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DMTK.OQ - Q3 2023 DermTech Inc Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to DermTech's third-quarter 2023 financial results call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session question. (Operator Instructions) Please be advised that today's conference is being recorded. I'd like now to turn the conference over to Steve Kunszabo. Please go ahead.

Steve Kunszabo - *DermTech, Inc. - IR*

Thank you, operator. Welcome to DermTech's third-quarter 2023 earnings call. With me on today's call are Bret Christensen, 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 statements regarding projections of the future performance or financial outlook of DermTech, the performance, patient benefits, cost effectiveness, commercialization, and adoption of our products, and the market opportunity for our products, 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 continue to cause such differences are described in today's press release and our most recent filings with the SEC, including our annual report on Form 10-K filed on March 2, 2023, and our quarterly report on Form 10-Q filed on November 2, 2023. We undertake no obligation to update these statements except, as required by applicable law. Our third-quarter 2023 earnings press release and SEC filings are available on our Investor Relations website. A recording and transcript of this call will be available on our website later today. With that, let me turn things over to Bret.

Bret Christensen - *DermTech, Inc. - President and CEO*

Thank you, Steve, and thank you, everyone, for joining us. We're really excited by the significant improvement in many of our top-line and operating metrics. We're just a few months into our strategy of prioritizing reimbursed tests and revenue growth, and we're already seeing faster progress than we expected. In the third quarter, ASP for DermTech Melanoma Test or DMT, and test revenue grew at solid year-over-year in sequential rates.

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We also reported an improvement in the Medicare proportion of billable samples to an all-time high mark, which is about half of our addressable market, as well as an increase in our total proportion of reimbursed tests. We recorded a positive gross margin and significant expense in cash burn reductions. Nearly all of our key performance indicators are heading in a positive direction, and we believe that with more time to refine our commercial tactics, we will continue to improve our operating results. Before I take you through several elements of our recent progress, let me take a step back to reframe the opportunity.

First, we have a great technology that can significantly enhance the standard of care for evaluating melanoma. Melanoma is the most aggressive form of skin cancer and claims approximately 8,000 lives annually in the US. Dermatologists are working hard to provide great patient care, but they face capacity constraints and limitations, with traditional methods such as surgical biopsies. The DMT detects genomic markers that are correlated with an increased risk for melanoma and can aid decisions (technical difficulty) by clinicians.

Second, we believe there is a place for the DMT in every dermatology office, alongside established protocol. The DMT is non-invasive and rules out melanoma with a 99% negative predictive value. Whether it's using the DMT in a sensitive area such as the face or providing clinicians and patients with peace of mind for a clinically suspicious lesion that the clinicians don't want to biopsy, there is room for it to be used in several ways. As an example, if we capture just 5% of the approximately 4 million surgical biopsies performed each year, at a price that's in line with the Medicare rate, the revenue potential is over $150 million annually.

And third, we can lower the cost to the healthcare system by ruling out the need for certain surgical procedures, while also providing a better patient experience. Insurance providers continue to expand access to our tests, and we've cleared administrative and billing hurdles with certain payers, where a favorable coverage policy and agreement were in place earlier this year. For example, we're now seeing consistent reimbursement from two national government payers and one of the regional Blues plans. We also signed an agreement with Highmark during the third quarter, bringing the DMT as an in-network benefit to one of the largest Blues plans in the US, with approximately 7 million members.

We will continue to reinforce our message around the clinical and health economic benefits of the DMT with payers that don't yet cover our test and continue to improve reimbursement patterns where coverage already exists. There's more to do, but we're on the right track with 133 million covered lives today. Our visibility with payers also improves through state legislative efforts. Bills mandating insurance coverage of genomic testing or biomarker bills are gaining visibility across the US, as lawmakers advocate for improving access to potentially lifesaving genomic tests.

