

Trickle Research

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



Allocation Increase & Price Target Reinstatement

Report Date: 02/15/2019

12- 24 month Price Target: **\$6.00

Allocation: *4

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 and Target Upgrade

(Closing Bid Px: 02/14/19): \$2.21 (USD)

Assure Holdings Corp.



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

<http://www.assureneuromonitoring.com/>

Prepared By:

David L. Lavigne

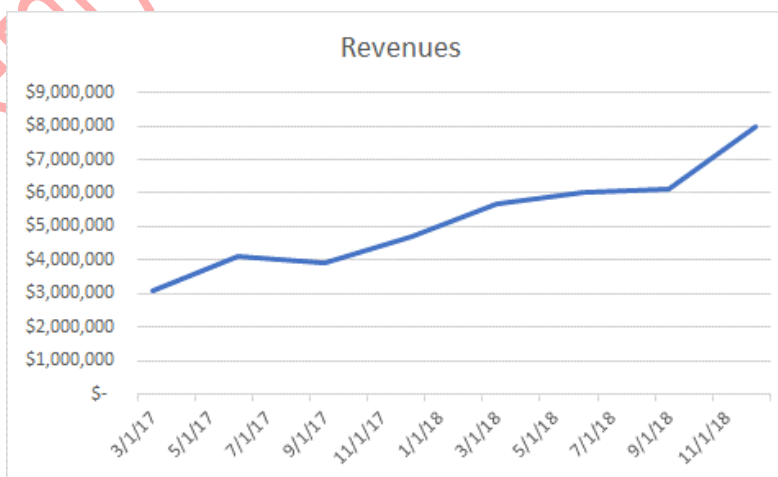
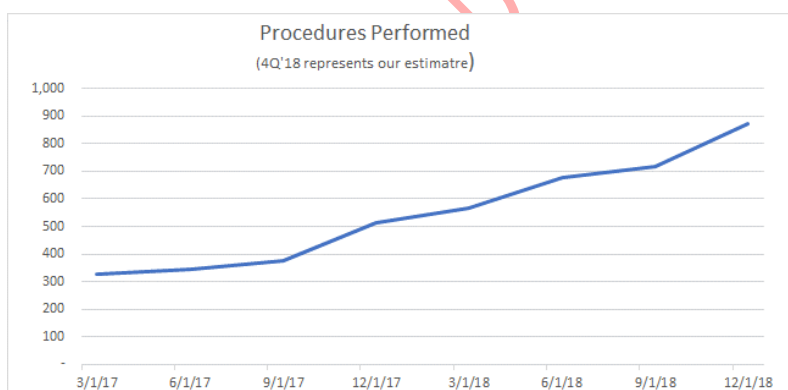
Senior Analyst, Managing Partner

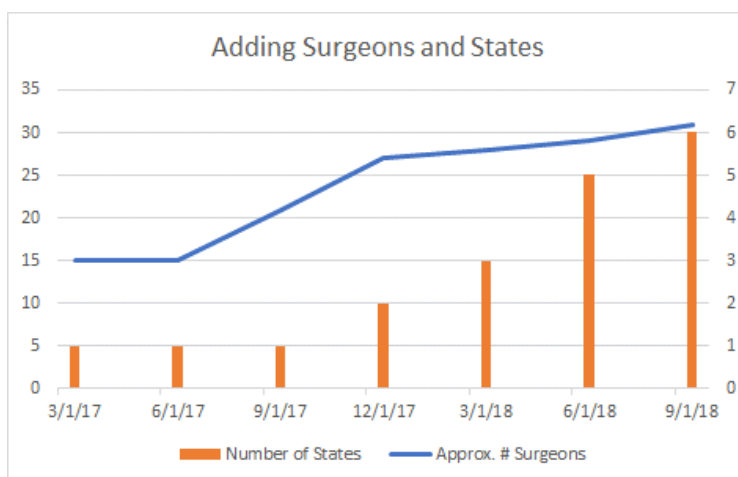
Trickle Research

To refresh, in late May 2018, we reduced our allocation and suspended the price target for Assure pending the reconciliation of a number of issues surrounding some management and accounting differences. We are going to get those out of the way first so we can put them in the rear-view mirror and stop allowing them to drive the optics. Further, for several reasons, we are going to keep this narrative to the disposition and “go forward” nature of these issues as we are comfortable that the issues have been adequately addressed.

