Q1 2019 Assure Holdings Corp Earnings Call

Jun 17, 2019 (Thomson StreetEvents) -- Edited Transcript of Assure Holdings Corp earnings conference call or presentation Wednesday, May 29, 2019 at 3:00:00pm GMT

TEXT version of Transcript

==

Corporate Participants

==

* John Allen Farlinger

Assure Holdings Corp. - Executive Chairman & Interim CEO

* Paul Webster

Assure Holdings Corp. - Former VP of Strategy

* Preston Thomas Parsons

Assure Holdings Corp. - Founder & Director

* Trent J. Carman

Assure Holdings Corp. - CFO

==

Conference Call Participants

==

* Brooks Gregory O'Neil

Lake Street Capital Markets, LLC, Research Division - Senior Research Analyst

* David Lavigne

Trickle Research, LLC - Founder & Senior Analyst

* Jon Jung

* Michael David Potter

Monarch Capital Group, LLC - Chairman, CEO, CFO & CCO

==

Presentation

Operator [1]

Good morning and thank you for participating in today's conference call to discuss Assure Holdings Financial results for the first quarter ended March 31, 2019. Joining us today are Assure Holdings' Executive Chairman, Interim CEO, John Farlinger; CFO, Trent Carman; and Assure's Founder and Director, Preston Parsons.

Before we start, please note that remarks on this conference call may contain forward-looking statements about Assure's current and future plans, expectations, intentions, results, levels of activity, performance, goals or achievements or any other future events or development. Forward-looking statements are based on information currently available to management and on estimates and assumptions made based on factors that management believes are appropriate and reasonable in the circumstances. However, there could be no assurance that such estimates and assumptions will prove to be correct. Many factors could cause actual results to differ materially from those expressed or implied by the forward-looking statements. As a result, Assure cannot guarantee that any forward-looking statements will materialize and you are cautioned to not place undue reliance on these forward-looking statements. Except as may be required by law, Assure has no obligation to update or revise any forward-looking statement whether as a result of new information, future events or otherwise. For additional information on these assumptions and risks, please consult the cautionary statement regarding forward-looking information contained in the company's earnings release dated May 29, 2019.

Please note that Assure reports in U.S. dollars and all dollar amounts are expressed today are in the U.S. currency.

I'd like to remind everyone that this call will be available for replay through June 12 starting at 2:00 p.m. Eastern Time today. A link to the webcast replay of this call was also provided in the earnings press release. Any redistribution, retransmission or rebroadcast of this call in any way without the expressed written consent of Assure Holdings is strictly prohibited.

Now I would like to turn the conference call over to Executive Chairman and Interim CEO of Assure Holdings, John Farlinger. John?

John Allen Farlinger, Assure Holdings Corp. - Executive Chairman & Interim CEO [2]

Thank you, Matt, and good morning, everyone. During the first quarter of 2019, we continued to make progress expanding our platform, while focusing on improving the controls around our billing and collections processes. Our services continued to expand and experienced strong adoption rates as evident by our 97% year-over-year increase in managed case volume. In particular, we showed rapid growth in the state of Louisiana, which now includes 15 doctors across 10 facilities, accounting for almost 42% of our total revenue.

We also completed several internal initiatives during the quarter that we believe will provide a strong foundation to support the expansion of our platform into both new geographical areas and also verticals. We secured a $3 million loan facility with Colorado Business Bank, which is now Bank of Oklahoma, that includes a $2 million term loan plus a $1 million operating line of credit. Finalizing this new loan facility strengthened our financial position and we plan to use the proceeds for growth capital and potentially strategic acquisitions.

Just as important, we also engaged a second billing and collections vendor to improve our current process and reduce our business risk. The initial partnership has already kicked off with promising results. In fact, our new vendor is now billing for approximately 50% of our revenue and we expect to begin collecting our first payments over the next few days. As an aside, we collected our first check this morning from our new vendor.

Looking to the remainder of the year, we're going to continue to expand our unique platform in new markets and verticals while continuing to strengthen our internal processes. In the upcoming months, we expect to enter into 4 new states as we've already received approval to operate in Nevada, Georgia, Oklahoma and Arizona. We also remain opportunistic on M&A as we look to strengthen our core competencies and bring smaller independent neurologist groups in-house to collect a larger portion of the professional bills.

Before handing it over to Preston and his commentary on growth divisions, I'd like to pass the call to our CFO, Trent Carman, and he'll go through the results of the first quarter in detail. Trent?

