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PRESENTATION

Operator

Good day and thank you for standing by. Welcome to the DermTech's first-quarter 2023 financial results 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. Please go ahead.

Steve Kunszabo - *DermTech, Inc. - IR*

Thank you. Welcome to DermTech's first-quarter 2023 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 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 law. Our first-quarter 2023 earnings press release and SEC filings are available on our Investor Relations website. A recording and transcript of today's call will be available on our website later today.

With that, let me turn things over to John.

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

Thank you, Steve, and thank you, everyone, for joining us. In March, we attended our most impactful and energizing American Academy of Dermatology, or AAD, annual meeting. Our booth had incredible traffic with more than 1,000 visitors, and we generated approximately 300 sales leads.

Our booth was also a fixture for key opinion leaders, or KOLs, and healthcare practitioners throughout the event. Our momentum at the AAD, again, demonstrated that precision dermatology guided by noninvasive skin genomics is being integrated into the melanoma care pathway. It's inspiring to see customers and industry leaders independently carrying our vision forward.

We also completed our CLIA laboratory move in March. This was a two-year project marked by the tremendous planning effort and execution of our team. We are now in a state-of-the-art facility that brings together all of our San Diego colleagues in one location. I'm proud of our entire team and what this means to DermTech's future.

Our capital and energy remain aligned against a few important priorities, expanding coverage for the DermTech melanoma test, or DMT, monetizing existing demand around strong sales execution, and sustaining our cash runway. We're steadily pushing ahead towards these goals.

First, the steps we've taken to stabilize our average selling price, or ASP, including generating more volume from reimbursed tests, are exhibiting positive signs. We're encouraged that the ASP for the DMT supported a 27% sequential increase in our test revenue to $3.4 million.

We continue to emphasize the DMT's clinical value proposition and enhanced customer experience, including electronic ordering of our tests, regional billing concierge services, and healthcare provider training programs. Our sales effort is structured to pull through test volumes in geographies where we've currently picked up insurance coverage, and we are exploring additional tactics to maximize our ability to generate reimbursed volumes.

We continue to believe the best way to reach a topline inflection point is to bring on more commercial payers. We've added 35 million covered lives since the end of 2022, roughly the equivalent of the second-largest national commercial insurance provider. We now have approximately 126 million covered lives in the US, which breaks down as nearly 68 million from Medicare and Medicare Advantage and 58 million from a broad mix of regional and governmental payers.

We've also begun to sign agreements with commercial payers in cases where positive coverage policies have recently been issued. Our contract announcement with the major Blues plan in North Carolina is a good example. By having both a policy and an agreement in place, we strengthen our connection with insurance providers and further reduce barriers to access because our test becomes available as an in-network benefit.

Following closely behind many of the positive coverage policies we announced in the first quarter, we also expect to sign agreements with TRICARE and several other large regional Blues plans. Overall, pricing for the contracts we've recently added remains in line with our long-term targets.

In addition, a countrywide alliance that serves national accounts and more than 10 Blues plans to service the self-insured and employer populations recently issued a positive coverage policy for the foundational assay of the DMT. We are eager to gain access to the millions of members served by this national platform.

Furthermore, we anticipate finalizing an agreement with the national association of independent, locally operated Blues plans. This organization has substantial influence over many regional Blues and national commercial plans and we believe it could bring in additional policies and contracts.

We're also making good headway bringing on Medi-Cal, which is California's Medicaid program. We're nearing the end of a long onboarding process that includes several procedural steps in getting aligned on pricing for the DMT. We already have solid test volume with this patient population and look forward to improving access for Medi-Cal's more than 12 million members.

We intend to further leverage the test volume we already have by pursuing Medicaid coverage in several other states. It is important to remember that these Medicaid programs are amongst the largest governmental payers.

Our effort bringing on integrated delivery networks, or IDNs, is gaining traction as well, including the large nationally recognized payer provider with which we are conducting a successful pilot. We expect to move to the contract negotiation phase later in the year.

As you heard, our momentum with payers remains strong across a broad mix of organizations. We continue to work closely with nationally recognized payers, although two of them reiterated negative coverage policies in recent weeks. We still have multiple opportunities this year to achieve a nationally recognized payer win.

