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DMTK.OQ - Q2 2021 DermTech Inc Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to DermTech's Second Quarter 2021 Financial Results Conference Call. (Operator Instructions) I would now like to hand the conference over to Caroline Corner of Investor Relations. Please proceed.

Caroline Corner

Thank you, operator. Welcome to DermTech's second quarter 2021 earnings call. Joining me on today's call are Dr. John Dobak, President and Chief Executive Officer and Kevin Sun, Chief Financial Officer. This call 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, August 4, 2021, 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 DermTech's most recent filings with the SEC, including DermTech's annual report on Form 10-K for the year ended December 31, 2020, and quarterly report on Form 10-Q for the quarter ended June 30, 2021. DermTech undertakes no obligation to update these statements, except as required by applicable law.

DermTech's press release for second quarter 2021 results is available under the Investor Relations section of the DermTech website, www.dermtech.com and includes additional details about DermTech's financial results. Also available on the DermTech website are DermTech's latest SEC filings, which you are encouraged to review. A recording of today's call will be available on the DermTech website by 5:00 p.m. Pacific Time today. Now I'd like to turn the call over to John.

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

Thank you, Caroline, and thank you, everyone, for joining us today. The second quarter was another great quarter for DermTech. Despite some choppiness in our selling environment as we emerge from the peak of the COVID pandemic, we continue to execute against our core business drivers, which are sample volume growth, payer access expansion and pipeline product development, putting up record numbers in almost all commercial metrics.

Briefly for the benefit of those who might be new to the story, DermTech has developed a noninvasive skin genomics platform. We collect a skin sample with our adhesive based smart sticker. With this platform, we can create a whole new category of medicine we refer to as precision dermatology and address large market opportunities in skin cancer and inflammatory diseases. For example, skin cancer is the most common form of cancer in the U.S. with approximately 15 million to 16 million diagnostic surgical procedures each year.

Our first product addresses melanoma skin cancer, for which there are approximately 4 million to 4.5 million surgical diagnostic procedures performed each year in the U.S. We believe our skin cancer vertical of products addresses a $10 billion market opportunity just in the U.S. To highlight how our melanoma product has the potential to dramatically improve patient care by finding melanoma at the earliest stages when there is a 99% 5-year survival rate, I will share an increasingly common anecdote we are hearing from our current users. Before I begin, I just want to let you all know that after some extensive market research, we are rebranding the name of our melanoma product to the DermTech Melanoma Test, which is comprised of the core Pigmented Lesion Assay and the TERT Gene add on test, or PLA plus. This rebranded name was overwhelmingly supported by dermatologists and it simplifies our marketing messages.

One application of the DermTech Melanoma Test is to assess moles suspicious for melanoma that for a variety of reasons, might not be subjected immediately to a biopsy, but are photographed and/or followed over time for change by a health care provider. It is in these moles where melanoma diagnosis may be delayed or missed, where the earliest stage melanomas may be found and where our precision platform is well suited to provide early protection -- early detection. You can imagine the surprise and satisfaction dermatologists have when our test identifies in early-stage melanoma in a lesion that they could not biopsy on that day. And this is the anecdote we are increasingly hearing about. The lesion the dermatologist surgically biopsied was negative, but the DermTech Melanoma Test picked up in early-stage melanoma in a lesion that we're going to reevaluate in 6 to 12 months, where the melanoma could have progressed to a later stage with a lower survivability rate.

These types of experiences are often catalysts that accelerate utilization of our melanoma test bioclinician, as it helps them realize how the sensitivity and accuracy of our platform can potentially save lives.

Shifting now to our first business driver, adoption and sample volume growth of our DermTech melanoma test. We had record billable samples, assay revenue and new ordering clinicians during Q2 despite the continued limited access for our sales force to physician offices.

Our average daily billable sample volumes increased from approximately 154 per day in Q1 to approximately 183 per day in Q2. Average selling price, or ASP, increased to $248, per sample, resulting in a record assay revenue of $2.9 million in Q2, compared to Q1 ASP of $234 per sample and assay revenue of $2.2 million. In addition, we increased our number of unique ordering clinicians in Q2 by approximately 230 clinicians or 19% sequentially to achieve a total number of unique ordering clinicians of 1,430. We believe increasing sample volumes and ASP through additional payer access, success with appeals and increasing our Medicare proportion will provide long-term -- a long-term compounding effect on future revenue growth.

