Arcutis Biotherapeutics (Q1 2026 Earnings)
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Corporate Speakers

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- Todd Watanabe; Arcutis Biotherapeutics, Inc.; President & Chief Executive Officer
- Todd Edwards; Arcutis Biotherapeutics, Inc.; Chief Commercial Officer
- Patrick Burnett; Arcutis Biotherapeutics, Inc.; Chief Medical Officer
- Latha Vairavan; Arcutis Biotherapeutics, Inc.; Chief Financial Officer

Participants

- Andrew Tsai; Jefferies; Analyst
- Tyler Van Buren; TD Cowen; Analyst
- Colleen Garvey; Guggenheim Securities; Analyst
- Judah Frommer; Morgan Stanley; Analyst
- Uy Ear; Mizhuo Securities; Analyst
- Serge Belanger; Needham; Analyst
- Unidentified Participant; Goldman Sachs; Analyst

PRESENTATION

Operator^ Good day. And thank you for standing by.

Welcome to the Arcutis Biotherapeutics, Inc. First Quarter 2026 Earnings Conference Call.

(Operator Instructions)

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

I would now like to hand the conference over to your first speaker today Brian Schoelkopf, Head of Investor Relations.

Please go ahead.

Brian Schoelkopf^ Thank you, [Marvin]. Good afternoon, everyone.

Thank you for joining us today to review our First 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; Todd Edwards, Chief Commercial Officer; Patrick Burnett, Chief Medical Officer; and Lasse Vairavan, Chief Financial Officer.

I'd 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.

Todd Watanabe^ Thanks, Brian. And good afternoon, everyone. As always, we appreciate you guys making the time to join us.

I want to start today's call with an overview of the latest developments at Arcutis and the progress we're making against our grow, expand, build strategy.

I'll then turn things over to Todd for a commercial update, then Patrick for an R&D update; and finally, Latha for a review of the quarter's financial results as well as how we're thinking about investing in 2026 to drive ZORYVE inflection.

So I'm starting on slide 5. Hopefully, by now you're all familiar with the grow, expand, build framework that we have adopted to define our strategy to sustain near- and long-term growth for both ZORYVE and the company overall.

In a nutshell our plan is to continue to grow our core ZORYVE business in our currently approved indications to expand ZORYVE into additional indications and to build our innovative pipeline beyond ZORYVE.

So starting with the grow pillar for driving momentum in our core approved indications, we're very excited to have submitted a supplemental NDA for ZORYVE cream, 0.05% in atopic dermatitis patients aged three to 24 months in April. This is a segment of patients who are significantly impacted by AD and who are in dire need of safe and effective treatment options beyond the very small number of currently approved therapies.

Patrick will comment on the opportunity more, but we see this as a very significant new opportunity for ZORYVE, and there's a lot of excitement amongst dermatology clinicians about our data and the possible approval.

We also completed enrollment in a MUSE trial for ZORYVE foam, 0.3% in children with scalp and body psoriasis ages two to 11 years of age, and that should serve as the basis for submission for -- to extend the label to this age group, aligning it with the 0.3 cream.

On the commercial front, we've successfully completed -- we've essentially completed, excuse me, the expansion of our dermatology sales force to enable deeper reach into the dermatology landscape.

I'm happy to report that our expanded derm sales force is in the field as of this week, but of course we probably won't begin to see an impact on sales for a few months.

We also began the build-out of our dedicated PCP and pediatric sales team, starting with the recent hiring of our Head of Primary Care franchise. This team will embark on a targeted effort to engage with those primary care and pediatric clinicians who are already using a fair bit of topical therapies in their practice.

We also continue to make important progress against our expand pillar as we work to bring the unique benefits of ZORYVE to people impacted by chronic inflammatory skin conditions beyond our currently approved indications who are also in need of targeted innovative treatment solutions with a focus on diseases where we've already seen compelling potential of ZORYVE based on case reports and case series.

And specifically, we're nearing full enrollment of our Phase II proof-of-concept trial in vitiligo, and we continue to enroll patients in our Phase II POC trial in hidradenitis suppurativa or HS.

We're also evaluating additional Phase II proof-of-concept trials in indications beyond vitiligo and HS, and we'll obviously update you guys on our further decisions. And finally, we reached an important milestone in our pipeline building activities with the initiation of a Phase Ia, Phase Ib trial for ARQ-234. The investments we're making and the efforts we're taking to advance our initiatives across these three pillars are laying groundwork for further ZORYVE sales inflection and operating leverage expansion in 2027 and far beyond as well as positioning us to sustain growth for the long term and most importantly, expanding our impact on individuals living with chronic inflammatory dermatosis.

Despite now having a successful commercial franchise in ZORYVE, we continue to be at our core, a biotechnology company championing meaningful innovation within medical dermatology. These investments in innovation and growth reflect that intent.

With that, I'll hand the call over to Todd to give you a Q1 commercial update.

Todd Edwards^ Great. Thank you, Frank. And good afternoon, everyone.