Importantly, two independent economic assessments are being performed by the affordability groups related to national plans. The outputs from these assessments are looking favorable and we believe they could positively influence coverage.

One of the chief ways that our visibility with payers goes up is through advocacy channels, including professional societies, physician, and legislative efforts in individual states. It's important to note that bills mandating insurance coverage of genomics testing, or so-called biomarker bills, are expected to be effective in multiple states in late 2023 and early 2024. These states are just the latest in a growing list that recognize the importance of improving access to potentially life-saving genomic tests.

Additionally, our visibility with payers is also improved through independent assessors of healthcare technology. As noted previously, we've already received a favorable policy from the second-largest lab benefits manager in the US.

We also recently received a favorable recommendation from a well-recognized non-profit technology assessment firm that conducts technology evaluations to improve the safety, quality, and cost-effectiveness of care across all healthcare settings. We believe this favorable recommendation could influence coverage by commercial payers.

In addition, a large regional payer conducted their own economic assessment using the framework from the Optum economic study. This payer discovered their costs for adjudicating pigmented lesions were even higher than the Optum study. We believe these independent efforts affirm the robust clinical validation and health economic data that has already been published for the DMT.

Our TRUST 2 study, which we initiated in 2022, should provide additional evidence in support of our payer discussions. This is a prospective study designed to follow a cohort of 2,000 to 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 the analysis of the TERT add-on test.

We expect to release topline results in the second half of 2023. The resulting data, if positive, may potentially allow us to re-engage with the two national payers that recently reiterated their negative policies.

Overall, we're pleased with the progress we've made since the end of 2022 and we've expanded coverage for the DMT by nearly 40%. Our sales team also executed well into the first quarter and coming out of the AAD, we were on track for healthy total sample volume growth.

However, we have begun to shift our focus to driving reimbursed volumes and ASP versus driving total test volumes. Driving ASP is one factor which helps preserve our cash runway. This change in prioritization aligns with our strong payer progress.

As an example of the steps we've taken to implement this strategy, we've realigned our support infrastructure including concierge services in territories where we have insurance coverage for the DMT. In addition, we have dissolved certain sales territories to align our focus on reimbursed samples. Further, given our recent increase in covered lives, we've also equipped our sales team with payer-mix data to allow them to target providers with reimbursed billable samples.

Lastly, we recently stopped testing samples from pediatric patients and certain Fitzpatrick skin types based on guidance from our lab-accrediting organization. We are working on a plan to reintroduce testing for these patient cohorts with an extremely low incidence of melanoma.

Due to all these factors, we expect billable sample volume for 2023 to be relatively flat compared to last year, but ASP improvement should increase revenue. I want to emphasize that we continue to look for additional cost savings, preserve our cash runway, and optimize our operational and organizational footprint.

In closing, we've made great progress bringing on payers and executed well to drive fundamental demand for the DMT. We're now prioritizing generating reimbursed tests versus overall demand growth. We're also aiming to be on the first best footing possible with two national payers that we still expect to hear from later in the year.

Substantially, all our capital and energy is focused on the DMT to expand reimbursed test volumes and commercial coverage and boost ASP. We believe these steps are important as we look to sustain our cash runway and capitalize the business going forward.

As a final note, we are in the late stages of identifying my successor and we expect to announce something soon. This may very well be my last earnings call, and if it is, I have enjoyed working with you all.

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

Kevin Sun - *DermTech, Inc. - CFO*

Thanks, John. Good afternoon, everyone. I'll start by summarizing our key financial and operating metrics for the first quarter, then recap how we're thinking directionally about our 2023 outlook. I'll wrap up by outlining our liquidity profile and cash runway targets.

Billable sample volumes were up 24% year over year and 2% sequentially for the first quarter to approximately 17,800. Test revenues dipped 3% year over year to $3.4 million, largely due to a $0.5 million downward revenue adjustment due to changes in collection estimates for samples reported in prior periods, but was up 27% sequentially.