Trent J. Carman, Assure Holdings Corp. - CFO [3]

Thanks, John. Good morning, everyone, and thanks for joining us. Before discussing our results in detail I want to remind our listeners that during the fourth quarter of 2018, we reviewed our collection experience for technical and professional claims and determined that the original estimate of revenue was higher than our actual cash collection experience. As such, we revised our estimates of revenue for each open technical and professional claim downward to the actual cash collection experience.

Due to the entire revenue adjustment being recorded in the fourth quarter of 2018, the operating results for the first quarter of 2018 were not restated. However, we are providing revised pro forma numbers for the first quarter of 2018 to account for the adjustment, as if revenue was recorded at the lower amount for each technical and professional case beginning on January 1, 2018.

Further, details of these adjustments have been provided in the tables at the end of the earnings press release that we issued earlier today. On a go-forward basis, we will be reviewing the cash collection experience for technical and professional cases at the end of the first 6 months and again at year-end.

Now moving on to our results. Total revenue for the first quarter increased 92% to $6 million compared to a revised pro forma revenue of $3.2 million for the first quarter of 2018. This was due to the continued increase in cases generated from our existing surgeon network, along with additional referrals from current partners and the expansions of our physician network.

Revenue generated outside of Colorado was 56% of total revenue for the first quarter of 2019 compared to nearly all revenues being generated from the Colorado markets in the first quarter of 2018. We also continued to see our managed case volume grow with 97% increase to 1,184.

Gross margins for the first quarter of 2019 increased 100 basis points to 76.1% compared to a revised pro forma gross margin of 75.1% in the same prior year period as a result of higher utilization of our techs during the quarter.

Total operating expenses increased to $2.3 million compared to $1.7 million in the prior year period, primarily due to staffing additions and to other related costs to support the growth of our business.

Earnings from equity investments decreased to $200,000 during the first quarter of 2019 versus revised pro forma of $600,000 in the first quarter of 2018, primarily associated with bad debt expense related to out-of-network billings to private insurance companies for our professional network entities.

Net income increased 59% to $1.7 million or $0.04 per diluted share compared to revised pro forma net income of $1.1 million or $0.02 per diluted share in the first quarter of 2018, as a result of the aforementioned increase in revenue.

Adjusted EBITDA, as defined in our MD&A, increased 90% to $3 million in the first quarter of 2019 compared to a revised pro forma adjusted EBITDA of $1.6 million in the prior year first quarter. This was the result of the doubling of cases performed compared to the prior year.

Turning to our balance sheet, we ended the quarter with $1.9 million in cash compared to $800,000 of cash at the end of the first quarter -- at the end of 2018. Total debt at the end of the first quarter increased to $1.9 million compared to $300,000 at the end of 2018, as a result of accessing our credit line as previously mentioned by John from the Colorado Business Bank.

During the quarter, we also received over $400,000 of distributions from our equity investments. One last item, during the quarter, we performed 957 technical cases, and we had 227 professional cases that we performed and that we retained 100% of the revenue on.

With that, I will turn it over to Preston Parsons for an update on the future growth and business development initiatives.

Preston Thomas Parsons, Assure Holdings Corp. - Founder & Director [4]

Thank you, Trent. We carried the momentum from 2018 into the first quarter of 2019, with continued expansion of our platform, especially in the state of Louisiana. We have quickly developed a well-known brand in this state and expect growth to continue with a robust pipeline of opportunities. George Sims has done a great job capitalizing on opportunities as they present themselves in Louisiana, and Alex Rasmussen and Stephanie Krouse have done a fantastic job handling the operation challenges created when this amount of expansion happens in a relatively short period of time.

We're also poised to grow significantly outside of our current geographic footprint, as we recently received approval to operate in Nevada, Georgia, Oklahoma and Arizona. I'd like to point out again that these states aren't just chosen at random, our internal business development team identifies the best opportunities we currently have through our relationships with doctors themselves or through medical device distributors, who have deep-rooted relationships with potential doctors we may not know. This allows us to move forward with executing on our existing business model in these new areas. Assure is built around this concept, and we're happy to see this model expanding into new states. Something that makes us even more proud is the fact we're now in talks with hospitals to branch out from our historic business model and add a function where we are able to service entire hospitals because of our growing reputation as a best-in-class service provider. The potential financial impact of this is significant because in these situations we would keep 100% of revenue, both technical and professional. We will keep you updated as these discussions continue further.

Along with continuing to expand our platform's geographical footprint, we are currently exploring bringing a portion of the professional neurologists over-site services in-house, with the hiring of our own full-time neurologists. This will allow us to further increase the quality controls of our service and will also allow us to retain a larger portion of the professional bill to expand our top line revenue growth.