Turning to slide 7.

We continue to see strong sales performance in the first quarter with net product revenues of $105.4 million, up 65% versus the first quarter of 2025. This healthy quarterly performance was achieved despite the customary first quarter seasonality impacting branded therapies driven by patient deductible resets, elevated co-pay utilization, annual insurance transitions and pull forward of refills into Q4.

This typical pattern was further amplified this year by the impact of severe weather events we had across the country during the quarter.

On an aggregate basis and in line with expectations, this resulted in a more significant sequential decline in product revenues from quarter four to quarter one compared to 2025, where seasonality was mitigated due to the initial launch of ZORYVE in atopic dermatitis.

Importantly, we are through the impact of this typical seasonality and anticipate a return to robust quarter-on-quarter demand growth going forward.

Our gross to net remained stable in the 50s. And as communicated on our last call we anticipate it will remain in the same range for the remainder of 2026.

Our first quarter gross to net rate improved compared to quarter one 2025 due to our evolving payer contracting that benefited product revenues for the period.

Looking ahead to the second quarter, we expect quarter-over-quarter net sales growth driven primarily by increasing patient demand as well as continued gross to net improvements as we progress from our current rate to the low 50s as the year progresses.

Turning to Slide 8. After a typical December to January pullback in demand, weekly prescriptions on a rolling 4-week average based on IQVIA EXPONent data have returned to a healthy growth trend and reached approximately 21,000 prescriptions per week across all indications and formulations for ZORYVE.

As is clear from this chart, ZORYVE continues to generate sustained Rx growth.

For the remainder of 2026, we anticipate sustained demand growth will be the primary driver of ZORYVE's revenue expansion. The most important driver of this sustainable momentum will remain the conversion of topical corticosteroids to advanced targeted topical therapies as healthcare providers and patients' perceptions of the risk of chronic use of topical steroids evolves.

In a few minutes, Patrick will comment on developments we are seeing on that front.

Investments we have made to expand our dermatology sales force will also contribute to demand growth in the second half of the year, and our efforts in primary care and pediatric settings will start to have an impact later in 2026 and 2027. Next, I'll provide some additional detail on demand across topical therapeutics and dermatology in the first quarter.

I'm on slide 9.

As demonstrated in the chart on slide 9, prescription volumes were down across the board for topicals in the first quarter of 2026 compared to the fourth quarter of 2025.

Of note, the impact was not only seen with branded products, but also with topical corticosteroids, antifungals, vitamin D analogs and topical calcleurin inhibitors.

Products in these categories are primarily generic, making them less sensitive to the typical seasonality experienced by branded products in the first quarter.

Yet this year, they still saw marked sequential declines quarter-on-quarter.

We believe that this dynamic speaks to the fact that the severe weather events in the first quarter impacted dermatology prescription volume in general, a headwind that compounded typical seasonality and affected the entire topical segment.

Of note, the prescription decline for ZORYVE in the quarter at 6% was meaningfully lower than the other branded non-steroidal topicals which collectively were down 15% for the quarter. This relative outperformance is further evidence of the growing preference for ZORYVE by dermatology healthcare providers and patients. ZORYVE's relative strength in the period also drove further share expansion with ZORYVE's share of total branded non-steroidal topical prescriptions increasing to 48% in the first quarter, a 3percentage point increase from the end of 2025.

Moving to slide 10.

We are excited about the key investments we are making in 2026 to drive ZORYVE's continued momentum and set the foundation for its growth inflection in 2027 and beyond.

We have completed our previously announced dermatology sales force expansion.

As Frank noted earlier on the call we're pleased to report that these new sales force members are out in the field as of this week.

As is typical, these sales representatives require a couple of months to gain familiarity with their call points.

So we anticipate seeing the impact on demand from these added boots on the ground beginning in the third quarter.

We are also underway in the build of our primary care and pediatric team.

We are thrilled to announce today that we have hired the head of this new franchise, Katie Swoss. Katie brings incredible breadth and depth of experience with dermatology therapeutic commercialization, having held various strategic and operational leadership positions, and she has already begun building out the rest of her team.

As we described previously we are adopting a high targeted approach with this sales team focused on high-volume, early adopter PCPs and pediatricians concentrated in major metropolitan areas, positioning this investment to be accretive from the outset. From there, we

will evaluate additions to the sales team as we further refine our strategy and gain in-depth understanding of the space.

We look forward to completing the initial build-out process next quarter with the launch into the field in Q3, initial impact to demand beginning in the fourth quarter.

Rounding out focused commercial investments, our Free to Be Me direct-to-consumer patient awareness campaign featuring Tori Spelling, her daughter, Stella McDermott and professional golfer, Max Hona has driven strong meaningful patient engagement. Their shared collective experiences are helping to drive awareness for ZORYVE across all indications and are resonating with a broad range of patient demographics.

We look forward to the continued progress of this important direct-to-consumer effort to ensure we are capturing and reflecting the patient voice and patient experiences as they live and manage their chronic inflammatory skin conditions and the impact ZORYVE has on their lives.

