

Trickle Research

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



3QF19 Earnings Update

Report Date: 12/03/2019

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 Allocation & Target Downgrade (05/29/18): \$2.14 (USD)
Closing Stock Price at Allocation & Target Upgrade (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 (12/02/19): \$1.29 (USD)



Assure Holdings Corp.

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

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

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Trickle Research

Just to refresh, there are a handful of challenges in projecting Assure's operating results. There are the usual suspects; for instance, how much will they "sell" and what will they sell it for, which in this case is dictated in part by how many surgeons they have on board. But in Assure's case, that analysis is also complicated by the fact that they will likely not collect as much as they bill, and each quarter involves a reflection of their success in those collections, which leads to adjustments directly to revenues (a procedure we still don't fully embrace). So then, projecting Assure's numbers not only includes trying to ascertain how many surgeons will contribute to the reporting period (which is changing as they try to add new doctors), how many procedures those surgeons will perform, who they perform them on (private or government pay) and then lastly how much we need to subtract for all of that as we try to project which portions of these procedures and past procedures will not actually be collected and therefore need to be subtracted from the projected revenues for any given period. There are a few moving parts here, and all of it culminates in challenging visibility. That said, here is how our model fared for the quarter.

The Company reported revenues of just under \$8 million versus our estimate of just under \$9 million. That difference was largely driven by the fact that we projected they would perform 1633 procedures versus the actual number of 1519. Further, our procedures miss was driven by the fact that we had them adding a few more doctors in various jurisdictions than they actually added. That said, assuming the addition of surgeons is always going to be complicated by the fact that even if we get the number of surgeons added correct, we really can't know how much they contributed to the quarters they were added in. That is, their contribution is different if they are added at the front of the quarter versus the end of the quarter.

The above noted, when we adjusted our model to reflect the current number of surgeons for the quarter, our procedures fell within a handful of actual procedures, which in turn adjusted our projected revenues to within about \$200,000 of the actual as well. To translate, that gives us some confidence that our formula to discount new revenues as well as claw back remaining uncollected "old" revenues may at least be in line with what the Company is reflecting. Obviously, they still must collect even the "adjusted" revenues they reflect, but again, at least for this specific quarter, we feel like we are getting closer to knocking the edges off the model and its resulting revenue projections.

Moving on, we significantly overstated the cost of goods sold. However, from the sounds of it, some of that number was impacted by the switch from the third-party billing company to the new in-house approach. In short, that led to an extraordinary margin event. We expect forward margins to be more in line with our projections in the 75%+- range.

Operating expenses were \$2.1 million versus our estimate of \$2.1 million. We overstated "Earnings from Equity Investments" but that was partially offset by our understatement of (operating line item) "Contract Fees". Recall, they are transitioning business from the former to the latter of these line items as they sign new business. Admittedly, we need to get a better handle on the nuances between the two. The remainder of the line items were largely in line with our estimates and finally, they reported diluted EPS of \$.09 versus our estimate of \$.10. Our assumption of new doctors added and by extension procedures performed and by extension higher projected revenues than actual was the genesis of that difference. That said, we thought it was a very nice quarter.

There are likely some changes coming to the business that will cause us to revisit some of our model assumptions. For instance, we know they are actively looking to add acquisitions, in fact they have one queued up to close in mid-January 2020. We prefer to make sure that closes before we try to integrate it. They also announced a financing, which is a convertible preferred. Here again, we will wait until that is completed before we model its impact. Their acquisitive endeavors will depend on access to additional capital as well as progress on the collections front. To that point, we also expect the nature of the model (largely margins and working capital/collection cycle) to be impacted by the addition of in-network arrangements. As they reiterated on the call, they recently added the first of these in Michigan with Aetna, and we believe they will add more. As one might expect, the metrics of those will not be matter of public disclosure, so we are going to have to extrapolate much of that as well as it comes on-line.