One example was the recent passage of the California Biomarker Bill, which mandates coverage based on specific criteria, effective in January of 2024. California's profile as a large state with a significant Medicare population, makes this an important step in strengthening access for patients. More than 10 states have now passed Biomarker Bills, and several states currently have bills making their way through the legislative process. Our TRUST 2 Study, which we initiated in 2022, should provide additional real-world evidence regarding the DMT's performance.

The results, if positive, may support reengagement with payers. This study is designed to follow a cohort of 2,000 to 3,000 patients with negatively tested lesions for up to one-year, and also assesses the histological diagnosis of up to 1,000 lesions that tested positive with the DMT. We expect to have top-line data before the end of 2023. As we consider the evolution of our commercial business during the quarter, it's worth quickly reviewing the tactical initiatives we undertook in July to prioritize reimbursed tests and maximize revenue.

We're still in the early days of evaluating feedback from the field and our customers, but it is evident that the immediate impact has been positive on boosting ASPs and test revenue. First, we aligned incentive compensation for our sales team, with prioritizing reimbursed tests and revenue over volume growth. We've also improved reporting and made our operating dashboards more robust to support the field with targeting reimbursed tests. Throughout the rest of the organization, we've aligned incentive compensation and projects to prioritize ASP and revenue growth.

We've also dissolved certain territories and merged others to focus on reimbursed samples where we already have insurance coverage or where we have healthy volumes that can facilitate positive discussions with payers. As a result, we've reduced our sales territories from approximately 70 to roughly 60. Third, we've shifted our spending more closely to sales team enablement rather than broad-based marketing efforts. We've improved our customer and patient-facing collateral and highlighted key insurance providers that cover our test.

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We still plan to participate in national dermatology conferences such as Fall Clinical, which we attended in mid-October to meaningfully engage key opinion leaders and support presentations that highlight the clinical value of the DMT. We're also recalibrating our direct-to-consumer marketing tactics, to capitalize on areas where we have insurance coverage. Lastly, we appointed Mark Aguillard in September as our Chief Commercial Officer. Mark is a proven commercial leader with over 20 years of experience driving the commercialization of multiple novel molecular diagnostics.

He served in commercial leadership roles with leading healthcare companies, directing sales, marketing, medical affairs, customer success, and market access teams. We're grateful to have him on our team during this transformational period. As we've shared, we are intentionally pursuing a strategy that prioritizes robust ASP and revenue growth over volume growth in the short-term. The third-quarter results reflected this shift.

In addition, we anticipate that the reduction and realignment of sales territories, could further impact billable sample growth over the next few quarters. We'll prioritize test volume again when we're further down the path of sustained revenue growth. In closing, my vision is for the DMT to be deployed universally as part of the melanoma care pathway. We've begun taking important steps to execute against this goal.

We're prioritizing reimbursed tests over volume growth to grow revenue, engaging clinicians with a clearer message to improve traction in communicating the DMT's clinical value proposition, we're continuing to improve payer coverage for the DMT. And finally, our total operating expenses and cash burn are at the lowest levels in approximately two years, while we're generating higher revenue. I look forward to a strong finish in 2023. With that, let me turn the call over to Kevin for a more detailed financial review.

Kevin Sun - *DermTech, Inc. - CFO*

Thanks, Bret, and good afternoon, everyone. I'll summarize our key financial and operating metrics for the third quarter, then recap how we're thinking directionally about our outlook for the rest of 2023. I'll wrap up by outlining our liquidity profile and cash runway targets. All comparisons are to the same quarter of the prior year, unless otherwise noted.

Test revenue was up 8% to $3.7 million and increased 4% sequentially, largely due to higher ASP for the DMT. Billable sample volume declined 13% to approximately 15,710 and was down 10% sequentially. The year-over-year and sequential decrease was partly due to the impact to the field from our prioritization of reimbursed tests and the overall reduction in the size of our sales force. As previously noted, we also stopped testing samples from pediatric patients and certain [cystparick] skin types earlier in the year, based on guidance from our lab accrediting organization, which also affected the year-over-year comparison.

