Trickle Research

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

Allocation Upgrade & Target Downgrade

Report Date: 06/02/2020

12- 24 month Price Target: **$3.90

Allocation: *6

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 Allocation Upgrade (06/01/20)**: $.92 (USD)**

Assure Holdings Corp.

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

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Trickle Research

Our Q4-F19 revenue estimate was $8.2 million, however, on a comparative basis that estimate did not include contributions from the Neuro-Pro Monitoring (“NPM”) acquisition as that was not imminent at the time we cast those projections. Further, the actual results for the quarter (and corresponding fiscal year) were negatively impacted by two large receivable write-downs totaling about $16.3 million. The first of those involves a dispute over several billed cases with a single insurance provider. That amount totaled $10.3 million and was arrived at after they reached an “impasse” with the payor regarding the receivable. The additional $6 million write-down was associated with an evaluation of procedures from 2018 and 2019 for which the Company determined that the prior recognized revenue (based on actual collections against the same) was likely overstated. We believe this adjustment is the result of the ongoing adjustment they make every 6 months. In short, when we make all the aforementioned adjustments to our original projection, we would have recognized negative revenues of about <$4.3 million> versus the actual of about <$4.7 million>. From a different angle, the Company notes that without the receivable write-downs/adjustments, revenues for Q4 would have been $11.6 million compared to our comparable adjusted number of roughly $12 million, so, “apples-to-apples”, those lined up reasonably well.

The pandemic has created some additional challenges for Assure, especially through April and into May. The Company notes that procedures for March-April were down “70%”, and procedures for May were around 800. We have attempted to integrate that information into our updated model. Obviously, procedures were negatively impacted by moratoriums on “elective” procedures during the pandemic. The Company suggested that with those moratoriums now largely lifted, they expect procedures to normalize and their fiscal 2020 guidance is for procedures to “exceed 10,500”. For reference, our model currently reflects total procedures for 2020 of 10,632 after the Covid-related adjustments noted above. The Company alluded to the notion (and we tend to agree) that the second half of the year *could* include some acceleration of procedure growth through the second half of 2020 as pandemic delayed procedures “catch up”.

Looking to the balance of 2020 and beyond, the acquisition of NPM provides a marked catalyst to our model given the size of the acquisition. The transaction roughly added 25 surgeons to what is now about 100. We estimate that they will add about 20-25 additional surgeons through the end of 2020, but we think they are gathering momentum in that regard, so it would not surprise us if they are able to add more. More specifically, while we think they will continue to periodically add small numbers of surgeons here and there, the bigger goal is to add larger groups like NPM. However, that, like the NPM transaction, will likely require additional capital. The financing to complete the NPM transaction proved difficult and it was ultimately completed by the seller(s) essentially agreeing to deferring payments through/into 2021. The Company’s ability to raise additional cash will likely impact the growth of new providers. To that end, the Company alluded to plans to raise additional equity capital. They also noted that they ended May with about $1.2 million in cash and indicated they generated cash in both April and May. That cash number was a bit higher than our model projected (although we did anticipate them generating positive cash flow), so further success on the collection front could provide some acquisition flexibility as well.

Clearly, positive cash flow in April and May are positive data points for the large receivable headwind that we think is negatively impacting the valuation. On the other hand, we also saw sizable receivable write-offs for yearend that we think continue to underscore the collectability of the Company’s revenue base. From another perspective, that notion gets to the heart of the analysis, which is trying to determine what the Company’s true collectable revenue is. As we consider the write-offs relative to the trailing booked revenues, we have concluded that we should make some additional (downward) adjustments to the model in terms of projecting the net collectible revenue per procedure. Further, as the Company has suggested, they have managed to close some in-network agreements and we think they are inclined to continue to pursue those type of arrangements. However, they have not provided much visibility on what those in-network agreements might look like and for competitive reasons, we do not think they will share much of that going forward. In that case, much like the collectable revenue metric we have been chasing since we initiated the coverage, we will likely have to extrapolate that number as well. We are confident that in-network arrangements, while dramatically improving the collectability issue, will likely involve lower margins. We think our approach of reducing per procedure assumptions will address that dynamic as well.

