Trickle Research

Every raging river, every great lake, every deep blue sea starts … with a trickle

2QF19 Earnings Update

Report Date: 09/03/2019

12- 24 month Price Target: $4.20

Allocation: 5

Closing Stock Price at Initiation (Closing Px: 11/09/17)**: $2.90 (USD)**
Closing Stock Price at Downgrade (Closing Bid Px: 05/29/18)**: $2.14 (USD)**
Closing Stock Price at Allocation & Target Upgrade (Closing Bid Px: 02/14/19)**: $2.21 (USD)**
Closing Stock Price at Prior Allocation Upgrade (06/06/19)**: $1.00 (USD)**
Closing Stock Price at This Update (08/30/19)**: $1.79 (USD)**

Assure Holdings Corp.

(Stock Symbol(s) - OTC: ARHH and TSX - IOM.V)
http://www.assureneuromonitoring.com/

Prepared By:
David L. Lavigne
Senior Analyst, Managing Partner
Trickle Research

Last quarter we noted that Assure reported numbers below our expectations, which caused us to reassess the model lower. This quarter, they substantially outperformed those revised numbers, coming in something closer to our projections for the quarter *before the lower revisions.* We submit, the modeling has proven difficult given the visibility problems associated with the collectability of the receivables and/or by extension the proper revenue recognition approach given those same collectability issues. To that point, we would provide two observations.

First, keep in mind, the Company is relatively new so the lack of visibility concerning the collectability of the receivables has been compromised by limited historic reference. While the surprise here has been the marked difference between original revenue recognition numbers and what looks like the ultimate collection of those amounts, the fact that they are different is not unexpected. Succinctly, on the face, we would expect the methodology of recognizing revenues more in line with their collectability to improve over time simply because of the benefit of more historic data.

Second, the Company has appropriately made collections and associated revenue recognition a major focus of the organization. They recently announced an agreement to bring the process entirely in-house, which we think accentuates that focus. While we can't necessarily quantify the notion, we have to believe their new focus and directives will lead to better results in terms of both collecting outstanding receivables, but also narrowing the gap between (improving the visibility of) recognized and collectible revenues. In our view, that improved visibility is highly positive for the stock and the shareholders. By the way, we are not suggesting they have solved that problem, but we do think they are getting closer.

The above said, here are a few observations regarding the numbers.

The Company reported revenues of $8.4 million, which we believe is a record quarter, but is perhaps even more impressive if we are correct about the improved process of matching revenues with collectibles. That number outpaced our revised estimate by $2 million (yes, we know…but they still have to collect it). Much of that difference was driven by what is certainly one of their most important metrics which is procedures performed. For the quarter, they completed 1466 procedures versus our estimate of roughly 1300 procedures. More procedures, in addition to better per procedure billings (versus or estimate) made up the bulk of the revenue surprise. To reiterate, we are still wrestling with the "correct" projection for revenue per procedure, but frankly, that number will most certainly change with time. Incidentally, we are still projecting compression in this number as we move forward.

Margins were better than we anticipated. Some of that improvement was related to scale (more procedures) since we are modeling some fixed costs associated with the margin, with some of the balance associated with the improved revenue per procedure. Further we believe margins were also aided by higher (new) contract revenues. We would add, our sense is that there was also likely some contribution from better attention to costs controls. We revised our model modestly to reflect a bit of the latter going forward.

Operating costs for the quarter were roughly in line (actually a bit lower) than our estimate, *in spite of considerably higher revenues*. Obviously, that is a positive data point. Collectively, the combination of higher revenues, improved margins and lower relative opex. lead to robust results that reflected diluted eps of $.09 versus our estimate of $.05. This was a very nice and perhaps telling quarter.