With that, I'll now turn the call over to Patrick.

Patrick Burnett^ Thank you, Todd. Good afternoon, everyone.

In the first quarter, we continue to make significant progress in our efforts to support young children and infants suffering from plaque psoriasis and atopic dermatitis.

Starting first with atopic dermatitis, children under the age of two are the most vulnerable patients in a population that desperately needs alternative therapeutic options to the handful of currently available treatments.

As a dermatologist, I can tell you firsthand how challenging it is to sufficiently address these diseases in this age group given the very limited set of approved therapies and how eager the parents and caregivers are for effective, safe and well-tolerated treatments to bring comfort to their kids.

Safe, well-tolerated treatments are especially important in this age group when the immune system and the skin barrier are still developing.

We take their plea very seriously and we believe the clinical profile and formulation of ZORYVE are well suited to the needs of this young patient population.

On our March call we highlighted the positive top line data from the INTEGUMENT infant Phase II trial of ZORYVE cream 0.05% in infants aged three to less than 24 months with mild to moderate atopic dermatitis. Expanding on what we shared in March, we were honored to have our abstract selected for a prestigious late-breaker session and presented by Dr. Lawrence Eichenfield at the American Academy of Dermatology Annual Meeting at the end of March, select portions of which we have here on slide 12.

Over a third of study participants who completed four weeks of treatment achieved a validated investigator global assessment for atopic dermatitis that's a VIGA-AD success. that's defined as a score of zero, which is clear, or one which is almost clear with at least a 2-grade improvement. Close to half of infants achieved a VIGA-AD score of clear or almost clear, that's a zero or one at week four and 24% already at week two.

Now for those infants with at least mild scalp involvement at baseline, more than two-thirds achieved VIGA scalp success at week four. And as previously highlighted, 58.3% of infants achieved at least a 75% reduction in their eczema area and severity index that's an EASI-75 at week four and three-fourths of infants already at week two.

Now to the right, we see a representative patient. This is a 23-month old boy who had previously been treated with topical corticosteroids with an IGA of three or moderate severity at baseline, and he's showing significant improvement at week four with an IGA of one or almost clear.

I think these photos really represent the meaningful impact that our 0.05% cream delivered to patients in this study and why we're so excited to already have these data submitted to the FDA. Collectively, the findings from the INTEGUMENT infant study add important clinical evidence on the promise of investigational ZORYVE cream 0.05% in infants three to 24 months with rapid and robust efficacy across multiple clinical endpoints, coupled with excellent tolerability and a clean safety profile.

Now moving on to slide 13.

I want to highlight one particularly notable result that we shared from INTEGUMENT infant at the AAD, namely the rapid impact that ZORYVE had on itch for these patients as reported by their caregiver.

Itch is one of the most disruptive symptoms of atopic dermatitis in patients of all ages and the rapidity with which a therapy can alleviate itch is an important aspect of a drug's therapeutic profile.

We've known since early clinical development that ZORYVE has a rapid impact on itch. The chart on the left-hand side of slide 13 shows itch improvement over time in our registrational INTEGUMENT-1 and two trials in atopic dermatitis as measured by WI-NRS or worst itch numeric rating scale.

As you can see, we saw itch reduction as early as 24 hours after first application, and that was the first time point measured in these trials.

However, through our clinical trial experience and feedback from clinicians in the field, we appreciated that the speed with which ZORYVE impacts itch is exceptional.

With that in mind, in it taking an infant, we chose to measure impact on itch using the dynamic pruritus score, or DPS, with measurements as early as 10 minutes after application. The results from that analysis are demonstrated in the chart on the right-hand side of this slide.

Nearly 50% of patients experienced a 25% improvement in itch as measured by their caregivers within just 10 minutes of application of ZORYVE and two-thirds of patients experienced relief within four hours. These results not only reinforce our conviction that ZORYVE will be an important therapeutic option for infant patients, but this demonstrated speed of onset has also prompted us to further study the impact of ZORYVE on itch. To that end, we recently initiated a study INTEGUMENT-Ich, to assess descriptive classification of pruritus over time with ZORYVE 0.15% cream in patients with atopic dermatitis. This 40-patient trial will begin enrolling shortly.

We believe that the further validation of ZORYVE's rapid impact on itch that this trial is intended to demonstrate, particularly within the first 24 hours after initiating therapy is an important step in better understanding and articulating ZORYVE's profile in atopic dermatitis.

INTEGUMENT itch is an example of our strategy to generate additional clinical data for our current indications to further bolster the data set behind ZORYVE. -- an important component of our growth strategy pillar.

I look forward to sharing subsequent updates on other clinical activities we're pursuing along the same vein.

Next, I'll provide an update on our label expansion efforts to support pediatric patient populations.

As Frank mentioned in the opening, we submitted a supplemental NDA to the FDA in April for ZORYVE cream 0.05% to expand the indication to infants three to 24 months.