And speaking to the professional bill, I wanted to expand a little on some of our initiatives in 2019. Back when I started Assure, the concept to partner with doctors was a new one and one that I was experimenting with. At that time, I was just trying to establish and grow the business. So I was happy to take a lower percentage of the professional bill than I knew was warranted. Fast-forward to today, where we are a well-established and proven entity, we can now go to doctors and show them improved value of services we can provide. This now gives us a road map to what we can and now do command for a split of the revenue of the professional bill.

Our services are such that the old days of only getting 15% of the professional bill are now gone. Our customers splits with our partners today are now 2x to 3x that. The amount of services we provide and value it brings to our partners definitely warrants these splits.

Garnering a higher percentage of the professional bill, something we set out to do in 2019, I'm happy to say we are now doing that. This will have a significant impact in the go-forward of our financials.

I also wanted to share with everyone a couple of examples of the important work we do day in, day out. I recently had conversations with a couple of our doctors and they shared stories of 2 separate instances where our technologists alerted these doctors of severe changes during the case in time for the doctors to address the changes and correct the issues. These doctors both told me that without our technologists in the room that day, these patients likely would have died. It's also important to note that these surgeons told me before they partnered with Assure, they would not have monitored these such cases. It's astonishing for us to think that because we started this company a few years ago, numerous people are alive today because of it. It's a powerful reminder of all the incredible things we have going on here at Assure.

And with that, I'll turn it back over to John.

John Allen Farlinger, Assure Holdings Corp. - Executive Chairman & Interim CEO [5]

Thank you, Preston. In summary, we continue to build off the strong foundation we've established over the past 4 years. As we grow our platform's program and remain committed to provide an increasing number of patients best-in-class monitoring services. We feel our first quarter was a strong one and that we are clearly on target to deliver more than 5,000 procedures during the course of the balance of 2019.

Initially, we made significant progress on improving our billing and collections process through bringing on an additional vendor. I want to add that it will take a few quarters to see the results and the benefits of this new addition.

We're also well positioned to execute on various M&A opportunities, while continuing to organically expand our platform into our newly approved markets. As we stated in our last call, 2019 will be a pivotal year of growth for us, and we're encouraged by the strong start that we've had in our first quarter and that we are confident that we'll be able to deliver on our strategic goals and to continue to expand and grow the business over the balance of the current year.

With that, I'll turn it over to our operator.

==

Questions and Answers

Operator [1]

(Operator Instructions) Our first question is from Brooks O'Neil from Lake Street Capital Markets.

Brooks Gregory O'Neil, Lake Street Capital Markets, LLC, Research Division - Senior Research Analyst [2]

Congratulations on the progress. So I was curious, first, as you have reviewed the business and made some of the adjustments in your financial reporting, one that if you have concluded that still be out-of-network strategy that you've used historically is the best one for you to use going forward both in Colorado and obviously, in these new states you're attacking now.

John Allen Farlinger, Assure Holdings Corp. - Executive Chairman & Interim CEO [3]

Well, to date, Brooks, we remain wedded to the out-of-network billing strategy. However, we are starting to do some analytics and some review of negotiating with some of the providers to enable us to do in-network billing. And we have started to have some discussions with a couple of payers on that note. But to date, for the balance of the year, you can expect us to stay out of network, for the balance of 2019. We expect to engage with more of the payers really towards the end of the year, as we start to develop more scale.

Brooks Gregory O'Neil, Lake Street Capital Markets, LLC, Research Division - Senior Research Analyst [4]

Sure. That makes sense. One other question I had was, and I'm sure I could figure this out if I looked deeply into the financial statements. But can you just summarize kind of what you found as it relates to your collections experience and as it relates to sort of the prior revenue recognition? I mean, what I'm really asking you, I guess, is can you tell us broadly what the percentage adjustment was relative to the actual collections experience and the original revenue recognition policy?

John Allen Farlinger, Assure Holdings Corp. - Executive Chairman & Interim CEO [5]

Yes. I can -- I'll try to give you some numbers here, but I think, the only thing I want to caution everyone, and we said this on our last call, is that we are going to go through a constant trueing up of numbers every 6 months. And that will happen, again, after the June 30 statements. But I think the numbers are -- you can probably figure these out from the financials, but we were looking at a change of accounting as at the end of December. And as we mentioned in that call, it wasn't totally clear to us whether the result was really from our independent billing company not being able to keep up with the volume, as we continue to expand our business or whether there were some downward pressure from the payers.