Looking ahead, on the earnings call, the Company laid out a handful of objectives that included the new in-house collection entity, additional market expansion, further penetration in existing markets, the potential addition of in-network arrangements and potential acquisition opportunities. We recognize that one quarter does not constitute a trend, however, while we are reluctant to start adding revenue assumptions around some of these initiatives just yet, we are becoming increasingly comfortable with the notion that the Company is more likely to exceed our estimates than to miss them. On the other hand, it is important to recognize that some of these initiatives would likely change the essence of portions of the model. For instance, as they discussed on the call, they are currently evaluating some in-network arrangements. Succinctly, an in-network arrangement would likely carry lower margins (price per procedure), but much more predictable collections. Recognize, we would view that as a positive event, but certainly one that would include some new modeling assumptions. We would add, in-network arrangements look like an increasingly likely outcome going forward.

To summarize, in our view, the quarter and the corresponding call included a number of data points and other associated color that we have likely not adequately addressed in this update. To translate, we think the Company may be gathering some marked momentum, which could lead to substantially better results than we are modeling. To edify, the business continues to face challenges, not the least of which is an industry that remains under pressure to reduce costs (including for procedures like Assure's) and many of the associated risks we identified in the initial coverage remain. We would add, we think investors should be aware that the Company is likely to seek additional equity capital that will include further dilution. In fact, our sense is that the likelihood of that event probably increases if the Company continues to experience better results because we think the equity will be necessary for them to execute some of the other initiatives we mentioned. For instance, while they completed their recent acquisition of a Colorado group with internal cash, further acquisitions will likely require more capital.

Lastly, the Company recently announced that they have made CEO John Farlinger the CEO of the Company. Recall, prior to that he was the "interim" CEO. It is hard to argue with that decision given what looks like markedly better results and what appears to be a much improved posture for the Company and its potential growth in general. Aside from that, we think it removes one of those uncertainties that market tends to discount. While this has been a precarious road since our initiating coverage, we are becoming increasingly bullish on Assure as it looks to us like they have put a number of risks, some that were potentially catastrophic, in the rear view mirror. We will look to 3QF19 results or other emerging data points as a good place to revisit some of our target and allocation assumptions.

Projected Operating Model

Assure Holdings Corp.						
Projected Operating Model						
By Trickle Research LLC						
	(Actual)	(Actual)	(Estimate)	(Estimate)	(Estimate)	(Estimate)
	3/31/19	**6/30/19**	**9/30/19**	**12/31/19**	**Fiscal 2019**	**Fiscal 2020**
Revenue:						
Out of Network Fees	$ 5,571,485	$ 7,562,500	$ 8,014,602	$ 8,574,385	$ 29,722,972	$ 40,638,133
Contract Fees	$ 472,477	$ 826,119	$ 944,477	$ 1,199,920	$ 3,442,993	$ 6,043,708
Other Revenue	$ -	$ -	$ -	$ -	$ -	$ -
Total Revenues	$ 6,043,962	$ 8,388,619	$ 8,959,078	$ 9,774,305	**$ 33,165,964**	**$ 46,681,841**
Cost of Revenues	$ 1,446,845	$ 1,744,043	$ 2,048,970	$ 2,409,971	$ 7,649,828	$ 11,666,808
Gross Margin	$ 4,597,117	$ 6,644,576	$ 6,910,109	$ 7,364,334	**$ 25,516,136**	**$ 35,015,033**
Operating Expenses:						
General and Administrative	$ 1,980,888	$ 1,879,272	$ 1,905,876	$ 1,883,593	$ 7,649,629	$ 7,878,798
Depreciation	$ 101,663	$ 114,667	$ 115,415	$ 116,163	$ 447,908	$ 467,439
Sales and Marketing	$ 250,886	$ 75,218	$ 86,544	$ 86,734	$ 499,381	$ 357,330
Other Operating Expenses	$ -	$ -	$ -	$ -	$ -	$ -
Total Operating Expenses	$ 2,333,437	$ 2,069,157	$ 2,107,835	$ 2,086,490	**$ 8,596,919**	**$ 8,703,567**
Earnings (Loss) from Operations	$ 2,263,680	$ 4,575,419	$ 4,802,274	$ 5,277,844	**$ 16,919,217**	**$ 26,311,465**
Other Income (Expense):						
Earnings from Equity Method Investments	$ 185,155	$ 721,954	$ 821,757	$ 909,345	$ 2,638,212	$ 3,973,186
Interest, Net	$ (37,387)	$ (64,035)	$ (28,943)	$ (28,796)	$ (159,161)	$ (113,469)
Other Income(Expesne)	$ (27,910)	$ 89,018	$ (25,000)	$ (25,000)	$ 11,108	$ (100,000)
Total Other Income (Expense)	$ 119,858	$ 746,937	$ 767,814	$ 855,549	**$ 2,490,159**	**$ 3,759,716**
Income Before Income Taxes	$ 2,383,538	$ 5,322,356	$ 5,570,088	$ 6,133,394	**$ 19,409,377**	**$ 30,071,182**
Income Taxes	$ 637,837	$ 1,290,411	$ 1,392,522	$ 1,533,348	**$ 4,854,118**	**$ 7,517,795**
Net Income	$ 1,745,701	$ 4,031,945	$ 4,177,566	$ 4,600,045	**$ 14,555,258**	**$ 22,553,386**
Basic Earnings per Common Share	$ 0.05	$ 0.12	$ 0.12	$ 0.13	**$ 0.41**	**$ 0.60**
Fully Diluted Earnings per Common Share	$ 0.04	$ 0.09	$ 0.10	$ 0.11	**$ 0.35**	**$ 0.58**
Basic Shares O/S	34,486,766	34,831,634	35,179,950	35,531,750	35,887,067	37,717,668
Fully Diluted Shares O/S	42,882,253	42,453,430	42,028,896	41,608,607	41,192,521	39,173,677