We're thrilled to have taken this critical step to potentially bring a new safe, well-tolerated and effective therapeutic option to this patient population.

It's notable that we were able to submit our application in just three months after having read out the top line results from our INTEGUMENT infant trial. This reflects the speed with which our team at Arcutis is moving on behalf of patients and our response to the high level of urgency shared by those HCPs who care for these youngest AD patients.

Turning next to our pediatric expansion efforts for plaque psoriasis.

We recently completed enrollment of a MUSE trial or maximum MUSE trial for ZORYVE foam 0.3% for children ages two to 11 years old with scalp and body psoriasis. The trial is intended to serve as the basis of an sNDA submission to extend the indication to this age group and to align the psoriasis indication of the 0.3% cream and foam.

If approved, ZORYVE foam could offer a truly unique therapeutic option for caregivers helping their young children manage this disease that has historically been difficult to treat when presenting in hair-bearing areas.

In addition, as previously announced, our supplemental NDA for ZORYVE cream 0.3% for psoriasis patients down to the age of two years is under review by the FDA and the PDUFA action date of June 29 is quickly approaching.

I'll note that the rationale for extending our label to the infant population for atopic dermatitis does not apply to plaque psoriasis or seborrheic dermatitis.

Onset of diseases in these patient populations is common in atopic dermatitis, while it's not in the other two diseases.

Our current label in seborrheic dermatitis positions us to effectively serve the addressable patient population and potentially securing a label expansion to the pediatric age range in plaque psoriasis will similarly equip us to serve the addressable patient population.

As demonstrated in the table on slide 14, these latest developments in expanding our indications to additional pediatric and infant populations build on a consistent focus we've maintained over the years to broaden the availability of ZORYVE.

We're driven by the need of these younger children for effective, safe and well-tolerated therapeutic alternatives to topical corticosteroids.

We also anticipate that when healthcare providers see how effectively ZORYVE alleviates inflammatory skin disease in their most fragile and vulnerable patients, they'll be more inclined and appreciate the potential benefit from ZORYVE for their adult and adolescent patients with the same diseases.

Now turning to slide 15 and the pipeline. This is the build pillar of our strategy.

We've now initiated the Phase I trial of ARQ-234, our novel biologic targeting CD200R in healthy volunteers and adults with moderate to severe atopic dermatitis. There's a clear and distinct need for a systemic therapy for patients with atopic dermatitis who have relapsed on or who are refractory to IL-4, IL-13 drugs. Many in the drug industry and many clinicians had until recently hoped that agents targeting OX40 would meet that need.

However after a series of disappointing clinical data sets and growing safety concerns for these programs targeting OX40 already leading to program discontinuations, that hope has dissipated, leaving a white space for novel new treatment pathways.

It's our belief that the CD200 axis targeted by ARQ-234 could bring an important new tool for providers and an important new option for patients. The CD200 axis plays a central role in both innate and adaptive immunity with CD200 signaling reducing immune activation for T cells, type 2 innate lymphoid or ILC2 cells and myeloid cells and decreasing secretion of pro-inflammatory cytokines.

Given the impact of this access, there's a solid basis for optimism about the role of CD200R agonist programs may play in treating inflammatory diseases. The Phase I trial for ARQ-234 is

comprised of a single ascending dose or SAD component in healthy volunteers which is currently ongoing and a multiple ascending dose or MAD component followed by a proof-of-concept cohort, both in patients with moderate to severe atopic dermatitis.

While we will not share the results from the trial until completed, we will keep you apprised of our progress through these different components.

Now moving on to slide 16.

As you can see, we've already delivered on several meaningful clinical milestones in 2026 and look forward to continuing clinical progress throughout the year.

Of note, we continue to enroll our Phase II proof-of-concept trials in vitiligo and hidradenitis suppurativa or HS.

We're nearing full enrollment for our vitiligo trial and remain on track to provide a readout of trial results and an update on our clinical development plan in Q4 of this year. And a similar readout for our HS program in Q1 of 2027 also remains on track.

And Todd alluded earlier to the continued shift from topical steroids to advanced targeted topical therapies like ZORYVE.

As we've mentioned on prior calls, we're seeing a steadily growing consensus within the dermatology specialty around the clinical needs for that shift, and we saw further evidence of this since the start of the year.

On slide 17, I highlight just a few of the recent discussions on this topic.

I would call your attention in particular to one of the conclusions of the recently published expert consensus statement on advanced nonsteroidal topical therapies for atopic dermatitis which came out in March in the Journal of Drugs in Dermatology.

As you can see, some of the most distinguished experts in the field agree that advanced nonsteroidal topicals should be preferred over topical corticosteroids for long-term management of atopic dermatitis due to their cleaner safety profiles. This is typical of what we continue to hear from the leaders in dermatology, and this growing consensus will propel the conversion to the newer agents, of which ZORYVE is the leading treatment.

With that, I'll turn the call over to Latha to further detail our Q1 financial results.

Latha Vairavan^ Thank you, Patrick.

I'm on slide 19.