We believe it was -- we took a write-down of over 20% on those, and we're continuing to monitor it every month. But Trent, maybe you want to give the guy some data on how we were doing and trueing up as at the end of December versus the most recent billing period.

Trent J. Carman, Assure Holdings Corp. - CFO [6]

Yes. So included in the disclosures in the MD&A, we state that for the 2017 period, so that's -- we look back 2 years on the cash collection experience. So looking back at 2017 through the end of March for our technical cases, we've collected 88% of those amounts as of the end of March of 2019. So that...

John Allen Farlinger, Assure Holdings Corp. - Executive Chairman & Interim CEO [7]

So Brooks, we're certainly making progress. There still is a little bit of downside risk still. It looks like we've been able to reduce that risk. But we'll do another true-up as of June 30, to actual numbers collected up until June 30. And this will be a constant adjustment going forward.

Brooks Gregory O'Neil, Lake Street Capital Markets, LLC, Research Division - Senior Research Analyst [8]

Sure. And I mean, I would say -- and I'm looking for either confirmation or some collection from you guys, but 88% that sounds like you're doing pretty darn well.

John Allen Farlinger, Assure Holdings Corp. - Executive Chairman & Interim CEO [9]

Yes. We think we're closer to market now in terms of what we're accruing and how we're realizing it. But again, it's how we're doing as of now, there'll be another adjustment at the end of December. The numbers could be higher, they could be slightly lower. But I think for us going forward, we want to get into a cadence of probably we doing this quarterly as we go into 2020. So the opportunity for variances and adjustments decreases the shorter the period of time that you're making the adjustments.

Brooks Gregory O'Neil, Lake Street Capital Markets, LLC, Research Division - Senior Research Analyst [10]

Sure. Okay. And just actually one more question. I appreciate your commentary very much. So help us to think about your readiness for M&A. Obviously with 4 new states, growth in Louisiana, presumably continued organic growth in Colorado, you've got a lot on your plate, the revised billing and collection strategy. Just help us to think about why you believe you're ready for M&A, why you need M&A and what that will do for the company.

John Allen Farlinger, Assure Holdings Corp. - Executive Chairman & Interim CEO [11]

Yes. Good question. Let me say the first thing. We're in a race to get to scale. And scale solves a lot of our problems. So we've disclosed to market that we believe we'll go from 2,700 daily procedures approximately last year to over 5,000 this year. And right now, we are on target to beat those numbers. But really, we have our sight set on larger numbers. And we believe we can go and really make 2 types of acquisitions. The first is to go and acquire undercapitalized competitors, who are just barely making it because they have the same problems that we do in terms of funding out-of-network billing, they're undercapitalized or currently undercapitalized, and we can buy these companies, in some cases, for 1x EBIT or very close to it for cash and cash and stock. Those types of advances make sense as we attempt to geographically expand. Particularly, if we can win the states where we're not there already. So that appears -- and we are not doing this in the dark. We're having discussions with multiple groups already right now, and we're getting a feel for the pricing. And the pricing works from our standpoint, and we've got a team that has a lot of M&A experience in the past.

The second type of acquisition is more strategic and that really revolves around acquiring competencies that we currently don't have. In particular, if we could acquire a company that has in-house billing already that we could rely on and build around, that would be a strategic acquisition for us. Secondly, if we could acquire a company -- a smaller company that already had their in-house neurologist team built, that would be strategic. So we're really looking at this really in 2 fronts. We want -- we're in a race to get scale, and we're also in a race to get competencies and bring a couple of key competencies within the organization.

Operator [12]

Our next question is from David Lavigne from Trickle Research.

David Lavigne, Trickle Research, LLC - Founder & Senior Analyst [13]

I've got a handful of questions. I'm going to ask one at a time, so they don't get confused. Is that right?

John Allen Farlinger, Assure Holdings Corp. - Executive Chairman & Interim CEO [14]

Sure, David.

David Lavigne, Trickle Research, LLC - Founder & Senior Analyst [15]

So the contract fees. I'm thinking in the context of scale and that all makes sense to me, but I'm looking at sort of the level of contract fees to the overall revenues and it looks to me like the contract fees played a bigger part. And I'm kind of wondering if that looks like a trend or if maybe I'm misunderstanding that because, obviously, adding procedures is kind of a holy grail here, but maybe not so much if you're adding procedures, you're getting paid less money on from the contract side. Does that make sense?

John Allen Farlinger, Assure Holdings Corp. - Executive Chairman & Interim CEO [16]

I'm going to let Preston answer that first question on the contract side, the revenue generated from contract fees.