Lastly, despite the Company's efforts to improve the collection cycle and collections in general, the issue remains *the elephant in the room*. We submit, the Company has reported 9 month trailing diluted EPS of \$.23 and we estimate full year Fiscal 2019 diluted EPS of \$.30 to \$.31 per share. If we are right about that, the stock is trading at just over 5X earnings. Clearly, the street remains skeptical about either their ability to continue growing those revenues, their ability to collect all those revenues or both. As for us, we certainly understand that view, and frankly we remain guarded about those notions as well. However, as we noted above, we think we are beginning to whittle our model down to more accurately reflect the Company's "algorithm" assessing the collectability of receivables and by extension the integrity of their revenue bookings. (Of course, that still requires our getting the surgeon additions reasonably correct as well). Moreover, we have also tried to construct the model to rationalize/reconcile the cash flow and accounts receivables data to gauge the success of the receivable collections. Here again, the results of our cash and receivable projections versus actual numbers for Q3 were close enough for us to believe we are on the right track, which in turn gives us a bit more confidence in our numbers and overall target assumptions.

To reiterate, we won't argue that key elements to Assure's success still lack visibility, most notably the collectability of their receivables and the timing therein, but there are others as well. On the other hand, it appears to us like management has made considerable progress in trying to address the major weaknesses of the business and at the same time has also managed to significantly grow the procedure and surgeon base(s) both geographically and in the aggregate. For instance, we thought one of the more telling metrics for the quarter was the fact that 77% of their revenues came from *outside of Colorado*, whereas in the same quarter last year that number was just 29%. We also think the in-network contract in Michigan represents a milestone, as well as perhaps some validation of the business. While we submit, there are execution, industry and other business risks that remain quite topical here, we are comfortable suggesting that the Company has likely never been in a better position and as such we remain committed to the notion that higher valuations should prove appropriate. We will address some of the emerging portions of the story (acquisitions, capital raises, in-network agreements etc.) as associated data points become available and that includes appropriate adjustments to our model. As for our targets and allocation, we haven't seen anything that makes us change our mind about our targets, but the stock sold off after the quarter which is a little surprising (but we think circles back to the "elephant in the room" we addressed above). Given the sell off on the heels of what we saw as a good quarter, we are inclined to increase our allocation. In fact, we have held on to this update for a few days contemplating that notion. However, to reiterate what we noted above, we think we will wait for the consummation of the pending acquisition and the financing to address that since we will need to make some model adjustments relative to each/both.

