Arcutis Biotherapeutics, Inc.(Q1 2024 Earnings)

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Corporate Speakers:

- Latha Vairavan; Arcutis Biotherapeutics; Vice President of Finance and Investor Relations
- Frank Watanabe; Arcutis Biotherapeutics; President, Chief Executive Officer
- Todd Edwards; Arcutis Biotherapeutics; Chief Commercial Officer
- Patrick Burnett; Arcutis Biotherapeutics; Chief Medical Officer
- David Topper; Arcutis Biotherapeutics; Chief Financial Officer
- Unidentified Speaker; Arcutis Biotherapeutics; Unknown

Participants:

- Serge Belanger; Needham; Analyst
- Seamus Fernandez; Guggenheim Securities; Analyst
- Vikram Purohit; Morgan Stanley; Analyst
- Tyler Van Buren; TD Cowen; Analyst
- Uy Ear; Mizuho; Analyst

PRESENTATION

Operator^ Good day. And welcome to Arcutis Biotherapeutics2024 ص First Quarter Financial Results Conference Call. (Operator Instructions)

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

I would now like to hand the call over to Latha Vairavan, Vice President, Finance and Investor Relations.

Please go ahead.

Latha Vairavan^ Thank you. Good afternoon, everyone. And thank you for joining us today to review our first quarter 2024 financial results and business update.

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

On the call today are Frank Watanabe, President and CEO; Patrick Burnett, Chief Medical Officer; Todd Edwards, Chief Commercial Officer; and David Topper, Chief Financial Officer.

I'd 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 of the company's filings with the Securities and Exchange Commission including descriptions of our business and risk factors.

With that, let me hand the call over to Frank.

Frank Watanabe^ Thanks, Latha. And thank you all for joining us today. You all know the other executives on the call but I'm really excited today to welcome David Topper, our new Chief Financial Officer.

While David is new to his executive position here at Arcutis, he's been an adviser to us for more than four years.

I expect many of you are already familiar with David and his exceptional experience and track record in the financial and biopharma worlds, and we could not be more pleased that he's decided to join us at this exciting time at Arcutis.

As David joins us, I would also like to express my and the entire organizations thanks and gratitude to John Smither for his incredible service to Arcutis over the past five years. He served as our first CFO, guiding us through a successful initial public offering and has brought an incredible depth and breadth of both financial acumen and dermatology experience from his 25-plus year career in the pharmaceutical industry.

His contribution to the success of Arcutis at a critical time cannot be overstated, and we wish him well in his future endeavors and family time.

So with that, let me turn to Slide 5 of the deck.

We sustained our strong performance since our last earnings call and I remain delighted with the Arcutis team and our execution during this quarter, and I'm thrilled about the momentum we are building towards a successful 2024.

Once again, we saw strong growth during the quarter in our expanding (inaudible) portfolio as health care providers and their patients see how ZORYVE Cream and now ZORYVE foam address real needs in the treatment of psoriasis and seborrheic dermatitis, respectively.

Solid growth in prescriptions for both the cream and the foam, coupled with additional gross to net improvements during the quarter drove strong revenue growth in the first quarter, both versus Q4 and year-over-year. With net revenues of $21.6 million, 70% of which was for the cream and 30% for the foam, which is still very early in the stages of launch.

We've now generated more than 255,000 prescriptions for the cream and the foam combined from over 12,500 unique prescribers to date as our product delivers positive clinical experiences for HCPs and their patients.

Our progress in improving GTM this past quarter, resulting in a blended GTN in the low 60s across both products for the first quarter is particularly noteworthy given the typical copay resets every product experiences in Q1 each year in addition to the fact that we launched a new product during the quarter.

Todd will provide some more color about how we achieved this remarkable accomplishment in just a few minutes.

We also continue to successfully execute against our clinical and regulatory milestones, about which Patrick will go into more detail. Most important is the upcoming FDA PDUFA target date of July seven for our sNDA for atopic dermatitis.