Preston Thomas Parsons, Assure Holdings Corp. - Founder & Director [17]

David, yes, I mean, obviously, you hit the nail in the head. As we scale here and get more -- perform more surgeries, we're going to have more of these contract cases. And then the other point here is not every contract is the same. And Alex Rasmussen and our team of lawyers really have done a good job of negotiating in some instances even higher prices than we were getting before in some instances. So it's a combination of those 2.

Trent J. Carman, Assure Holdings Corp. - CFO [18]

If I can just add one thing to it, just so you understand, David. We have our professional network entities and for the majority of them, we own a portion of them. Be it 10%, 30% to 40% of that entity, any net income associated with that entity we recognize down below other income in that equity pickup. That's our percentage ownership in that entity. The contract fees are professional network entities as well. We don't just have an ownership interest. We get a management fee for managing the operations. So we don't get a portion of the bottom line, we get a portion, a percentage of the revenue. And so it goes into a different bucket, if you will. So that's what the contract fees are on the P&L. And that has increased because we've added new managed entities to our portfolio.

John Allen Farlinger, Assure Holdings Corp. - Executive Chairman & Interim CEO [19]

And David, you can expect that number to continue to escalate over the next few quarters as we continue to add business here.

David Lavigne, Trickle Research, LLC - Founder & Senior Analyst [20]

Okay. But the net effect of that's going to be -- if you think of it this way, I guess, the net effect of that would be all other things being equal is that your revenue per procedure, because a greater portion of those are managed, would be lower, right?

John Allen Farlinger, Assure Holdings Corp. - Executive Chairman & Interim CEO [21]

No, not necessarily.

David Lavigne, Trickle Research, LLC - Founder & Senior Analyst [22]

I guess, I'm confused about that. Because it seems to me that the -- maybe I don't understand the line item, I guess.

John Allen Farlinger, Assure Holdings Corp. - Executive Chairman & Interim CEO [23]

Yes. Maybe, Trent, you want to just go back and explain. I think that's what the disconnect here is in how we calculate and how we generate contract rates.

Trent J. Carman, Assure Holdings Corp. - CFO [24]

Yes. So the entity is established as a professional network entity. We'll get a percentage of the revenue. Just -- I'm going to use a hypothetical, 30%. So if that entity did $100,000 of revenue during the month, we would record a management fee or a contract revenue of 30% of that. And that would be that contract revenue. That would go into that line item that you're looking at, David. Now in the old historical situation, we would get 10% to 15% of their bottom line net income. So you would look down below after all the expenses, all the accounting and we would get 10% to 15% instead of $100,000, it would probably be something less, just say $75,000 for easy math, and we get 10% of that or 15% or 20% and that would go into the equity pickup line down below other income there. So that's the difference there is, one is predicated upon a percentage of the revenue, the other is predicated upon the percentage of the ownership that we have in that net income, so.

Preston Thomas Parsons, Assure Holdings Corp. - Founder & Director [25]

The important distinction here, David, is in the case of a managed services agreement, we're consolidating that revenue, it's above the line. If it's a PNE -- typical PNE model, it's the equity pick up, it's below the line. That's really the distinction, and we're attempting to do more and more of the managed services agreements going forward, which then...

Trent J. Carman, Assure Holdings Corp. - CFO [26]

And these are not going into our case counts either. So when we disclose the case count, the professional case is not getting included in our -- in any numbers that we're disclosing.

John Allen Farlinger, Assure Holdings Corp. - Executive Chairman & Interim CEO [27]

David, does that answer your question? Or...

David Lavigne, Trickle Research, LLC - Founder & Senior Analyst [28]

I have to think about that a little bit more. That's still a little confusing.

Trent J. Carman, Assure Holdings Corp. - CFO [29]

You can call me, David, and we can have an off-line after the call here, and we'll go through it a little more.

David Lavigne, Trickle Research, LLC - Founder & Senior Analyst [30]

Okay. So let me move on. The equity method fees, obviously, was significantly lower on a percentage basis, which I guess, certainly a little bit because I was sort of thinking that given that some of your increases in those splits, if you will, maybe would drive that higher. But it sounds like maybe some of that's ending up on the contract fees that's where I'm a little confused there. But it sounds like you took some kind of a charge against that line item for the quarter, which, again, was a little confusing because it sounded to me like the charge thing was something you were going to review every 6 months. So is there...

