Trickle Research

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

Allocation and Price Target Downgrades(s)

Report Date: 08/05/2020

12- 24 month Price Target: **US$3.00

Allocation: *3

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) Closing Stock Price at This Update** (08/05/20)**: $.70 (USD)**

Assure Holdings Corp.

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

http://www.assureneuromonitoring.com/

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We are a bit late reporting these results, but the Company reported their Q1 results on July 14, 2020 whereas they typically report the quarter in late May. Recall, we provided an update in early June (2020) as well. In short, we missed the numbers badly in spite of being aware of some of the Covid19 impact on the quarter. As it turned out, we missed the impact of Covid19 as well as a handful of other contributors to the weak quarter. To be sure, *it was not all Covid19 related*. We will cover these briefly.

In terms of procedures, we estimated 2295 for Q1, while actual procedures came in at 1877, or a difference of 418. Clearly, we understated the impact of Covid19. However, some of that was also likely related to the timing of actual starts for added facilities added in western Colorado, South Carolina, central Michigan and Houston, Texas during the quarter. We do not attempt to ascertain the intra-quarter timing of additions, so this is sometimes a source of us overstating procedures for a particular quarter especially if they add more groups/doctors towards the end of a quarter as opposed to the beginning where our model assumes they start.

Unfortunately, procedures were not the only piece of the revenue model that came up short and as we said, Covid19 was not the only contributor.

In the Company conference call, the Company noted three additional items that negatively impacted Q1F20 revenues. The first of these was additional write-downs of accounts receivable. For those who are new to the story, the outstanding receivables (along with the ultimate collectability of new receivables) is the ongoing albatross in the story. Our model includes a formula we have derived to estimate this write-off each quarter. We have noted in the past that we thought our formula did a reasonable job of predicting this amount. For the Q1F20 quarter they reflected a measurably larger write-down than we projected, so perhaps our formula has some flaws. We are not sure what to make of that other than the fact that we should expect the write-downs to continue. Frankly, given the magnitude of the receivable and its treatment, it would be helpful if the Company provided some additional color with respect to the make-up/breakdown of remaining receivables. For instance, it would be good to know the actual portion of revenues that were related to new billings for the quarter instead of trying to sift through a "net" revenue number that includes the impact of new write-offs or in the inverse, the collection of previously written-off receivables. Something along those lines might provide some much needed transparency.

In addition to more write-offs, the Company also noted that their average revenue accrual rate was lower than in prior periods. This has been an area of concern that we have noted in the past and it remains quite salient. Again, we attempt to reflect some of this in our "formula" by essentially starting with a "gross" accrual rate and then discounting those amounts to a "net" (potential) collectible amount. Regardless of how we get there, the goal is to estimate how much of a billed procedure will actually get collected. Clearly, they are still trying to get their arms around that number, and apparently, they still have not found the bottom. Further, it appears from the narrative, that the accrual rate for Neuro-Pro is lower than that of their legacy business. That is not particularly good news, especially given the impact the acquisition is expected to have on the whole. We would add, our model generally assumes decreasing accrual rates over time, but the magnitude of this particular adjustment was larger than we anticipated. Recognize, as the Company notes in their filing narrative, some of this is a function of the efficiency of their collection efforts, which they believe is improving. If they are correct about that, they should see the accrual rates stabilize and even increase at some point in the future. Perhaps more conceptually, our problem with assuming *better* accrual rates (or to the contrary, modeling increasingly lower accrual rates) is that given the spotlight on the containment of rising medical costs, we tend to think the price of many medical procedures and their corresponding reimbursement may be more likely to go down than go up. For reference, when we first heard the Assure story (prior to our initiation), *they noted billing at rates of $15,000+ per procedure*. We are quite confident that government payers will pay only a small fraction of that amount, and we suspect innetwork agreements will also be a fraction of that amount. Moreover, its not hard to understand how they might be having trouble collecting billings of that nature and we are not sure it is all related to poor collection efforts.

Lastly, but in conjunction with some of the above, the filing narrative notes: *"…disputes with private healthcare insurance companies in three states that have failed to reimburse the Company for claims submitted in those states.* ***Virtually all of the 2020 revenue associated with patients that have these private healthcare insurance***

companies has been reserved. *The Company is currently working on negotiations with these healthcare insurance companies to provide for reimbursement for our services. To the extent that these negotiations are successful and the Company is able to get reimbursed for its services, those revenues would be recorded in the period of settlement".* To edify, the conference call discussion suggests this reserve is mainly associated with their Louisiana operations. **All of the 2020 revenues** associated with these patients have been reserved? We did not see this coming, and we believe it represents a measurable portion of the revenue miss for the quarter. Obviously, this particular event is not related to poor collection efforts by past providers. This issue seems a bit more fundamental to the business plan to us.

We understand the negative implications of Covid19 and we know that many healthcare related businesses that depend on elective (or at least non-emergency) surgeries were directly impacted by the suspension of those types of surgeries. However, setting that aside, this was not a good quarter for the Company in the sense that, while we know they were successful in collecting some outstanding and even written-off receivables, they have had some new one's take their place. The situation in Louisiana seems particularly noteworthy. Succinctly, over the past few quarters, we have felt like the Company was getting its arms around some of the greater challenges, however, Q1F20 has us reassessing that view. In short, absent more in-network agreements/arrangements, we are beginning to wonder if they have any idea what they can actually collect for a given procedure. Moreover, while in-network deals will certainly improve that visibility, we are also beginning to wonder what that contracted fee will be and how that will impact margins. Recall, these are not new issues, as we have addressed most of these concerns at one point or another in the past. The problem is, we are not sure the visibility in that regard has improved much over the past several quarters. In any case, the results of this quarter have us questioning whether or not we can provide a reasonable model going forward or not and we are leaning towards the latter.