We generated net product revenues in the quarter of $105.4 million, which is up 65% from Q1 of 2025. This year-over-year increase was driven primarily by increased patient demand.

We also had lower gross to net in the first quarter of 2026 versus a year earlier, contributing to higher net product revenues.

As Todd mentioned earlier, this improvement in gross to net was primarily driven by the evolution of our payer contracting.

While our gross to net rate is lower to begin the year, we still anticipate our gross to net to be in the 50s throughout 2026, ending in the low 50s. Cost of sales in the first quarter were $9.8 million compared to $8.8 million in the first quarter of 2025, primarily due to increasing ZORYVE sales volume.

For the first quarter of 2026, our R&D expenses were $30.6 million versus $17.5 million for the corresponding period in 2025. This year-over-year increase was primarily due to the $10 million milestone obligation to Ducentis shareholders triggered by the dosing of the first subject in the ARQ-234 Phase I trial which occurred in the quarter.

SG&A expenses were $74.1 million for the first quarter of 2026 compared to $64 million in the same period last year, up 16% as we continue to invest in our commercialization efforts for ZORYVE.

We anticipate a modest increase to the SG&A expense in the back half of the year, driven by headcount-related costs for the dermatology sales force expansion and the build-out of our primary care and pediatric sales team. we are maintaining our revenue guidance in the range of $480 million to $495 million for the full year 2026.

Moving to Slide 20. You can see that we had cash and marketable securities of $224.3 million on our balance sheet as of March 31, 2026.

Importantly, we maintained positive cash flow in the quarter with $2.2 million of net cash provided by operating activities.

We will continue to be disciplined in our investments in the business to maintain positive cash flow throughout the rest of the year.

We have total debt of $101.5 million and have the right to withdraw another $50 million in whole or in part at our discretion through the middle of '26.

I am now on slide 21.

With the continued broad adoption of ZORYVE and sustainable sales momentum that the franchise has demonstrated, we have reached the rare milestone amongst biotechnology companies of achieving positive cash flow at Arcutis.

We first achieved sustainable positive cash flow in the fourth quarter of last year and have communicated that through diligent expense management, we anticipate maintaining positive

cash flows on a quarterly basis throughout 2026. This -- the core ZORYVE business is strong and the shift from topical steroids to branded nonsteroidal topicals will continue to offer immense growth opportunity for many years to come. Concurrently, we are reinvesting capital generated from our ZORYVE franchise back into our business in order to inflect growth in 2027 and beyond.

ZORYVE's growth is driven by both of these factors. You've heard about several of these initiatives today including our sales force expansions in both derm and primary care, DTC efforts, clinical investments to support current and potential additional indications for ZORYVE and progress on our innovative pipeline. There are additional initiatives for which we are making disciplined investments that we look forward to detailing throughout the year. These investments lay the foundation for both near- and long-term growth for Arcutis. They will help to further catalyze the continued growth of ZORYVE and inflect its trajectory.

ZORYVE is a profitable franchise.

If we were not pursuing these impactful accretive investments, we would commence operating leverage expansion in 2026.

As we look ahead to 2027, we expect a moderation in the need for increased investment in our current business compared to this year. Coupled with the anticipated continued sales growth of ZORYVE, we expect that we will see meaningful increase in our operating leverage and cash flow generation in 2027 and beyond.

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

Todd Watanabe^ Thanks, Latha, and thanks again to all of you for joining us today and for your continued interest in Arcutis.

I'm immensely grateful to our team and very proud of their hard work, their dedication to building shareholder value and their commitment to the patients we are serving.

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

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from the line of Andrew Tsai of Jefferies.

Andrew Tsai^ So it sounds like gross to net performed better than compared to last year, Q1 of last year.

Can you guys maybe qualitatively describe what drove that better percentage?

Was it something within your control?

And what kind of positive impact could that have for the rest of the year?

I know you kind of guided gross to net for the rest of the year.

Is it fair to assume blended gross to net for this year could be better than the blended gross to net for 2025?

Todd Watanabe^ Sure. Yes. Todd, do you want to take that one?

Todd Edwards^ Yes. I think I'll take that call Andrew. Thank you for the question.

So yes, as mentioned, we did have price improvement in the first quarter of this year relative to Q1 2025. This year-on-year improvement was primarily driven by improvements in formulary status with more preferred versus nonpreferred position with some of our commercial plans.

What this means is that for a patient, for a preferred status, it's a lower co-pay versus nonpreferred position.

So with the preferred status and lower co-pay for the patients, that leads to lower co-pay expenses and lower co-pay buy-down for Arcutis give us the pricing upside.

Now while our rate is lower than the prior year, we continue to anticipate that we'll be stable in the 50s without a doubt throughout the year. And as mentioned, we'll be working down from the higher 50s at the beginning of the year, transitioning to the lower 50s at the end of the year as patients continue to buy down the deductibles and we have lower co-pay expenses.

Now as we look forward, I think it's a bit too early to anticipate how all these factors will carry forward to future years.

