Arcutis Biotherapeutics (Q2 2026 Earnings))

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Corporate Speakers:

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- Frank Watanabe; Arcutis Biotherapeutics; President, CEO & Director
- Patrick Burnett; Arcutis Biotherapeutics; Executive Vice President & Chief Medical Officer
- Latha Vairavan; Arcutis Biotherapeutics; Senior Vice President, Chief Financial Officer

Participants:

- Seamus Fernandez; Guggenheim Securities; Analyst
- Tyler Van Buren; TD Cowen; Analyst
- Judah Frommer; Morgan Stanley; Analyst
- Uy Ear; Mizuho Securities; Analyst
- Matthew Barcus; Jefferies; Analyst
- Serge Belanger; Needham & Co. ; Analyst
- Douglas Tsao; HC Wainwright; Analyst
- Tolani Uthman; Goldman Sachs; Analyst

PRESENTATION

Operator^ Ladies and gentlemen, thank you for standing by. Welcome to Arcutis Biotherapeutics, Inc. Second Quarter 2026 Earnings Conference Call. (Operator Instructions)

Please be advised that today's conference is being recorded.

I would like now to turn the conference over to Brian Schoelkopf, Head of Investor Relations.

Please go ahead.

Brian Schoelkopf^ Thank you, [Michelle]. Good afternoon everyone. And thank you for joining us today to review our second quarter 2026 financial results and business update.

Slides for today's call are available on the Investors section of the Arcutis website.

Joining me on the call today are Frank Watanabe, President and CEO of Arcutis; Patrick Burnett, Chief Medical Officer; and Latha Vairavan, Chief Financial Officer.

I would like to remind everyone that we will be making forward-looking statements during this call.

These statements are subject to certain risks and uncertainties.

And our actual results may differ.

We encourage you to review all the company's filings with the Securities and Exchange Commission including descriptions of our business and risk factors.

With that, let me hand it over to Frank to begin today's call.

Frank Watanabe^ Thanks, Brian. And good afternoon, everyone.

As always, we appreciate you guys making the time to join us on our quarterly update call.

I'm going to start this afternoon with a review of our very productive second quarter as we continue to deliver meaningful innovation for patients with chronic inflammatory skin diseases and continue to execute against our grow, expand, build corporate strategy.

Todd isn't able to join us today.

So I'll walk you through a commercial update, followed by Patrick for an R&D update.

And finally, Latha will review the quarter's financial results before we open it up to questions.

So I'm on Slide 5 in the deck. And just as a reminder, our 3-pillar strategy to sustain near- and long-term growth includes: first, growing our core ZORYVE business in our approved indications; second, expanding into additional indications where ZORYVE's unique profile as a targeted and potent PDE4 inhibitor has significant potential to address persistent therapeutic gaps; and third, leveraging our deep clinical expertise and infrastructure to build our pipeline beyond ZORYVE.

I'm happy to report that once again we made substantial progress across all three pillars during the second quarter.

Let's start with our growth pillar.

Our in-line ZORYVE business continues to strengthen and grow as we expand the reach and relevance of this medicine to the tens of millions of individuals with chronic inflammatory skin conditions in the U.S. who need and deserve new innovative therapeutic options to manage their plaque psoriasis, seborrheic dermatitis and atopic dermatitis.

As ZORYVE continues to grow, we're now in a position to reinvest the significant capital generated back into the business, creating a virtuous cycle of innovation that extends our

transformative impact to more patients, both with ZORYVE and current and potential future pipeline assets.

As we'll discuss today our investment in innovation encompasses a broad range of value-creating initiatives across the business that we're advancing in parallel from multiple clinical projects to impactful patient access initiatives.

So touching on some of the highlights.

At the end of June, we received FDA approval for ZORYVE cream 0.3% for the treatment of plaque psoriasis in children as young as age 2. This marks the seventh FDA approval for ZORYVE in four years, a remarkable accomplishment for a small company like Arcutis. And importantly, this milestone enables us to address a significant treatment gap, introducing the first once-daily steroid-free treatment for plaque psoriasis approved down to age 2.

In July, the FDA also accepted our supplemental NDA for ZORYVE cream 0.05% for the treatment of mild to moderate atopic dermatitis in infants down to three months with a PDUFA date set for February 23, 2027. And I was just recently at the Society of Pediatric Dermatology. And frankly, I was awestruck by the level of anticipation and excitement in the pediatric dermatology community about this potential approval which would address an urgent unmet need for a once-daily nonsteroidal in these youngest of AD sufferers. Both of these regulatory milestones demonstrate our commitment to delivering meaningful innovation to both adults and children across all age groups including the youngest children impacted by these chronic inflammatory skin diseases and their caregivers.

And as you'll hear more today our commitment to meaningful innovation for patients goes beyond bringing new therapies to market.

We recognize that managing a chronic inflammatory skin disease like psoriasis, atopic dermatitis or seborrheic dermatitis can be extremely challenging and burdensome for the individuals and their families. And with that in mind, we are turning our expertise to ways that we can innovate to enhance the patient experience and facilitate seamless access to treatment in order to help ease the burden on the patient and caregiver as well as the healthcare provider.

Today we'll detail some of our initiatives around patient access that specifically reduce barriers to care and streamline the patient journey.

Our new virtual health platform and our strategic partnership with a leading AI-enabled patient access support tool are the first steps to emerge from our broader patient access initiative, innovation work stream.

We're really excited about these initiatives which I'll explain in greater detail shortly. Both are great examples of our commitment to delivering meaningful innovation to patients.

Turning to expand, our second strategic pillar.

We continue to make important progress in this quarter in evaluating the potential of ZORYVE in additional chronic inflammatory skin conditions.

Specifically, we have now fully enrolled the Phase II proof-of-concept trial of ZORYVE in the treatment of vitiligo, and we continue to enroll the Phase II proof-of-concept trials of ZORYVE as a treatment for hidradenitis suppurativa.

On previous calls, we've shared the extensive and growing list of conditions where clinicians have published case reports of case series showing promising signals of ZORYVE efficacy, suggesting that ZORYVE's unique profile as a targeted and potent PDE4 inhibitor could offer additional patients and innovative nonsteroidal therapeutic option.