The sequential decrease was also partly due to typical seasonality we see during the summer months. Contract revenue was $0.2 million compared to $0.1 million, the increase is from activity related to clinical trial progress of our biopharma customers. Total revenue increased 10% to $3.9 million, primarily on higher test (technical difficulty). Drilling into our test revenue drivers: First, ASP was up 24% to $235 per sample and up 15% sequentially.

The Medicare proportion of billable sample volume improved again, increasing sequentially from 25% to 27%. In the last two quarters, this proportion has increased by 4-percentage-points and has been a key component of ASP improvement. As Bret noted, we're finally benefiting from the new payer coverage we brought on this year. It took multiple quarters to clear administrative and billing obstacles, but we're now being consistently paid by TRICARE, [the VA] and one of the newer regional blues plans.

We're working with the other regional blues plans where we have a favorable coverage policy and an agreement, to achieve consistent payment behavior. Net prior period adjustments had a negligible impact on test revenue during the third quarter. Even with favorable payment trends and the onboarding of new payers, ASP fluctuates as payers have and could continue to update their administrative procedures, documentation requirements, or indications for use, among other things, for obtaining reimbursement, even those payers with positive coverage policies and or contracts.

Second, we had approximately 2,250 unique ordering clinicians in the third quarter, down 7% sequentially. With approximately 4,210 unique ordering clinicians during the last 12 months, we've penetrated 47% of our total current market of 9,000 dermatology clinicians. Third, our average quarterly utilization or average number of tests ordered per unique ordering clinician was, 7 billable samples in the third quarter versus 7.2 in the second quarter and 7.5 in the year ago period.

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Turning now to operating expenses. Cost of test revenue was $3.7 million, an increase of less than 1%, yielding a test gross margin of 1%. The increase in cost of test revenue was primarily due to higher infrastructure costs related to our new lab. Sales and marketing expenses were $8.1 million, a 44% decrease, largely due to lower employer-related and marketing expenditures.

Research and development expenses were $3.6 million, a 37% decrease, primarily due to lower employee-related and lab supplies costs. General and administrative expenses were $8.3 million, a 6% decrease, driven by lower employer-related costs, offset by higher infrastructure costs related to our new facility. Total operating expenses decreased substantially due to the restructuring actions we implemented in the second quarter. On a full-year basis, using the third quarter as a benchmark, our operating expenses could be lower than the $25 million to $30 million in annualized cost savings, identified (technical difficulty) when we announced the restructuring plan.

Net loss was $19.2 million, which included $3.2 million of non-cash, stock-based compensation expense, compared to a net loss of $28.8 million, which included $4.9 million of non-cash, stock-based compensation expense. Moving now to our 2023 outlook, we believe DMT volumes for 2023 will be flat to modestly down compared to last year, primarily due to our prioritization of reimbursed tests and the impact in the field due our change in tactics. ASP and test revenue are moving in the right direction, and we believe these top-line metrics should increase versus 2022. Providing specific guidance remains difficult until we see a good trend for several quarters in payer reimbursement behavior and the sustained effectiveness of our new commercial tactics.

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 $71.7 million, which includes net proceeds of approximately $0.5 million from stock issuances under our At the Market or ATM facility during the period. When excluding non-recurring costs related to our restructuring plan, our net cash burn has declined from approximately $100 million for 2022 to approximately $65 million, based on an annualized third quarter run rate, a 35% decrease. We'll continue to be rigorous with our capital allocation and look for additional efficiencies and cost savings as we finalize our plan for 2024.

We believe we have cash runway into the first quarter of 2025. In addition to these significant expense savings, driving ASP and revenue is a key factor that helps preserve and potentially extend our cash runway. In summary, we've significantly improved many of our key operating and financial indicators in the third quarter. Our new commercial tactics are taking hold and supporting our strategy of increasing the proportion of reimbursed tests and growing revenue. We believe this approach is the best way to reach a meaningful revenue inflection point while sustaining our cash runway. With that, I'll turn the call back to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator

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

Thomas Flaten - *Lake Street Capital Markets - Analyst*

Thank you. Good afternoon and thanks for taking the questions. Kevin, with respect to the significant cost reduction that we see in the P&L, is the third quarter a nadir or do you expect additional savings as we roll through fourth quarter as well?

