year. But the recent commercial payer trends bring risk of additional downward pressure. Overall, we believe both of these developments are positive for our long-term outlook, as they're related to increased adoption.

We may see some potential pressure on billable sample volume from that uptick in sales force turnover.

And again, there could be some seasonality for derm patients due to summer vacations and year-end holidays. It's just difficult to predict and pin down how exactly seasonality may impact volumes given our limited commercial operating history and the fact that much of it has been during the pandemic.

So we don't break out specifically the trend. It's all encompassed within the updated assay revenue guidance.

Operator

Our next question comes from Brian Weinstein, with William Blair.

Griffin Rex Soriano - *William Blair & Company L.L.C., Research Division - Research Analyst*

This is Griffin on for Brian. Maybe just on the private payer front and I guess relating to Medicare as well on these code edits. First, on Medicare and both, are these payments coming in? I mean, can you give us a sense of what you're getting? Are they no-pays? Are you getting half or a quarter of what you're expecting? And then give us a sense of how broad it is on the private payer side, how broad these code edits are becoming an issue on the private payer side. Is it 1 or 2 payers or most of the payers that you're dealing with?

Kevin Sun - *DermTech, Inc. - CFO, Treasurer & Secretary*

On the Medicare front, so as we disclosed, 24% of our sample volume in the quarter is Medicare. We haven't disclosed of those how many are multiple body sites, between 2, 3 or more or anything like that. But what we mention again is that the trend has been that more tests are being done on the same date of service.

So generally, under the current code edits, we'll get paid on one body site. And then if it's 2 or more at all, the whole claim gets denied, and we have to appeal it with medical records. So the code edit that we expect to occur in the fourth quarter, we'll now get paid at least for the first 2 body sites. And then when it's 3 or more, we'll have to go and appeal those. So generally, that's where if Medicare is paying us for any of the body sites, they're paying us generally the whole amount.

On the commercial side, it's a trend that we are also seeing continue with multiples and higher. And as John mentioned, too, right, when commercial payers that we've even contracted with, they don't have any of these limitations on usage, on per date of service, but we did see that they started using these code edits recently, which has impacted current trends from a commercial side.

So it's hard to predict when they'll revert to the new code edits since they didn't use these code edits when we first got the contract. But it's one of those positive improvements, we think, that will ultimately improve the longer-term ASP trend, both on the commercial and on the Medicare side.

Griffin Rex Soriano - *William Blair & Company L.L.C., Research Division - Research Analyst*

Okay. And then on the private payer side, we've got the clinical and economic utility data, the TRUST and OptumInsight, and you're in NCCN. I know this question is asked a lot, but I just want to revisit it. Do you feel like you need any additional data or guideline inclusion to get some payers on board? And on the process, could you just revisit that? Can you give us a sense of how long it takes to get in front of a payer, how iterative that process is and when you ultimately are in these discussions with payers what their pushback is or what they're talking to you guys about.

John D. Dobak - *DermTech, Inc. - President, CEO & Director*

Well, I think that, in general -- I said on the last call that I was encouraged by the activity that we were seeing in the engagement with payers, and that sentiment only improved in the last quarter. And we talked about all the good indicators. I think from data reviews, which is an iterative process, right? I mean, policies can come up to review once or twice a year, and they're always looking at new data. We're always trying to put new data in front of them. But we're also able to get looks at our data even in off-cycle periods.

So in general, I think the activity is very encouraging. As I mentioned, we do have contracting and policy discussions. As we learned in the past, we can't get too far in front of those things because it does take time, and we really can't comment until everything is all said and done. But overall, what we're seeing is even more favorable than what we saw in the last quarter.

And as I said in my prepared remarks, we do expect to meaningfully improve our coverage footprint, and we still have that goal around the national payer.

So it requires some patience. There's no silver bullet, as we've said many times, and it can take some time. But overall, we're very favorable with what we're seeing with the commercial payers at this time.

Operator

Our next question comes from Mason Carrico, with Stephens.