Our contract revenue was light last quarter at $0.2 million, which reflects a slowdown in activity for inflammatory drug trials due to COVID. However, we have recently seen an uptick in interest from companies looking to deploy our platform in their development programs, and we expect to have some additional new contracts in the second half of the year. During the height of the pandemic, we were forced to go deep into our current installed base of prescribing clinicians as accessed by sales professionals was limited. We noted on the last call that we started an analysis regarding the expansion of our current direct dermatology sales team. This expansion effort will allow us to broadly target potential prescribers, which will help raise the overall awareness of our technology and make it easier for patients to find a participating provider close to home.

We completed this analysis in Q2 and plan to nearly double the target number of professional dermatology clinicians to approximately 9,000 to 10,000 compared to the approximately 5,000 clinicians, which were in our initial target market. The territory alignment to address this larger group of dermatology targets requires us to expand to a total of 72 sales managers and 9 regional directors. To implement this expansion, we recently hired Ray Bassi as our VP of Sales to lead this effort. Ray has more than 2 decades of experience in dermatology sales, and we believe he's an ideal fit to help us transition our selling strategy to go broad throughout the professional dermatology channel.

In Q2, we also completed our analysis for pursuing a targeted selling approach in primary care. Based on a claims data look-alike analysis, including biopsies and dermatologic drug prescription volume, we have identified approximately 30,000 primary care clinicians with claims volume similar

to a small dermatology practice, and approximately 5,000 primary care clinicians with practice volumes similar to an average dermatology practice. We are currently assessing a strategy to address this population of primary care users, which may include some combination of cross-selling by a dermatology professional sales channel, inside sales and a smaller focused team of primary care sales representatives. Through this effort, we will build our initial foundation for primary care selling, which we expect to further develop as our Carcinome product for non-melanoma skin cancer becomes commercially available.

In Q2, we completed some qualitative market research in primary care. This research indicated interest in the melanoma test, particularly among family physicians who practice some level of dermatology. In addition, most primary care clinicians were very eager to have a noninvasive solution for non-melanoma skin cancer, which they see routinely in their practices and have challenges with outside referrals to dermatologists due to excessive wait times, distance to the nearest provider and patient reluctance to take the referral. As noted in the past, we're also currently moving into primary care setting through primary care networks. We continue to make progress with several large networks in key states where we have a commercial presence.

As discussed previously, these efforts have longer sales cycles and can require executive management buy-in, vendor qualification, IT integrations, training and rollout plans, pilots to establish standard operating procedures and finally, contracting. We are at various stages in the process with a handful of large networks and have begun initiating some pilots. These networks span multiple states and have 300 or more primary care physicians. Some are both payers and providers while others contract with third party payers. While at this time, we are not at liberty to disclose the specific names of these networks, we are working hard to move these efforts forward through the rest of the year and are optimistic we can secure some contracts over the next several quarters.

Our telemedicine and in-market beta test has recently gone live in Florida. Our telemedicine app, known as DermTech Connect is now available for both iOS and Android, and we are now offering patient initiated store-and-forward photographic review of suspicious moles by dermatologist. This in-market beta test is designed to confirm the stability of our technology platform, establish marketing funnel metrics to acquire users and test their operational procedures for in-home sample collection. We expect this in-market testing to occur throughout the rest of this quarter and into the fourth quarter. Assuming success of this in-market testing, we intend to expand this offering to additional states and work to develop partnerships with other telemedicine companies and virtual care networks to expand access to the platform. We also plan to pile the platform with existing dermatology customers as a value-added service, they can offer their own patients. And lastly, we plan to develop additional technology solutions that will streamline access to remote skin sample collection for follow-on laboratory testing.

Our second business driver is to broaden our payer access. After our success in contracting with individual Blues plans in Texas, California and Illinois, we have invested in building out our payer access team to focus more closely on contracting with individual Blues plans and regional payers. We've started to see progress with this effort by securing contracts with smaller regional players, where there's an opportunity to grow payable volumes, and we expect more plans to come on board in the future quarters. We have recently contracted with several smaller plans in the Northeast totaling approximately 400,000 covered lives with another 350,000 covered lives pending contract execution. Importantly, these plans also have primary care networks, and we plan to approach these groups about deploying our platform.