We continue to evaluate these other potential indications and anticipate initiating one or more additional proof-of-concept trials this year.

And finally, turning to the third pillar, build.

We continue to make progress advancing our innovative pipeline. Enrollment is ongoing in the Phase Ia, Phase Ib trial of ARQ-234, our novel biologic targeting CD200R as a potential treatment for moderate to severe atopic dermatitis.

By targeting CD200R which plays a central role in both innate and adaptive immunity, we believe ARQ-234 could not only be an important first-line systemic therapy, but also has the potential to address the clear and distinct need for a treatment for patients with atopic dermatitis who have relapsed on or who are refractory to IL-4/IL-13 drugs.

In addition, as we've discussed previously external innovation will likely play a central role in expanding our pipeline.

We're seeing a marked increase in deal flow recently in both dermatology and adjacent inflammation areas, and our team remains actively engaged in evaluating a range of external assets as we look to build our pipeline.

As Latha will describe, we had another very strong quarter financially. And this level of performance and the cash flow that it generates enables us to continue to invest in innovation, staying true to our biotech roots and mission.

For the remainder of this year, you should expect consistent execution against our stated strategy, opportunistic reinvestment in the business and a steadfast commitment to

creating long-term value for both patients and shareholders. Based on the strength of our ZORYVE business to date and in light of the incremental investments we are making to sustain demand for ZORYVE, we are delighted to raise our full year 2026 sales guidance from the previous range of $480 million to $495 million to a range of $525 million to $540 million.

You will recall that we made no changes to our revenue guidance during our Q1 earnings call and we don't anticipate revising every quarter.

So this guidance really reflects the momentum that we -- the business has seen through the first half of the year.

So let me delve a little bit more into some of the details on commercial results for the quarter.

I'm now on Slide 7.

We continue to see robust sales performance and demand-driven growth in the fourth -- in the second quarter with net product revenues of $129.9 million, representing a 59% increase from the second quarter of 2025 and a 23% increase over Q1.

Our consistently strong quarterly revenue underscores the momentum and enduring strength of the ZORYVE franchise.

As expected, our gross to net rate improved incrementally from the prior quarter and continue to remain stable in the 50s. And so looking ahead to the third quarter, we expect quarter-over-quarter net sales growth driven by sustained momentum in patient demand.

Now let me turn to Slide 8.

Weekly prescriptions of ZORYVE on a rolling 4-week average shows sustained growth across the portfolio, and we reached a new high watermark for quarterly demand with more than 280,000 prescriptions in the quarter across all indications and formulations for ZORYVE.

As this chart highlights, ZORYVE continues to experience substantial prescription growth.

We anticipate this growing demand will continue through the duration of this year and beyond and will be the primary driver of ZORYVE's revenue expansion.

The most important driver of ZORYVE's growth will remain the conversion from topical steroids to advanced targeted topical therapies like ZORYVE as healthcare providers and patients' perceptions of the risk of chronic topical steroid use evolves.

Let's turn now to Slide 9.

I want to expand on the patient access initiatives we introduced this quarter.

As I highlighted in the opening, improving patient access to ZORYVE is an important dimension of meaningful innovation as we aim to deliver to patients with chronic inflammatory skin diseases. Therapeutic innovation is meaningless if patients are unable to access new therapies.

So we see it as an imperative to also innovate in reducing barriers to treatment and care.

Importantly, these new patient access initiatives are separate and distinct from but complementary to our payer access efforts. These innovations are focused on enabling seamless fulfillment and an efficient post-prescription process that helps patients access ZORYVE rapidly, reliably and efficiently.

We've applied this holistic patient-first approach to innovation since bringing ZORYVE to market, but we're now broadening the scope of our patient access activities with the launch of our virtual health platform and investments in AI-enabled tools that support efficient prescription fulfillment. two distinct initiatives, both with the aim of facilitating more seamless access to ZORYVE.

So a little bit more about each of these initiatives, starting with the virtual health platform which we announced in June.

We recognize that over the last several years, patients have been rapidly changing how they obtain healthcare, starting with the Covid pandemic and accelerating with the emergence of multiple virtual health offerings like Hims or Ro. And many individuals today are seeking more convenient, flexible ways to receive care.

Our virtual health platform recognizes this evolution and meets patients where they are by helping to address common barriers to dermatology care such as long wait times for dermatology appointments and the absence of specialized dermatology care in some geographies. The platform provides an additional pathway for individuals who might otherwise delay or forgo specialized dermatology treatment.

Importantly, the platform is designed to complement and not replace traditional in-office dermatology care.

Our goal is to help more individuals access the therapies that they need while continuing to partner with healthcare providers across dermatology, primary care and pediatric settings.

So with the model, a board-certified independent dermatologists on the platform evaluate, diagnose and determine appropriate treatment for each individual based on their clinical judgment. Arcutis does not influence diagnoses, clinical decision-making or prescribing decisions made through the platform.

If prescribed, ZORYVE prescriptions are coordinated through a national pharmacy hub designed to support a seamless experience including insurance support and at-home delivery.

We're especially excited about this new platform because we believe ZORYVE has an ideal profile for the virtual health model.

Dermatologists can prescribe ZORYVE confidently given its demonstrated efficacy, safety and tolerability without worrying about a patient applying the drug to an area of the body that they shouldn't and with the knowledge that the patient can use ZORYVE for any duration.

It treats the three most common inflammatory diseases, all of which that can be diagnosed visually using telehealth tools. And additionally, individuals suffering from these diseases are motivated to seek an effective therapy due to the burden of their symptoms.

We're still in the early days of the rollout of our virtual health platform, but we are already seeing signals of the impact that it will have and are confident that this will have a meaningful benefit in expanding patient access to ZORYVE, particularly when it's coupled with other demand generation efforts we have like the Free to Be Me campaign.

Now in late July, we launched our second patient access innovation, partnering with one of the leading AI-enabled prescription workflow platforms to streamline the post-prescription process for ZORYVE in dermatology offices. The process for getting any prescribed therapy to an individual has grown increasingly complex and time-intensive over time.