We also continue to progress our pipeline programs, in particular, ARQ 234 for AD and our Q2 55 for alopecia areata.

In February, we completed a secondary offering that raised $172 million in gross proceeds, which, along with net product revenues and our existing balance sheet puts us in a very strong financial position to sustain our investments in the ongoing launches in plaque, psoriasis and SebDerm as well as the potential atopic dermatitis launched later this year, while advancing our pipeline.

Also in February, we entered into a licensing agreement with Sato Pharmaceutical Company, which grants Sato an exclusive license for topical reform last for Japan. Arcutis received upfront payments of $28 million in the quarter, $25 million from Japan with potential additional Japan milestones up to $40 million as well as low double-digit to mid-teen double-digit percentage royalties.

We also received $3 million from Huadong for our China partnership.

Moving on to Slide 6.

As we've mentioned on prior calls, a major reason why we're so excited for this year is that we are in the midst of a very significant expansion in the opportunity for topical reform last, which we expect will translate into substantial acceleration of our revenue trajectory.

From the initial approval for psoriasis, the total addressable market for ZORYVE could grow tenfold from the end of 2023 to over 15 million patients in the United States.

I would add that we are feeling increasingly bullish about our ability to begin gaining Medicare and Medicaid coverage this year, and we are making steady progress on a partnership in primary care.

As our results this quarter reaffirm we have the right commercial team in place for success, and we have an excellent plan to execute against these opportunities. With that,

let me turn it over to Todd to provide some further commentary around ZORYVE Cream and foam launches in psoriasis and SebDerm.

Todd Edwards^ Thank you, Frank.

I'm extremely enthusiastic about the expansion of our commercial portfolio, HCP and patient response to both ZORYVE products and advanced opportunities that lie ahead. Moving to Slide 8. The ZORYVE psoriasis TRX performance has continued to show strength, and these results demonstrate that we could push the trajectory in psoriasis. These efforts also lay a solid foundation for the brand and the building of a portfolio.

Annual insurance changes and deductible resets typically create a dip in prescription trends in the first week of the year. And as you can see, the TRX trend has rebounded from that.

Further, it is notable that many patients push refills at the end of the year in anticipation of insurance disruption, so to see the growth in Q1 of 8% over Q4 and a 120% growth compared to first quarter of 2023 highlights an encouraging trend line for ZORYVE cream.

I'm now on Slide 9.

We continue to hear of a growing preference for ZORYVE relative to other non-sterile competitors. The value propositions (inaudible) resonates with prescribers that aim to resolve plaques that can affect many different parts of the body, hard to treat areas like elbows and knees, but also the sensitive areas like the face, growing and underarms. The elements of efficacy, speed of response, the tolerability profile and the preservation of the skin barrier are becoming well recognized by dermatologists as differentiating factors.

Moving to Slide 10.

As a reminder, ZORYVE foam was approved for seb derm patients in mid-December 2023 with a commercial launch in late January 2024. The ZORYVE seb derm launch is off to a phenomenal start with over 46,000 TRxs in less than three months.

In the beginning, we anticipated a large bolus of patients either waiting the phone, who quickly received a prescription after approval.

As we have pointed out before, SebDerm has been a space with a large unmet need without any innovation in the past 20 years.

We anticipate the growth trajectory of the foam will likely moderate in the future.

But with continued growth, we expect this growth trend to be well aligned to the large debtor market with over 4.4 million prescription treated patients in the U.S. derm office and no other competitive treatment options.

On the right side of this slide, you can see the products that patients starting on home are switched from.

As expected, 80% are from topical steroids to antifungals.

And there is a small portion of patients being switched from ZORYVE cream to foam.

Moving on to Slide 11.

As we have shared previously the dermatology prescriber base for PSO and seb derm are well aligned. ZORYVE Cream has already been used by most prescribers we target. And so far, 40% of the ZORYVE cream riders have also written the foam after only three months. This highlights the potential for growth as we continue to convert existing cream riders to also riding foam.

And for foam further opens new interest (inaudible) cream for targets who've not previously prescribed the cream.