We continue to have substantive discussions with national payers and multistate Blues plans. Some of these payers have requested to see the results of our TRUST study published, which has been accepted for publication and is expected to be available by the end of this quarter. We're also working to publish the results of our -- of the Optum study with the goal of enhancing our economic and clinical value position to these important payers. There are no definitive updates on Cigna, and as discussed last time, we have provided them with all requested materials to complete their process.

I will now turn to the third business driver of new product development. Development on the Luminate product continues as planned. Luminate will assess ultraviolet related gene mutations in normal appearing skin, which is related to skin cancer risk and photoaging. We believe the future of skin cancer involves not just early detection of cancer, but detection of precancerous genomic changes, which is essentially what our Luminate product does. Our research and development team has identified several important cancer-related genes that are mutated by ultraviolet exposure, and we are currently optimizing the assay after successfully completing the internal validation study. We've exceeded the 1,000 patient target enrollment for our external validation that was conducted at multiple U.S. centers, and it has now enrolled more than 1,300 subjects. We will begin final validation testing in the second half of Q3 with an expected introduction of the product in late Q4.

We also continue to make product on the verification of gene targets for the Carcinome product, which will facilitate the detection of basal and squamous cell skin cancer. We often field questions about the development challenges associated with this product and the time lines related to this stage of development. The primary reason for the extended verification stage is related to the complexity of this product, which is designed to differentiate 2 non-melanoma skin cancers, basal and squamous cell, from a variety of other suspicious lesions that are often surgically biopsied in this diagnostic pathway. The heterogeneity of the suspicious lesions requires larger numbers of gene-- classifier genes and more complex algorithms that require verification. As noted previously, our clinical study to enroll subjects and samples for the validation study is fully up and running, and we expect to have completed enrollment of this validation cohort around the end of the third quarter of this year. We are still targeting an introduction of this product in mid-2022 as an LVT.

On our last call, we announced our first clinical study in atopic dermatitis to evaluate genomic markers pre and post treatment with biologic therapies, such as dupilumab. Markers identified in this study will be correlated with treatment response, including the Eczema Area Severity Index, itch scores and adverse events, among others. The goal of this study is to identify biomarkers that will predict treatment response to the drugs and other related outcomes. This study is actively enrolling, and we are currently onboarding and training additional clinical study sites. We have made some progress against our target enrollment of 500 subjects with approximately 15% of the study currently enrolled. At this time, we are not able to comment on when a product will be available for this indication, but we are building off some earlier work we completed in this area and have a panel of genomic markers that we believe are relevant. If we can validate these markers in our current study, then we hope to -- we then hope to develop fairly aggressive product time lines. We will provide updates as research progresses.

In addition to all the activities discussed, we spent significant effort on building out additional core commercial laboratory and technology infrastructure, which had been paused due to the pandemic. As we have discussed in the past, we have yet to scale our business operations to a level that will allow us to capture the attractive market opportunity that is in front of us. Part of the scaling effort involves securing a new corporate headquarters, which will more than double our CLIA and R& D lab spaces to support expected higher volumes of commercial tests as well as additional product development efforts. Our facility strategy will allow us to transfer our current CLIA license to the new building upon moving without any interruption to service. We spent considerable time negotiating a lease and feel that the terms are competitive, given the high demand in the local life sciences real estate market. We also feel like we have partnered with a top-notch landlord and have an ideal location to attract and retain talent as we grow.

We are very pleased with our Q2 performance and efforts to expand our commercial and development activities and infrastructure. We're also excited about our efforts to expand beyond dermatology given our progress with integrated primary care networks and the commencement of our in-market beta testing of our telemedicine platform in Florida. We are, of course, carefully monitoring the situation with the Delta variant and other variants of concern. The rise in cases has created some uncertainty in the business outlook, which could cause us to adjust our plans. Given our past success in managing the growth of our business during the first few waves of the pandemic, I'm confident in our ability to achieve success in this challenging environment.

Now I'd like to turn the call over to Kevin to go over our financial results.

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

Thanks, John. Total revenues for Q2 of 2021 increased 269% to $3.1 million compared to $0.8 million for the same period in 2020. Assay revenue for the second quarter of 2021 increased 349% to $2.9 million compared to $0.6 million for the same period of 2020. We continue to see improvements to our ASP in Q2, but our potential assay revenue that could be recognized from having broader payer coverage is still meaningfully higher than the actual reported revenue.