But through this partnership, we're helping to streamline patient access to ZORYVE after they receive a prescription. The company that we partnered with is already widely adopted across dermatology offices as well as other therapeutic areas nationwide. And in practices where the tool is implemented, after providers initiate a prescription, the platform helps navigate and systematize that workflow that follows.

In addition, it supports patients with real-time visibility into the process from the moment of prescription as well as other critical information and access resources.

As part of the collaboration with Arcutis, the platform provides customized prompts and alerts to streamline the steps between a clinical decision and an individual starting ZORYVE including prior authorization, financial assessment and fulfillment routing embedded directly into healthcare provider workflows.

We're skating to the puck.

It's our belief that harnessing innovation and leveraging these types of technology-based solutions to help patients and healthcare providers with the fulfillment process for ZORYVE is where we need to be. These initiatives mark important additional steps in our mission to deliver meaningful innovation across every part of dermatology care.

And on Slide 10, these patient access initiatives are only the latest example of how we're reinvesting the cash flow generated by ZORYVE back into the franchise to drive sustained growth and inflection in sales in 2027 and beyond.

Of course all of our efforts to drive ZORYVE's growth would be meaningless without the solid foundation of ZORYVE's outstanding clinical profile. ZORYVE's rapid and robust efficacy across multiple inflammatory dermatosis paired with its exceptional safety and tolerability profile and its patient-friendly formulations make it a compelling choice for healthcare providers and patients looking to manage these chronic conditions, especially against the backdrop of the growing concern about prolonged use of topical steroids.

Our commercial efforts focus on generating awareness of this differentiated therapeutic profile with both clinicians and patients and then enabling efficient patient access to the product when it is identified as the appropriate therapeutic intervention. Building on that foundation are three broad categories of demand initiatives. The first is the investments we're making to strengthen our commercial infrastructure through targeted additions to our sales force. The dermatology sales force expansion has been completed with our new dermatology specialty reps hitting the field as of early May.

Since then, they've been gaining familiarity with their customers. And as previously discussed, we anticipate beginning to see the impact on growth from these reps beginning in the third quarter of this year.

We have also now completed the build-out of the first phase of our primary care and pediatric organization, having recently completed the hiring of this targeted team.

We anticipate that this sales force will be in the field interacting with primary care providers and pediatricians by the end of this month and expect to begin seeing the impact of this new team by 2027.

As a reminder, we are adopting a highly targeted approach with the sales team, focusing on high-volume early adopter PCPs and pediatricians who are concentrated in major metropolitan areas. This approach positions our investment in the PCPs, Peds, sales team to begin contributing value rapidly. And as we gain more in-depth understanding of this space and how best to partner with primary care and pediatric providers, we'll evaluate further expansions of the team.

We believe that some of the same attributes of ZORYVE's profile that have led to its leadership in dermatology and will drive meaningful adoption through the virtual health platform will also drive its success in the primary care setting.

Specifically, primary care and pediatricians can prescribe ZORYVE confidently based on its demonstrated efficacy, safety and tolerability and without worrying where or how long patients use it.

The second component of our commercial investment plan is our direct-to-consumer efforts.

We're driving meaningful patient engagement through our Free to Be Me patient awareness campaign featuring Tori Spelling, her daughter, Stella McDermott and professional golfer Max Homa. This campaign is helping to drive awareness of treatment options for patients with atopic dermatitis, seborrheic dermatitis and plaque psoriasis and the promise of ZORYVE across these indications.

We're seeing these efforts resonate with a broad range of patient demographics, reflecting the broad swaths of the population impacted by these diseases. The effectiveness of this campaign is further bolstered by our virtual health platform, enabling us to provide a direct route to a dermatologist for individuals who discover ZORYVE through Free to Be Me.

We look forward to continued progress of this important direct-to-consumer effort as we work to capture and reflect patients' lived experiences as they manage their chronic inflammatory skin conditions including using ZORYVE their treatment arrangement.

The final component of our commercial investment strategy is facilitating seamless patient access to ZORYVE as we've discussed today. The virtual health platform and AI-enabled prescription workflow efforts I described earlier are the initial efforts that we're making in this vein, but there are additional exciting initiatives to come, and we look forward to sharing details with those at a future date.

And with that, I'm going to take a breath and turn the call over to Patrick for an R&D update.

Patrick Burnett^ Thanks, Frank.

I'm on Slide 12.

At the outset of today's call Frank highlighted our focus across the grow, expand and build pillars of our corporate strategy.

I'd like to provide some additional context for the clinical components of each pillar.

But before I detail our various clinical initiatives, I want to emphasize the breadth of our ongoing activities to further bolster the profile of ZORYVE.

On this chart, I'm showing the range of clinical programs we are pursuing to broaden our patient population, expand into new disease areas where we have early signs of efficacy

and better define the unique aspects of ZORYVE's therapeutic profile. The breadth of approved and potential uses of ZORYVE, supported by its pleiotropic mechanism of action and its safety and tolerability profile underpin our belief that ZORYVE is uniquely well positioned to supplant topical corticosteroids in the management of inflammatory dermatosis.

Moving now to key clinical updates for the quarter.

As Frank highlighted earlier, in late June, the FDA approved our supplemental NDA to expand the indication for ZORYVE cream 0.3% for the topical treatment of plaque psoriasis including intertriginous areas to children down to the age of 2.

As a practicing dermatologist, I can personally test that treating young children with plaque psoriasis presents unique challenges.

Specifically, while safety and tolerability is always a concern, that concern is amplified in young children who may face decades of treatment and who are particularly susceptible to both local and systemic steroid exposure risks like HPA suppression.

In our trials in children as low as two years of age with plaque psoriasis, ZORYVE 0.3% demonstrated safety, tolerability and efficacy comparable to that already demonstrated in adults and adolescents. ZORYVE is now the first once-daily steroid-free treatment for plaque psoriasis approved down to 2.

It provides healthcare providers, parents and other caregivers with an advanced targeted topical therapy that can be used anywhere on the body for any duration of time addressing a significant treatment gap for this very young and especially vulnerable patient population.

In addition, in July, we announced that the FDA accepted our supplemental NDA for ZORYVE cream 0.05% for the treatment of mild to moderate atopic dermatitis in infants down to three months with a PDUFA date set for February 23, 2027.