Now on Slide 12. Clinician feedback about ZORYVE foam has been extremely positive. These quotes from actual community dermatologist are typical of the comments we continue to hear about the unmet need for patients whose only option for decades have been steroids and antifungals. Likewise, the happiness of the patient when they experience relief in a more efficient and convenient manner. And for the dermatology practices, a smooth coverage experience that enables ongoing usage.

Moving to Slide 13.

We were able to obtain coverage for ZORYVE foam from all three large PBMs very quickly, and we are now working to secure the downstream plans.

We expect foam coverage to quickly catch up to that seen with the cream.

We look at the percent of prescriptions being covered by insurers, we see an encouraging trend in ZORYVE cream with roughly three out of four Rxs are now covered by insurance. And for foam, slightly more than half of scripts are already covered by insurance.

This is very positive considering we are so early in the launch.

I would add that we expect the contribution to revenue growth coming from further gross to net improvements will likely moderate in coming quarters as we inch closer to our expected steady state gross to net in the (inaudible). Going forward, most revenue growth will likely come from subscription demand growth in psoriasis, seb derm and if approved, atopic dermatitis.

As Frank mentioned earlier, we were quite pleased that we were able to improve our gross to net in Q1, unlike what is typically seen due to co-pay resets and insurance change.

As a part of our continued effort to optimize product access, we have implemented a program at our contracted pharmacy partners to support our commercially insured patients for whom our product is not covered by their insurance. With the new program, we are now directly providing these pharmacies with a unit for each not covered unit of pharmacy dispensers. This unburdens the high expense of not covered units resulting in improvement in our gross to net and enables and ensures that patients have seamless access to our products.

Now on Slide 14. With the strong foam launch in approaching the anticipated approval in mild-to-moderate atopic dermatitis, we are creating a portfolio of ZORYVE options for dermatologists that will sustain the brand growth. The benefits of the ZORYVE portfolio of products that will address three different dermatology diseases where the current standard of care is topical steroids is unprecedented and create simplicity from the dermatology prescriber and patient management.

The common clinical attributes of ZORYVE across all indications will make prescribing simpler and when paired with the common market access co-pay card in an efficient and predictable fulfillment pathway further simplifies dermatology practice operations as well.

We are well on our way to becoming the preferred topical brand in dermatology. Turning it over to you, Patrick.

Patrick Burnett^ Thank you, Todd.

I'm now on Slide 16.

I'm extremely proud of the team's performance in delivering on the promise of topical roflumilast to the dermatology community in the clinic and hitting all of our timelines with regard to regulatory milestones. ACP excitement around ZORYVE for atopic dermatitis continues to grow as we release more data and based on their own clinical experience with ZORYVE in psoriasis and SebDerm. They find ZORYVE's product profile to be well suited (inaudible) atopic dermatitis patients are looking for.

Our PDUFA from mild to moderate AD down to the age of six is coming up quickly on July 7.

Moving on to the approval of foam for SebDerm. Here again, we're looking for some great feedback from dermatology providers. unprecedented efficacy with a once-a-day foam in a market as big as psoriasis with no innovation in decades and no branded competition. Todd, Frank and I were recently out meeting with community

dermatologists and the feedback on ZORYVE foam for their seb derm patients was very strong.

We're also looking -- already looking to expand the indications for ZORYVE foam, expecting to file another sNDA with the FDA in scalp and body psoriasis in the third quarter of 2024.

Looking now on Slide 17 as some of the integument-PED data that we presented at the AAD meeting in March.

As a reminder, this trial was conducted in mild to moderate AD patients, ages two to five years old. Here, we're showing a side-by-side comparison of EASI-75, so that's the proportion of subjects who AD improved by 75% compared to baseline. And WI-NRS success. That's worst-itch numeric rating scale, which is an improvement of at least four points on the worst-itch numeric rating scale.

And both of these end points we can see a rapid response already at week 1, with 19% of patients reaching EASI-75 and that number doubling by week four when we're coming in just under 40% of patients with a 75% improvement.