But I remain very confident that we'll continue to have a very strong gross to net, and we'll maintain our gross to net within the 50s going forward. Thank you for the question.

Operator^ Our next question comes from the line of Tyler Van Buren of TD Cowen.

Tyler Van Buren^ Just to help quantify the quarter-over-quarter impact in the Q1 seasonality, as we compare to Q4, can you help us understand how much of that was the gross to net impact versus volume impacts from weather or Q4 pull forward?

And the second part or follow-up is, I understand that you're saying that Q2 sales will be above the first quarter, but do you believe it's likely that Q2 sales could significantly exceed the sales that were posted in Q4?

Todd Watanabe^ Tyler, yes, Todd, do you want to take that one, too?

Todd Edwards^ Yes, absolutely. Thank you, Tyler.

So in reference to the quarter-on-quarter impact of seasonality and the differential between gross to net and demand, as we've highlighted, there was an upside on gross to net due to the which that has changed from nonpreferred to preferred with the -- as mentioned, the demand saying relative to the 6% on that.

If you think about it, with the seasonality which is typical because of the pull forward of the refills into Q4, we got employers that are often change in insurance from employees that's effective January one of the year. That transitions impacts relative to ZORYVE and then, of course the higher deductible reset that impacts it.

Then as noted, this was compounded relative to the weather impact.

I will just mention that this whole weather impact and demand impact was not just limited to the topical products. When you look at the systemics, they were also impacted as well.

For example, Otezla was down 11%, Rinvoq 3% Dupixent 2%. This is on volume due to this seasonality with this and being amplified by the impact of the weather.

Relative to Q2 sales and how we think about them going forward, I will mention that Q2 quarter-to-date through April 24, ZORYVE has 13% growth versus Q1 within the same time period.

So we're off to a very strong start within Q2 here, and I have high confidence that we'll continue to build on this demand trend and have robust growth quarter-over-quarter as we go forward.

Operator^ Our next question comes from the line of Seamus Fernandez of Guggenheim Securities.

Colleen Garvey^ This is Colleen on for Seamus. When thinking about this year's sales guidance, what are the assumptions driving the lower end of the guide?

By our math and just based on the current prescription trajectory, we're starting to struggle to land within the upper end of the guide and consensus looks to already be above.

So just trying to understand the pushes and pulls to maintain the current guide.

Todd Watanabe^ Colleen, Look, I would say that we just updated the guidance in February. so not that long ago, we don't intend to update our guidance at least for the moment every quarter.

So we'll continue to evaluate the trend as the year progresses.

If we feel that it's appropriate to update the guidance, we will.

But we felt that at this point, early in the year, particularly with a slightly anomalous Q1, we felt that it was prudent just to hold fast.

Latha, Todd, I don't know if there's anything else you want to add to that.

Todd Edwards^ Nothing else, Frank.

Latha Vairavan^ Calling out, I would say that the -- we issued the guide after the end of the year. And as Frank said, we don't see the need so early in Q1 to take it up.

So as the year progresses, then as the guide rate changes, then you'll be able to align more to where the demand trajectory is headed.

But for now I think you can lean into the upper end and stay there.

Operator^ Our next question comes from the line of Judah Frommer of Morgan Stanley.

Judah Frommer^ We appreciate kind of the updated trends on total scripts and the share being taken there. Anything you're noticing in NRx new scripts and any trends that are indicative of where TRx could move going forward?

Todd Watanabe^ You're talking absolute volume share?

Judah Frommer^ Yes.

Todd Watanabe^ I would say share of new scripts, how that's trending, if anything has changed, has that formulary position maybe impacted what new scripts are doing?

Okay.

Sure. Todd, do you want to take that one?

Todd Edwards^ Yes. I'll take that one. When we look at the Q1 for ZORYVE and you look at the new-to-brand Rx for the branded nonsteroidal topicals, you look at that basket for Q1, ZORYVE drove 48% of the new-to-brand Rxs for the branded non-steroidal topicals.

We're very encouraged by this.

I mean, I'll just reference this as comparison.

If you look at like Opzelura, it was 28%.

I think what's more is that you look at for ZORYVE and the NBRx decline quarter-over-quarter, we were basically flat.

I think -- which is another strong signal. The other is when you look at our refills, Look at our total volume prescription, of that, our refills are about 45% which is once again very encouraging for us, not only on the NBRx, but also on the refills that are contributing to our TRx and our overall growth.

If I look within Q2 and I look at approximately the last three to four weeks, we've had very impressive NRx growth with ZORYVE which once again is a great leading indicator of what's to come as far as TRx growth as we roll forward into the quarter.

Operator^ Our next question comes from the line of Uy Ear of Mizhuo.

Uy Ear^ I have two, if I may. The first question is, could you maybe just help us understand or quantify the opportunity from the infant atopic dermatitis conditions.

I think Frank, you mentioned it was a significant opportunity. And how -- and maybe just help us understand how you'll capture that opportunity?