Billable samples for the quarter were approximately 11,750 compared to approximately 3,200 for the second quarter of 2020 or a 267% increase, and compared to approximately 9,400 in the first quarter of 2021 or a 25% sequential increase. Historically, Medicare Advantage samples were a small proportion of our total Medicare samples but recently started to see increases in the mix. Going forward, the Medicare proportion we report will be in total and will include Medicare Advantage. Medicare samples represented about 19% of our billable samples in Q2 of 2021, compared to approximately 16% in the same period of the prior year and 17% in Q1 of 2021. Our Medicare proportion of samples is now recovering from the pandemic low point last quarter. Additional growth in our Medicare proportion could continue to be impacted by the virus variance, and based

upon the proportion of medical versus aesthetic dermatology appointments that clinicians take upon reopening. Medical Derm has not yet fully recovered, and we aren't sure of when it will fully recover due to the Delta variant.

With approximately 2,100 unique ordering clinicians during the last 12 months, we penetrated 42% of our initial target market of approximately 5,000 dermatology clinicians who account for a high concentration of the total annual surgical procedures to diagnose melanoma. This translates into a 22% penetration of our expanded initial target market of 9,000 to 10,000 dermatology clinicians and penetration of about 16% of the 13,000 total practicing dermatology clinicians. We had approximately 1,430 unique ordering clinicians in Q2 of 2021, compared to approximately 620 in Q2 of 2020 or a 131% increase, and compared to approximately 1,200 in Q1 of 2021 or a 19% sequential increase.

Sales call volumes continue to be affected by the pandemic in Q2 due to reduced in-office access to clinicians and were estimated to be less than 70% of pre-pandemic levels depending on region. Recently, sales reps started losing access to physicians' offices in certain geographies with higher COVID case rates, and we estimate the overall level of access by our sales force today is back down to approximately 50% of pre-pandemic levels. We do not currently believe there will be a widespread economic shutdown like we saw last winter and are confident that our sales force will navigate the future environment.

Our average quarterly utilization or average number of tests ordered per unique or in clinician remained strong and was 8.2 billable samples in Q2 of 2021, compared to 7.8 in Q1 of 2021 and 5.2 in Q2 of 2020. New users typically order less per month when they first start using our melanoma test. We expect overall utilization to vary and may even decline in the near-term as we add more new accounts with our expanding sales force. We still expect our total billable sample volumes to increase as potential lower utilization rates are offset with a higher number of overall ordering clinicians. Encouragingly, we continued to achieve record or near record highs during Q2 in key metrics, including billable samples, new ordering clinicians, average monthly utilization and number of ordering clinicians who order 10 or more tests per month.

Contract revenue increased 7% to $0.2 million for the second quarter of 2021, compared to $0.2 million for the same period of 2020. Contract revenue continues to be highly variable and is dependent on the pharmaceutical customers, clinical trial progress, patient enrollment success and other factors. As of June 30, 2021, we had a maximum of $4.3 million in potential remaining contract revenue related to our current agreements.

Gross margin for Q2 2021 was 16% compared to negative 71% for the same period of 2020. The increase in gross margin was largely driven by higher billable samples and assay revenue during Q2 of 2021. Assay gross margin for Q2 of 2021 was 11%, compared to negative 118% for the same period of 2020 and 10% for Q1 of 2021. Q2 is a second consecutive quarter of positive assay gross margins for our melanoma test, even with the addition of the TERT Gene, which slightly increases the per unit cost of the test. We believe achieving positive gross margins given the relatively early stage of commercialization highlights our melanoma test margin potential at higher volumes in ASPs.

Sales and marketing expense increased 130% to $7.9 million for the second quarter of 2021 compared to $3.4 million for the same period of 2020, primarily due to additional headcount for the commercial teams and additional marketing investment. We expect sales and marketing expense to continue to increase throughout the year as we increase the size of our sales force and increase our marketing initiatives to raise awareness of our technology. Research and development expense increased 316% to $3.6 million for the second quarter of 2021 compared to $0.9 million for the same period of 2020. The increase was primarily due to higher compensation-related costs and increased clinical trial costs.