On the right side, we have WI-NRS with a similar pattern of response for the itch. That's the major symptom reported in AD patients and a significant driver of impact on quality of life. With WI-NRS response, we jump out to 15% responders at week one, over quarter responding at week 2, and then continue to increase through week four at 35%. Turning to Slide 18.

I want to highlight the consistency of our data across different age groups with our integument-PED data in 2- to 5-year-olds on the left and the pool data from ages six and above in INTEGUMENT-1 and INTEGUMENT-2 on the right.

In all of these studies, in just four weeks, we are getting about 40% of subjects to an EASI-75 and just shy of 35% of patients demonstrating a clinically meaningful improvement in itch, very consistent across the different age groups and showing that both the signs and symptoms of AD improved quickly. These data, paired with our integument OLE data we presented previously round out the profile of ZORYVE were patients respond quickly and then continue to improve over time with long-term treatment when we extend treatment out to 52 weeks in our INTEGUMENT OLE trial.

On Slide 19 now I want to touch briefly on some new data in seborrheic dermatitis coming out of the collaborative research project with Emma Guttman and (inaudible) at (inaudible) in New York. The team at (inaudible) was able to use a noninvasive take stripping technique to do gene expression profiling of patients with SebDerm to provide us with the first real look at the pathophysiology of this disease.

The study firmly establishes SebDerm as a unique disease distinct from psoriasis and atopic dermatitis, which is driven primarily by Th1 and Th17, Th22 inflammation,

although it has a skin barrier defect the specific alterations are clearly distinct from atopic dermatitis and indeed SebDerm does not show any of the TH2 dysregulation that's the hallmark of atopic dermatitis.

I'm really proud of the (inaudible) contribution to this effort, and I think it highlights the scientific benefits to the field when a new therapeutic option is developed for an indication.

This is similar to how the IL-17 and IL-23 dependency of psoriasis was defined by new therapeutics and and similarly for IL-4 and 13 in atopic dermatitis.

I think these new data also paint a very clear picture of why ZORYVE has a highly potent PD4 inhibitor formulated in its skin-friendly formulation is so well suited for the treatment of seb derm.

We know that many of the pathways identified here are modulated by PD4. With that, I'll pass it over to David.

David Topper^ Thanks, Patrick.

I first want to say how thrilled I am to be at Arcutis and working with this team.

It's certainly an exciting quarter to be joining the company.

I'm on Slide 21.

As you've heard by now we achieved $21.6 million in net product revenues for ZORYVE for the first quarter of 2024, reflecting a 59% growth over Q4.

This was driven by substantial gross to net percentage improvement down to the low 60s. The team's success in pulling through cover prescriptions and our processing of noncoverage scripts through our preferred pharmacies.

We also saw a healthy prescription growth in the quarter.

For the remainder of 2024, we expect continued prescription growth and some further gross to net improvement for both cream and foam.

On Slide 22, you can see the strong financial performance in the first quarter. Again, net revenues for the first quarter of $21.6 million, up 675% from Q1 of '23 and 59% from the previous quarter. R&D expenses for the first quarter were $23.8 million, which is down significantly from Q1 2023 due to continued decreases in the development cost of topical roughly in the last, but flat as Q4 2023 due to slightly elevated onetime costs for Arcutis 234 as we continue to advance it to IND.

Recall that R&D includes our research operations and medical affairs expenses.

SG&A expenses were $54.8 million for the first quarter higher both sequentially and versus the same period last year as we continue to invest in both our current and future launches.

I'd like to emphasize that the team has made concerted efforts to make appropriate adjustments to our operating expense profile and to be good stewards of the capital that our investors have entrusted us with.

As we transition from a pre-commercial company to a commercial stage business with additional assets and development, we are endeavoring to ensure that we invest appropriately in both our current and future launches to avoid any risk of disrupting the trajectory our products are demonstrating.

On our final Slide 23 on the balance sheet, we had total cash and marketable securities of $404 million at the end of the quarter.

