Edited Transcript of Assure Holdings Corp earnings conference call or presentation Tuesday, November 26, 2019 at 4:00:00pm GMT

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Corporate Participants

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* John Allen Farlinger

Assure Holdings Corp. - Executive Chairman & CEO

* Paul Webster

* Preston Thomas Parsons

Assure Holdings Corp. - Founder & Director

* Trent J. Carman

Assure Holdings Corp. - CFO

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Conference Call Participants

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* David Lavigne

Trickle Research, LLC - Founder & Senior Analyst

* Jon Jung, Trailhead Asset Management

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Presentation

Operator [1]

Good morning, and thank you for participating in today's conference call to discuss Assure Holdings' financial results for the third quarter ended September 30, 2019. Joining us today are Assure Holdings' Executive Chairman and CEO, John Farlinger; CFO, Trent Carman; Assure's Founder and Director, Preston Parsons; Alex Rasmussen, Executive Vice President of Operations; and Paul Webster, Vice President of Strategy.

Before we start, please note that remarks on this conference call may contain forward-looking statements within the meaning of applicable securities laws about Assure's current and future plans, expectations, intentions, results, levels of activity, performance, goals or achievements, or any other future events or developments.

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 can 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 not to 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.

During this call, we may refer to certain metrics, such as adjusted EBITDA, managed cases and number of procedures, which are non-IFRS measures, do not have any standardized meaning under IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers.

Assure believes that these measures may offer useful supplemental information but are subject to inherent uncertainties and limitations and rely on various assumptions by the company and should, therefore, not be relied upon for the purpose of making an investment decision.

For additional information on these assumptions, uncertainties and risks, please consult the cautionary statement regarding forward-looking information contained in the company's earnings release dated November 26, 2019, most recently filed interim statements for the 3- and 9-month period ended September 30, 2019, in management's discussion and analysis for the same period, which are available in the company's SEDAR profile at www.sedar.com.

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

I would like to remind everyone that this call will be available for replay through December 10, starting at 2:00 p.m. Eastern Time today.

A link to a webcast replay of this call will also provide -- will also be provided in the earnings press release. Any distribution, retransmission or rebroadcast of this call in any way without the express written consent of Assure Holdings is strictly prohibited.

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

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

Thank you, Scott, and good morning, everyone. The company's record third quarter results were highlighted by strong organic growth and continued market expansion, driven by a quarterly record 1,519 procedures, representing a 95% increase from the year earlier period and tight operational execution, Assure generated its best-ever results in gross margin, adjusted EBITDA and net income.

We continue to benefit from growing recognition of our brand, our industry-leading neuromonitoring platform, and our highly skilled technicians and neurologists. The growing acceptance of interoperative neuromonitoring is another catalyst for the company. I'm very proud of the progress we are making in establishing Assure as a standard of care in interoperative neuromonitoring and becoming a leading provider of services in United States. Further, we are confident that this growth will continue through 2020 and subsequent periods.

Last month, we provided an operational update, confirming that the company will substantially exceed our 2018 total of 3,043 managed cases and our full year guidance of 5,000 managed cases in 2019. Driven by demand for our services, we are forecasting total procedures of between 5,400 and 5,800 in 2019. This represents a year-on-year increase of 77% to 91%.

Pursuant to the fourth quarter of 2019, based upon the number of procedures performed in October, and thus far in November, plus our current scheduling and expectations for the remaining of this month and December, Assure expects to report a record number of total procedures during the last 3 months of this year.

Next, I will revisit the 3 corporate objectives we established as part of our growth plan for 2019 and 2020 that I outlined last quarter.

We are confident these initiatives will drive significant growth and value for our shareholders in the go forward. The first objective is bringing our billing and collections process in-house. Given the issues we experienced in this area over the past year and prior, it became necessary for us to take control over the process and ensure that we're actively collecting all the cash that's owed to us.