Succinctly, the Company recently announced that founder Preston Parson’s has reconciled his outstanding issues with the Company via the cancelation of 1.46 million shares. He also assigned 1 million options to the Company, which as we understand it will be used to incentivize existing and perhaps new employees. Recognize, those warrants were NOT part of the settlement and as such were not something he had to do, but rather chose to do for the benefit of the Company. Further, Mr. Parsons remains with the Company in a business development role that we think best utilizes his experiences and relationships that were the genesis of the Company in the first place. We believe the Company has further enhanced the C-Suite with individuals we think have applicable resumes. Further, in our view, at least to this point, the board and management have done an admirable job of getting/keeping the train on the tracks and headed in the right direction. We have seen similar instances that did not turn out quite this well and this certainly had the potential to be catastrophic. With that said, we think we can turn the focus back to the business.

For those who have not been following the story through some of the chaos, the Company has managed to continue to grow the business significantly through 2018 by every relevant metric.





The Company currently operates in Colorado, Louisiana, Utah, Texas, Michigan and Pennsylvania. Our expectation is that they will continue to add states as well as surgeons, and we think they will do that across multiple verticals as well (neurosurgery, orthopedic, vascular, ENT etc.). We believe they have currently “targeted” the following additional states: Washington, California, Arizona, Oklahoma and Florida. We think the Company is poised to add surgeons (and ultimately procedures) by leveraging and further saturating existing markets as well as focusing on expansion into new markets both vertical and geographic. To this point, the Company has clearly demonstrated an ability to grow via each of these “legs of the stool”.

The above said, we are not sure the concern in the street is really centered around their ability to add surgeons or jurisdictions. We think the Company’s vision regarding the efficacy of IONM for many procedures as well as the benefits that the Assure platform/approach can provide to many of the associated constituencies in that process is reasonable and defensible. The problem is determining who is going to pay for it and how much are they going to pay. If we really want to get down to the “brass tacks” that question is largely the same for every treatment and/or procedure in the healthcare industry today, so we don’t believe that Assure necessarily faces an obstacle that somehow every other healthcare provider avoids. Specifically, that issue culminates with trying to assess the collectability of the Company’s billings. Frankly, while we submit that some of the “governance” problems that arose though 2018 were certainly not helpful to the stock, we continue to believe that the “receivable” is the wildcard that investors are trying to get their arms around and remains the single biggest challenge in trying to determine the valuation and potential for Assure and the underlying stock. We will try to shed some light on that issue.

First, it is probably helpful to start with the procedures. As we noted IONM is applicable to a variety of procedures/surgeries some more acute than others. Healthcare providers (and payors) as with many things will have varying opinions regarding the value/necessity of IONM one procedure to the next. Recognize, many of the procedures for which IONM is typically a part are often complex and as such may be several hour procedures. Conversely, others may be less complex down to a point where IONM might not be “practical”. In any case, the decision to utilize IONM for a specific surgery (as well as the price that will be paid for it) is determined by a combination of factors, providers and payors, but if Assure is providing IONM services, it’s because providers have deemed it appropriate **and payors such as insurance companies have agreed to pay for it.**

Like most of the medical procedures these days, IONM services are not inexpensive. Keep in mind, Assure participates in two sides of the IONM procedure. They participate *fully* in the “technical” portion billed for the onsite technician, and they participate *in a portion* of the “professional” part of the procedure billed in part for off-site neurologist monitoring services. Assure orchestrates the turn key set-up and delivery of both. Recognize, it is not atypical for Assure to bill \$30,000 or \$40,000 for *each side* of the IONM procedure. To reiterate, hypothetically, if they are billing \$30,000 for the technical portion of the procedure and another \$40,000 for the

professional side of the procedure, generally, there is an insurance company (or government payor) that has agreed to pay **that amount**.

