Trickle Research

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

Coverage Termination

Assure Holdings Corp.

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

Report Date: 10/01/2021

Allocation: 3

Closing Stock Price at Initiation (Closing Px: 11/09/17): $2.90 (USD) **$14.50
Closing Stock Price at Allocation & Target Downgrade (05/29/18): $2.14 (USD) **$10.70
Closing Stock Price at Allocation & Target Upgrade (02/14/19): $2.21 (USD) **$11.05
Closing Stock Price at Prior Allocation Upgrade (06/06/19): $1.00 (USD) **$5.00
Closing Stock Price at Prior Allocation Upgrade (06/01/20): $.92 (USD) **$4.60
Closing Stock Price at Allocation & Price Target Downgrade(s) (08/05/20): $.70 (USD) **$3.50
Closing Stock Price at Coverage Termination (09/23/21): **$7.53 (USD)

** Prices above are reflected in US Dollars on a post 1 for 5 reverse split basis. That split was effected on September 7, 2021.

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We will start this update with a couple of topical notions regarding our ongoing coverage of Assure.

Our coverage of Assure is approaching 4 years old, which makes it one of our oldest (non-terminated) coverage names. Moreover, to be clear, it may represent the most challenging/chaotic pieces of coverage we have written under the Trickle label.

Some of our subscribers may recall, we were first introduced to Assure when they presented at our inaugural Rocky Mountain Microcap Conference in September 2017. At the time, we along with many of the attendees viewed the presentation as "too good to be true". As it turned out that view was at least partially if not largely accurate. In short, the Company encountered a series of issues regarding management's handling of certain elements of the business, which lead to the hiring of forensic accountants and other processes aimed at "righting the ship" so to speak. To be clear, we are not suggesting that prior management's activities were nefarious, in fact, some of those individuals remain with the Company and continue to make contributions to the organization. That said, we will stand by the notion that some of management's past actions and decisions were perhaps not congruent with their public status, and we will leave it at that. To clarify, we are not trying to dredge up the past, because any investor owing the stock should be focused on the future, and that probably applies to the research as well. However, the narrative of the past is topical to the opportunity, so we think it requires color.

In retrospect, while the "too good to be true" notion was perhaps complicated by the management issues, the greater portion of that notion was rooted in the business plan itself, which again remains topical to the story. Succinctly, in our view, the original business plan correctly identified a need in the healthcare industry that held an opportunity for enterprises positioned to properly develop systems and protocols to efficiently deliver it and that opportunity is intraoperative neuromonitoring ("IONM"). We believed at the time of our initiation, and we still believe today that IONM represents a clear benefit in a growing number of surgical procedures. However, the *acceptance* of that notion, which typically boils down to who is going to pay for it, and how much are they willing to pay is less clear. In the case of Assure, and perhaps IONM in general, the answer to those questions embodies the breadth/viability of the opportunity.

Here is the problem as we see it.

Historically, (although this is changing quickly) Assure has essentially provided their services without any *contracted* agreement stating that the patient or its associated payer (an insurance company for instance) would actually pay for the procedure. In addition, the Company has to our knowledge, always maintained a policy of not pursuing "balanced billing" in the collection of the fees for its procedures. To edify, "balanced billing" is a process whereby healthcare providers seek to collect the portions of the services they provide to patients that are not covered by insurance, directly from the patient. To be clear, balanced billing is a portion of the healthcare provider billing process that is the subject of much scrutiny. Sometime referred to as "surprise billing", balanced billing is the source of patients receiving bills for thousands of dollars following a procedure, that their insurance providers refuse to pay for. That is, the providers bill the insurance company for the procedures, the insurance company refuses to pay, so the provider bills it to the last entity in the billing process…the patient. Again, balanced billing is the subject of much scrutiny from various related constituents, and Assure's approach is to not engage in balanced billing, which means that if they do not collect from the insurance company, they do not collect at all. To be clear, some of the Company's issues in this regard are addressed by new legislation referred to as the "No Surprises Act". The Company alluded to some of this on their most recent call. We will not belabor this here, but we are not sure how the act could/would have changed many of their collection outcomes.

