Trickle Research

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

Allocation Increase and Price Target Decrease

Report Date: 06/06/2019

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 This Update (06/06/19)**: $1.00**

Assure Holdings Corp.

(Stock Symbol(s) - OTC: ARHH and TSX - IOM.V)

http://www.assureneuromonitoring.com/

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Assure's Q1F19 results were below our expectations. However, keep in mind, we, the street and the Company are all still trying to get our arms around the collectability (and timing therein) of the receivables. That notion includes trying to ascertain the proper revenue recognition relative to billed procedures, as well as ongoing reserves or write downs against previously recognized revenues. There were some specific nuances to the numbers that lead to the bulk of our miss(es) so we will cover those briefly.

First, there were nearly $1 million of additional reserves against receivables, split between "Out of Network Fees" and "Earnings from Equity Method Investments". We were still short on the balance of the revenues although we actually projected *a few less* procedures than they ended up performing. That tells us that either they performed a higher mix of contracted procedures (which generally means lower reimbursement Medicare or Medicaid procedures) or they recorded a lower projected reimbursement/expected revenue per out of network procedure, or both. We suspect it is probably a combination of the two since it sounds like Louisiana, which has provided a considerable portion of the recent procedure growth, has a bit higher mix of contracted patients. Keep in mind, that elusive assumed revenue (read: collectible) per procedure is the great unknown here, but since we gained some clarity on the Q1 impact of A/R reserves on net revenues, we think the quarter has allowed to get our arms around what the Company now believes it can collect. That by the way will continue to be an elusive number, but, they (and in response we) have certainly crammed down their expectations of collectible revenues, and we think the number they are reflecting is starting to look more like something they may be able to collect, although, conceptually that is true of any revisions that get closer to zero, so we will have to continue to measure their progress both in terms of collecting A/R's as well as booking revenues in reasonable proximity to those outcomes.

As an adjunct to the A/R collection issue, we do feel comfortable suggesting that the Company is deploying new systems, resources and personnel aimed at improving collections on a variety of fronts. We think that will include more aggressive approaches to collecting past receivables, reserved and not reserved. That does not by the way, mean they will be successful, but we do think it has become a more acute part of their corporate focus. We would add, we think the recent personnel additions to the C-Suite and otherwise, should certainly improve that process.

Aside from collectible revenue clarity, we also learned some items that have changed additional revenue assumptions as well. For instance, the Company has worked to reconfigure some of its "Earnings from Equity Method Investments" approaches. Going forward (depending in part on jurisdictional law) they will seek arrangements where they own a larger portion of the investment entity than past deals have afforded them. In other instances, they will seek to retain a management fee in leu of the equity (which by the way, will show up on the "Contract Fees" operating line. Here again, they will seek to retain larger portions of the entities' revenues in one from or the other. Obviously, success in that regard will be positive, although we have not modeled that iteration.

We would also note that SG&A was markedly higher than we had anticipate. Granted, there was a considerable non-cash stock compensation charge related to some option distributions (which recall were originally returned to the Company by founder Preston Parsons). We had not attempted to account for those in the prior model. There will be some remnants of those over the next few quarters which will again impact SG&A as well, but, setting that aside, we expect SG&A to track higher than prior periods (as it turns out, probably beyond the higher levels we had already assumed) as the Company attempts to add surgeons and otherwise grow the business, as well as beef up their A/R collections apparatus and general corporate oversight. In that context, we have modeled what we think are more appropriate levels of SG&A going forward.

As we have already lamented, since the time of our initiation covering Assure has been like catching a falling knife. On the other hand, while we have spent considerable timing being wrong here, there are major portions of the original thesis that we think remain intact. On the other hand, so do several of the risk we originally identified. In short, they have proven adept at adding physicians, so we think that portion of the business and the associated model remain intact. In conjunction, we saw them recently add a small acquisition, which is an approach they are talking more about these days. We think they can grow the business in terms of procedures. However, getting reimbursed for all or portions of those procedures in out-of-network arrangements will continue to be a challenge.

Ultimately, that may lead them to seek some in-network arrangements, which while improving the collectability of receivables, could also result in lower net revenues per procedure. Succinctly, there are some other germane observations we have about the business, but we won't belabor this update with those. We are however happy to discuss those with subscribers if they would like to have that discussion.