The above said, while Assure bills the agreed upon amounts for these procedures, they recognize that they are not likely to collect all of these amounts. To date, they have had instances where they collected all of these amounts, others where they have collected a portion of these amounts and yet others where they have as of yet collected nothing. Historically, they have dealt with this difference by recognizing revenue of a fraction of the actual billing, and that fractional portion has been determined by prior collection experience and other industry collection comparative analysis.

Given the above, once a receivable is over 24 months, the Company applies a bad debt impairment against the receivable, and after 36 months they will write-off any remaining balance. However, that does not imply that they quite attempting to collect the receivable. We submit, the accounting of all of this, at least in our view, creates some precarious scenarios that make projecting/interpreting revenues more difficult than it already is, and in fact could create some anomalies in the numbers going forward. For instance, all of the charges to reconcile the differences between billings and actual collections are simply included in (net to) revenues for the period the charges/reconciliations are made. Thus, if in Q1 2019, they receive a full \$30,000 payment for the billing of a procedure, but they only recognized a \$16,000 revenue to start with, the remaining \$14,000 will show as revenue in Q1-2019 even though it was actually earned in a prior period. This event would make Q1 revenues look stronger than they actually were. Conversely, if the same procedure from 24+ months prior remains unpaid in Q1-2019, they will take a charge against revenues for the period which could make revenues look unduly weak. In that case, revenues from two years prior would have been effectively inflated, at the expense of revenues reflected today. To that point we would add, we believe the Company has adopted a new approach for 2019 and beyond, which essentially involves impairing the billing/revenues at the time of recognition. In that case, (using our prior example) they would bill \$30,000 for technical piece of the service, however, they would only recognize revenue of the \$16,000 historical collection rate, but then they would also impair those revenues with an additional bad debt contingency. Thus for 2019 and beyond, we would expect a \$30,000 billing to be reflected as (for example) a \$12,000 revenue (the \$16,000 expected collection amount less an additional portion of bad debt impairment). To clarify, the 25% figure is our best guess at this point, but that number will likely be determined by their collection experience, which frankly is likely to change over time. It goes without saying, revenues are being recognized as a fraction of billings, which brings us back to collections, because more successful collections could result in revenues bumps that actually come from prior periods. While, that brings us to collections, we think it important to reiterate, the amounts the Company recognizes as revenue each quarter is a fraction of what they actually bill. While that certainly doesn't ensure that they ever collect even the portion they recognize as revenue, but it does illustrate that their reporting approach does at least acknowledge and address the precarious nature of at least some of their billings.

Recognize, long collection cycles are not atypical in the healthcare industry. Notice, Assure's new executive team includes two members who were previously with Air Methods, a Colorado medical transport company acquired in 2017 for \$2.5 billion. Much like Assure, we suspect Air Method's business also included some long collection cycles, so our sense is that these individuals are likely providing considerable support in addressing Assure's collection protocols. From our discussions with management, we believe that they have made a clear priority of improving the cycle, which includes bringing more of that function in-house as well as committing more resources and detail to the process. By the way, we also think that will include more aggressive collection efforts towards outstanding items, which is not an approach they have actively deployed to this point. Obviously, we will be paying particular attention to collection and associated cash flow metrics as they become available. We believe the Company is committed to providing better reporting transparency in that regard as well. We have seen some of that already.

In spite of their new focus on collections, the reality of the long cycles is not likely to change. We don't think that is lost on management. However, we do think they are developing strategies to address some of the negative impact of their collection challenges. Certainly, one of the bigger challenges posed by lengthy collections is cash

flow and working capital. By the way, while we did not have a specific conversation about raising additional equity capital, we certainly do not think that notion is off the table. While we tend to concur with their liquidity assessments in their filings (they believe internally generated cash flow can support the ongoing obligations of the business) we don't think that assessment includes capital that might be required for more rapid and/or near term expansion, especially in new territories. That is, expanding into a number of new states could require additional outside capital. That may apply to acquisitions as well. Again, we have no sense of the likelihood of that, but it is our conclusion that faster expansion and/or acquisition may also include more capital. To that end, the Company recently announced a new credit facility with Colorado Business Bank. The facility includes a \$2 million term loan and a \$1 million operating line. This is a highly positive event in that it certainly addresses some of the potential working capital deficits brought on by the long collection cycles, as well as providing some runway for accelerating new growth. Moreover, we also think it provides another piece of validation for the viability of the business.