As I mentioned on the previous slide, we believe our current capital, together with product revenues enable us to continue operating the business and invest sufficient capital in commercial launches.

As Frank mentioned, in addition to the equity raise in February, we executed an out-license deal in Japan, which brought in additional nondilutive capital of $25 million. The combined money raise enabled us to successfully address the capital requirement covenant with our lender.

We also received a $3 million milestone payment from our Chinese partner, Huadong based on their progress in China. With that, I'll hand it back to Frank for some closing remarks, and then we'll open it up for Q&A.

Frank Watanabe^ Thanks, David.

Our intent and vision are to make a positive and meaningful impact on the lives of people afflicted with chronic dermatologic diseases. With ZORYVE now launched in two indications and potentially adding the atopic dermatitis launch later this year, we are proud to be helping millions of medical dermatology patients, allowing us to create additional shareholder value.

We are confident that Q1 2024 lays the foundation for our sustained growth for the rest of 2024 and beyond. And with that, we'll open it up for Q&A.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) And our first question comes from Serge Belanger from Needham.

Serge Belanger^ Good afternoon, and congrats on the progress and a solid quarter.

First one, I guess, for Todd, regarding the expansion in Medicaid and Medicare coverage, maybe if you can just give us an update on where you expect to be by the end of the year or starting 2025. And then secondly, Frank, you previously talked about the relatively low risk of the label approval for AD in July.

But maybe just talk about the label you're expecting if it will include some of the itch data and be broad enough to cover the mild, moderate and severe disease.

Frank Watanabe^ Sure. Todd, do you want to take that? And then maybe, Patrick, actually, you're probably best positioned to answer the question around the label.

Todd Edwards^ Yes, fantastic, Frank. And first, I'll touch off on Medicaid.

So we continue to make good progress with Medicaid, I'll give you an example, it's very recent. Just recently, we picked up coverage at Florida state Medicaid. And not only did we pick up the coverage there.

But relative to the step that is has been in place for ZORYVE cream and ZORYVE foam, a single step at for ZORYVE cream through a steroid and for ZORYVE Foam, a single step edit through either or a steroid or antifungals. And so we see this as a very positive movement as we continue to garner access in Medicaid. And we continue to be able to do that as we roll through the back half of 2024.

Relative specifically to Medicare (inaudible), we continue to have positive discussions with the (inaudible) PBM and expect that we will pick up some of those Part D plans in the back half of 2024. And in addition to that, likely some other coverage in Part D, that would likely be effective January 1, 2025.

So we are making good progress on both fronts of Medicaid and Medicare.

Patrick Burnett^ Yes. And I can take the question about the label.

Obviously we're in the middle of a review by the FDA for our atopic dermatitis data for ages six and above.

But what I can say is that this is an expansion of our existing cream label, obviously at a different concentration that will be added to that cream label.

So our expectation with regard to what will be included is kind of similar to what our clinical trials were conducted in -- and I think that if you look at the psoriasis 0.3% cream label, -- that will give you a pretty good idea of where we expect to land in atopic dermatitis.

And notably, you asked about the itch, the itch data were included in that cream data.

I think there's an understanding within the last couple of years of the importance of being able to communicate these kind of symptom data like itch. And so they've been included in our earlier label and in some others as well.

So I think that's a good direction for the FDA to be taking with topicals.

So yes, we're looking forward to getting the PDUFA coming up here in July and being able to speak with you at that point about what exactly our label will include.

Operator^ And one moment for our next question. And our next question comes from Seamus Fernandez from Guggenheim Securities.

Seamus Fernandez^ Congrats on the quarterly results. wanted to ask a couple of questions here.

So first, Todd, great execution with the foam and moving forward from the gross to net and having that really be seamless. When we think about the atopic dermatitis opportunity, can you help us understand how you expect that market to evolve just given the growing comfort that physicians already have with Opzelura and where you see ZORYVE Cream really standing out in the AD space specifically.