Since terminating our legacy billing partner at the end of August, we entered into a joint venture agreement with Clever Claims, the billing and collection partner we began working with in April 2019. Together, we created a new in-house billing company called Velocity Revenue Cycle. And in just a few months, we've completely overhauled our revenue cycle management process, resulting in more timely and accurate claims being filed.

New tracking tools implemented by our 14-person in-house billing team are allowing us to take greater control of the collection process and enhance transparency. We believe this will reduce business risk and create greater certainty of a stable cash flow going forward.

While we expect these changes to improve our ongoing revenue cycle process, it must be known that each claim from our legacy billing partner will require additional time and resources to resolve. And we acknowledge there is more work to do, while we continually evaluate better, more efficient systems and resources to enhance the billing and collections process.

Our second objective is the development of an in-network revenue stream. We believe this will make our collection cycle shorter, reduce our outstanding accounts receivable and improve cash flow.

We are pursuing an in-network revenue stream because providing entirely out-of-network health care services is challenging. It frequently results in a much longer revenue cycle and often triggers an annual claim review process. Further, insurance companies frequently deny out-of-network claims, pay a smaller initial reimbursement amount, or they even pay the patient directly, rather than the provider, which is us for these services. This adds complexity and time to the collection process as a means of applying pressure on health care providers to join their network at a rate that is lower than we have been able to accept.

In September, we were pleased to sign our first in-network provider agreement with Aetna in the state of Michigan. Assure is actively pursuing additional potential agreements with other national and regional providers. Over time, we believe that our initiatives to bring billing in-house and signing network agreements with insurance providers have the potential to positively impact the company's financial performance. Both also represent significant differentiators from our competitors in the interoperative neuromonitoring business.

Moving on to our third objective. We intend to scale our platform, using both organic growth and M&A. Preston will give you a more detailed perspective of the revenue growth opportunities momentarily.

With respect to M&A, Assure is seeking opportunities to accelerate the company's growth and will be opportunistic in pursuing accretive acquisitions that provide the company with important new surgeon and facility partnerships, complementing our existing geographic footprint and helping us to enter new surgical verticals.

On November 1, Assure announced that it entered into an asset purchase agreement with Neuro-Pro Monitoring, one of the largest IONM service providers in Texas. The company is currently taking steps to finalize diligence and with a newly extended closing date of no later than January 15, 2020. The company is currently taking steps to obtain financing that will fund this transaction. In addition, on November 22, Assure announced its intention to offer up to $4 million in Canadian funds worth of convertible debenture units of the company. Each unit bears interest at a rate of 9%. Net proceeds from the offering will be used for working capital and growth capital purposes. You want more details on this offering, I would be more than happy to discuss the details with everyone.

Before concluding, I want to take a moment to highlight the appointment of Steven Summer to Assure's Board of Directors. Steven currently serves as the President and CEO of the Colorado Hospital Association, which represents more than 100 member hospitals and health care systems throughout the state. He previously held roles as the President and CEO of the West Virginia Hospital Association and Maryland Hospital Association. Steven's network of contacts across the country will be an invaluable asset as we continue to expand our platform.

Finally, I'd like to remind everyone that Assure is assessing a first quarter 2020 uplisting to the QX market of the OTC. And during early 2020, we'll be exploring the filing of a registration statement on Form S-1 with the United States Securities and Exchange Commission as we're also considering uplisting to a major U.S. exchange.

Now I'd like to pass the call to our CFO, Trent Carman, who will go through the results of our third quarter in detail. Trent?

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

Thanks, John. Good morning, everyone, and thanks for joining us before the long holiday weekend here. As I previously mentioned on our investor calls, Assure made a significant adjustment to our accounts receivable on our bad debt expense in the fourth quarter of 2018. This adjustment was the result of recognizing revenue in 2016, 2017 and 2018 at a rate that was higher than the company's actual cash collection rate determined as of December 31, 2018. Company's historical financial statements for 2016 through 2018 were not restated for this adjustment. In order to show a true comparison of our 2019 operating results against 2018's operating results, we have provided pro forma information for 2018's operating results in today's press release as well as within the MD&A filed on SEDAR. This pro forma information reflects the impact of the adjustments on previously reported historical operating results.