Trent J. Carman, Assure Holdings Corp. - CFO [31]

I was going to say there's 2 items to the difference there primarily, David. One is, keep in mind our revenue last year that all entities recorded, the professional entities and Assure was higher per case than it is now. So we're now recording a lower amount per case than we did in the first quarter of 2018. So all else being equal, that's going to come down just because of that amount of revenue being -- is down. In addition, we have a policy that we've continued and will continue going forward any time an account receivable hits 2 years old, it is reserved for 100%, despite the collection experience. So if we have $1 million hypothetically of accounts receivable that tripped the 2-year mark within a period of time, that is going to be reserved for 100% in that quarter that it hits the 2-year mark. And so I mentioned in my script that yes, we did have some bad debt expense that's what it was, it was the stuff hitting the 2-year mark for some of the professional network entities that have been around for over 2 years.

David Lavigne, Trickle Research, LLC - Founder & Senior Analyst [32]

But didn't we accelerate a lot of that 2-year mark stuff when we took a huge charge before?

Trent J. Carman, Assure Holdings Corp. - CFO [33]

No. 0. None, whatsoever. The collection experience was the only thing that happened related to our revenue per case and that was done in the fourth quarter of last year. We still have the over-2-year accounts that will happen every quarter going forward to the extent there are any of those.

David Lavigne, Trickle Research, LLC - Founder & Senior Analyst [34]

And some of that difference though that you mentioned in the front end of this should the lower amount of collections, those things, I would think would have been reconciled in the pro forma that you provided, right? Because the numbers are still significantly different relative to the pro forma.

Trent J. Carman, Assure Holdings Corp. - CFO [35]

The pro forma number came down $300,000 for the last year's number. So it came down from $900,000 to $600,000. That is correct.

David Lavigne, Trickle Research, LLC - Founder & Senior Analyst [36]

Right. So -- that it was $600,000 -- you recognized $600,000 on $3 million versus $185,000 on $6 million?

Trent J. Carman, Assure Holdings Corp. - CFO [37]

Correct. And then what I said in my script was, of the amount how much was bad debt for the PNEs, and I said primarily associated with bad debt expense related to that 2-year mark. So the majority of that difference there relates to receivables that were outstanding for those entities that tripped the 2-year mark, even though they're at a lower dollar amount.

David Lavigne, Trickle Research, LLC - Founder & Senior Analyst [38]

And what was that number then?

Trent J. Carman, Assure Holdings Corp. - CFO [39]

I didn't disclose it. Virtually, the whole thing, $400,000.

John Allen Farlinger, Assure Holdings Corp. - Executive Chairman & Interim CEO [40]

David, how many more questions do you have? I think we want to allow some other callers to come on the call.

David Lavigne, Trickle Research, LLC - Founder & Senior Analyst [41]

Sure. just one -- can you tell me if the higher G&A is something that's probably going to be more static? Is that a sort of a level we can get used to then?

John Allen Farlinger, Assure Holdings Corp. - Executive Chairman & Interim CEO [42]

Yes. Trent, do you want to comment on that?

Trent J. Carman, Assure Holdings Corp. - CFO [43]

Well, the G&A, the major components are 2. One is the support staff and the other are professional fees. The support staff has been hired. We added some people during the end of 2018 and into 2019. So that component would go up slightly, but not significantly. And the professional fees, that should not be going crazy other than as we do add more M&A, add more expansion opportunities that will be a little bit volatile because of that and obviously, increase or decrease depending on our level of activity. But it shouldn't be significantly different, David, from a materiality standpoint.

Preston Thomas Parsons, Assure Holdings Corp. - Founder & Director [44]

David, look, the majority of expenses in G&A are coming from professional fees and staff, and we are not planning to hire many more staff. We've got a component now that can deliver on the 2019 plan. So the biggest incremental spend will come from hiring more techs to linearly deliver more business over the balance of the year.

Operator [45]

Our next question here is from Michael Porter from Monarch Capital Group.

Michael David Potter, Monarch Capital Group, LLC - Chairman, CEO, CFO & CCO [46]

Congratulations on the continued progress. I just have a couple of questions. How is the billing being assigned between the 2 vendors? Can you give us a little detail? And is the ultimate objective to, I guess, move all the billing to the new vendor?

John Allen Farlinger, Assure Holdings Corp. - Executive Chairman & Interim CEO [47]

Yes, it was pretty -- I know I've got Paul Webster on the call. He can probably give you more granular details, but quite simply, we broke it down for the most part by state. And we assigned 50% to 1 group and 50% to the other. And we'll be monitoring the results over the next 4 to 6 months. That being said, we are continuing to add bodies on the billing and the collection side. We've hired another billing person, in addition to Paul and Kelsie Jas. And we are starting to take some of those -- some more of that work and bring it internally. And we haven't changed our position on this. We've seen this as a core competency. We've got 2 vendors now. We want to create some competitive tension over the medium term here. But ultimately, as in most core competency, we want to have them inside the organization. So to date, it's roughly 50-50 based upon states for the most part, and we'll gauge the performance of each over the next 3 to 6 months.