The second question is, Frank, I think we've talked about where the gross to net may be able to go sort of towards the end of this year and then hopefully maybe a steady-state gross to net at some point. Just hoping you could remind us where you see those numbers headed to over time as the growth of the asset improves. And maybe you can also help us understand in context where you see pricing headed in that regard.

Obviously other folks can go very aggressive on price, but price hikes, you've taken a different strategy as it relates to sort of remaining comfortably within the subspecialty tier.

So just interested to know how to think about price increases and then gross to net over time.

Frank Watanabe^ Sure. Todd, do you want to take the first question on AD?

Todd Edwards^ Yes. I'll take the first question on AD. And I firmly believe that we have a significant opportunity in atopic dermatitis first, relative to access, I do anticipate that like ZORYVE foam, the PBMs and payers will treat ZORYVE cream in atopic dermatitis is the line extension, which will enable us to garner quick access and quick improvements in our gross to net for atopic dermatitis.

Furthermore, when you look across the ZORYVE portfolio, the feedback we receive from ZORYVE cream and ZORYVE foam related to its uniquely formulated vehicle, which likewise will translate into atopic dermatitis as well as a tolerability of the asset.

Furthermore, if our label is similar to that of ZORYVE cream in psoriasis and ZORYVE foam after approval, it's likely we'll have no limitations of use on location, body surface area, duration or concomitant use with immunosuppressives, which will be a strategic advantage for us within the market.

In addition to that, being a once-a-day topical once likewise resonate with patients. And then I will say one big strategic lever that we'll have with the addition and approval of atopic dermatitis is this portfolio approach that we're having.

Because you think three products that are distinctly formulated across three significant dermatology conditions that dermatologists are treating every day throughout the day.

And by having three formulations, the simplicity of prescribing an ability to swiftly explain the treatment to their patients and on the back end, a very predictable fulfillment process across those three products.

I think will really give us advantage in the market.

So I think it's a great opportunity for us and look forward to that PDUFA date and the eventual launch in atopic dermatitis.

Unidentified Speaker^ Thanks, Todd. Yes.

So Seamus, thanks for your question around gross to nets as well.

So let me break this down a little bit.

In terms of gross to net evolution, we continue to feel very good that we are going to get to a steady state in the 50s and I think the fact that we were able to get down to the low 60s during Q1 in spite of the annual resets and in spite of the fact that we launched a new drug, I think, really speaks to our ability to get gross to nets down.

And I think it also speaks to the value of our overall pricing strategy.

We would expect that we'll get to steady state on the psoriasis cream by -- probably by the end of this year. And we're getting very close to already, right? The foam is probably going to be a little bit lagging behind that just because it's a new product and we have to get downstream insurance coverage.

But as Todd mentioned already, we're already over 50% covered prescriptions for the foam. And so we think that foam will catch up with the 0.3 cream very quickly.

And then we'll have to go through the same sort of evolution when we launch atopic dermatitis.

But again, I think what we've been able to achieve with the foam getting to over 50% coverage very quickly and not having really a meaningful negative impact on gross net with the foam launch, I think you would expect to see something very similar with atopic dermatitis. Again, payers view these as line extensions that are covered by the existing contracts. And so that really facilitates and speeds up, frankly, our ability to get coverage.

In terms of where price is headed, we did price differentially than other branded topicals when we launched and that really got back primarily to a question of Medicare and Medicaid access. And we're delighted with the recent Florida win that Todd just mentioned.

I think that that's another proof point that our pricing and access strategy is working, and we expect to have more proof throughout the year as we garner access through Medicaid and fully Medicare, as Todd mentioned, by the end of the year.

In terms of our ability to price hike, frankly, the contracts these days with all the PBMs limits any company's ability to price hike their price protection clauses in there. And we don't think that we are disadvantaged versus the other companies in that respect. The only thing that we do need to be mindful of is the Medicare, Medicaid specialty threshold, which all the other branded topicals are well above, and we are actively trying to keep below. And we have headroom there.

So I would anticipate that in the future, there may be some price increases we do have that ability.

But I don't think that we're really impaired in our ability to take price increases in line with inflation, any more than any other company as long as we stay under that CMS threshold.