Jacob K. Johnson - *Stephens Inc., Research Division - Analyst*

This is Jacob on for Mason. You guys have made great progress on growing volumes in the number of unique reporting clinicians throughout the past couple of years and into this year. So how should we think about the percentage of clinicians utilizing your melanoma test, percentage of test volumes and utilization rates between the large academic centers and community centers? Like, are you seeing more traction with one versus the other? Or how should we think about that?

John D. Dobak - *DermTech, Inc. - President, CEO & Director*

I think we're pretty pleased with our utilization. Most -- I would say much of it comes from community-based derms. That's where most derms practice, and that's where -- we've talked about this in the past. Sort of one of our targets is an independent practice derm, maybe 1 to 4 practitioners, which is about half of that market. And that's where we're seeing a lot of our uptake. We are seeing nice utilization among academic centers, though, on top of that. But I would say what drives really our sample volume growth is that community-based practice, and that's where we're making the most progress.

Kevin has the numbers on how we've driven utilization. It does fluctuate up and down depending on how many doctors we might add in a quarter, because a new doctor tends to use at a little lower rate than an existing user. But we were actually pretty pleased with the way the utilization rate maintained in this past quarter, despite having a record addition of new doctors.

So again those things point to our successful ability to drive the commercial adoption of the product. And the struggle which has always been present is with payers and payers not wanting to pay, but we're going to solve that over the long term also.

So all those metrics around commercial adoption, we're very happy with.

Jacob K. Johnson - *Stephens Inc., Research Division - Analyst*

Okay. Got it. And then thinking about operating expenses from a capital allocation standpoint, I know you guys mentioned you're delaying planned hiring throughout the rest of the year for your sales team. But can you give us a breakdown, maybe quantitatively or qualitatively, what areas of your business are expected to see the largest investments going forward now kind of that you've delayed that hiring? You have progress made in primary care and telehealth as well as a number of ongoing R&D projects. Just what areas of OpEx are priorities for capital allocation? And maybe where you see the most leverage throughout the rest of the year and into '23?

Kevin Sun - *DermTech, Inc. - CFO, Treasurer & Secretary*

Sure. Just to clarify one thing. When we talked about delaying hires, expected hires, it's really across the board. We will still hire positions if it's directly related to sample volume growth. Where we're being very mindful of the capital allocation is we're spending the vast majority of it on the

DermTech Melanoma Test and commercializing it since it is, again, we're creating a category here of precision dermatology and we're in the early stages.

So we have to focus on top line growth drivers, and then we will also focus on the capacity within the laboratory to meet the demand. And then the areas where, again, we're being very prudent and mindful on the OpEx spend is some of these ancillary things, right? Again, we think they all have great opportunity, whether it's telehealth, whether it's any of the new products in our pipeline, whether it's primary care, but we're being very prudent in the current economic environment so that we go after these things in the most efficient manner as possible.

Operator

Our next question comes from Max Masucci, with Cowen.

Max Masucci - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

I missed a portion of the prepared remarks. So apologies for any redundancy here. Maybe, Kevin, just to confirm, I think, are you actively recruiting to backfill the 15% to 20% turnover? Or are you being a bit more patient there? And then for the people that left, was it to other derm-focused companies? Or to one of the several larger labs that have sort of been building out their presence in San Diego more recently?

Kevin Sun - *DermTech, Inc. - CFO, Treasurer & Secretary*

Of the backfills we had, maybe other than maybe 1 or 2, we have hired all the backfills. And again, there will continue to be a small amount of turnover like there is in any company. But those new hires have gone through their first training period. They've come to San Diego and have started up the ramp-up period.

The ones that we have experienced some of that turnover, it was really companies in the biopharma space. There's a few companies that were launching derm products. And again, it's an overall competitive market there. So that's where we experienced most of that turnover.

Max Masucci - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Okay. Okay. Got it. And then I'll ask a slightly different variation of a prior question. So I'm sorry for that. But you've been chipping away at commercial payer coverage wins, obviously, for some time now, even well prior to the code editing issues. So I mean, I guess specifically for commercial payers where you're in more advanced conversations around coverage, do you think the code editing issue makes it harder to get that across the goal line? I guess the question is, the code editing impact, does it affect existing conversations where you're trying to get across the goal line for coverage? Or creating, I guess, establishing new relationships with payers you hadn't interacted with before?