General and administrative expense increased 39% to $6.3 million for the second quarter of 2021 compared to $4.5 million for the same period of 2020. The increase is primarily due to higher payroll-related costs and higher stock-based compensation, offset by lower legal costs. We expect our general and administrative expense to continue to increase throughout the year as we implement systems and infrastructure to support our direct-to-consumer efforts and overall growth.

Net loss for the second quarter of 2021 was $17.1 million, which included $3.5 million of noncash stock-based compensation, offset by $0.2 million of benefits related to the noncash change in fair value of the warrant liability, compared to a net loss of $9.6 million for the same period of 2020, which included $1.1 million of noncash stock-based compensation and $0.2 million of expense related to noncash change in fair value of the warrant liability. At the end of the second quarter, our cash, cash equivalents and marketable securities totaled $268.3 million.

We've made progress with Medicare and the newly contracted Blues plans to resolve the claims adjudication programming issue and start-up challenges. But the process is still not fully efficient, and we are still experiencing some delays in getting some payments or additional documentation requirements, which we'll look to streamline. Payment cycles for non-contracted commercial payers continue to be long and success in getting payments continues to be choppy. We've noticed some improvement with our appeals. We do believe inclusion of noninvasive genomic patch testing in the NCCN guidelines for cutaneous melanoma and data from the Optum study will help in our commercial payer efforts, but it will still take a little time to play out.

We estimate that full year 2021 assay revenue will be between 11.5 and $13.5 million, which represents 171% to 218% growth over full year 2020 assay revenue and considers the uncertainty regarding the pandemic, which is subject to change pending the duration and severity of what appears to be the fourth wave of the pandemic. We continued to execute on our core growth drivers in Q2 and are excited about the sales force expansion for the rest of the year, our initiation of the telemedicine new market beta test in Florida and our first pilots with integrated primary care networks.

Now I'll turn the call back to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Brian Weinsten from William Blair.

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

This is Griffin on for Brian. Just first on the guidance. Can you walk us through the buildup there? Should we roll in that second quarter ASP through? And anything of note on the volume side? And then, you're not guiding to contract revenue, but some comments up there in the prepared remarks. So any color on how we should be thinking about that would be great.

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

Yes. Regarding ASP, we continue to focus on the main drivers of ASP growth, which are sales mix, broader payer coverage, success with appeals and generation of additional data, and we're seeing improvement on those fronts. We do need more historical experience on appeals to better project future ASP growth. Like I said, we do believe that the NCCN guidelines, TRUST and Optum studies will help with these fronts. So we do expect ASP to rise over time, though it will likely fluctuate and we can't really guarantee that there's going to be a linear build.

The contracted payers again can sometimes change documentation requirements for process and claims, which could affect the short-term growth in ASPs. But again, over time, we do expect them to go up. So it could be lumpy. And so instead of assuming the same quarter-over-quarter growth, that's an area where we tend to be a little bit more cautious because it's very hard to predict. Regarding sample volumes, again, this -- that's probably an area where it could be more of a linear type of growth pattern upward. As we hire the new sales force members, again, we've mentioned that it does take somewhere between 9 and 15 months for a sales rep to -- a new sales rep to ramp up to productivity levels of historical sales reps.

And we do believe that ramp period is delayed a little bit because of the pandemic. They don't have the repetition that they're used to seeing. But regardless of that, we would expect a step function of those samples over Q3 and Q4 to be a little bit more linear. And then in terms of contract revenue, again, yes, it continues to be highly variable. And if you look into prior periods where there's like large spikes up, it's usually when there's a large study that's being completed and the extraction work happens.

And so those are very kind of lumpy type of things, which all of that efforts have really been delayed or pushed around -- pushed out because of the pandemic. As John mentioned on prepared remarks, again, we are starting to see some activity pick up in terms of new contracts, but it's very

hard to predict on contract revenue just because it's outside of our control. It's totally up to the pharmaceutical partners and their clinical trial progress.

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

Got it. That's all really helpful. And then just one more, I'm not going to ask about '22 guidance here, it's too early. But conceptually, how should we think about the trajectory of revenues over the next year or 2 versus the low to mid-single digits that we've seen per quarter? I guess, really trying to get at, when should we start to expect to see some sort of an inflection here?