Kevin Sun - *DermTech, Inc. - CFO*

Yeah, we originally said that using the fourth quarter of 2023 would be the benchmark moving forward. So while we also said that we are pleased that we're a little bit ahead of where we thought we would be, we are still working to find some additional savings. So it's yet to be determined, I would still point to the fourth quarter is probably the best benchmark for what the cash burn should be going forward.

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Thomas Flaten - *Lake Street Capital Markets - Analyst*

Got it. And I think in Bret's prepared comments, you mentioned that you were starting to see some flow through from recently contracted payers. Are you guys specifically calling those payers out from a sales rep messaging perspective? Or how are you going about educating the docs on which payers pay and which don't?

Bret Christensen - *DermTech, Inc. - President and CEO*

Yes, hi, Thomas, this is Brett. What we've done is -- again, we changed a lot of the tactics just to get to reinforce revenue, and that's how salespeople are paid, there's incentives across the organization, it is our focus. We've got some really good tools that we gave the salespeople that allows for them to see where claims are coming, that helps them prioritize where we've got reimbursement and where we don't. We also realigned the territories. So in general, the territories we've got today have pretty good reimbursement, that's how they're aligned and that's how they were selected.

And we're also giving them tools to help them understand the practices and where the opportunity exists within their own territory. So all of it is with a focus on the ASP and more reimbursed tests in the door. We're still welcoming all tests, but anything that we know we can get paid for is the priority with the field.

Thomas Flaten - *Lake Street Capital Markets - Analyst*

But you're not specifically engaging the doctors in a conversation about which patients have paid or likely to be covered versus not?

Bret Christensen - *DermTech, Inc. - President and CEO*

No, we're not.

Thomas Flaten - *Lake Street Capital Markets - Analyst*

Got it. Appreciate it. Thank you.

Bret Christensen - *DermTech, Inc. - President and CEO*

Yeah.

Operator

Mark Massaro, BTIG.

Vivian Bais - *BTIG - Analyst*

Hey, guys, this is Vivian on for Mark, thanks for taking the question. So in terms of update for national plan, I think I heard in the prepared remaks that you are getting paid by some plans today. Is this a precursor to a formal contract? I'm just curious how dialogue on that front has been progressing? I also think I heard you talk about TRUST to moving the needle here shortly. So I just wondering if you'd comment on that. Thanks.

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Bret Christensen - *DermTech, Inc. - President and CEO*

Yes, hi, Vivien, thanks for the question. This is Brett. So we've got really strong coverage today. Again, we're about 45% of all covered lives, and that's a 45% increase just this year in reimbursement for the DermTech melanoma test. As far as a national payer goes, depending on how you define a national payer, if it's one of the big four: United, Aetna, Cigna, Anthem, we have yet to get a positive policy addition from any of those four.

But we are billing for those tests, we are running appeals, PAs, and we've got really strong coverage with the blues plans having seven of the largest 10 blues plans covered across the US. So between Medicare, those large blues plan, and other regional payers, we're in a pretty good spot with coverage and we're continuing to have pretty good conversations with the national payers that we believe will come onboard eventually. The value proposition, the clinical utility, everything's just to good, we just need to continue to pressure those payers and have meaningful conversations, so we can get them on board.

Vivian Bais - *BTIG - Analyst*

Okay, perfect. And if I could just squeeze in a follow-up, in terms -- I think you've added around 133 million plus covered lives year-to-date. So in terms of the contribution of these recent payer wins here in Q3, should we think about all that as having been operationalized already? Or is there some remaining benefit to ASPs that could happen in Q4?