Contract revenue was $0.1 million during the first quarter, down from $0.2 million in the year-ago period. Contract revenues remain uneven as it's closely linked to the clinical trial progress of our biopharma customers.

Total revenue for the first quarter fell 6% year over year to $3.5 million, primarily on lower contract revenue. Total revenue was up approximately 16% sequentially.

Let's more closely examine our test revenue drivers. First, ASP was $192 per sample in the first quarter, down 22% year over year, but up 25% sequentially. 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, first-quarter ASP would have been $219.

We still expect variability going forward, primarily due to the lag in recognizing financial benefit from new payer coverage and fluctuating payments from non-contracted commercial payers. It's important to remember that in all cases where we are awarded coverage, the financial benefit could be delayed by one to two quarters or more, as additional administrative contracting and billing steps need to be taken by both parties.

Second, we had approximately 2,550 unique ordering clinicians in the first quarter, up 5% from the fourth quarter. With approximately 4,340 unique ordering clinicians during the last 12 months, we've penetrated 48% of our current total market -- target market of 9,000 dermatology clinicians.

Third, our average quarterly utilization or average number of tests ordered per unique ordering clinician was 7.0 billable samples in the first quarter versus 7.2 in Q4 and 7.0 in the year-ago period. Fourth, our Medicare proportion of total DMT volumes was 23% during the first quarter compared to 24% for both the year-ago period and the fourth quarter of 2022.

Focusing next on operating expenses, cost of test revenue was $3.8 million, a 7% year-over-year increase, yielding a test gross margin of negative 11%. The increase in cost of test revenue was primarily due to increased test volume. The reduction in test gross margin from 0% in the year-ago period was primarily the result of lower ASP.

Sales and marketing expenses were $15.4 million, which was essentially flat compared to the previous year. The largest component for this OpEx line is employee-related costs. Research and development expenses were $4.4 million, a 30% decrease from the year-ago period, primarily due to lower lab and clinical study costs.

G&A expenses were $11.9 million, 39% higher compared to the first quarter of 2022. The increase was driven by higher infrastructure costs for our new building and increased employee-related costs for headcount added throughout 2022.

As John noted, we're targeting additional demand-based and discretionary savings to cash operating expenses in 2023. Net loss for the first quarter was $31.3 million, which included $4.7 million of non-cash stock-based compensation expense, compared to a net loss of $30.1 million for the same period of 2022, which included $3.9 million of non-cash stock-based compensation expense.

Moving now to our outlook for 2023. We expect DMT volumes during 2023 to be relatively flat compared to last year. ASP is stabilized and we're starting to see payments from recent coverage wins, but ASP remains difficult to forecast due to potential additional delays related to recent coverage wins. As a result, we're not providing revenue guidance until we have better visibility on these factors.

And lastly, a review of our liquidity profile and balance sheet. At quarter end, we had cash, cash equivalents, restricted cash, and marketable securities of $108.4 million. Based on expected additional operating efficiencies and our revised forecast, we believe we have sufficient cash resources for our planned operations through the third quarter of 2024.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Mark Massaro, BTIG.

Mark Massaro - *BTIG - Analyst*

Hey, guys. Thank you for taking the questions. John, again, you'll be missed. It was great hanging out in La Jolla. I guess, would you be willing to share what you and the Board are looking for in the next CEO? I mean, what types of characteristics do you think would be expected of the new CEO?

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

Hey, Mark. Thanks for the question. I think we'll leave that to when we announce the final candidate, and I'll just stick with what I said now and our comments from the prior periods.

Mark Massaro - *BTIG - Analyst*

Understood. So I would love to dig in a little bit to the commentary about going after reimbursed volumes. Maybe can you walk us through how many territories were dissolved, and is the total number of reps, were they allocated for the territories that were disrupted? Were those folks redeployed into another territory, or maybe was that a source of cost savings?

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

We had approximately 70 sales reps. We're down to approximately 65. And the way we're looking at these things are sometimes we can merge a territory, and we might continue with somebody in that territory in the larger merged, or we might just cut the territory whole. We're still going through the process. It's early days in this. We've just recently started it in the last few months, so we have more to look at doing that. But right now, we think that's the best effective way to raise our ASP.