Now moving forward onto the third quarter results. Total revenue in the third quarter increased 105% to $8 million compared to a revised pro forma revenue of $3.9 million in the third quarter of 2018. This increase was driven by continued growth in managed case volume generated by our existing network.

Revenue generated outside of Colorado was 77% of total revenue in the third quarter of 2019 compared to 29% of all revenues being generated from outside of Colorado in the third quarter of 2018.

Managed case volume increased 95% to a quarterly record of 1,519 versus 777 in the third quarter of 2018.

Gross margins in the third quarter of 2019 increased significantly to 84% compared to a revised pro forma gross margin of 70.5% in the same prior year period. While we are more efficiently scaling our revenue in conjunction with significant increases in total revenue, a substantial portion of this quarter's uptick in gross margin reflects the fact that our legacy 8% billing fee and the cost of revenue was replaced by a cost center in September. We own 65% of our new Velocity billing joint venture. As such, we consolidate the results with Assure's. For the 3 months ended September 30, 2019, this resulted in the elimination of the billing fees for the month of September and the addition of very limited cost for Assure, as it was just starting operations. We expect the gross margin to decrease in future periods but not revert to the level of historical gross margins.

Total operating expenses increased to $2.1 million versus $1 million in the prior year period, primarily due to the hiring of employees to support the company's growth and approximately $167,000 of incremental share-based compensation.

Earnings from equity method investments decreased 23% to $285,000 during the third quarter of 2019 versus a revised pro forma of $370,000 in the third quarter of 2018. This was primarily due to the company acquiring Littleton Professional Reading in May 2019 and having their operating results consolidated into Assure's rather than the company reporting the financial impact of Littleton Professional Reading in the earnings from equity method investments line item.

Net income increased 159% to $3.6 million or $0.09 per diluted share compared to a pro forma net income of $1.4 million or $0.03 per diluted share in the third quarter of 2018 as a result of the aforementioned increase in revenue partially offset by the increase in operating expense and lower earnings from equity method investments.

Adjusted EBITDA, as defined in our MD&A, more than doubled to $5.1 million in the third quarter of 2019, compared to a revised pro forma EBITDA of $2.3 million in the prior year quarter. This was a result of a significant increase in managed cases compared to the prior year period.

Turning to our balance sheet. We ended the quarter with $488,000 in cash compared to $831,000 at the end of 2018. We also ended the quarter with $34.3 million of working capital compared to $22.3 million at the end of 2018.

Total bank debt and lease liabilities at the end of the third quarter of 2019 was $3.3 million compared to $861,000 at the end of 2018.

During the 9 months ended September 30, 2019, we received over $888,000 of distributions from our equity method investments. This compares to $833,000 in the prior year period. Our cash receipts for the 9 months of 2019 were $6.7 million compared to $6.5 million for the 9 months of 2018.

Now I'll turn it over to Preston, who will go over several initiatives and business development efforts that we expect to continue driving growth.

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

Thanks, Trent, and thank you, everyone, for attending the call. Today, I will highlight a few exciting accomplishments and provide an update on recent business development efforts. The first initiative I will discuss is the Joint Commission accreditation Assure earned in October. For those that are unfamiliar, the Joint Commission is a prestigious nonprofit organization that sets the standard for how the best hospitals and medical companies in the U.S. operate.

The Joint Commission's Gold Seal of Approval is effective for a 3-year period and applies to the various services provided by Assure Neuromonitoring, which encompass patient care verticals, record-keeping, financial administration, internal quality controls and ethical policy. It also applies to the company's real-time neuromonitoring and professionals, including their communication and collaboration with on-site surgeons and operating room teams. This accreditation demonstrates our unwavering commitment to providing clinical excellence for the surgeons and hospitals we partner with and enhanced safety for the patients we serve in the thousands of complex procedures that Assure supports each year.

Also important to note, only a very small percentage of IONM companies achieve this nationally recognized quality indicator, further differentiating Assure from our industry peers.