In addition to the above, we have not had a particularly responsive relationship with management. We are not sure why that is although we have some ideas. Whatever the reason, that tends to make a difficult task even more difficult. On the other hand, in June (2020) the Company contracted Sidoti & Company, LLC to provide company sponsored research on Assure and that research is available to the public at www.sidoti.com.

While the management issues from the outset of our research were disappointing, we do believe the Company has made progress since that time and we also believe they will likely continue to do so. However, as we said, we thought we were getting our arms around the trajectory here but this particular quarter has us reassessing that view. To be frank, our inclination is to terminate the coverage to free up our bandwidth for some other ideas we are looking at. However, given that they are planning on reporting at month end (August 2020), we would like to see another card before we fold the hand. That said given the above, we are lowering our allocation from 6 to *3, and we are also lowering our price target from US$3.90 to **US$3.00. Again, we will reassess these when new see the 2QF20 result at the end of the month.

Assure Holdings Corp.						
Projected Operating Model						
By Trickle Research LLC						
	(Actual)	(Estimate)	(Estimate)	(Estimate)	(Estimate)	(Estimate)
	3/31/20	**6/30/20**	**9/30/20**	**12/31/20**	**Fiscal 2020**	**Fiscal 2021**
Revenue:					$ 18,948,040	$ 37,368,046 $ 8,334,660
					$ 7,363,276	$ - **$ 45,702,707**
Out of Network Fees	$ 2,346,003	$ 2,323,738	$ 6,171,100	$ 8,107,200	$ - **$ 26,311,316**	$ 10,899,047
Contract Fees	$ 1,987,197	$ 1,689,324	$ 1,665,328	$ 2,021,428	$	**$ 34,803,659**
Other Revenue	$ -	$ -	$ -	$ -	8,207,390	
Total Revenues	$ 4,333,199	$ 4,013,061	$ 7,836,428	$ 10,128,628	**$ 18,103,926**	$
						9,463,984 $
Cost of Revenues	$ 1,791,281	$ 1,758,367	$ 2,146,333	$ 2,511,410	$ 8,466,587	1,035,022 $
					$ 1,035,022	1,468,845 $ -
Gross Margin	$ 2,541,918	$ 2,254,694	$ 5,690,095	$ 7,617,218	$ 1,371,116 $ -	**$ 11,967,851** **$ 22,835,808**
					$ 10,872,725	
Operating Expenses:					**$ 7,231,201**	$ 753,804
					$ (422,358)	$ (1,052,520) $ (25,000)
General and Administrative	$ 2,185,270	$ 2,064,463	$ 2,079,249	$ 2,137,605	$ (1,027,390) $ (18,000)	**$** **(323,716)**
Depreciation	$ 258,756	$ 258,756	$ 258,756	$ 258,756	**$**	**$ 22,512,092**
Sales and Marketing	$ 289,000	$ 359,938	$ 360,513	$ 361,665	**(1,467,748)**	
Other Operating Expenses	$ -	$ -	$ -	$ -		**$**
Total Operating Expenses	$ 2,733,026	$ 2,683,157	$ 2,698,517	$ 2,758,026	**$ 5,763,453** **$ 1,664,640**	**5,628,023** **$ 16,884,069**
					$ 4,098,813	**$ -**
Earnings (Loss) from Operations	$ (191,107)	$ (428,462)	$ 2,991,578	$ 4,859,193	**$ -**	**$ 16,884,069**
					$ 4,098,813	**$ 0.44** **$ 0.38**
Other Income (Expense):					**$ 0.11** **$ 0.09**	
Earnings from Equity Method Investments	$ (107,000)	$ (242,476)	$ (59,500)	$ (13,382)		38,169,401
Interest, Net	$ (238,000)	$ (263,130)	$ (263,130)	$ (263,130)	37,305,285	44,122,140

Other Income(Expense)	$ 57,000	$ (25,000)	$ (25,000)	$ (25,000)	43,618,745	
Total Other Income (Expense)	$ (288,000)	$ (530,606)	$ (347,630)	$ (301,512)		
Income Before Income Taxes	$ (479,107)	$ (959,068)	$ 2,643,948	$ 4,557,681		
Income Taxes	$ 104,000	$ (239,767)	$ 660,987	$ 1,139,420		
Net Income	$ (583,107)	$ (719,301)	$ 1,982,961	$ 3,418,260		
Net Income Attrib. to Non-controling Interests	$ -	$ -	$ -	$ -		
Net Income Attrib. to Assure Shareholders	$ (583,107)	$ (719,301)	$ 1,982,961	$ 3,418,260		
Basic Earnings per Common Share	$ (0.02)	$ (0.02)	$ 0.06	$ 0.10		
Fully Diluted Earnings per Common Share	$ (0.01)	$ (0.02)	$ 0.05	$ 0.08		
Basic Shares O/S	35,849,646	36,208,142	36,570,224	36,935,926		
Fully Diluted Shares O/S	42,757,167	42,970,953	43,185,808	43,401,737		

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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.