To summarize, the NPM acquisition looks to be a highly positive addition. We also give management kudos for closing it since it appears that the funding to do that proved difficult. To reiterate, we expect them to continue to seek additional capital that will likely be dilutive. The collectability of the sizeable receivable remains both a headwind and a wildcard in the story. That is, we may see more write-downs, but we may also see them ultimately collect more of it than we anticipate (or some they have already written-off). Frankly, we tend to believe that the stock is priced on the "more write-downs" end of that spectrum. However, in our view, while we submit this has been a bumpy and perhaps disappointing ride to this point, we also think management and the board have done an admirable job of addressing the weak spots and focusing on their strengths. That includes adding some people to the C-suite that we think addressed some of those strengths and weaknesses. As a result, we think the Company is positioned to begin demonstrating measurable fundamental progress on multiple fronts that should positively impact the underlying share price. Thus, given the continued weakness in the stock, we are (again) raising our allocation from 5 to *6. Further, we are also establishing a new (slightly lower) 12-24 month price target of **US$3.90. However, we would note, because we are still not sure that we have found the bottom in our write-down/net revenue methodology, we continue to apply steep discounts to our DCF conclusions. In that case, if our model proves reasonably accurate, that will likely yield fair value conclusions higher than our current targets.

Projected Operating Model

Assure Holdings Corp.						
Projected Operating Model						
By Trickle Research LLC						
	(Estimate)	(Estimate)	(Estimate)	(Estimate)	(Estimate)	(Estimate)
	3/31/20	6/30/20	9/30/20	12/31/20	Fiscal 2020	Fiscal 2021
Revenue:						
Out of Network Fees	$ 7,696,235	$ 7,894,244	$ 9,452,121	$ 12,418,427	$ 37,461,026	$ 48,722,374
Contract Fees	$ 2,005,490	$ 2,242,872	$ 2,175,514	$ 2,642,877	$ 9,066,753	$ 11,295,077
Other Revenue	$ -	$ -	$ -	$ -	$ -	$ -
Total Revenues	$ 9,701,725	$ 10,137,116	$ 11,627,635	$ 15,061,304	**$ 46,527,780**	**$ 60,017,451**
Cost of Revenues	$ 3,184,591	$ 3,454,810	$ 3,549,307	$ 4,262,204	$ 14,450,913	$ 17,976,965
Gross Margin	$ 6,517,133	$ 6,682,306	$ 8,078,328	$ 10,799,100	**$ 32,076,867**	**$ 42,040,485**
Operating Expenses:						
General and Administrative	$ 1,714,808	$ 1,717,422	$ 1,761,828	$ 1,774,385	$ 6,968,443	$ 7,069,814
Depreciation	$ 223,489	$ 223,489	$ 223,489	$ 223,489	$ 893,956	$ 893,956
Sales and Marketing	$ 375,302	$ 369,819	$ 370,465	$ 374,769	$ 1,490,354	$ 1,493,518
Other Operating Expenses	$ -	$ -	$ -	$ -	$ -	$ -
Total Operating Expenses	$ 2,313,599	$ 2,310,730	$ 2,355,781	$ 2,372,643	**$ 9,352,753**	**$ 9,457,288**
Earnings (Loss) from Operations	$ 4,203,534	$ 4,371,576	$ 5,722,546	$ 8,426,457	**$ 22,724,114**	**$ 32,583,198**
Other Income (Expense):						
Earnings from Equity Method Investments	$ 212,069	$ 152,762	$ 338,596	$ 510,743	$ 1,214,169	$ 1,740,708
Interest, Net	$ (92,000)	$ (92,000)	$ (92,000)	$ (92,000)	$ (368,000)	$ (368,000)
Other Income(Expense)	$ (25,000)	$ (25,000)	$ (25,000)	$ (25,000)	$ (100,000)	$ (25,000)
Total Other Income (Expense)	$ 95,069	$ 35,762	$ 221,596	$ 393,743	**$ 746,169**	**$ 1,347,708**
Income Before Income Taxes	$ 4,298,603	$ 4,407,338	$ 5,944,142	$ 8,820,200	**$ 23,470,283**	**$ 33,930,906**
Income Taxes	$ 1,074,651	$ 1,101,835	$ 1,486,035	$ 2,205,050	**$ 5,867,571**	**$ 8,482,726**
Net Income	$ 3,223,952	$ 3,305,504	$ 4,458,106	$ 6,615,150	**$ 17,602,712**	**$ 25,448,179**
Net Income Attrib. to Non-controling Interests	$ -	$ -	$ -	$ -	**$ -**	**$ -**
Net Income Attrib. to Assure Shareholders	$ 3,223,952	$ 3,305,504	$ 4,458,106	$ 6,615,150	**$ 17,602,712**	**$ 25,448,179**
Basic Earnings per Common Share	$ 0.09	$ 0.09	$ 0.13	$ 0.18	**$ 0.47**	**$ 0.67**
Fully Diluted Earnings per Common Share	$ 0.08	$ 0.08	$ 0.10	$ 0.15	**$ 0.40**	**$ 0.58**
Basic Shares O/S	35,799,491	36,157,486	36,519,061	36,884,251	37,253,094	38,116,001
Fully Diluted Shares O/S	42,757,167	42,970,953	43,185,808	43,401,737	43,618,745	44,122,140

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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.