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

Sure. Well, so when we talk about the plan to hire the sales force, and again, we expect to have all of them hired by the end of -- by Q4. And again, with the ramp period, right, that's where we would expect to have -- starting to exceed the hockey sticker acceleration of growth once those new reps can ramp up fully. And then that will drive the volume increases. And in terms of ASPs, again, those are -- that's the hardest question to ask because a lot of this stuff is out of our control in terms of when new payers come on board. But that's where we are focusing our efforts to make sure we can drive adoption and improvements to pricing as much as possible. So payer mix, sample volume mix will help ahead of getting additional new contracts. And then all the efforts with the appeals that we've been working on. So again, we don't have a ton of data right yet with at least appealing in terms of NCCN guidelines, but that's where we would hope that once we start getting some of that coverage, we'll have a better idea of how the ASP trajectory lays out, which feeds into the overall revenue growth.

Operator

Your next question comes from the line of Doug Schenkel from Cowen.

Kyle Boucher - *Cowen and Company, LLC, Research Division - Research Analyst*

This is Kyle on for Doug. Just a question here. You mentioned in your prepared remarks that you continue to make progress with some smaller payers and discussions with national payers continue. In your view, is the broader goal of achieving one national payer this year still achievable?

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

That's our goal. We think it is achievable, and we're working hard to reach that goal. And we have a lot of activity, as we talked about. We are getting the TRUST paper published. Some folks have been looking at that, have been asking for that, the Optum data to be published or -- we think our other pieces of information. But that is -- that's the goal and that's what we're working on.

Kyle Boucher - *Cowen and Company, LLC, Research Division - Research Analyst*

And maybe just one more. On the telehealth solution, is there any data you can point to for any meaningful volumes that have been driven by that thus far? Or is there not enough data there yet?

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

It's only been live really for a week or a little less than a week. We are seeing activity in terms of people accessing the site and downloading the app. But it's -- there's no anything meaningful there just yet. I think this is a process that is going to take some time, as we talked about in the past. It's not like flipping on a light switch. We really have to understand how we need to market this product, both from our own internal DTC efforts, but also through partnering with other virtual care companies. And we also have to roll it out to additional states. So those things are going to take

some time, and it's really a long-term effort to drive that as part of our overall strategy to democratize dermatology care. But we're excited about it. We think that's where the marketplace is heading, and now we're up and running, and we'll be able to grow that opportunity over time.

Operator

Your next question comes from the line of Kevin DeGeeter from Oppenheimer.

Kevin Michael DeGeeter - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Maybe following up on the telehealth opportunity. Assuming that, that platform gets up and running and there's a level of demand from a consumer perspective, when you look at sort of some of the existing contracts or coverage decisions you have, you -- do you need to go back to revisit any of those actually get for the user to be paid under those? And just how from -- are there any unique to either prior authorizations or other elements that come into play as we begin to think about, hopefully, some broader adoption under the technology?

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

The requirement for our test from a payer perspective is that it's ordered by a practicing clinician and one that has some experience in assessing pigmented lesions. And we have dermatologists that are assessing those lesions. So we don't expect that, that's going to impact the payment situation around those tests. When a test is ordered, to the extent there might be some prior authorizations with a particular payer that can still occur if a test is ordered through that platform. So the test is going to be prescribed by a doctor upon review of the lesion as it's got to meet the requirements. That shouldn't be an issue and we have not -- we don't expect anything there.

Kevin Michael DeGeeter - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

And there is a follow-up, and then I have one separate question. As we think about the rollout of Luminate and then Carcinome, is that telemedicine platform, a more meaningful piece of the go-to-market strategy for those 2 products? Or should we think about the relative emphasis in the field sales rep for telemedicine emphasis being similar between DermTech Melanoma and more pipeline programs?

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

Well, I think there's an opportunity for -- certainly, the Carcinome to be deployed into our telemedicine channel. And that's partly why we're -- we want to get the groundwork laid for that particular channel. So Luminate is going to be -- is similar in the sense that it requires a direct-to-consumer marketing effort. And so I think there are going to be synergies between what we do in terms of marketing for the Luminate with both the telehealth and even with any of our other products. So that's why we've -- we're trying to create this vertical of skin cancer products because we do see synergies in terms of all of our marketing activities across all these different channels with all these different product lines because they are all skin cancer related. So we will deploy whatever we can through that telemedicine channel. We'll also deploy whatever we can through our professional sales channel. And we want to leverage all the -- that infrastructure we've built and all the synergies we can achieve through all these efforts.