We think the Company is looking at additional alternatives to mitigate the cash flow impact of their current collection realities. One thing we think they will certainly consider is trying to bring their services into network. That approach would be mean contracting with insurance companies to provide those in-network services. While that approach would likely lead to lower fees per procedure, it may not lead to lower *collected* fees per procedure and would almost certainly improve days outstanding on those in-network receivables. The Company isn't large enough to be an in-network provider, but we think that scenario probably becomes more likely as they scale the business. Further, we think the Company is also looking to create more lucrative deals on the professional billing side. Recall, the company currently retains just 20% of the professional side of the procedure, which is currently reflected on the income statement below the operating line as "Earnings from Equity Method Investments". As we understand it, that margin is likely to improve as new deals are structured. While that may not impact the collection cycle, it would improve overall margins. It would also mitigate potentially lower procedure fees if they were able to develop some in-network business. Succinctly, we expect the business to develop and adapt around the changing challenges and opportunities in the space and we think the Company is looking to be proactive in that regard.

To reiterate, since initiating the coverage in late 2017, some of the optics here have been unsettling. We think the Company has made appropriate and frankly quite positive steps to remedy some of those issues, but also fortify the business. Looking back, we think this may very well be one of those "what doesn't kill us makes us stronger" sort of situations. We submit, some of the same risks we identified in the initial coverage remain and the collection cycle remains the big ugly. However, we also believe that most and perhaps all of the positive attributes that supported our investment thesis remain intact. For instance, Company data suggest that there were over 1 million IONM procedures done in 2016, and that the 6 year CAGR through 2022 C will approach 11%. Further, the aging of the U.S. "boomer" population and the prevalence of IONM applicable surgeries to that demographic is likely support those growth estimates. Additionally, it appears that IONM continues to gain acceptance from relevant portions of the healthcare industry. Again, we think many of the problems emanating from the early 2018 issues have been abated. We also believe the opportunity we identified initially remains intact and management, which includes a new and bolstered roster, is better suited to execute the plan than when we initiated the coverage.

We have recast our projected operating model and have included a line item for our estimated cash position at the end of each reporting period (without consideration for borrowings). This will provide some sense of how we see operating results and corresponding collections impacting cash.

We are increasing our allocation from 1 back to *4, and we are establishing a new 12-24 month price target of \$6.00.