The above said, while logic, or maybe just good old common sense, might dictate that we accept our failure and move on, we continue to believe there is a viable business here. The fact is, despite the disappointments, they have managed to grow the business on multiple fronts, and we believe they have made key positive additions that should mitigate some of the shortcomings. To reiterate, there are clear challenges and risks that remain, but we think opportunity remains as well, especially given the recent drubbing the stock has taken. To *that* point, the stock looks to us like it is getting washed out…likely by legacy shareholders who have had enough and just want to stop seeing the stock in their portfolio. Translation: from a technical perspective, the stock may have to get worse before it gets better. We are not technical analysts, which why we stick to the fundamentals, but that is our general sense of the chart. Consequently, given some of our considerable adjustments to the model assumptions, we are establishing a new (lower) 12-24 month price target of *$4.20 per share. However, in addition, we are raising our allocation from 4 to **5 largely as a result of the recent sell-off of the shares. We will evaluate each as we move forward.

Projected Operating Model

Assure Holdings Corp.						
Projected Operating Model						
By Trickle Research LLC						
	(Actual)	(Estimate)	(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	$ 5,630,179	$ 5,359,140	$ 6,513,581	$ 23,074,386	$ 31,743,770
Contract Fees	$ 472,477	$ 621,339	$ 656,133	$ 866,252	$ 2,616,201	$ 4,557,124
Other Revenue	$ -	$ -	$ -	$ -	$ -	$ -
Total Revenues	$ 6,043,962	$ 6,251,519	$ 6,015,273	$ 7,379,833	**$ 25,690,587**	**$ 36,300,894**
Cost of Revenues	$ 1,446,844	$ 1,658,207	$ 1,694,633	$ 2,050,847	$ 6,850,531	$ 10,123,163
Gross Margin	$ 4,597,118	$ 4,593,312	$ 4,320,640	$ 5,328,986	**$ 18,840,056**	**$ 26,177,730**
Operating Expenses:						
General and Administrative	$ 1,980,888	$ 1,875,811	$ 1,746,548	$ 1,759,945	$ 7,363,192	$ 7,345,137
Depreciation	$ 101,663	$ 101,389	$ 104,903	$ 104,952	$ 412,907	$ 425,205
Sales and Marketing	$ 250,886	$ 147,685	$ 151,016	$ 159,632	$ 709,219	$ 668,598
Other Operating Expenses	$ -	$ -	$ -	$ -	$ -	$ -
Total Operating Expenses	$ 2,333,437	$ 2,124,884	$ 2,002,467	$ 2,024,529	**$ 8,485,317**	**$ 8,438,940**
Earnings (Loss) from Operations	$ 2,263,681	$ 2,468,428	$ 2,318,173	$ 3,304,457	**$ 10,354,738**	**$ 17,738,791**
Other Income (Expense):						
Earnings from Equity Method Investments	$ 185,155	$ 653,693	$ 660,323	$ 832,639	$ 2,331,810	$ 3,691,956
Interest, Net	$ (37,387)	$ (27,850)	$ (27,867)	$ (27,097)	$ (120,200)	$ (107,181)
Other Income(Expesne)	$ (27,910)	$ (25,000)	$ (25,000)	$ (25,000)	$ (102,910)	$ (100,000)
Total Other Income (Expense)	$ 119,858	$ 600,843	$ 607,457	$ 780,543	**$ 2,108,700**	**$ 3,484,775**
Income Before Income Taxes	$ 2,383,539	$ 3,069,271	$ 2,925,629	$ 4,085,000	**$ 12,463,439**	**$ 21,223,566**
Income Taxes	$ 637,837	$ 767,318	$ 731,407	$ 1,021,250	**$ 3,157,812**	**$ 5,305,891**
Net Income	$ 1,745,702	$ 2,301,953	$ 2,194,222	$ 3,063,750	**$ 9,305,627**	**$ 15,917,674**
Basic Earnings per Common Share	$ 0.05	$ 0.07	$ 0.06	$ 0.08	**$ 0.26**	**$ 0.42**
Fully Diluted Earnings per Common Share	$ 0.04	$ 0.05	$ 0.05	$ 0.07	**$ 0.23**	**$ 0.41**
Basic Shares O/S	35,054,855	35,405,404	35,759,458	36,117,052	36,478,223	38,338,979
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.