Projected Operating Model

Assure Holdings Corp. Projected Operating Model By Trickle Research LLC										
	(Actual)	(Actual)	(Actual)	(Estimate)	(Estimate)	(Estimate)	(Estimate)	(Estimate)	(Estimate)	(Estimate)
	3/31/19	6/30/19	9/30/19	12/31/19	Fiscal 2019	3/31/20	6/30/20	9/30/20	12/31/20	Fiscal 2020
Revenue:										
Out of Network Fees	\$ 5,571,485	\$ 7,562,500	\$ 6,931,952	\$ 7,039,317	\$ 27,105,255	\$ 6,808,160	\$ 7,408,391	\$ 7,378,738	\$ 9,988,335	\$ 31,583,623
Contract Fees	\$ 472,477	\$ 826,119	\$ 1,019,058	\$ 1,214,328	\$ 3,531,982	\$ 1,282,941	\$ 1,464,034	\$ 1,470,667	\$ 1,839,544	\$ 6,057,186
Other Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Revenues	\$ 6,043,962	\$ 8,388,620	\$ 7,951,011	\$ 8,253,645	\$ 30,637,237	\$ 8,091,101	\$ 8,872,425	\$ 8,849,404	\$ 11,827,879	\$ 37,640,809
Cost of Revenues	\$ 1,446,845	\$ 1,744,044	\$ 1,275,163	\$ 2,208,314	\$ 6,674,366	\$ 2,287,345	\$ 2,530,468	\$ 2,557,446	\$ 3,141,725	\$ 10,516,985
Gross Margin	\$ 4,597,117	\$ 6,644,576	\$ 6,675,848	\$ 6,045,330	\$ 23,962,871	\$ 5,803,755	\$ 6,341,956	\$ 6,291,958	\$ 8,686,154	\$ 27,123,824
Operating Expenses:										
General and Administrative	\$ 1,980,888	\$ 1,879,272	\$ 1,569,933	\$ 1,624,530	\$ 7,054,622	\$ 1,613,166	\$ 1,627,847	\$ 1,624,626	\$ 1,701,482	\$ 6,567,121
Depreciation	\$ 101,663	\$ 114,667	\$ 115,527	\$ 112,137	\$ 443,994	\$ 113,200	\$ 113,566	\$ 113,672	\$ 113,620	\$ 454,058
Sales and Marketing	\$ 250,886	\$ 75,218	\$ 394,132	\$ 266,667	\$ 986,903	\$ 275,887	\$ 274,240	\$ 274,065	\$ 279,030	\$ 1,103,222
Other Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Operating Expenses	\$ 2,333,437	\$ 2,069,157	\$ 2,079,592	\$ 2,003,334	\$ 8,485,519	\$ 2,002,253	\$ 2,015,653	\$ 2,012,364	\$ 2,094,132	\$ 8,124,401
Earnings (Loss) from Operations	\$ 2,263,680	\$ 4,575,419	\$ 4,596,256	\$ 4,041,996	\$ 15,477,352	\$ 3,801,502	\$ 4,326,303	\$ 4,279,595	\$ 6,592,022	\$ 18,999,422
Other Income (Expense):										
Earnings from Equity Method Investments	\$ 185,155	\$ 721,955	\$ 284,957	\$ 426,693	\$ 1,618,760	\$ 475,479	\$ 489,599	\$ 482,617	\$ 681,197	\$ 2,128,892
Interest, Net	\$ (37,387)	\$ (64,035)	\$ (61,265)	\$ (59,318)	\$ (222,005)	\$ (59,671)	\$ (57,719)	\$ (57,927)	\$ (55,747)	\$ (231,065)
Other Income(Expense)	\$ (27,910)	\$ 89,018	\$ (56,166)	\$ (25,000)	\$ (20,058)	\$ (25,000)	\$ (25,000)	\$ (25,000)	\$ (25,000)	\$ (100,000)
Total Other Income (Expense)	\$ 119,858	\$ 746,938	\$ 167,526	\$ 342,375	\$ 1,376,697	\$ 390,808	\$ 406,880	\$ 399,690	\$ 600,450	\$ 1,797,827
Income Before Income Taxes	\$ 2,383,538	\$ 5,322,356	\$ 4,763,782	\$ 4,384,372	\$ 16,854,048	\$ 4,192,309	\$ 4,733,183	\$ 4,679,284	\$ 7,192,473	\$ 20,797,250
Income Taxes	\$ 637,837	\$ 1,290,411	\$ 1,094,101	\$ 1,096,093	\$ 4,118,442	\$ 1,048,077	\$ 1,183,296	\$ 1,169,821	\$ 1,798,118	\$ 5,199,312
Net Income	\$ 1,745,701	\$ 4,031,945	\$ 3,669,681	\$ 3,288,279	\$ 12,735,607	\$ 3,144,232	\$ 3,549,888	\$ 3,509,463	\$ 5,394,354	\$ 15,597,937
Net Income Attrib. to Non-controlling Interests	\$ -	\$ -	\$ (106,210)	\$ -	\$ (106,210)	\$ -	\$ -	\$ -	\$ -	\$ -
Net Income Attrib. to Assure Shareholders	\$ -	\$ -	\$ 3,563,471	\$ 3,288,279	\$ 6,851,750	\$ 3,144,232	\$ 3,549,888	\$ 3,509,463	\$ 5,394,354	\$ 15,597,937
Basic Earnings per Common Share	\$ 0.05	\$ 0.12	\$ 0.10	\$ 0.09	\$ 0.36	\$ 0.09	\$ 0.10	\$ 0.10	\$ 0.15	\$ 0.41
Fully Diluted Earnings per Common Share	\$ 0.04	\$ 0.09	\$ 0.09	\$ 0.08	\$ 0.30	\$ 0.08	\$ 0.09	\$ 0.09	\$ 0.13	\$ 0.37
Basic Shares O/S	34,364,136	34,145,313	34,645,313	34,991,766	34,925,581	36,412,572	36,776,698	37,144,465	37,515,910	37,891,069
Fully Diluted Shares O/S	43,752,936	43,315,407	40,430,847	40,633,001	42,033,048	41,451,777	41,659,035	41,867,331	42,076,667	42,287,051

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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.