Seamus Fernandez^ Great. And then maybe just one follow-up.

As you think about the rapid uptake that we saw with regard to SebDerm. How should we be thinking about atopic dermatitis.

It seems like with product on market, there won't necessarily be that same level of pent-up demand, but perhaps this feels a little bit more like the sort of psoriasis uptake curve.

Although, again, when a lot of free drug was given away on the psoriasis curves, those were also accelerated to some degree, although that's not the path that our (inaudible).

So just trying to get a better sense of how to think about the trajectory of the uptake curve for cream as atopic derm comes on?

Unidentified Speaker^ Yes. Sure.

I think it's a great question, too, Seamus.

I think that it would not be realistic to expect to see something an uptake comparable to subderm for atopic dermatitis.

As you mentioned, it's been 20 years since there's been any innovation in SebDerm and as Todd mentioned, we thought -- think that there was a pretty good size pool of sort of ready patients just waiting for ZORYVE foam to be approved, and that really drove that very rapid uptake that we saw right out of the gate.

So I wouldn't expect that kind of growth with AD right out of the gate.

On the other hand, I think compared to the psoriasis launch, I think that AD could outperform psoriasis for a number of reasons.

One of them, I think, Todd alluded to, which is when we launched ZORYVE in psoriasis, nobody really knew ZORYVE and (inaudible) that well.

By the time we launch in atopic dermatitis, pretty much all of the dermatologists will have used the cream and a high percentage will use the foam.

So we're going to be launching with that positive tailwind of experience with the efficacy of ZORYVE, the safety and tolerability of ZORYVE and also, as Todd mentioned, the ease of the process for getting patients fulfilled.

So I think that will aid the uptake in atopic dermatitis.

It's a much more competitive market.

So I wouldn't expect to have a large warehouse of patients just waiting when we launched atopic dermatitis.

So I think the uptake is probably going to fall somewhere in between the last two launches.

Operator^ Our next question comes from Vikram Purohit from Morgan Stanley.

Vikram Purohit^ So we had two, one on seb derm and then one on the potential AD launch.

So for SebDerm understanding that it's still pretty early in the launch trajectory.

What is your current sense on duration and the annual number of Kanso product a customer or patient rather might work through over the course of a year. And then for AD, you previously mentioned entering a partnership to access the primary care setting.

So I just wanted to see how those discussions are going.

-- what you currently see as the timeline to establishing a partnership and what you would see as the, I guess, the ideal economics in terms of collaboration here.

Unidentified Speaker^ Sure.

So around duration and consumption, I think it's very early still to be able to assess that.

We are seeing some refills come through.

I don't actually have the latest numbers, Todd may have that.

But we are seeing some but it's not a significant driver of growth, just given how early we are in the launch.

Seborrheic dermatitis covers less body surface area than psoriasis or atopic dermatitis.

So what may be that patients consume fewer cans throughout the year.

I think what we've previously stated was that we thought that, that was probably something like one to two cans a year for SebDerm.

We don't have anything at this point to revise that guidance. And so I would say that we would expect it to be something similar to that until we we learn otherwise, and we'll update you guys if we do get information on that.

In terms of the atopic dermatitis partnership, what we have been saying all along is that we would like to have that done sometime around the launch I don't think we need to have it done by the launch necessarily because you really have to win with the dermatologists first. The PCPs will be looking to the derms for an example. And so I don't think it's critical necessarily being primary care right at the launch.

But I think it's very likely that we'll have that deal done.

We will have a deal done still this year.

We're feeling very good about how the discussion has been going with potential partners.

And then in terms of economics, it will really come down to the negotiation with the potential partner. They will have obviously a considerable expense just given how large primary care sales forces are.

But we've obviously invested a lot into the product.

We do have a preference for some sort of a revenue sharing arrangement rather than a fee-for-service because I think that, that aligns the interest of the two partners, which is

aligned with the interest of shareholders, right, as opposed to fee-for-service where maybe you get what you pay for.