Kevin Sun - *DermTech, Inc. - CFO*

Yeah, Vivian. So the 133 million is the total amount of covered lives we have as today. That's the increase from, call it, 91 million from the end of last year. And so in Q3, as we were bringing on those new payers throughout 2023, it was really Q3 which really the first meaningful quarter that we had any benefit from those plans. And as we mentioned, the government plans of TRICARE, VA started paying us consistently in the third quarter.

We also had one of the regional blues plans start paying consistently. There's other plans that have not started paying consistently and some of that those new covered lives in 2023 that actually haven't paid hardly at all. So we do have additional benefit that we will get in the future as we continue to bring on those new plans. And even within Q3, it wasn't, I'd say even the full quarter that those few plans that did start paying was benefiting us. So there is definitely upside still from the coverage we have. And as we continue to bring on new coverage, again, we'll look to accelerate the ramp-up period to get the benefit in the future.

Vivian Bais - *BTIG - Analyst*

Okay, perfect, understoood. And if I could just squeeze in one more here, so I understand you're not providing formal guidance, how do we think about volumes trending into Q4 from here sequentially? And then if you could just give any more granularity on the trade-off you've been making recently and between volumes and ASP with the recent reorg initiatives? And that's it for me. Thanks.

Kevin Sun - *DermTech, Inc. - CFO*

Sure, Vivian. The strategy change and focus change that we announced really on the last call after Q2 was -- really trying to prioritize ASP and revenue versus volume. It was really important for us early in the lifecycle of the DMT to make sure the volume was growing. That gets the attention of payers, it creates a lot of utilization and awareness with dermatologists and patients.

So prior to really Q2, the volume was really our focus as an organization. The change that we made, the shift, was around making sure we monetized that volume. Because we've seen some pretty good volume growth in the past, but we wanted to make sure that ASPs were going up. And frankly, with all the wins that we've had in market access, this 133 million covered lives that we have (technical difficulty) we want to get the test volume in the door more representative of reimbursement.

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And so all the changes that we made were around incentives, targeting, activities, messaging, everything with a focus of ASP. And what we said was: we were okay with that pretty dramatic shift in focus if volume was flat or even declined and we did see it declined slightly this past quarter. And that could persist for quarter or two as we continue to ramp ASPs and keep the focus on revenue. And we've said we'd be okay with that, because again, we've got to make sure that we're monetizing the volume and making sure we get the right percentage of reimbursed tests in the door. And we'll start growing volumes again after that, but we want to make sure that's the focus (technical difficulty) in the near-term.

Vivian Bais - *BTIG - Analyst*

Awesome. Thank you for taking the question.

Operator

Alex Nowak, Craig Hallum.

Alex Nowak - *Craig Hallum - Analyst*

Okay, great. Good afternoon, everyone. Going back to the national payers, the team here has been working for years to get it, but let's say one are the top four payers to come in and reimburse the DMT test. As you join, I don't know, six months or so ago, when you reviewed how the team was communicating with the payers and what they're providing the payers with, whether it be the trust data or economic data or any of the details, what changes have you made there and the communication with the payers to hopefully make this more likely, we'll get one of those big guys over the finish line?

Kevin Sun - *DermTech, Inc. - CFO*

Yeah, thanks for the question, Alex. Of the four national payers, we did have three reiterate a negative policy decision early in the year, really prior to my arrival. When we look at the story, the messaging, everything that a payer should look at to evaluate coverage of the DMT, it's a great story, it's a great story for payers. There's a ton of cost savings here for payers if they just cover the test.

What my understanding is, what we saw from those negative policy decisions was the lack of sighting of the most recent data, or health economic data that shows these tremendous savings to the system. That's probably true, we are we're a small company, it's hard to get these payers' attention. We've got a really strong story we'll keep hitting them with. The trust to date that we will see at the end of the year is an opportunity once we publish that, too, to revisit the test with some of those payers that have given us this negative policy decision.