As you all know, we do a lot of non-reimbursed tests, and that costs us money. And now, since we've broadened this footprint of payers, we really think that we can start to target more reimbursed samples. And although our total volumes may be not quite as robust as they have in the past, it should yield a higher ASP and better revenue, and that's fundamentally why we're looking at this.

[Anything] to add, Kevin?

Kevin Sun - *DermTech, Inc. - CFO*

No, it's just that we consistently evaluate the sales deployment to optimize the ROI and to execute our strategy, and we'll continue to do that as we see necessary. But by focusing on ASP and revenue growth versus overall demand growth, that will help with a cash runway.

Mark Massaro - *BTIG - Analyst*

Excellent. And I know you're not providing 2023 revenue guidance. However, if volumes are roughly flat and ASPs are up, is it really reasonable to think that we should aspirationally be thinking about revenue being slightly up for the year?

Kevin Sun - *DermTech, Inc. - CFO*

That would be the reasonable assumption. But again, we're not comfortable yet giving guidance on exactly what that would be. We are seeing some good payments from recent wins with the regional Blues plans and the Lab Benefit Manager policy we received.

And we are also near kind of the expected implementation date of key procedural steps with TRICARE, and that should allow us to receive payments from them more consistently. We're just not prepared to give definitive guidance on ASP and revenue until we've got more data on the actual payment rates for these recent wins.

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

We talked about that last year, Mark. We kind of got burned with the ASP forecasting, and so we just want to see the numbers. We do like the trends that we're seeing, and we do think that the recent payer wins are improving those trends, but we just want to see them before we tell you guys anything because we just don't want to get into where we were last year.

Mark Massaro - *BTIG - Analyst*

Excellent. Maybe the last one, you talked about two large payers that you're hoping to hear from later in 2023. Can you give us a sense for timing? Is it Q4, or do you think some of that could be sooner? And I would say, how advanced are you in those discussions?

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

The timing, we can't put out a timing that's more closer than just sort of the second half of the year because we've talked about -- we don't often know exactly when these reviews take place. But I would say what's happening with these payers, which is different from the other two that

happened earlier in the year, is they've really taken a deep dive into the economic analysis, and they're doing their own claims analysis through their affordability groups.

And so there's been a fair bit of activity on that front. The analysis they're doing are looking favorable, and we think that will be influential. And that's really the big difference and what's happening with these plans, these national plans in the back half of the year. So we're looking forward to the final output of those affordability group analyses and what they might do to influence things, and that's very different than the other plans.

I would also say, we think that we have some publications coming out. We also expect to get that TRUST study done and get that published. And that's more data to go back with the payers that we've already talked to. And they can always re-look at things because of the new data, and we think those are going to be -- those publications coming out are going to be impactful.

Mark Massaro - *BTIG - Analyst*

All right. Thanks, guys. I will hop back in the queue.

Operator

Thomas Flaten, Lake Street Capital Markets.

Thomas Flaten - *Lake Street Capital Markets - Analyst*

Hey, guys. Appreciate you taking the question. Just to dig into this strategy revision on the field force, if I understood it correctly, you're going to overlay territories with those geographies that have good or better payer coverage, if I understood that correctly. Could you just maybe drill into the details a little bit? Are you sending reps in to ask for specific business, kind of what you were trying to do with Medicare? And then how do you judge the success rate from a penetration perspective, particularly given the experience with asking for Medicare business?

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

So we're not going to try to get the doctors to use a test on any specific patient. That's too difficult. But we can identify, as I mentioned in the prepared remarks, doctors that have payer mixes that are aligned with our payer coverages.

And so we can have our sales force go after those accounts where the payer mix more aligns with our current coverage. And that's the tactic. We now have that data. We now have, with all those payer wins, we can start to do that and do that meaningfully.

The vast majority of our usage is in commercial payers. And I know we've talked about having in commercial patients. I know we've had some challenges in growing the proportion of Medicare as high as we would like.

But because the test is already used more significantly in commercial payers, we don't think it's going to be quite the same challenge. That's where the doctors like to use it in that younger cohort that's on the commercial side. So we think that by targeting the right doctors and going after those covered reimbursed samples will yield a better ASP and help our revenue growth.