The above scenario has been problematic for Assure. In short, when we first heard the story, we knew they were billing at least some of their procedures at considerable rates. For instance, we recall examples of $15,000++ billings for a single procedure. As we have learned, the problem with the model is collecting the $15,000 for the procedure from an insurance company that never "agreed" to pay for it in the first place. From a practical standpoint, that process goes on in many procedures that are performed as part of many surgeries (which in part explains the new legislation we addressed above). Hypothetically, an insurance company may not specifically agree to pay for every suture used on their insured patient, but they likely pay from much of that, however, paying a $15,000 IONM bill is another matter.

The point is, collecting for a high price addition to the surgery that was not *agreed upon* prior to the surgery, has proven problematic to the tune of several million dollars. To add to the quandary, as we have learned along the way, the Company's systems to manage and collect those already difficult receivables was largely inadequate. From that perspective alone, one can reasonably glean that in order to improve that scenario, Assure needed to either solidify their agreements or understandings with payers to establish a clear obligation for them to pay, or institute better collection procedures, or both. We think it is fair to say that they have been working on both. Absent better protocols, the viability of the business is clearly in question.

On another front, we have had and continue to have reservations regarding the way the Company accounts for these billings and their subsequent receivables and collections. For instance, from the beginning, it has always been our understanding that the Company billed amounts but did not recognize the full amount of the billing as revenue, which was in effect their initial attempt to discount the billing for anticipated uncollectible portions. Frankly, we have never understood how that reconciled from an accounting perspective, but the point is the issue of discounting revenues has been their approach from the beginning. That stands in contrast to recognizing the revenues as billed and then applying "bad debt" or other such impairments as the collectible of each receivable is aged and thus determined less collectible. While we certainly will not argue the GAAP fidelity of the approach, it is not particularly transparent. Succinctly, it has always been difficult to decipher the impact of receivable impairments on revenues and at least for portions of the business, we do not expect them to change that approach any time soon.

Again, the approach described above has made it difficult to decipher the actual revenue "earned" in each reporting period because revenue adjustments, impairments, the collection of written off receivables and current period revenues are all lumped together as revenues. That said, we do not think that complexity is lost on the Company. Rather, our sense is that they prefer an approach that helps them avoid the disclosure of their actual charges. In the past, they have alluded to their aversion to disclosing those values for competitive reasons, but we suspect there may be more to that. Regardless, revenue and revenue growth remain difficult to track.

In addition to the revenue recognition issues, the business plan has changed measurably since the time of our initial coverage. When we initiated the coverage, the business plan was largely focused on identifying surgeons (or groups of surgeons) who were performing procedures where IONM might be particularly applicable. Recall, traditionally, the Company would generate two separate billings for a procedure. One of these billings (referred to as "technical fees") involved the provisioning of the technicians and associated equipment that monitor the IONM procedure in the operating room. The second or "professional" billing involves the billing of the offsite monitoring of the procedure by a contracted neurologist. Succinctly, the Company's prior model was centered on sharing the "professional" piece of the procedure with the aforementioned surgeons via the use of a special purpose entity that would then bill the procedure of which Assure would receive a minority share. That approach was designed to incentivize and or direct surgeons toward Assure's services (as opposed to other competing alternatives), and/or perhaps towards the use of IONM in general. That approach has some inherent problems (as we have learned along the way) and we think it is fair to suggest that the Company has embraced some alternative approaches that are beginning to reshape the business.