And then there's a whole bunch of advocacy that we've stepped up and need to continue to step up with patients, dermatologists, and anyone that's going to advocate for this test, which really is superior. It's superior patient care, it's great for patients, it's good for payers, it really does benefit all of our stakeholders, and it's just a comprehensive message that we need to continue to hit them with. We're confident we're going to get there, really. And then, look, if we get continued to have more regional wins, more blues wins, all that puts pressure as well on national payers. We know we're going to get there. It's just it takes a little bit of time.

I think, Alex, if you remember, I have said, my experience, it takes a lot of time sometimes with these national payers. At my previous organization, I joined that organization 15 years into the product launch and we still don't have coverage for many of the national payer. So it does take a lot of time, we've got a really attractive value proposition that I know is going to resonate with payers, it's just going to take us a little bit to get there.

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Alex Nowak - *Craig Hallum - Analyst*

One of the things I've talked to the team about over the years covering DermTech was, if we need to get AAD guideline out there for DMT, what's your view on it? I mean, guidelines, obviously, super important from the old employer, other health care names is super important, and it's always been a little bit dismissed that we need AAD guidelines. But what's your view?

Kevin Sun - *DermTech, Inc. - CFO*

Well, I think it certainly would help. I don't know that we need it. Honestly, if you think about some of the headwinds that we have within dermatology, it isn't that dermatologists, in my opinion are waiting for guidelines, it really is they need to understand where this test fits within their practice. Some of the changes that we've made for messaging is about helping them understand exactly what it is.

Remember genomics is still fairly new to the dermatology specialty. So we're explaining what the test is, what it is not. It isn't a diagnostics, so we're not diagnosing melanoma, we're ruling out melanoma. And has a tremendous value to patients and dermatologists, because again, there's some lesions that they see that are very suspicious that they're going to go right to biopsy. That's fine with us. But when there's a lesion that you're uncertain about that is mild to moderately atypicals, somewhat suspicious, you don't want to do biopsy in many of those cases.

We want to start there. We want to get those biopsies because they don't want to deal with them, and the DermTech Melanoma Test is non-invasive and a perfect solution with a really good patient experience. So look, I think we've had maybe some missed opportunities with the messaging that we've remedied and we're just now getting that rolled out. I think that's going to resonate with dermatologists.

And look, if we get 10% of the 4 million biopsies that are done every year, that's 400,000 tests, that would be a pretty good start to where we want to go. And so that's what we've done. Look, guidelines would help and we'd certainly welcome that. But I don't think it's a critical piece that's missing.

Alex Nowak - *Craig Hallum - Analyst*

Okay, makes total sense. And then lastly, the Biomark fulfills, your home state now passed one, a number of other larger states have passed some recently and they go into effect next year. Could that actually, I guess, what the work internally that you've done, could that actually be a material boost to the ASP next year?

Steve Kunszabo - *DermTech, Inc. - IR*

Well, what it should do is it should boost policy and contracting with our market access teams. Because these biomarker bills are pretty explicit with what should and should not be covered. And depending on the state, in California, it's one of those that we did call out in the script here, that is really going to be positive and should influence payers to cover the DMT. And so with the teams do, as you're aware, we're taking these legislative headlines as they happen, and we're taking them to payers and just incorporating that into our message to again encourage them to cover the DMT sooner. Look, they should have an effect, this is why we called it out in the script. We're really optimistic with this trend and hope that it continues.

Bret Christensen - *DermTech, Inc. - President and CEO*

And the mountain momentum of these biomarker bills in various states, right? This is when, say a national payer has to cover in a number of states and also for Medicare advantage populations, if they don't cover more broadly now, they've got disparities of coverage within their populations, which makes it difficult to administer. So again, it's not something that we view is going to be the one silver bullet, but it's a mounting piece of action that should help bring on coverage in the future.

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Alex Nowak - *Craig Hallum - Analyst*

Yeah, I totally agree. Appreciate the update. Thank you.

Bret Christensen - *DermTech, Inc. - President and CEO*

Thanks, Alex.

Kevin Sun - *DermTech, Inc. - CFO*

Thanks, Alex.

Operator

(Operator Instructions) [Joe], Cowen.