Kevin Sun - *DermTech, Inc. - CFO*

And we can also use the overall commercial efforts to really target in those covered areas as well. So it could be things between conference attendance to raise awareness. It could be around the speaker programs to, again, raise awareness.

We've already restructured and reconfigured our concierge services so that they have the areas that do have reimbursed and coverage have higher levels of support and service. So it's really -- it's not just sales reps. It's really the entire commercial effort that we would go focus on these covered areas to generate better ASPs.

Thomas Flaten - *Lake Street Capital Markets - Analyst*

Got it. That's super helpful. And out of curiosity, what does the Venn diagram look like between your historically most productive physicians and the remapped territories?

Kevin Sun - *DermTech, Inc. - CFO*

Well, a lot of our volume, as we've stated before, are in Sunbelt areas and along the eastern seaboard. And so we're going through that process now of kind of remapping things in and seeing how they overlay.

So the recent coverage wins that we've announced in the Carolinas, those are helpful. Obviously, we had a smaller plan in New York, which we have good volume in New York. And then we've got the historical or older coverage policies of, say, Texas and California and Illinois.

So as more plans start coming on board, as Arizona is another state where we've recently announced coverage and we actually have good historical volume, we're going through the process now to make sure that we can best and most efficiently target the right physicians and drive the ASP as best as possible.

Thomas Flaten - *Lake Street Capital Markets - Analyst*

And then one final one for me, Kevin. The sequential increase in sales and marketing and G&A was pretty pronounced. Were there any one-timers in there, stock-based compensation, bonuses from last year, anything like that, that we should be cognizant of? Or is this a new base of spending for those two line items?

Kevin Sun - *DermTech, Inc. - CFO*

There were some one-time items from a sequential basis. So bonus was one where we did not achieve our corporate goals in 2022, and therefore there was a negative bonus adjustment in Q4. And as we're now have revised goals for 2023, we are accruing for those bonus payments as well.

Also, the move to our new headquarters triggered higher rent expense. April will be the last month that we have to pay for two facilities as our lease expired on the old facility. And it is important to note that book expense can be different than cash outlay based on accounting rules.

Cash burn for Q1 was under $22 million, the lowest in the last four quarters, and compared to a cash burn of over $26 million in Q1 of 2022. So again, year over year, we generated 24% higher volume with 18% less cash burn, demonstrating our commitment to improving efficiency. We're going through a forecast process to find additional savings throughout the year, and it's to align with our reprioritization and our updated operating plan.

Thomas Flaten - *Lake Street Capital Markets - Analyst*

Excellent. Appreciate you taking the questions. Thanks, guys.

Operator

Daniel Brennan, Cowen.

Daniel Brennan - *Cowen - Analyst*

Great. Thank you. Thanks for taking the questions. So I just wanted to follow up on the last question just regarding the negative gross margins and the OpEx. So what is the plan as it currently stands for this year in terms of getting gross margins positive and what OpEx spending can we assume? I know you've talked about cash sustaining yourself through the third quarter of next year. I'm just wondering how does that look for 2023?

Kevin Sun - *DermTech, Inc. - CFO*

Yeah. From a COGS basis, we said previously that we expected COGS to increase in the near term for a couple of main reasons. As we get into the new laboratory, it's a larger laboratory that has more capacity. And so we'll obviously have to start absorbing into that capacity to reduce the per-unit COGS.

We also had inflationary items around wages and inventories and supplies to run the test that typically happen at the beginning of the year. So our plan will be as we get more absorption with volume and efficiencies throughout the lab, we can reduce the per-unit cost that way.

And then, again, the ASP is going to be the biggest factor. By increasing it, it'll be the biggest factor to improve our overall gross margins, which is why, again, we are focusing on ASP and driving reimbursed demand this year.

In terms of OpEx, we have previously said that we expect OpEx to be down slightly compared to last year. And given the progress we've made thus far in Q1 from a cash-OpEx perspective, we are continuing to find additional savings and we'll continue to find a better runway there. But we aren't giving specifics around OpEx guidance for the year yet.