Kevin Michael DeGeeter - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

And then just lastly for me today. As we continue to see some really nice update with DermTech Melanoma, have you identified a target dermatologist profile that tend to be some of your most active users? Is it more of the sole practitioner, member of a group practice, certain other features that you've been able to identify that are associated with not just early adopts and trying the [best], but translating that into higher volumes of regular use in their practice?

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

Not a lot of changes from what we've talked about before that it tends to be the smaller independent practices at this time for fewer dermatologists in a practice, they tend to be a little more suburban. They also tend to be female dermatologists. But I think that's going to change, right? Our strategy to go broad as we expand the sales team where we're going to go broadly to a lot of derms, and we're going to be just asking for potentially less incremental utilization for any given account, that dynamic is going to change a little bit. But that's where we are now with our -- in our strategy where we go deep is that tends to be the profile that pops out.

Operator

(Operator Instructions) Your next question comes from the line of Thomas Flaten from Lake Street Capital.

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

Great. Congrats on the quarter. Kevin, you mentioned in your prepared comments that you would have the expanded sales team hired by the fourth quarter. Could you give us a sense of where you are in terms of that expansion as we sit today?

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

Yes. We've hired a few additional reps since the end of Q2. And as we mentioned to Ray Bassi as our VP of Sales started, I think, about a month ago now. And so we've already specked out a lot of the -- all the territories we want to hire, we've posted all the positions. Ray, again, has a broad network of dermatology sales professionals from his prior experiences. And so I believe he's already got a good number of people that we're targeting to bring over, and we're already getting responses from our posted job posting. So probably at about 43, 44 right now in terms of actual sales reps, that's up from 40 at the end of last quarter. And again, we would plan to get as many as we can in the coming weeks. And so even though our target to finish everything is the fourth quarter, we do hope we can get everything done even quicker than that.

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

Got it. And then a question on the numbers of primary care physicians you identified. So there was 35,000 that have claims database or profiles that resemble derms. But then there was a separate group of primary care physicians that are in larger networks. Is there overlap between those 2 numbers? Are those entirely separate target audiences for you?

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

Yes. It was -- there could be some overlap, and we've tried to filter a little bit for that. But we try to find primary care doctors that we could -- would call on outside of the activity we're doing with these networks. And that's where those numbers from the look-alike analysis come from. So those would be actually that 5,000 group -- that group of 5,000 doctors that practice -- that have practiced claims volumes that are similar to an average dermatology practice. Those are ones we want to call on. Specifically with a direct sales calls because they would be outside of the activity we have within some of these network opportunities.

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

Got it. And then just one quick final one. On your order forms, as I understand it, the doctor has to proactively check the TERT box. How often is that happening? Or have you figured that in such a way that TERT's automatically included? How is that working?

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

We continue to roll out the TERT. I think more than half of the tests we're receiving now have the TERT Gene added to it. So we're not fully deployed there, but that's growing. And I don't suspect that's going to be a problem to continue to grow that. It just takes some time to get things changed over at the doctor's office with reduced access, et cetera, and get the -- some of the training done with the sites by checking the box, but that continues to grow.

Operator

Our next question comes from the line of Alex Nowak from Craig-Hallum.

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

Jumping on between a few calls here, but I was hoping you could expand on the sales and marketing changes that you're making. Not only putting more feet on the street but really, what else is being done to raise awareness for the PLA test, either from a rebranding initiative or different marketing you're doing out there? What are you doing from the medical liaison side to help build that doctor funnel to expand and go deeper into accounts? And then the final question would really be, what is the major pushback from the doc that has used the PLA maybe once or twice? What has the pushback been to get them to use it more frequently like your high-volume users?

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

There's a lot of activity going on in the marketing side. We've been scaling that up now. I think we have 5 MSLs now strategically placed around the country. They're really in charge of leading that KOL activity and the more peer-to-peer selling in those regions. And most of those folks just have come on in the last 6 months. So they're really getting up to speed. They're terrific candidates. A lot of them have a genomics background and have advanced degrees.

So they bring a lot of credibility in terms of managing all that KOL activity and the peer-to-peer selling. Todd has a lot of initiatives ongoing to -- in terms of increasing our presence not only at societies and local meetings. He's been working on improving the messaging about how the product should be used and highlighting the accuracy, the whole position that we talk about that we're not really necessarily competing with the biopsy. So there's a tremendous amount of activity going on. All the strategic communications, we've got a person there that's now working on all the strategic communications that go out to the doctors.