As we mentioned on our first quarter call we were able to submit this application just three months after having read out the top line results from our INTEGUMENT-INFANT trial. This remarkable feat reflects the speed with which our team at Arcutis is moving on behalf of patients and a response to the high level of urgency shared by those HCPs who care for these youngest atopic dermatitis patients. This urgency to advance new and more effective therapies is driven by specific challenges in treating this infant patient population.

The skin of young children is not fully developed which can lead to increased systemic absorption of topical treatments like steroids. And these youngest patients also often present with more extensive disease than adolescents and adults.

During the quarter, we also initiated two new trials, one in adults to better elucidate ZORYVE's impact on pruritus or itch. The trial is called INTEGUMENT-ITCH and is based on the compelling data from the INTEGUMENT-INFANT trial showing reductions in itch within 10 minutes of first application and another to evaluate the impact of ZORYVE on male psoriasis, a notoriously difficult-to-treat presentation of plaque psoriasis, often even failing systemic therapy, where we have seen some really exciting signals of ZORYVE efficacy in case reports.

Now turning to potential new indications for ZORYVE.

We've now completed enrollment in our Phase II proof-of-concept trial in vitiligo. And we continue to enroll the hidradenitis suppurativa or HS, Phase II proof-of-concept trials.

We remain on track to provide a readout for the vitiligo trial and a decision on whether to advance the program in quarter four of this year. And we remain on track for a similar readout for our HS program in quarter one of 2027.

Now recall that in our HS program, we have trials evaluating ZORYVE's safety and efficacy in HS as well as a study looking at gene expression following ZORYVE treatment in HS patients.

As we advance these Phase II vitiligo and HS studies, we also continue to evaluate other diseases for similar proof-of-concept studies, and we anticipate starting one or more additional proof-of-concept studies in the latter half of the year.

During quarter two, we also initiated a trial evaluating the impact of ZORYVE cream 0.3% on cutaneous adverse events in cancer patients receiving PD-1 or PD-L1 checkpoint inhibitor treatment.

Such side effects occur in as many as half of patients receiving these life-saving treatments, and they often lead to interference with cancer therapy.

If ZORYVE is able to effectively manage such treatment-related dermatosis as suggested by some case reports, it may help cancer patients to persist with their PD-1 or PD-L1 treatment regimen. This trial is another meaningful example of the broad potential applications of ZORYVE across inflammatory skin conditions.

Turning lastly to ARQ-234, our novel biologic targeting CD200R and the build pillar of our strategy.

As Frank touched on earlier today by targeting CD200R which plays a central role in both innate and adaptive immunity, we believe ARQ-234 has the potential to address the significant unmet need for a systemic therapy for patients with moderate to severe atopic dermatitis and given the unique mechanism of action could be a compelling first-line therapy option as well as a treatment option for those who are refractory to IL-4/IL-13 therapies.

We've completed enrollment in the last cohort of healthy volunteers in the single ascending dose or SAD portion of the Phase I trial for ARQ-234.

We've now begun enrolling atopic dermatitis patients into the final SAD cohorts, and we'll begin to enroll AD or atopic dermatitis patients in the multiple ascending dose or MAD portion of the trial. Following the MAD portion, we will complete a small proof-of-concept portion in atopic dermatitis patients as well.

As I explained on our first quarter call we'll not share results from this trial until it's completed, but we'll continue to update you as we progress through these different portions of the study.

We also continue to evaluate external sources for innovation to further build out our innovative pipeline. And as Frank mentioned earlier, we're encouraged by the increased deal flow in the dermatology and I&I space.

So turning now to Slide 13.

We introduced this slide at our R&D Day last fall.

It lays out the multiple characteristics therapy would need to not only compete with topical steroids in chronic inflammatory skin disease settings, but also to displace them. ZORYVE is arguably comparable to topical corticosteroids and efficacy and rapidity of onset.

But as depicted here, it then exceeds the steroid benchmark in mechanism of action breadth, safety and tolerability and duration and location of use, with the degree of differentiation becoming increasingly pronounced across each dimension.

ZORYVE's unique profile, coupled with increasing HCP appreciation of risks associated with sustained topical corticosteroid use, as we reviewed in-depth previously sets the foundation not only for substantial growth in our three in-line indications, but also for potential expansion into a number of new indications. And I wanted to review this perspective on ZORYVE's profile today as important context for the broad set of clinical activities that we are pursuing.

The breadth and ambition of our clinical pursuits are unmatched in the branded nonsteroidal topical segment and are enabled by ZORYVE's unique therapeutic profile and may further demonstrate why ZORYVE is uniquely positioned to displace topical corticosteroids at a moment when there is a growing degree of concern over the deleterious side effects of extended or inappropriate use of these aging drugs.

And I'll now hand it over to Latha to review the financial results for this quarter.

Latha Vairavan^ Thank you, Patrick. And good afternoon, everyone.

I'm on Slide 15.

In the second quarter, we generated net product revenues of $129.9 million, representing a 59% increase from the second quarter of 2025. This year-over-year increase was driven primarily by increased patient demand as well as improvements in gross to net sales deductions.

As anticipated, our gross to net in Q2 remained stable in the 50s.

Cost of sales in the second quarter were $10.9 million compared to $7.5 million in the second quarter of 2025 due to increasing ZORYVE sales volume.

For the second quarter of 2026, our R&D expenses were relatively flat at $20.4 million versus $19.5 million for the corresponding period in 2025 as increased investments in medical affairs initiatives and clinical expense related to ARQ-234 were largely offset by reduced clinical costs related to the INTEGUMENT-INFANT trial in atopic dermatitis patients aged three to 24 months.

SG&A expenses were $82.1 million for the second quarter of 2026 compared to $69.2 million in the same period last year, up 19%, driven primarily by personnel costs including our dermatology sales force expansion.

We produced net income of $15 million for the quarter as compared with a net loss of $15.9 million for the same period in 2025 as strong top line growth continued to outpace expenses.

While we may continue to generate positive net income in some quarters, our focus as an innovative biotech remains on investing to continue to drive top line growth and advance our pipeline.

Moving to Slide 16.

We ended the quarter with cash and marketable securities of $238.9 million as we produced positive cash flow from operating activities of $12.6 million for the period.