Daniel Brennan - *Cowen - Analyst*

Got it. And if you map your covered lives, it sounds like it's not necessarily easy thing to do where you've got coverage across the United States in different regions. But if you were to map those covered lives, the 126 million covered lives, where could pricing go to absent getting these national payers? If you looked out over the next 18 months, I'm sure you've done the math. What's realistic if you are successful at really restricting a lot of the zeros and focusing on where you guys get paid?

Kevin Sun - *DermTech, Inc. - CFO*

Yeah. As we mentioned, there's a lot of in and outs around ASP. And again, our long-term targets for ASP would be to maintain Medicare pricing as much as possible. As we've been able to maintain that with contracts we've recently received, we are still favorable on our ability to do that in the long run.

How quickly now the contracts we have approach and get towards that Medicare rate, it's hard to say. So what we do know is that the areas that we will focus on, again, think of where we have high volume and think of where we've got the coverage. Those are the areas we're going to focus on first to try to drive that ASP as much as possible. But we're just -- we're not going to give any ASP guidance yet until we see some of these data trends play out.

Daniel Brennan - *Cowen - Analyst*

And in terms of the plan, if you don't get national contracts signed in the next 15 months, or it's unclear from our vantage point, not knowing where that realized ASP can go to, how much leeway do you have to cut further? If the cash gets you through third quarter of next year, how are you contemplating what the options are? Is it just further cuts? Is it highly dilutive equity offering? Just it's not that far away. So I'm sure you've got contingency plans. How do investors think about those contingency plans?

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

I'll just make a general comment that there are a lot of covered lives out there outside of the nationals. And as we talked about on the call, we've got a tremendous amount of momentum across all that broader payer mix. So we'll continue to grow that covered lives.

And the more we can focus on those covered billable samples, the higher we can grow that ASP, which will obviously improve our revenue and the cash runway. And that's the most important thing. I mean, we want to get a national payer win because it's an example of obtaining coverage in that group of payers.

But there are a lot of lives, like we talked about the Medi-Cal and the Medicaid, that's a huge number, right? There are about 60 million to 70 million Medicaid patients out there and we already have volume in those areas. And now we're finally getting momentum in that group of payers. So there are a lot of lives to get out there that can still help us grow that ASP, particularly as we focus on those reimbursed samples.

Kevin, do you have anything to add?

Kevin Sun - *DermTech, Inc. - CFO*

Yeah. So, I mean, again, the first focus would be focus on improving ASP, which will help preserve the cash runway. As we mentioned, we're targeting additional demand-based and discretionary savings in our cash operating expenses. And we do expect to deploy the ATM as needed in the future while being mindful of the cost of equity capital in the current environment. And we're also evaluating other options as it relates to capitalizing the business in a thoughtful way and extending our cash runway.

Daniel Brennan - *Cowen - Analyst*

Got it. And then maybe just final one, just on the -- even though, John, to your point, that there's a lot of opportunity for ASP realization here as you execute and monetize what's in front of you. So the national payers are helpful, but it sounds like you've got a lot of opportunity.

But just on the national payers, since you did bring up that you got this negative decision from two of them and you have this trial upcoming, how pivotal do you think that trial is? How should investors view this trial outcome as a potential lever towards securing one of these national payers or not?

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

Look, I think it is a very large trial. It's real-world data, and it's a prospectively designed trial. Some of the criticism of one of the first TRUST study was that there was a retrospective cohort in there. But in this case, it will be all prospective. So we're going to put down that criticism.

We believe it will reaffirm our very high negative predictive value in the real world. And it will also reaffirm the fact that we are finding the high-risk lesions that are melanoma and melanoma-related in those positive samples. So we do think it will be an important publication that payers will pay attention to. More data is always good. So I do think it will be helpful.

We're frustrated with what the nationals, how they look at our test. In our opinion, they purposely ignore key data and the merits of that data. So we've got to keep putting more data in front of them. I think they also mischaracterize the way the test is used, and they obfuscate our NCCN.