And then the digital, our find-a-doctor volume has, I think, doubled since some of the numbers we talked about in the early quarters of the year. We've got, I think, from about 7,000 find-the-doctors per month to around 15,000 per month. So we're really starting to refine that digital marketing effort. And we have more evidence showing that, that does translate into some sample volume by doctors that are on that find-a-doctor search are growing faster than those that are not. We have a big effort also to continue to add doctors to that find-a-doctor search.

Now we have to go and they have to sign a contract to be on that. And that's been a little slower because of the access to the office, but we've been adding more to that find-a-doctor platform. So there's just a lot of marketing activities going, that's been part of our scale up, right? It was another thing we had kind of paused. We really hadn't invested fully in the marketing the way we should have, but that's really happening now, and there's been a tremendous amount of activity there. In terms of how do we get doctors from the lower utilization buckets to the higher utilization buckets, a couple of things there. One is dermatology is a frequency call point, right?

We are trying to change their habits. They're trained a certain way. It's the case with any dermatology product that you've got to have high-touch activity with them. And again, that's been constrained over time because of the pandemic, and we saw it getting better, and we were very excited, and we liked some of the follow-through we saw from June into July. But with now the choppiness has kind of come back in with the rise in the pandemic. But we think that, that's an important piece to drive that utilization, is just that frequency of calls, and we're doing everything we can to get the frequency that we need.

The other thing we always talk about, is they do have an Aha moment where the anecdote I gave, they find a melanoma that was unexpected, particularly in the lesion that they weren't going to biopsy that day. And that is often a catalyst, and that's probably the biggest catalyst. And we've tried to roll out various things to get people through that catalyst point more quickly like the road to 100, we call. That again, requires the access to the dermatologist office. But we think that's going to be a successful campaign when we can get more normal access to the doctor's office.

So those are the things we do to drive that volume. The last thing I'll just say on this is that as we go broad, the -- and we expand the sales team, we're not going to be relying as much on heavy volume users. The idea to go broad is, we can get the volume and the growth and that inflection point that Kevin talked about earlier, by having that even more modest average utilization rates. And that's what we've always been trying to get is that broad launch, and that's where we're going. So I think even when we look at the number of users, the average number of samples that users are doing today across all of our users, as we go to this broad strategy, that's going to help drive that sample volume growth that we're looking for and that everybody is looking for, with that inflection point.

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

Yes. And we've mentioned before, too, where there's probably 20% to 25% of the surgical biopsies right now where dermatologists have no pushbacks or concerns at all to integrate or start using our technology. Those are cosmetically sensitive areas, people who are anti coagulated, people who have issues with wound healing. And so that's, again, a million tests per year if we get broad access across all dermatologists and all those procedures. So I think that's part of what we're trying to do here is, again, making sure that we can get to that broad access across all the dermatology targets that we're looking at. And as John said, they will get to that Aha moment eventually where the performance of the test really kicks in, and then they'll start -- that's how they become true believers and really start ramping up their utilization.

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

I really appreciate that, John and Kevin. Very helpful. And maybe one area where you don't have a connotation with biopsy and no preconceived notion is on the PCP route. So maybe expand on what you're hearing from them, what the initial response has been. And what the volume uptick there is.

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

So we haven't -- we don't have a lot -- much -- we obviously have some primary care users, and they tend to be fairly robust users, and that's why we wanted to build on that. I think we're all pleasantly surprised by some of that qualitative market research, particularly among family physicians and their interest in even the melanoma test. What was very clear was their interest in a non-melanoma skin cancer test. We're doing more quantitative research around that to understand expected volumes in any given practice, and what the effort might have to look like for us to really get more broadly after primary care selling directly.

I think, again, our -- one of our greatest opportunities to get going in primary care is through these network plays because that's an aggregated group of clinicians. Yes, the cycle to get those deals closed is longer and it's more complicated. But you're not having to hire hundreds of reps to call on these doctors individually. These are aggregated groups of primary care physicians. And that's how we're leveraging that they're already in one location. And as we've talked about, we have some pilots going on. We're progressing through the process with a handful of these networks. And I think we're going to -- that's going to start to bear some fruit in the coming quarters.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you for your participation, and have a wonderful day. You may all disconnect.

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