Is it primarily through the derm sales force that you currently have or from building out the primary care pediatric sales force?

That's the first question.

Todd Watanabe^ Go ahead. Did you have another one

Uy Ear^ Yes. I do. The second question is maybe, Lata, the SG&A was lower than what I think we or the consensus expected something like by $4 million.

Now that you have the full sales force expansion, do you expect an uptick in the second quarter?

Because I thought, if I heard correctly, I don't know what the starting point is, but you indicated that you were expecting a modest SG&A uptake in the back half of the year.

So maybe just help us understand the cadence of spending for the year.

Todd Watanabe^ Okay. Thanks.

So Patrick, maybe why don't we start, if you wouldn't mind sharing maybe a dermatologist perspective on the 3- to 24-month opportunity and the unmet need.

Then, Todd, maybe you can address how we're going to get at that commercially.

Then Latha, if you could address his question around OpEx.

Patrick Burnett^ Sounds good, Frank. Yes.

So I think this three to 24 months group, and I'll let someone else kind of comment on the kind of absolute size of that group.

But I think they are uniquely reflecting a patient population that has -- we're talking about essentially crisaborol approved there and then maybe five or six topical corticosteroids.

So I think this really is a group that as we've been out kind of talking to pediatric dermatologists, and these patients are not just managed by pediatric dermatologists.

The they're managed by a lot of dermatologists, dermatology, PAs and NPs as well that this is one where people really do struggle to be able to get these patients under control.

Obviously it's not a group that you want to jump to a systemic right away. They tend to have a higher body surface area. Their disease tends to evolve kind of quickly over time into a pretty high percent of involved skin. And kind of as we alluded to in the call there's a really high sensitivity to exposure to corticosteroids right out of the gate.

I mean these are very, very young patients and the developmental milestones are at the top of mind for caregivers.

So really kind of finding something that fits into that mindset, I think the ZORYVE profile fits beautifully into that.

I think we kind of alluded to the fact that this is a way to really win the hearts and minds of prescribers because if you could solve this problem for them, I think it really helps with the overall lift for the brand and what it means for the field.

So I think that's the derm perspective. And as far as the overall size of the opportunity, I think I'll turn it over to you, Todd, to talk about that.

Todd Edwards^ Yes. Thank you, Patrick.

I'll just reemphasize, as Patrick mentioned, this patient population is tremendously underserved.

If you think about it, it's really just EcrIA which burns in the one application is available and then topical steroids which, of course brings great concerns to a caregiver, you say relative to steroid exposure. How we're going to drive this opportunity as we go forward once we get the approval will be across both the dermatology sales force as well as the PCP and pediatric sales force.

Dermatology sales force because we do have pediatric dermatologists as well as other dermatologists to see this population and that we're conveying there's a real value proposition for this population.

Then, of course, with our primary care and pediatric team, they'll be calling on pediatricians to make certain they create that awareness for the patient.

Then in -- in addition to that, saying, we'll be doing a lot of direct-to-consumer campaign.

When I say consumer, it's a caregiver.

We'll be making certain that we're reaching out and we're driving brand awareness of ZORYVE for this population to that caregiver to make certain that we know that it's available.

Then in reference to the approximate side, it's about $2 million to $2.5 million as far as the patients, the opportunity that sits here within this age group in atopic dermatitis.

Todd Watanabe^ And Latha, can you address Uwe's question about the OpEx?

Latha Vairavan^ Yes. I would say SG&A for Q1 was slightly below consensus but not we don't see a dramatic decline.

So nothing to concern yourself there. The field force should have started in Q2. You'll see a portion of that hitting Q2 actual.

So some normalization of that. The expansion for the primary care field force that will happen in the second half is what the comment modest increase references.

Some of the initiatives that Todd talked about, you'll see some of that expense also play out for the course of the year.

So that's our feedback on SG&A being higher year-over-year.

Operator^ Our next question comes from the line of Serge Belanger of Needham.

Serge Belanger^ The first one, just regarding coverage for ZORYVE. Do you expect to make any headways on what is remaining for Medicaid and Medicare coverage?

Or is that more of a 2027 event?

Just curious maybe if you can pull it forward to 2026.

Then with the sales force expansion, you're going to be going to lower deciles prescribers.

Just curious how they differ from the higher decile.

Obviously volumes are lower, but do they tend to prescribe less topical products than the higher decile ones?

Todd Watanabe^ Yes. Todd, sorry to worry you out, but could -- you want to take those two?

Todd Edwards^ Yes. No. I'm happy to. Great question.

So thank you.

First one in reference to the coverage question and making headway relative to Medicaid and Medicare.

We will continue to make headway in Medicaid.

We can do that within 2026 as we continue to contract with these individual states relative to the fee-for-service Medicaid.

We're currently in negotiations and conversations with some of those states where we don't have ZORYVE on formulary. Relative to Medicare, it's a longer process.

We have to contract with each independent Part D plan.

And typically, they do those formulary updates at the first of the year.