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Rating System Overview:

There are no letters in the rating system (Buy, Sell Hold), only numbers. The numbers range from 1 to 10, with 1 representing 1 "investment unit" (for my performance purposes, 1 "investment unit" equals $250) and 10 representing 10 investment units or $2,500. Obviously, a rating of 10 would suggest that I favor the stock (at respective/current levels) more than a stock with a rating of 1. As a guideline, here is a suggestion on how to use the allocation system.

Our belief at Trickle is that the best way to participate in the micro-cap/small cap space is by employing a diversified strategy. In simple terms, that means you are generally best off owning a number of issues rather than just two or three. To that point, our goal is to have at least 20 companies under coverage at any point in time, so let's use that as a guideline. Hypothetically, if you think you would like to commit $25,000 to buying micro-cap stocks, that would assume an investment of $1000 per stock (using the diversification approach we just mentioned, and the 20-stock coverage list we suggested and leaving some room to add to positions around allocation upgrades. We generally start initial coverage stocks with an allocation of 4. Thus, at $1000 invested per stock and a typical starting allocation of 4, your "investment unit" would be the same $250 we used in the example above. Thus, if we initiate a stock at a 4, you might consider putting $1000 into the position ($250 * 4). If we later raise the allocation to 6, you might consider adding two additional units or $500 to the position. If we then reduce the allocation from 6 to 4 you might consider selling whatever number of shares you purchased with 2 of the original 4 investment units. Again, this is just a suggestion as to how you might be able to use the allocation system to manage your portfolio.

For those attached to more traditional rating systems (Buy, Sell, Hold) we would submit the following guidelines.

A Trickle rating of 1 thru 3 would best correspond to a "Speculative Buy" although we would caution that a rating in that range should not assume that the stock is necessarily riskier than a stock with a higher rating. It may carry a lower rating because the stock is trading closer to a price target we are unwilling to raise at that point. This by the way applies to all of our ratings.

A Trickle rating of 4 thru 6 might best (although not perfectly) correspond to a standard "Buy" rating.

A Trickle rating of 7 thru 10 would best correspond to a "Strong Buy" however, ratings at the higher end of that range would indicate something that we deem as quite extraordinary..... an "Extreme Buy" if you will. You will not see a lot of these.