We expect to maintain positive cash flow throughout the rest of the year. And as we have stated previously we intend to continue to invest the capital we generate back into our business to inflect growth in 2027 and beyond.

We have total debt of $101.9 million.

As Frank announced at the beginning of today's call we are increasing our full year 2026 net revenue guidance to be between $525 million and $540 million. This updated range contemplates the contribution of the new commercial initiatives Frank detailed today as well as the continued strength of our core ZORYVE business.

With that, I will now turn the call back to Frank for some final updates.

Frank Watanabe^ All right. Thanks, Latha.

So we're also announcing today that Todd Edwards will resign from his role as Chief Commercial Officer at Arcutis to pursue other opportunities for personal reasons effective later this month.

I want to thank Todd for his leadership over these last three years. He's helped to build the commercial infrastructure that has enabled ZORYVE's success to this point, and that will continue to serve as the basis of ZORYVE's continued growth.

I'm also delighted to announce that Rob Lisicki will be stepping in as the Interim Chief Commercial Officer while we conduct a national search for a permanent CCO. Rob is a highly experienced biopharma executive with a career spanning 30 years in the industry. Most recently, Rob was the CEO at Zura Bio. And prior to that, he was Chief Commercial Officer at Arena Pharmaceuticals until its acquisition by Pfizer in 2022. And before that, he was CCO at Daiichi Sankyo USA.

Rob and I have known each other for decades from our time together working on Enbrel, and he brings a wealth of experience in leading best-in-class commercial teams in the inflammation and immunology space and in driving rapid sales expansion to build blockbuster franchises. The expertise that Rob will contribute to our commercial operation at Arcutis is well timed as we drive towards a period of continued and increasing sales inflection for ZORYVE in the near term.

Q2 was yet another quarter of exceptionally strong execution by the Arcutis team.

I am incredibly proud of the team and the dedication they demonstrate every day to advancing our mission, delivering value for shareholders and remaining steadfastly committed to the patients we are serving today and aim to serve in the future.

In early June, Arcutis celebrated its 10th anniversary.

What started out as three guys in an idea has blossomed into a powerhouse biotechnology company with four FDA-approved products and a pipeline of promising programs and assets.

More importantly, over the past decade, we have helped nearly 1 million people manage their chronic inflammatory disease, and we are poised to help millions more in the future.

As I look back on the past decade, I am humbled by and deeply appreciative of the contributions of our team members, the dermatology clinicians who partnered with us, the patients who agreed to participate in our trials and the investors who believe in us enough to entrust their money to us.

I sincerely thank you.

And with that, I'll open up the call to Q&A.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) The first question will come from Seamus Fernandez with Guggenheim.

Seamus Fernandez^ So just wanted to start off, the guidance raise, definitely impressive. Frank, take your point to not expect updates to the guidance every quarter.

But just in terms of the momentum into the back half of the year, where are you seeing the kind of key drivers of growth at this point? It really looks like the foam is just starting to truly stand out.

But even the early sales of the 0.05% are coming on nicely.

So I just wanted to get a little bit of a better sense of how you're thinking about the back half of this year's growth trajectory and where you see incremental opportunities from the access point that you're opening up via telehealth.

It seems like the telehealth opportunity could be quite substantial.

But I guess we're all probably wondering where the price points are likely to end up on that front.

And then just as it relates to Todd's resignation, I think we saw in the 8-K that he's pursuing another opportunity away from Arcutis.

But it seems like the team is extremely well built at this point. The strategy has worked effectively and you're transitioning to an interim leader who's got a great background.

What is it that you're most focused on during this transition in particular?

Frank Watanabe^ Seamus, thanks for your questions.

So let me start with the first one. Frankly, we continue to see growth across the portfolio.

As you mentioned, the foam is our leading product.

It is a really unique, highly differentiated asset.

It's the only nonsteroidal in a foam.

It effectively is the only foam available for doctors.

It's very hard to get the topical foams these days. And I think it's been something that doctors and patients have responded to extremely well.

But we see growth across the board.

As you mentioned, the 0.05%, continues to grow very nicely.

I think that speaks to the unmet need for good nonsteroidals in younger kids. And I think it also points to the promise of 0.05% in the 3- to 24-month old if we get the approval in February as we expect.

So we would expect a continued growth across the portfolio in the second half of the year, primarily driven by demand growth.

We may see some marginal incremental improvements in gross to net, but I wouldn't expect anything dramatic given the strength of our gross to nets already at this point in the year.

And I think as the year progresses, we're going to start seeing the impact of a variety of the initiatives that we've been talking about today. The derm expansion, I think we'll see kick in, in the second half of the year.

I think it's probably too early for primary care, but I think in '27, we'll see that.

On the telehealth front, I think the majority of these patients are going to have access to ZORYVE through their insurance coverage. And we've set up with the platform to allow patients to go that route.

So this is not like some of the other offerings out there today where the patient has to pony up the money themselves to pay for the product like, for example, the GLP-1s. Here, the doctor -- it would be just like if the patient was going in the doctor's office and the doctor is diagnosing the patient, choosing a therapy. And if they choose ZORYVE and they don't have to choose ZORYVE, but it's a great choice for all three of these diseases.

If they choose ZORYVE, then that immediately kicks them into a work stream where we get the PA done, we get the insurance paying for the ZORYVE and then we ship it to the patient. And so the cost to the patient for ZORYVE is no different than if they went to the dermatologist's office.

Let's see.

And then lastly, with regard to the transition. Yes, Todd has built a very, very strong commercial leadership team.

I think just in the last six months, we've added Katie Swolfs to run the primary care effort.

She's doing an outstanding job.

We brought in Chris Kloc from AbbVie to lead the sales team.

So we have a really strong commercial team.

I'm not the least bit worried about them managing our commercial performance through the transition. And Rob will be starting before Todd's departure so that there is a seamless transition between the two of them. And I couldn't think of a better person to be coming in and helping us, not only with ZORYVE frankly, but with the pipeline as well given Rob's background and very excited to get to work with him again.

Operator^ And the next question will come from Tyler Van Buren with TD Cowen.

Tyler Van Buren^ Congrats on the solid quarterly performance. A couple.