But we'll have to negotiate that with whoever ends up being the final choice of a partner, and then we'll let investors know what the economics are around the deal.

Operator^ And our next question comes from Tyler Van Buren from TD Cowen.

Tyler Van Buren^ Regarding the primary care partnership, is that something that you would like to happen soon and what would it look like? And how many additional patients do you believe you could reach via the strategy?

Unidentified Speaker^ Sure.

First of, (inaudible) the presidential campaign going.

So around for those of you who weren't at their conference that -- (inaudible) in partnership, as I just said to Vikram, I think we'd like to have this done sometime around the launch, which is probably going to be in the August timeframe, I feel very confident about our ability to get it done before the end of the year.

So that's kind of -- I would put it as bookends.

And in terms of the opportunity size, about 50% of atopic dermatitis and about 50% of seborrheic dermatitis patients are treated outside of dermatology. They're not all in primary care or pediatrics, but a very large percentage of those patients are sitting in a PCP or a pediatrician office, both SEBI and AD, more pediatricians for AD, more PCP for for Ceptor just because of the age of the sites? So we're looking for a partner that has good coverage primarily of the PTP and the pediatric specialties.

If they had coverage in allergy, that would probably be also a benefit, although that's a very small community, but it's a pretty sizable additional opportunity by tapping into primary canpediastrics just because that's where the patients are sitting.

Operator^ And our next question comes from Uy Ear from Mizuho.

Uy Ear^ Congrats on the quarter. Yes, my first question is, I think you said you're expecting gross to net to reach steady state towards the end of the year.

But you're going to, I guess, have Medicaid and -- or more Medicare guest coming online towards the end of the year as well. Just are you kind of saying that the Medicare and Medicaid will not have an impact on gross to net in 2025? Or like how should we sort of think about the interplay with Medicare and Medicaid in terms of gross to net?

And secondly, could you perhaps elaborate on your new program, your distribution programs, where I think you said that you for every unit, the specialty pharmas get one unit for uncovered patients.

I was -- I didn't quite understand it.

Unidentified Speaker^ Sure. Yes. Good to hear from you.

I'll answer your first one and then Todd will ask you to talk about the pharmacies. Yes. So I did say that we thought -- I think we will get to or steady state or around our steady state for store this year on the psoriasis book of business.

And yes, that does factor in Medicare and Medicaid coverage a couple of things to keep in mind.

One is Medicare and Medicaid is a less important contributor to the psoriasis business than it is SebDerm and AD just because of the demographics of the patient population, it's quite a bit smaller.

But secondly, as we've said previously we -- with our pricing and access strategy, we don't anticipate having to give outsized rebates for Medicare and Medicaid coverage. And I think when you look at it all in, the Medicare and Medicaid book of business is probably going to be similarly profitable to the the commercial book of business.

So we don't see -- we don't expect that to have a really meaningful negative impact on our gross to nets. Todd, do you want to maybe talk about the pharmacy.

Todd Edwards^ Yes.

Fantastic.

I will. And just to mention, relative to improving our gross to net, we took a, what I'll call a multipronged approach. And the program that I'll talk about here in just a minute, was only one lever that we pulled to improve our gross to net.

But specifically to that program, if you think about it, prior to implementing the current program, when a commercially insured noncovered are ZORYVE prescription was dispensed by the pharmacy.

What happened is that prescription was processed and then the cost of that unit was charged to our co-pay card.

Then under the new current program, when a noncovered prescription is dispensed by a contracted pharmacy, then Arcutis directly provides the pharmacy with a unit for every unit they use from their inventory to fill that noncovered script versus charging it to the

co-pay card, which unburdens the impact of co-pay card and noncovered scripts on our gross to net.

Operator^ And thank you. And I am showing no further questions.

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

Frank Watanabe^ Okay.

Well I'll be very brief as well. Really appreciate everyone calling in for the call today and the great questions we've had, and we look forward to talking to you all in about another quarter. Thanks a lot.

Bye-bye.

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

You may now disconnect.