So we'll keep working to clear that up. But this is their tactic, right? They like to delay, and it's part of their omission bias. But we think all this momentum, with all these other broad payer mixes coming on board, it's going to ultimately force their hand for those that want to play that game.

And so again, as I said, the fact that the other nationals are really taking a deep dive on the economics, we think that's a very differentiating feature from the other ones. And that's why we're more optimistic there.

Daniel Brennan - *Cowen - Analyst*

Great. All right, guys. Thank you very much.

Operator

Mason Carrico, Stephens.

Mason Carrico - *Stephens - Analyst*

Hey, guys. Thanks for taking the questions. A lot has been asked, so I'll maybe only ask one or two here. Thinking about the technology solutions and EMR integrations, that strategy that you guys have talked about, any updates on where that stands today or how things are going there? And any framework or metric you can give us to help us understand the progress on that?

Kevin Sun - *DermTech, Inc. - CFO*

Yeah, Mason. Hey, thanks. So we have implemented what we call kind of a Phase 2 of that EMR integration, which is the EMR that's used by the most dermatologists. And that integration allows us to more easily get medical records from the physician and relieves the burden of the physician's offices of having to do that.

So that obviously plays into the strategy where the more medical records we get, the more appeals that we can file and have a higher likelihood of success of those appeals. And it lays into our desire to try to go after better ASP and improving ASP.

Now, if those appeals are something that is for non-contracted payers, we don't always win those appeals, but at least gives us that opportunity to do it. And again, it puts pressure on the payers that they have to deal with these appeals. So all of that is going really well.

Mason Carrico - *Stephens - Analyst*

Got it. Thanks for that, Kevin. And on the national payers who issued the negative policies, is there any additional color you can give behind their decision? Do they provide detail on the reasons behind that? Did they cite a specific study or what they are looking for? Is there any incremental detail you can give us on that?

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

I mean, you can look at the policies. They're online. They're not that different from the policy they've issued before, which shows they didn't really meaningfully update it. They tend to omit key pieces of data as opposed to criticize the data that we have, which is the most frustrating part.

In one case, we spent all this time educating the payer that this is a rule-out test. And the first thing that comes out is that this is a rule-in test for melanoma, which is a complete mischaracterization of how it works.

So those are the things that we're dealing with them. There's nothing you can hang your hat on to say, oh, if we just did this, that's it. But I think it's just about more data, more payer wins. It's going to force their hand. This is just a tactic, a delay tactic that the national payers will often employ.

Mason Carrico - *Stephens - Analyst*

Okay. Got it. Thanks, guys. Appreciate it.

Operator

(Operator Instructions) Alex Nowak, Craig-Hallum.

Chase Knickerbocker - *Craig-Hallum - Analyst*

Hey, guys. This is Chase on for Alex. Thanks for taking the questions. A lot's been asked, but I guess kind of teasing at ASPs a little bit with these 34 million covered lives added since the start of the year here. How much benefit from those did we see in Q1, that sequential increase in Q1 of ASP? What should we expect in Q2? Is there, obviously, additional more benefit from those 34 million lives that still need to come into the model?

Kevin Sun - *DermTech, Inc. - CFO*

Yeah. The recent payer wins had very minimal benefit to ASP in Q1, but we are starting to see more payments in April, and we do expect to see additional benefits throughout Q2. There will still be some variability that we expect going forward related to fluctuating payments from non-contracted commercial payers.

But as I mentioned, there's things that are coming up here, whether it's Medicaid, whether it's being able to process TRICARE, whether it's being able to monetize some of the VA volume. It's all starting to hit, but it's just starting to hit mostly in Q2.

And again, until we can really get some data behind us to see what that trend really looks like, we're just not ready to give guidance around ASPs beyond that. But it is all positive signs of all this hard work that's taken many, many months and many, many years to get those wins.

And then again, like we said, it does take a quarter or two to get the benefit. We are starting to see it now, and we're hoping to kind of accelerate those benefits here as we go forward.

Chase Knickerbocker - *Craig-Hallum - Analyst*

Yep. That's fair, Kevin. That makes sense. And to ask that question again, John, in maybe a little bit of a different way, I mean, is there any feedback that you heard from those two payers that reaffirmed negative coverage decision that I guess informs your data generation strategy to maybe reattack them at some point? Any color there would be helpful.