Projected Operating Model

Assure Holdings Corp. Projected Operating Model By Trickle Research LLC										
	(Actual)	(Actual)	(Actual)	(Estimate)	(Estimate)	(Estimate)	(Estimate)	(Estimate)	(Estimate)	(Estimate)
	3/31/18	6/30/18	9/30/18	12/31/18	Fiscal 2018	3/31/19	6/30/19	9/30/19	12/31/19	Fiscal 2019
Revenue:										
Out of Network Fees	\$ 5,588,841	\$ 5,895,319	\$ 5,899,328	\$ 6,363,600	\$ 23,747,088	\$ 7,655,000	\$ 8,863,486	\$ 8,671,686	\$ 10,497,330	\$ 35,687,503
Contract Fees	\$ 112,310	\$ 138,689	\$ 203,835	\$ 262,350	\$ 717,184	\$ 322,500	\$ 367,200	\$ 365,700	\$ 461,100	\$ 1,516,500
Other Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Revenues	\$ 5,701,151	\$ 6,034,008	\$ 6,103,163	\$ 6,625,950	\$ 24,464,272	\$ 7,977,500	\$ 9,230,686	\$ 9,037,386	\$ 10,958,430	\$ 37,204,003
Cost of Revenues	\$ 938,878	\$ 1,082,926	\$ 1,223,684	\$ 1,184,095	\$ 4,429,583	\$ 1,384,850	\$ 1,553,943	\$ 1,536,169	\$ 1,836,768	\$ 6,311,730
Gross Margin	\$ 4,762,273	\$ 4,951,082	\$ 4,879,479	\$ 5,441,855	\$ 20,034,689	\$ 6,592,650	\$ 7,676,743	\$ 7,501,217	\$ 9,121,662	\$ 30,892,272
Operating Expenses:										
General and Administrative	\$ 1,354,149	\$ 1,100,392	\$ 867,696	\$ 1,118,180	\$ 4,440,417	\$ 1,182,750	\$ 1,243,174	\$ 1,233,584	\$ 1,274,867	\$ 4,934,375
Depreciation	\$ 86,929	\$ 99,494	\$ 95,351	\$ 95,665	\$ 377,439	\$ 96,791	\$ 97,953	\$ 99,036	\$ 98,999	\$ 392,779
Sales and Marketing	\$ 295,155	\$ 151,475	\$ 83,988	\$ 119,164	\$ 649,782	\$ 171,813	\$ 146,146	\$ 145,995	\$ 153,181	\$ 617,135
Other Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Operating Expenses	\$ 1,736,233	\$ 1,351,361	\$ 1,047,035	\$ 1,333,009	\$ 5,467,638	\$ 1,451,354	\$ 1,487,273	\$ 1,478,616	\$ 1,527,047	\$ 5,944,290
Earnings (Loss) from Operations	\$ 3,026,040	\$ 3,599,721	\$ 3,832,444	\$ 4,108,846	\$ 14,567,051	\$ 5,141,296	\$ 6,189,470	\$ 6,022,602	\$ 7,594,615	\$ 24,947,983
Other Income (Expense):										
Earnings from Equity Method Investments	\$ 896,301	\$ 665,599	\$ 755,300	\$ 905,472	\$ 3,222,672	\$ 1,060,440	\$ 1,204,850	\$ 1,199,834	\$ 1,439,374	\$ 4,904,499
Interest, Net	\$ (25,735)	\$ (26,711)	\$ (55,493)	\$ 481	\$ (107,458)	\$ (2)	\$ (558)	\$ (705)	\$ (619)	\$ (1,883)
Other Income(Expesne)	\$ 179,411	\$ -	\$ -	\$ -	\$ 179,411	\$ -	\$ -	\$ -	\$ -	\$ -
Total Other Income (Expense)	\$ 1,049,977	\$ 638,888	\$ 699,807	\$ 905,953	\$ 3,294,625	\$ 1,060,438	\$ 1,204,292	\$ 1,199,129	\$ 1,438,756	\$ 4,902,616
Income Before Income Taxes	\$ 4,076,017	\$ 4,238,609	\$ 4,532,251	\$ 5,014,799	\$ 17,861,676	\$ 6,201,734	\$ 7,393,762	\$ 7,221,731	\$ 9,033,371	\$ 29,850,599
Income Taxes	\$ 1,111,186	\$ 961,799	\$ 1,414,615	\$ 1,253,700	\$ 4,741,300	\$ 1,550,433	\$ 1,848,441	\$ 1,805,433	\$ 2,258,343	\$ 7,462,650
Net Income	\$ 2,964,831	\$ 3,276,810	\$ 3,117,636	\$ 3,761,100	\$ 13,120,377	\$ 4,651,300	\$ 5,545,322	\$ 5,416,298	\$ 6,775,028	\$ 22,387,949
Basic Earnings per Common Share	\$ 0.08	\$ 0.09	\$ 0.09	\$ 0.11	\$ 0.37	\$ 0.13	\$ 0.15	\$ 0.15	\$ 0.18	\$ 0.60
Fully Diluted Earnings per Common Share	\$ 0.07	\$ 0.07	\$ 0.07	\$ 0.09	\$ 0.31	\$ 0.11	\$ 0.13	\$ 0.13	\$ 0.16	\$ 0.53
Basic Shares O/S	35,555,105	35,550,469	34,549,969	34,895,469	35,244,423	35,596,868	35,952,836	36,312,365	36,675,488	37,042,243
Fully Diluted Shares O/S	44,896,105	44,299,469	42,298,969	42,298,969	42,298,969	42,298,969	42,298,969	42,298,969	42,298,969	42,298,969
Estimated Cash Position				\$ (1,453)	\$ (1,453)	\$ (446,522)	\$ (563,940)	\$ (494,845)	\$ (206,162)	\$ (206,162)

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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.