First, just, would it be reasonable to expect a similar quarter-over-quarter sales growth for the ZORYVE franchise in Q3 over Q2 as compared to Q2 over Q1 that we just saw?

And then on vitiligo, given the upcoming data next quarter right around the corner, can you talk more about enrollment and the demand you guys have seen at sites and the demand for a topical option? And specifically, what data you want to see to move forward with this program and invest more?

Frank Watanabe^ Sure. Latha, do you want to take the first one? And then maybe, Patrick, can you take the vitiligo question?

Latha Vairavan^ Yes. I'll take it.

Sorry, I have to unmute myself. Tyler, thanks for the question.

So we expect continued quarter-over-quarter growth in our net sales.

I wouldn't anchor you to any of this current quarterly run rate.

I think you should anchor to the initiatives that we outlined and with the guide that we've given and what we expect to happen in the quarter, I think you'll be able to piece your way into what will happen in the second half of the year.

I want to kind of give you the answer to the question on the growth rates, but we do expect quarter-over-quarter net sales growth Q3 versus Q2 and of course naturally Q4 versus Q3. And as Frank alluded to, we'll sort of moderate the gross to net improvement.

So everything will be volume and demand based.

Patrick Burnett^ Yes. And I can pick up the vitiligo study.

So as we mentioned, the vitiligo trial is fully enrolled.

We were really happy with the enrollment pace for that.

Now keeping in mind that, that was in pediatric patients as well that are oftentimes more difficult to enroll.

So I think that, that bodes well for kind of a future vitiligo program were that to materialize.

And your question about what we're looking for.

So I think the Opzelura really has set a bar for a branded nonsteroidal in vitiligo.

But we think that there's a lot of room for us to compete there, right? There's essentially one other drug in this category.

We think that we have, in some ways, really a superior product profile.

We're talking about once-a-day dosing eligible for adjunctive use.

We anticipate that there will be some systemics that are going to be moving into this space as well especially for the more severe patients.

So that would be something that we would think would be advantageous.

And then also no black box and then pricing.

So these are a lot of the same features that make us very competitive in the AD and our other indications as well.

So we really feel like even if we have equivalents on efficacy and rate of onset that we're going to be very competitive here based on those factors.

But what we're really looking for is superiority on either of these two axis, especially on speed of onset. And one of the reasons to potentially believe that is the PDE4 mechanism of action being based both on anti-inflammatory as well as potentially working directly on melanocytes.

And the fact that the mechanism of action, we've really seen some brisk responses based on being able to have such a potent PDE4 inhibitor.

So the rate of effect is some place that we're also optimistic, but we'll have to obviously see those results when we come in at the end of the year with the readout for that.

Operator^ And the next question is going to come from Judah Frommer with Morgan Stanley.

Judah Frommer^ Congrats on the quarter. Maybe could you provide a little more color on some trends within share of the branded topical nonsteroidal class? And maybe specifically on new-to-brand trends that you're seeing? And then separately, just curious on enrollment trends for the ARQ-234 trial.

Obviously a crowded space, but it seems like new mechanisms are in demand.

So just curious how enrollment is tracking there.

Frank Watanabe^ Sure. Thanks, Judah.

So with regard to trends in share, ZORYVE continues to be the leading branded nonsteroidal in the market, hovering just shy of 50% market share. And so ZORYVE is the primary product driving the growth of the class. And those are, as we talked about before patients who are coming over from topical steroids, I think we've really just scratched the surface. And if anything, given the discussions in dermatology, that trend is likely to accelerate going forward.

On the new-to-brand data off the top of my head, I don't want to miss speak.

I don't have those numbers right at my fingertips.

But clearly, ZORYVE is doing very well competitively versus the other branded nonsteroidals, and we expect that to continue.

And then with regard to the enrollment trends, Patrick, again could you maybe address that?

Patrick Burnett^ Yes, absolutely.

So just to remind, for ARQ-234 , we're exiting the healthy volunteer section of our single ascending dose, and we have a couple of cohorts that are -- of the single dose that are actually in atopic dermatitis, but otherwise healthy patients who also have atopic dermatitis. And so we're moving into those AD cohorts. And then we're also going to be initiating recruitment into the first multiple ascending dose, and those are all in atopic dermatitis patients.

So we don't have any experience yet from this trial in enrolling atopic dermatitis patients.

But I agree with your point that especially with the departure of OX40 from the kind of pipeline and competitive landscape here for atopic dermatitis patients that a new mechanism of action is something that is going to be very beneficial for our recruitment. And I think that this mechanism, in particular, is one where there's going to be a lot of interest.

So it is a competitive space. There is a lot that's going on, but I think that we're well positioned to be able to recruit these trials.

Operator^ And the next question will come from Uy Ear with Mizuho.

Uy Ear^ Maybe just help us understand about the change in gross to net a little bit.

I just want to make sure I understood you guys correctly.

Frank Watanabe^ Sorry, could you say that one more? I didn't catch your question.

Uy Ear^ Yes.

I just wanted to see if you can help us understand the change in gross to net a little bit as we go from this quarter to the Q3 and Q4.

I guess in the first quarter, you were saying to expect gross to net to go to the low 50s by -- towards the end of the year.

Is that still the case? Or is it more steady now?

And my second question is, could you maybe elaborate a little more on the initiation of the PD-L1 study -- side effect study? Like when do you expect it to finish? And what's the -- is it sort of a go-to -- is there going to be a go-to decision that you move into Phase III? Or is it a study where you can publish and use the data to help with adoption?

Frank Watanabe^ Okay. All right. Thanks.

So Latha, do you want to maybe take the gross to net question on our view on gross to net for the rest of the year? And then Patrick, can you talk a little bit more about the PD-L1 study?

Latha Vairavan^ So we do expect the gross net to be in the 50s throughout the year and titrate down to the low 50s, as we've said.

We just think that the level of improvement will moderate.

We started from a point that was lower than last year, even though it was in the higher 50s. And I'm sure your math will show you the improvement that we experienced in Q2.

So there'll be some improvement in Q3 and Q4, not to the degree of last year, but it will come down to the low 50s.

Patrick Burnett^ Yes. And then just to kind of give a little more context to this study.

I think your question really is on point with trying to understand what we're looking for here.