John D. Dobak - *DermTech, Inc. - President, CEO & Director*

They're really unrelated. That was a specific Medicare thing. We talked about in the past it was a real challenge for us to actually get Medicare to fix that code edit. We didn't really mean to tee it up that way. It's actually a big win. We got our local congressman involved and something we've been working on for several quarters trying to fix. He got it fixed for us within a couple of weeks.

So that's actually -- the fact that we finally got that code edit issue solved, that was a specific Medicare thing. It doesn't really relate to commercial payers, other than we found recently a few of our contracted payers started adopting that same code edit.

So we don't think it impacts our discussion with payers about coverage or contracting, but we do want to get that behind us because it obviously bled through in terms of how the codes were being processed by some of our contracted payers. So those things will start to work themselves through.

We're actually happy we finally got that thing resolved. It's been kind of an overhang. It did take our local congressman to help us do that. But it shouldn't impact our overall -- the progress we're making with the payers on our contract and policy discussions.

Max Masucci - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

That's great. It's super helpful clarification. And then maybe a final one for Kevin. I think we've talked in the past just geographic distribution of sales reps. Just figured it's worth checking in. As of the end of this quarter, how do you feel like the sales force is represented in some of the more Medicare-heavy regions versus other regions that might be a little bit more commercial payer-heavy?

Kevin Sun - *DermTech, Inc. - CFO, Treasurer & Secretary*

We like our representation and how we've deployed our sales force. We have a heavy concentration in the areas where there are more procedures for melanoma, and that actually does correlate fairly well with where the Medicare population is also spread out. So again, we've been heavily focused on the Sunbelt areas, the Eastern Seaboard, the West Coast. But with the expansion we recently did, that was really in the central part of the country, in the Northern Plains areas where we just had no presence before.

So those are -- again, they're coming along nicely. It's obviously an area where we've got full coverage now of the Continental U.S., and we like how we're deployed both for Medicare and just general commercial insurance in general.

Operator

Our next question comes from Francois Brisebois, with Oppenheimer.

François Daniel Brisebois - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Just a couple here. The sales rep turnover, is that something that's been pretty consistent? Or has there been a real kind of acceleration of that turnover very recently here?

John D. Dobak - *DermTech, Inc. - President, CEO & Director*

It was a recent phenomenon. We always have some modest turnover or minor turnover. But in the second quarter, we saw above-average, and that was really because of those 3 product launches that were occurring, really dermatology-focused drugs and 3 companies ramping up fairly sizable sales forces to introduce those new pharma products that got approved.

So we think that's behind us, and we like what we've done to recruit to replace those folks. We think we are competitive with our sales force, and we certainly feel like we're going to be able to deliver with our current sales force and replace it as we need. But that was really just, we think, a onetime thing because of those 3 product launches that occurred.

François Daniel Brisebois - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Understood. And then on the -- you talked about the lingering COVID impact. Can you just maybe discuss more like how that is still a headwind and why maybe is that kind of getting better with time? Or what's still the COVID issue with you guys?

John D. Dobak - *DermTech, Inc. - President, CEO & Director*

It's not so much in the derm. There is still that -- access has not returned to pre-COVID levels. It's more of that hybrid access. We talked about that last time. It's really more with the IDNs. They tend to be a little more cautious any time there's some COVID cases start ticking up. And they're also, I think, having some struggle with staffing related to COVID. So it's really just within that IDN where you see those lingering COVID impacts.

We did -- we were supposed to start the pilot with that payer IDN that I talked about in my prepared remarks at the beginning of the year, but COVID pushed that out all the way to this quarter. We just kicked that off. In fact, we thought we'd have been through that pilot and maybe reaping some of the benefit of that relationship. But that's a specific COVID impact there in that particular IDN.

So I think it's really related to the IDNs, their sort of reaction to any uptick in COVID cases and their staffing problems related to it, and not so much within that derm channel.