Joe - *TD Cowen - Analyst*

Hey, this is Joe, out for Dan. Just first, now that gross margins have turned positive, is there any way to think about how fast these might shape up. You can start driving some leverage here despite volume maybe being sustainably lower for a bit, closer to that 1,500 billable sample level for a few quarters?

Bret Christensen - *DermTech, Inc. - President and CEO*

Yeah. Hey, Joe, the margin, right, it's at this early stage and it's impacted by a couple of big things. So ASPs will certainly help margins quite a bit even if we keep everything else equal. So as our focus on ASP and revenue growth, that that will help the margins. And then as we've moved into our new laboratory which we completed back in Q1, we can now focus on finding additional cost savings and efficiencies, and we have a number of efforts focused on those things. So, that, along with getting some additional capacity absorption of our fixed costs will help in those margins.

So we do believe that over time, we've got runway to bring the COGS below the $200 mark. And again, we're working on those things now. It's not just through the capacity absorption, but also a number of process improvements. So we're working on those things, and it's something that some of them can take a little bit longer if we're talking about technology changes and such. But we do see a pathway of having some meaningful gross margins in the future.

Joe - *TD Cowen - Analyst*

Great. And then just in terms of the Medicare proportion of billable samples, is there some range that you think can drive that number into the next year or two? And how do you think that might affect ASP in like an optimistic scenario?

Kevin Sun - *DermTech, Inc. - CFO*

Yeah, Joe. We just know it can go higher. So it's 50% of the opportunity by itself, just because 50% of biopsies done in dermatology are Medicare claims, and so it's such a massive opportunity for us. Along with other reimbursed covered tests have just been a focus of ours and something we're watching closely. We just know it can go higher and we'll find out where it settles in in the future. But that is the focus today.

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Bret Christensen - *DermTech, Inc. - President and CEO*

Yeah. Like many things, we have this quarter showed some really good progress when we've been flat for a while. And so before we're ready to really give any detailed forward-looking guidance on any of these metrics, we do want to see a little bit of a trend, so we can see if we can sustain that improvement.

Joe - *TD Cowen - Analyst*

Great. Thanks a lot.

Operator

Jake Evans, Stephens.

Jake Evans - *Stephens, Inc. - Analyst*

Hey, guys, this is Jake Evans for Mason. A lot has been covered today, so I'll just keep to one. So on the TRUST 2 Study timeline, if we were to think about a best-case scenario, the timeline for results to readout. You said results might readout by the end of this year, top-line results, but then for results readout for to get published for you to submit the payer, the payer to review it, and adopt coverage and then you start getting paid. How should we think about that? I know that there's a lot of variables there but any way to give us a general timeline on what that would look quite look like if everything went right?

Bret Christensen - *DermTech, Inc. - President and CEO*

Yeah, Jacob, this is Bret. Really, really good question and really insightful. So what we said is we expect to see top-line data by the end of the year, and we're still going through our publication strategy. So we're trying to decide where and when that can be published, and we'll have a probably a better view of that as the year comes to a close and as we start to see that top-line data. But for now, it's a consideration, we still think we'll see the data this year, but publication is something we just haven't talked about that. But that will take a little bit of time.

Kevin Sun - *DermTech, Inc. - CFO*

And the publication timeline, it's really dependent on which and source it gets published in. And so then as it relates to like the payer review, it depends on when the payer of these cycles kick in. So if it's published after the first cycle, then a year, if it's say a payer has two cycles in the year, then they won't get a chance to review it until ahead of the next cycle. So again, there's a lot of depends here, but it really is dependent upon which publication we choose, when the timeline is, and then what does the cycles are for each of the payers.

Jake Evans - *Stephens, Inc. - Analyst*

Okay. Got it. I'll just keep it to one. Thanks, guys.

Operator

Please stand by for the next question. The next question comes from Andrew Brackmann with William Blair. Your line is open. I show no further questions at this time. This will conclude the Q&A session and the conference call. Thank you for participating. You may now disconnect.

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