So it is -- I'm saying likely going to be January 1, 2027, but there is opportunity with the Part D plans to be able to pull that forward into 2026.

So as previously communicated, ZORYVE has access in approximately a third of the Part D plans.

It's our ambition to continue to accelerate that as we go forward, and we'll make every effort to pull that forward into 2026.

Then the other is in reference to the sales force expansion, yes, you are correct. The ambition here is to be able to have a higher frequency, a higher level of engagement with the med decile providers by not diluting that frequency on the higher decile providers.

What mainly differentiates between high decile and medium decile is the opportunity to prescribe, meaning that they have a higher -- the higher deciles have a higher patient base, higher patient load. They typically do tend to be more rapid adopters of branded products.

But with this median decile providers, there's ample opportunity for us here to continue to expand ZORYVE and believe that that frequency will lead to higher adoption of ZORYVE.

Operator^ Our next question comes from the line of Richard Law of Goldman Sachs.

Unidentified Participant^ This is [Tan] on for Rich. The first one on the primary and pediatric care setting. Curious if you could speak more to what you're doing differently than CALA in those settings.

What areas were they not doing well that you think you can improve on?

Then I have a follow-up.

Todd Edwards^ Yes. No. It's a great question. Thank you.

I'm sorry, Frank. I just jumped in. Thank you.

So what we're doing differently is we are -- I mean what -- I wouldn't reference it as what we're doing differently as it is what we're going to do to make certain that we set this primary care team up for success and that we can drive utilization of ZORYVE within these specialties is that, as mentioned, as we build this team at launch, we're going to be highly focused.

We're looking and we've been able to build out the target list to make sure that we're going to be engaging the highest opportunistic primary care and pediatricians.

What I mean by highest opportunistic is this will be the PCPMPs that have the highest patient loads within the three indications in which ZORYVE is approved, not only that, but that these providers have demonstrated their willingness to adopt branded products.

These will sit within the major metropolitan areas.

Also we'll make certain that within each of these representative territories that we'll have a defined number of targets where we can make certain that that representative can have the right frequency on each target to be able to drive trial and adoption of ZORYVE.

Once again, setting this up for success.

Then as we deliver success, we'll continue to scale from that point going forward.

Unidentified Participant^ Okay. Got it.

The second one on the foam in vitiligo and HS.

What efficacy benchmarks would you say would be sufficient to give you confidence in continuing development in those two indications?

Todd Watanabe^ Sure. Todd, you got to pass. Patrick, do you want to take that one?

Patrick Burnett^ Thanks. Yes.

So as we're looking at vitiligo and HS, keeping in mind that these are smaller open-label trials -- what we're really trying to understand is what does the ZORYVE profile look like relative to current standard of care treatments.

So for vitiligo, we're really kind of looking at the responsiveness timing relative to Opzelura.

We know that one of the big challenges for patients with vitiligo is how quickly that they're seeing a response in the skin because that can really drive compliance.

So once you get the patient onto the treatment, if they're not seeing the response that they want to, sometimes they'll fall off of their treatment.

I think that's where the mechanism of ZORYVE with PDE4 kind of working both on the inflammatory component, but also we've seen some evidence, as we outlined earlier, some impact potentially on the actual kind of melanocyte protection and pigment production is our hypothesis.

So for why it is that we might see an earlier response rate.

So we're kind of looking at what that profile is.

Now when we look at HS or hidradenitis suppurativa, one of the things that we really want to be able to see is where are we moving these patients in the earlier stage of disease and how would that treatment, given that there isn't a really effective topical that's out there being used right now for patients with HS, where does that fit within the treatment paradigm that has emerged, where many of those patients are pretty quickly being moved to systemics even if they might have disease that might be able to be managed by an effective topical.

So there, I think we see a little bit more blue sky for that.

What we're going to try and outline as we get into Q4 for vitiligo is a pretty clear understanding of both what we are seeing from the response profile, but also where we see the commercial opportunity and how we would see that profile fitting into the landscape.

Todd Watanabe^ Yes. And maybe I could just add one additional thought to Patrick's comments.

I think specifically in the HS case, and we saw this again with the APOLLO data today the systemic therapies are not particularly effective in this disease.

So even patients on systemic therapy are often going to need adjunctive treatment. And ZORYVE is really unique in the topical space that it can be safely used in combination with systemic therapies.

And the disease is often occurring in intertriginous areas, the growing arm pits where doctors are much more reluctant about using topical steroids as well.

So I think both early-stage disease, but also adjunctive to systemic therapy as we're seeing in psoriasis and atopic dermatitis.

I think ZORYVE has a uniquely compelling profile for that use case as well.

Operator^ I'm showing no further questions at this time.

I'll now turn it back to Frank for closing remarks.

Todd Watanabe^ Okay.

Well I will just thank everyone again for making time. I know it's a busy time of the year for you guys. So I appreciate you calling in.

And look forward to talking to you all in another quarter. Thanks.

Bye, bye.

Operator^ Thank you for your participation in today's conference. This does conclude the program.

You may now disconnect.