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

I wish they could tell us what's the one study they want us to do that would put any issues to rest, but we really just don't get that. I think one plan talks about we haven't done a mortality trial, and we've explained to them that there's no way to do a mortality trial in this area.

In early-stage melanoma, we found that the survival rate's 99%. Even the current pathway has never done a prospective mortality trial. And what that just tells us is they're just trying to find some reason, no matter how unreasonable, just so that they can justify their position. They aren't saying we have to do one, but those are things they might allude to.

So we don't think that's realistic. There are very few tests that do mortality trials in this area and in any genomic test, so we don't think that's going to happen. But we wish we could find out what is the one study we could do.

We do think the TRUST study, the way it's designed now, there's always been pushback that a chunk of that study had a retrospective cohort, a smaller prospective cohort. And the fact that we now have a large prospective cohort in that TRUST too, that will put down some of the comments that we've seen around that study.

Chase Knickerbocker - *Craig-Hallum - Analyst*

Yep, got it. That's helpful. I think, Kevin, just the last one for me. I just want to put a finer point on that G&A increase. It sounds like that remains in the model at somewhat current levels. You get a little bit of relief starting after April with that additional rent payment coming off the P&L. Is that a fair way to put it?

Kevin Sun - *DermTech, Inc. - CFO*

Yeah, again, we're not giving specific guidance on any line item, but our efforts to try to find more cost savings will help overall. And I'd say there's kind of some catch-alls in G&A too that just don't fit in other areas. So as we start utilizing certain systems or certain spaces or things like that, then those costs get allocated around.

But again, there's a big piece of that that's really the difference between accounting expense and cash usage. And again, specifically related to the building, right? I think most people understand that you've got to straight line the expense, even though when you have a cash rent obligation that increases over the life, and we have a 10-year life, we're taking much more book expense today than a cash outlay. And then by the later terms of the lease, it's more cash outlay than it is book expense.

So that is a big driver, and that's why we would say focus more on the cash-burn metric versus the overall OpEx. But regardless, we are working to get all of the OpEx line items to find savings in all of them and improve the cash runway as well.

Chase Knickerbocker - *Craig-Hallum - Analyst*

Got it. Thanks, Kevin. Thanks, guys.

Operator

Andrew Brackmann, William Blair.

Andrew Brackmann - *William Blair - Analyst*

Hey, guys. Good afternoon. Thanks for taking the questions. John, since this is the last call, best of luck. It's been fun.

Maybe we could just start on the shift in strategy here, and it's been asked somewhat, but maybe just to be more specific. Can you maybe just talk a little bit about any change, specific changes in rep incentives moving forward, and how might those be changing with this new plan? Thanks.

Kevin Sun - *DermTech, Inc. - CFO*

Historically, we've incentivized reps on just overall demand growth, and what we've implemented recently is a focus on some of the other key drivers to drive the relevant needs of the overall plan. And we're continue to evaluate changing the incentive structure going forward as well.

But we want to make sure there's good alignment with the strategy and the prioritization of covered samples, reimbursed samples, and driving ASP growth. But we haven't implemented anything on the incentive side other than what we've done just recently.

Andrew Brackmann - *William Blair - Analyst*

Okay. Thanks for that. And then maybe more of a technical question here as it relates to actually running those non-reimbursed tests. How should we be thinking about your guys' efforts to maybe shield those away from actually being run when they get to the lab, or will that be more up front in the funnel where you're trying to disincentivize those being tested? Thanks.

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

Well, I mean, we're going to have to run the samples at the doctor's order, even if they're non-reimbursed, but that just wouldn't be good from a customer-relation perspective. I think the better way to approach that is what we've talked about is trying to target physicians that have a payer mix that aligns more with our reimbursement profile so that we increase our proportion of covered samples that we're running.

But we just can't not run tests that are provided. We don't want to do that. That's just not good form with our customers.

Andrew Brackmann - *William Blair - Analyst*

Okay. Thanks for that clarification, and thanks for the question.

Operator

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