François Daniel Brisebois - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Okay. Great. And then maybe lastly, just on the ASP, just to make sure I understand here, so there could be some more pressure going forward in the next few quarters, and you guys have kind of changed your guidance and whatnot. But any -- how do we feel comfortable? You talked about your comfort with long-term value growth. Is that just through more volumes? How do we know that this is maybe a few quarters of a hiccup? And then long term, why do you feel so confident that the ASP should tick back up?

Kevin Sun - *DermTech, Inc. - CFO, Treasurer & Secretary*

As we've seen in our industry, when you have greater volume, especially on the commercial payer side, they could start increasing the level of denials on the initial basis. Because, again, it's higher volume and now companies are on their radar. We've seen this play out in other companies in our space. And so this allows us to go and file the appeals and cause the interactions with those payers and start having more of those contracting discussions. So again, we believe it's a good long-term development, but it could lend some near-term pressure on the ASP as we work through those dynamics.

John D. Dobak - *DermTech, Inc. - President, CEO & Director*

I think the long-term value is there. We've talked about we should monetize that volume. 18,000 billable samples this last quarter. We believe our ASP is going to grow and begin to approach that Medicare pricing, which is at [$760] per sample. You can do the math. You pick a number that's, say, call it, 80% of that, if that's where we ultimately settle out on in ASP, our revenue would be meaningfully higher because we're monetizing that volume.

So that's why we think the long-term value is intact. We've got to drive that adoption. We do believe we'll ultimately win this payer game, and it comes through driving that adoption and monetizing all that fantastic volume that we're building every quarter.

Operator

(Operator Instructions) Our next question comes from Thomas Flaten, with Lake Street Capital Markets.

Thomas Flaten - *Lake Street Capital Markets, LLC, Research Division - Senior Research Analyst*

Given what you're seeing in terms of number of samples per patient per date of service, what are you proactively doing as you're discussing this with private payers in terms of having greater than 2? And what are your plans around going back to the LCD and having that amended to allow for more real-world coverage?

John D. Dobak - *DermTech, Inc. - President, CEO & Director*

So we don't really try to bring on the multiple body site issue with other payers unless they bring it up. It's not something we -- and we don't really have it written into the contracts that we have so far, and we've talked about that before. There's always this concern from payers about overutilization, and that was a concern with Medicare in the early days of the LCD. And the way they wanted to address it was to put a limit on the number of tests that could be collected on the same date of service.

Having said that, Medicare has been very good on the appeal front in terms of us being able to appeal from even more than 2 claims on the same date of service and us winning those appeals with Medicare. But we will ultimately just take all that data back to Medicare and see if we can increase that number of samples allowed per date of service.

The timing on that is just when we get enough data and enough of those appeals, one. That's occurring. And then there's obviously a backlog with MolDX. So there's some timing issues there. It's not higher on our radar because we are able to overturn some of those -- we're able to win some of those appeals, a lot of those appeals, even more than 2.

It hasn't been a big problem yet on the commercial side. We'll have to see how that plays out over time. And we try to avoid that with payers unless they really bring it up, in any new contracting with commercial payers unless they bring it up and they're worried about that, and we would probably have to address it in the same way with Medicare.

Thomas Flaten - *Lake Street Capital Markets, LLC, Research Division - Senior Research Analyst*

And just a follow-up and to ask another question about guidance, just to make sure I understand. So how much more downside to ASP do you think there can be? Because sequentially, ASP was down less than 10%, but the guidance was down more than 25% from where it was previously. So I mean, are we talking sub-$200 ASP here, is kind of what you're preparing us for? I just want to make sure I understand that dynamic a little more.

Kevin Sun - *DermTech, Inc. - CFO, Treasurer & Secretary*

I mean, as we said, right, this is one of the hardest things for us to predict, is what the ASP will be. Like we said, we know the NCCI code edit changes will positively impact it, but the recent trends on the commercial side contribute to some additional downward pressure. It's just very hard for us to predict what that could be, but we've kind of incorporated and considering those things into our revised guidance.

Operator

We have reached the end of the question-and-answer session. This concludes today's conference call. You may now disconnect.