So we really see this not as necessarily a full development program, but really more of a way to create some data that can be helpful in order to ensure that patients may have access to this because there will be some data that will be published that will be out there and we'll give them another option. A lot of these patients are going directly into topical steroids as first line, and then they may need to be on them for many years.

So I think having additional data really for this patient population to keep them from having to abandon the therapy that is usually working for them.

It's really just about publishing, getting access to it and not necessarily a full development program. And so the timing of the study is one that we'll obviously keep you posted as we get further into it, but it's just getting started now.

Operator^ And the next question will come from Andrew Tsai with Jefferies.

Matthew Barcus^ Congrats on the quarter. This is Matt Barcus on for Andrew Tsai at Jefferies. And I just wanted to follow up on the revised guidance.

Can you fundamentally talk about some of the push-pulls behind the continued growth and acceleration? And then are you aware of any other investigator-sponsored or independent studies with ZORYVE that could be starting out over the next year? And then if so, like can you just talk about the market opportunities there for each of those indications?

Frank Watanabe^ Thanks for the question, Matt.

So with regard to the first question, I think that in the second half of the year, the primary driver of growth is going to be growth in prescriptions.

As Latha just mentioned, we do expect to see some improvement in gross net in Q3 and Q4, but probably moderated compared to what we saw in Q1 and Q2 and not being the major driver of growth. And that demand growth is going to likely be a combination of the momentum that we already have generated and then the impact of a number of the commercial demand drivers that we've rolled out like the sales force expansion, the continued DTC efforts, the virtual health platform that we just announced. All of these things are really synergizing to help us continue to drive growth of -- the prescription growth for ZORYVE.

And then on your second question with regard to IITs.

So we don't actually support a lot of investigator-initiated trials at Arcutis. The IIT process is pretty clunky, to be quite honest. And our preference is to do what I referred to as collaborative research studies where the company is able to work with the investigators. And a number of the studies that we mentioned including the vitiligo trial, the HS trial, the nail psoriasis trial, the PD-L1 trial that Patrick has just mentioned, those are all collaborative research studies.

We -- as I mentioned earlier in my comments, we continue to explore other opportunities, other potential indications. And I think it's likely that we'll start at least one more of these proof-of-concept studies this year for another indication, maybe more.

We have more options probably than we have resources with 47 diseases having some efficacy data, and we're not going to pursue all of them either.

But I do think you'll probably see one or more start this year, and we very well may start some additional studies next year as well. These are really cost and time-efficient ways for us to get an evaluation of a potential indication and then enable us to make an informed decision about whether we want to actually pursue a large registrational study for that indication.

And Patrick, are there any additional comments that you would want to add on that part?

Patrick Burnett^ No. I think that covers it, Frank.

Operator^ And our next question will come from Serge Belanger with Needham.

Serge Belanger^ Congrats on a nice quarter.

First couple of questions around the virtual health platform. Are you trying to target a different set of patients than what you're currently able to access? And will you be able to drive patients to this platform via DTC efforts? And then secondly...

Frank Watanabe^ No. That's all right. Go ahead.

Serge Belanger^ I was going to ask, I believe I read that you were granted a couple of new patents.

I hope that was your -- from your press release and then another one I read in the last hour.

But just curious how it enhances the ZORYVE patent portfolio and whether those new patents are eligible for the Orange Book, let's see.

Frank Watanabe^ Yes.

Okay.

So with regards to your first question, yes, I do think of it as a different set of patients, right? The bulk of the patients that we're picking up today really almost all of them, are patients who have already been seen by a dermatologist and are coming in for a refill or an annual checkup or in many cases, they're flaring because of their existing therapy isn't working and the doctor is looking to do something different for those patients.

But that's a patient that is already in the dermatology care system and has access to a dermatologist because they have an appointment, right?

The advantage of the virtual health platform is like where I live, it's a 6-month wait to see a dermatologist. And even if you're in an acute situation, I had shingles a number of years ago, and it was going to be a month before I see a dermatologist. When you have an urgent acute problem, you want to see someone like that day or the next day right? And that's just not practical in many places in the United States because of the mismatch between supply and demand of dermatology specialist care.

There are also a lot of places in the country that just don't have dermatologists, right? For example, Patrick and I were in Roswell New Mexico a couple of years ago. There isn't a dermatologist in 250 miles.

So for those patients, they just don't have that option to see a dermatologist.

So we think that the virtual health platform is really going to complement the patients who are already seeing a dermatologist by allowing patients who don't have access to a dermatologist either because of scheduling or geography to see a dermatologist that day.

And yes, to your earlier question, absolutely, we think direct-to-consumer is an important driver here.

If you think about it, a patient sees an interview with Tori or Max Homa, they have the disease as well and they think "Gee, I want to look into this more." They can go right to our website. There's a click right on the home page, you click on it, and it pulls you straight into the platform where the dermatologists sit and the patient is able to schedule a visit with the dermatologist right then and there.

So we think this is an important expansion of the opportunity set for ZORYVE, particularly again given some of the idiosyncrasies of dermatology in the United States.

And then on the new patent, yes, so there are two new patents that cover -- one is the formulation and the other one is method of use.

I can't say definitively, but it's likely that they are Orange Book listable.

We have a very, very strong patent position around all of the ZORYVE formulations.

We have, I think 18 patents listed in the Orange Book at the moment.

So we continue to incrementally strengthen our IP portfolio. These aren't dramatically differentiated. They don't change the loss of exclusivity timelines of 37 for the cream and 42 for the foam.

But we're always looking to strengthen that already stronger IP portfolio, and these two patents are just the product of that overall effort.

Operator^ And the next question is going to come from Douglas Tsao with HC Wainwright.

Douglas Tsao^ Just following up on the telehealth initiative.

I'm just curious, Frank, sort of what the conversion rate from an initial online intake to a prescription for ZORYVE. Are patients still needing to sort of sometimes maybe do some kind of step edit? Or have they typically gone through that already? And have you seen evidence of patients sort of maybe going through sort of initial intake, maybe having because of their plan needing to try a TCF and then coming back to ultimately still get a script for ZORYVE.

Frank Watanabe^ Sure. Yes. Thanks, Douglas. Great question.