Michael David Potter, Monarch Capital Group, LLC - Chairman, CEO, CFO & CCO [48]

Okay. And then on the DSOs, if I calculated correctly, they were running about 385 days. Is that correct?

John Allen Farlinger, Assure Holdings Corp. - Executive Chairman & Interim CEO [49]

Yes. Trent, do you want to give him the exact numbers?

Trent J. Carman, Assure Holdings Corp. - CFO [50]

I haven't done a calculation on that with these numbers, Michael, but I have a number that's higher than that. Based -- I mean, if you look at a trailing 12 revenue, which is disclosed and if you look at the MD&A and do the pro forma, you have to add the 4 quarters together. I'm, unfortunately, higher than that number.

Michael David Potter, Monarch Capital Group, LLC - Chairman, CEO, CFO & CCO [51]

You are doing -- you're calculating a little differently than I am. So on a trailing 12-month basis, your DSOs are running at what level?

Trent J. Carman, Assure Holdings Corp. - CFO [52]

I'm up in the -- well over 1.5-year mark.

Michael David Potter, Monarch Capital Group, LLC - Chairman, CEO, CFO & CCO [53]

Can you give me days, please?

Trent J. Carman, Assure Holdings Corp. - CFO [54]

Again, I haven't calculated it for this quarter. The last time I calculated, it was several weeks ago, and it was over 500.

Michael David Potter, Monarch Capital Group, LLC - Chairman, CEO, CFO & CCO [55]

Okay. So 500-plus days. And is there a goal that management would like to get this number to or run rate by the end of the year?

John Allen Farlinger, Assure Holdings Corp. - Executive Chairman & Interim CEO [56]

There's 2 questions. One is run rate and the other is days outstanding. We are trying to get the days outstanding down to about 365 days. And part of the issue, we've discussed this in the past, one of the problems we had with the first billing company were the delays that they had in the issuing bills. In some cases, bills were not being issued for 3 to 6 months. We changed that policy over the last 2 quarters and particularly, the last quarter, where bills are going out immediately. And we think that will shorten the billing time cycle down significantly over the next 12 months, Michael.

Michael David Potter, Monarch Capital Group, LLC - Chairman, CEO, CFO & CCO [57]

Okay. So by year-end -- is the objective by year-end to get this -- the DSOs down to 365 days?

John Allen Farlinger, Assure Holdings Corp. - Executive Chairman & Interim CEO [58]

We're hoping. Again, just by shortening the billing cycle out, you should be able to migrate this down fairly quickly. But again, you've got this backlog of bills that we've got to work through over the balance of the year. So I think, on the newer billing, newer billings that are going out this year, it will be sped up, but we'll still have this lag of billings from '17 and '18 that we're collecting that were delayed in terms of how they were issued.

Trent J. Carman, Assure Holdings Corp. - CFO [59]

And one thing, Michael, if I may add. I mean, the ultimate goal would not be to be penny wise and pound foolish here. I mean, the goal that John talks about is one that we are trying to achieve. And let's be honest, we could achieve it tomorrow, if we wrote off half of the receivable. But we don't -- we're not going to just do that for the sake of hitting a goal, we're going to evaluate the receivables as we proceed throughout the year and reserve what we think are necessary based upon the cash collections. But if there's a receivable out there or a group of receivables and it kicks our days sales outstanding up, we're not going to write them off just because we haven't achieved the 365-day goal. That would be, obviously, ludicrous, and -- so we're not proceeding to make that our one-and-only goal from a financial standpoint. It will be to evaluate the receivables.

Are they collectible? Can we collect it? If it's a 450 days, fine, so be it. The goal is 365, but we will monitor and evaluate, manage that as the year proceeds.

John Allen Farlinger, Assure Holdings Corp. - Executive Chairman & Interim CEO [60]

And as we've mentioned, if it is not collected in 24 months, then it's provided for. And provided for by a reduction in revenue and a reduction in the AR.

Michael David Potter, Monarch Capital Group, LLC - Chairman, CEO, CFO & CCO [61]

Okay. All right. And a question that I had, I know, I was on the year-end conference call, but I asked this question on Q3 conference call. Where are we in our search for a permanent CEO? Where are we in the process and has a search firm been retained?

John Allen Farlinger, Assure Holdings Corp. - Executive Chairman & Interim CEO [62]

There has not been a search firm retained yet, and the board has asked me to stay on through the fall, as we process.