Specifically, one of the more topical changes the Company has pursued is the contracting of in-network arrangements with insurance companies. As we suggested, the entire revenue recognition and receivable collections issues stem from their lack of contractual payment arrangements with payers. By the way, that was not lost on us when we initiated the coverage, but we would submit the Company suggested at the time that they had much better command of this issue than they did. To that point in the Risks and Caveats section of the initiating coverage, we noted *"...Another issue we addressed above is the Company's assertion that some of their "secret sauce" is their ability to collect on (in a timely manner) the full reimbursements they bill for both technical and professional IONM fees… However, monitoring the collection of these receivables will be paramount in assessing the Company going forward and could become a key metric in the valuation of the shares. We suspect the year end audit may provide some guidance with respect to this issue going forward".* Recall, in March 2018 (4 months or so after our initiation) the Company's internal issues came to light and the year end audit we were looking at for guidance on collections got delayed, and it went downhill from there, at least until the board and new management was able to stabilize the business. We would argue some of that "stabilization" is ongoing, but we think the path is now forward and their expansion of in-network arrangements is part of that.

The trouble is, while we recognize the value of in-network arrangements in terms of both increasing the collectability and shortening the collection cycle of their receivables, those same arrangements are contrary to the original appeal of the Company (in part, the "secret sauce" we alluded to above). Looking at the historical margins drives home the point. For instance, the Company's gross margins for fiscal 2017 were 83%, while the margins for the most recent trailing 12 months were 48%. Granted, those 2017 margins have since been mitigated by write-offs and impairments, but if the procedure mix continues to reflect growing contributions from in-network arrangements, we would expect to see margins continue to decline (although that may depend on the degree to which ongoing non-network business is uncollectible). Succinctly, lower procedure pricing is the downside of highly collectible in-network arrangements. On the other hand, the Company has also launched some new initiatives that were not part of the equation when we initiated the coverage. For instance, its new telehealth platform should make contributions that we certainly did not envision.

We submit, we clearly did not anticipate all the challenges the Company has faced since the time of the initiation. However, some of this *we did* anticipate, so our associated model and assumptions included some of that. For example, we also noted in the initial coverage, *"While the Company suggests that over the past few years IONM reimbursements have remained stable, we think they are the biggest wild card in the model assumptions. To be sure, that is our view, not necessarily the Company's. We have modeled decreasing reimbursement amounts beyond 2018. All other things being equal, if we are wrong about that our assumptions will likely prove conservative. On the other hand, if reimbursement compression proves more pronounced than we are reflecting, our assumptions will likely prove overstated. Again, we think the reimbursements may be the single biggest risk to the model assumptions"*.

To cut to the chase, if we add all of this up, we think the Company has done a reasonable job of repositioning the business and addressing some of the bigger challenges. However, as constructive as that may all be, the Company is now in a position where it will need to grow the procedure base significantly in the face of what we think have been (and will be) shrinking margins *to approach some of our original targets*. That includes by the way, some added debt and dilution that we did not count on. *We are not sure they can get there from here*. Granted, as we conceded above, we don't know where reimbursements will come out, in fact, we don't even know what they are, and given the issues with impairments and trying to unpack ongoing revenues, we are not sure we are going to be able to figure it out in a reasonable time frame. To complicate things, management has not been particularly responsive to us, which more recently we may be partially to blame for because some time ago we largely stopped trying. In that regard, we think there may be a bit of a rub here because of some of our past critiques. To be clear, in our view our effectiveness as analysts is greatly diminished when we cannot communicate with management, regardless of the reasons for that. We would prefer to cover stories where that communication is more open.

In summary, we would reiterate that we think management has done *"a reasonable job of repositioning the business and addressing some of the bigger challenges"* and it may very well be that they are lining up opportunities we are simply not seeing, understanding and/or accounting for in our modeling and analysis. Absent that, we are having a difficult time justifying valuations to levels that we find attractive in the context of our typical risk/reward metrics and opportunity cost alternatives. We would be happy to discuss that with any subscriber who would like to do so. In short, all things considered, we think our time would be better spent on other names. Consequently, we are terminating our coverage of Assure Holdings Corp.

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 Portions of this publication excerpted from company filings or other sources are noted in *italics* and referenced throughout the report.

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.