It's still very early days, right? So I think we will have to see over time what kinds of patients flow into the system and what happens.

But I think a couple of points. The first one, again is when the doctor -- when the dermatologist is evaluating a patient, the dermatologists can choose any therapy for that patient.

It doesn't have to be ZORYVE, obviously right? We think ZORYVE is a great choice, but it doesn't have to be.

And if the patient has something other than one of our approved indications, they're obviously going to get something else as well. Many, many patients are on a topical steroid or have used a topical steroid before. And I would expect that many of the patients that come into the telehealth platform will have been on a prior topical steroid and are looking for a nonsteroidal alternative.

Maybe they've heard again Max or Stella or Tori talk about their experiences and their frustrations. Maybe they're afraid of topical steroids based on what they've read about topical steroid risks and they want to look for something different.

So I think that many of the patients coming in are likely to have already been on a topical steroid. And as I mentioned, we have the infrastructure in place to provide the insurance and fulfillment support for these telehealth patients that compares very favorably to what they would see if they went to a dermatologist office. And so we're really looking at how we streamline this process, whether you're seeing a dermatologist in person or you're seeing them online.

I think it's possible that some of the patients may end up needing to step through another product if they're a new onset patient.

But even in that scenario, with the issues related to topical steroids, those patients are likely to be coming back in the not-too-distant future to get ZORYVE after they met the step requirement.

Operator^ And the next question will come from Richard Law with Goldman Sachs.

Tolani Uthman^ This is Tolani Uthman on for Rich. The first one on the commercial front.

As you guys think about launching the PCP and the pediatric sales teams for ZORYVE in the coming months, how many patients do you believe are not adequately referred to dermatologists from the PCP pediatricians? So in other words, about how many patients do you think would be served by that new sales force?

Frank Watanabe^ Sure. Yes, very good question.

So we know that about half of all patients with psoriasis, AD and seb derm are not seen by a dermatologist, right? That's very well established in the data. The majority of those patients are sitting -- are being seen by either a primary care doctor or a pediatrician. That's leaving aside patients who are not currently being actively treated.

We don't really look at those patients because it's always difficult to mobilize patients who aren't in the system.

But of patients currently receiving prescription therapy, about half of those patients are seen by non-dermatologists, the overwhelming majority being primary care and pediatricians.

With this initial sales force, we're only calling on a fairly small chunk of the primary care and pediatric community. And as I mentioned in my prepared remarks earlier, we are focusing on very high-volume doctors who have a proclivity to adopt new therapies and in some cases, doctors who've actually written ZORYVE already. And we think that's where we're going to get the fastest initial traction. And then as we evaluate and fine-tune our approach and get a sense of the return on investment from the primary care initiative, we'll evaluate how large this primary care sales force should be, how far into primary

care and pediatrics we reach. And that may evolve over time just as it did with the dermatology sales team as well.

But early on, we're going to be focusing on a small piece of a very large pie.

One of the statistics that we shared on a prior quarterly call is that there's something like 500,000 primary care providers in the United States. This is a massive number. And we're not going after 500,000 providers, obviously.

But it turns out that there are about 5% of those primary care doctors and pediatricians, so about 25,000 doctors, right, a third of all of the topical scripts that come out of primary care and pediatrics.

So there is a very, very rich vein of potential in the primary care and pediatric community of highly concentrated higher-volume doctors, and that's really where we're going to be focusing our efforts initially and as we expand.

Tolani Uthman^ Okay. Really helpful. And then one more on atopic derm specifically. How will the potential approval of ZORYVE in the infants with three to 24 months expand that market opportunity? And what types of prelaunch activities, if any, are you guys pursuing to support strong uptake in that setting?

Frank Watanabe^ Yes.

So we think it's going to be a very important catalyst. There are about 1 million patients in that age group that 3- to 24-month that have atopic dermatitis.

So it's a large market. And the only things approved right now for 3- to 24-month olds are the six of the topical steroids are approved in that age group and Eucrisa is approved in that age group. And that's it.

So doctors are either having to treat patients, these infants off-label or they're having to use one of those seven drugs that's approved. And I think that's really why we're seeing so much excitement from the -- especially the pediatric dermatology community because they don't have very many options. They don't have good options, especially nonsteroidal. And they've all used ZORYVE already and they know how good it is, and they're very excited to be able to use it in this very young population.

And Patrick can speak to this, too, but the concerns around steroids -- there's concerns around steroids for every patient, but they're particularly acute in this 3- to 24-month population. No parent wants to put their kid on steroids, quite honestly. And if we're able to offer a really effective and very safe and well-tolerated nonsteroidal option to treat those patients, we think we're going to see very, very meaningful uptake in that population. Patrick, anything that you would add to that?

Patrick Burnett^ Yes.

I mean I think you're absolutely right. And what that kind of steroid avoidance leads to is some real challenges in -- and I think the best place to see this is in the pediatric dermatology community. And Frank, I know you were just at the Society for PeDerm meeting. And even going back last year when we were there, there was already tremendous awareness of this study going on even before we had the data and an interest in getting it to their patients because of these very few treatment options that Frank outlined.

So now having the data out there, having it already been presented at the AAD, the activities that we have are really sitting within the medical affairs team and just kind of reacting to a lot of the questions and interest in what do our data show, how is this similar or different to what we have with ages two and above, particularly in atopic dermatitis and just really making sure that everybody is getting their questions answered as we kind of prepare and move towards that launch in the beginning of next year.

Operator^ I show no further questions in the queue at this time.

I will now turn the call back to Frank for closing remarks.

Frank Watanabe^ Okay.

Before I close, this is real-time service here.

Serge, I have an answer to your question and a correction.

I must say we have 28 patents, not 18 patents on ZORYVE. Mas, our General Counsel, corrected me. And he did confirm that both of these new patents are also Orange Book listable.

So I wanted to clarify that.

So yes, listen, another great quarter. Really appreciate everyone taking your time to call in today.

I know it's a very, very busy time of the year with everyone doing quarterly results.

And we appreciate your time and attention and all the great questions.

And we look forward to talking to everyone again at the Q3 call. Thanks.

Bye, bye.

Operator^ This concludes today's conference call. Thank you for participating.

And you may now disconnect.