Michael David Potter, Monarch Capital Group, LLC - Chairman, CEO, CFO & CCO [63]

That fall will come upon us pretty quickly.

John Allen Farlinger, Assure Holdings Corp. - Executive Chairman & Interim CEO [64]

Yes.

Michael David Potter, Monarch Capital Group, LLC - Chairman, CEO, CFO & CCO [65]

And if we're pursuant, we have a lot going on here, obviously, with expansion and staffing and potential M&A strategy. It would make sense to bring in a CEO with a lot of health service experience, I would think.

John Allen Farlinger, Assure Holdings Corp. - Executive Chairman & Interim CEO [66]

Well, again, we were kind of working through a number of issues here, as we try to get some of the issues from last year in the rearview mirror. And the board's perspective is we're delaying that decision. I've agreed to stay on through the fall and if needed, through the rest of the year.

Operator [67]

Our next question here is from Jon Jung from Trailhead Asset Management.

Jon Jung, [68]

Appreciate the job that you've done and the progress you're making. One of my questions would be, what kind of concentration we have in the billables, the receivables by insurance company? Who are the largest ones and how much concentration is there?

John Allen Farlinger, Assure Holdings Corp. - Executive Chairman & Interim CEO [69]

We have all the -- Paul, if you're on the call, do you -- Paul Webster, are you on the call in our office?

Paul Webster, Assure Holdings Corp. - Former VP of Strategy [70]

I am. Yes.

John Allen Farlinger, Assure Holdings Corp. - Executive Chairman & Interim CEO [71]

Why don't you just maybe stratify? And we look at this data by state, but maybe give just a quick overhead, Paul, on the key players and the amount of market share that they have with us.

Paul Webster, Assure Holdings Corp. - Former VP of Strategy [72]

Sure. And I don't have it in front of me, but I remember pulling some of this information together before, so these numbers are approximate. But in terms of market share and when I say market share, what I mean by that is the volume represented by each of these payers on the commercial side. Roughly about half of our cases are covered on the commercial side by some Blue Cross Blue Shield plan, be it Anthem Blue Cross Blue Shield or Blue Cross Blue Shield of Louisiana, et cetera. Each state has its own Blue Cross market or Blue Cross payer. And -- so that's about half of our cases. Roughly about -- United, Cigna and Aetna make up roughly 40%. And then there is another 10% that are made up of other payers that are smaller, regional payers or local market payers.

Jon Jung, [73]

Okay. I guess, related to that, what -- when you look at the growth of the business that's in front of you, how do you expect the cash flow and the financing of both internal growth and any M&A to be handled? In other words, is there a necessary addition of debt for -- with the extensive 365-day plus receivables balances, how will you finance that growth? What does that look like from a balance sheet and equity standpoint?

John Allen Farlinger, Assure Holdings Corp. - Executive Chairman & Interim CEO [74]

Okay. I'm going to answer the question in 2 parts. For the organic growth, Jon, we've been able to pretty much manage at an existing cash flow. So we're not under any duress now, but obviously, the lever here is, as we accelerate growth, there is a greater need for capital. And if we accelerate organic growth, there is a need for capital as well. On the acquisition side, we're looking at a few options now, which include debt and other options. But we have not pulled the trigger on any of those yet, but obviously, we're considering multiple options to include structured debt. It might be a very small round of equity to facilitate a couple of transactions, but we're really resting with the options now, as we move forward and look at various acquisition targets.

And we have options available to us, but obviously we're trying to get the stock price back to where we think it should be trading before we move on any of these initiatives.

Operator [75]

This concludes the question-and-answer session. I'd like to turn the floor back over to Mr. Farlinger for any closing comments.

John Allen Farlinger, Assure Holdings Corp. - Executive Chairman & Interim CEO [76]

Thank you, everyone, for attending the call. We appreciate the questions and some of the probing questions that we face today. Speaking on behalf of the management team, we're feeling very bullish about our course for the balance of 2019. We just went through what typically is our weakest quarter and yet, we're showing almost 100% growth over last year. We see some tremendous opportunities to buoy that expansion with what we believe could be some cheap acquisitions, and ultimately, if we can acquire a couple of key core competencies, that would be perfect for us. The challenge for us, as we outlined in the call, still remains billing and collection. It could take at least 2 more quarters to see how our new billing company plays out, but we have -- right now, we are extremely confident in their ability to help us deliver better results through the balance of the year.

Thank you, everyone, for your time today, and we look forward to talking with each of you in the near future. Thank you.