Preparing the Joint Commission audit was an enormous undertaking for an organization the size of ours. I would especially like to highlight the outstanding work of Beth Lindstrom, our Vice President of Process Development in overseeing and guiding our efforts; and Stephanie Krouse, our Vice President, National Technologist Manager, for her leadership throughout this process.

The second initiative I will highlight is our success in maximizing the utilization of our technologists. We have taken intentional and strategic approach to this critical operational measure. I am pleased to report that we are now fully optimizing our technologists on a managed case per day basis.

In large part, we achieved this goal by developing a float team that travels to where extra capacity is needed. The float team helps us manage demand spikes in our existing markets and also facilitate the expedited launching of new markets by providing initial procedure support for new surgeon partnerships, while we go through the process of permanently hiring best-in-class technologists at our new location.

Alex Rasmussen, our EVP of Operations; and Craig Caviness, our Eastern U.S. Territory Director, deserve a lot of credit for spearheading efforts to maximize the utilization of our technologists and ensure that we employ smart staffing within our region.

Third and finally, I will turn to business development. As a reminder, all of our expansion outside of Colorado has taken place in just the past 2 years.

With that being said, I am pleased to announce today Assure has received regulatory approval to begin operating in South Carolina. And we are in the final contracting stages to begin operating in South Carolina soon.

Assure is also approved to operate in Georgia, Nevada, Arizona and Oklahoma, and we look forward to updating the market as those organic growth opportunities come to fruition.

We are also seeing a substantial uptick in interest from facilities coming to Assure to be their premier or exclusive provider for IONM services. This speaks to the excellent relationships we have built with surgeons we support as well as their influence with peer doctors that see firsthand the value we provide. It is becoming a natural progression for locations that have surgeons aligned with Assure to more broadly adopt our services as the premier provider for their facility.

In addition, several of our surgeon partners have requested and encouraged us to promote our services through educational demonstrations at local and national conferences attended by surgeons specializing in ENT and other relevant specialties. We are actively pursuing these opportunities.

Further, we are encouraged by the discussions we had at the North American Spine Society annual meeting in September. Assure senior management, along with members from our operations, sales and clinical teams participated. We are following up on dozens of leads generated at the event with surgeons, distributors and spine companies. In all cases, these potential partners are new to Assure and are seeking a better IONM solution than what they have today.

In particular, these doctors, with whom we spoke, want to maximize quality control within their operating rooms and are prioritizing the selection of best-in-class technologists and reading neurologists to support them on their procedures.

These are just a few of the exciting new business development prospects Assure has at its various stages of completion as we continue building our brand and expanding our footprint around the country.

And with that, I'll turn it back over to our operator for Q&A.

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Questions and Answers

Operator [1]

(Operator Instructions) Our first question comes from the line of Jon Jung of Trailhead Asset Management.

Jon Jung, [2]

I appreciate you taking questions this morning. I'd like to focus on the accounts receivable balance, which has grown by $15 million or so since the end of 2018. I wonder if you could describe your review of the quality of these receivables and its collectibility. I noticed that you identified that your collections this year were approximately equal at $6.7 million to last year's collections, yet revenues have doubled. So I think I'm concerned about the quality of the receivables that you've booked and the revenues associated with it.

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

Thanks, Jon. It's John Farlinger. Just a quick piece of information for everybody. We're trying to deal with a snowstorm here. The Internet in our office is down, and we're actually calling from a small little room in a separate office. So we've got the room for a short period of time here. We'll try to get through all the questions as best we can. And with respect to responding to this, I'm going to really let Trent maybe walk through our analysis, our process and then maybe Paul Webster, who is our VP of Strategy, who oversees the billing collection process as well as the in-network strategy, he can weigh in on as well. Trent?

Trent J. Carman, Assure Holdings Corp. - CFO [4]

Sure. So the first thing related to the receivable is we go through a process every 6 months of evaluating the collection rate. And that then changes the accrual rate for all of our open receivables and our revenue going forward. We did that process at the end of June of this year. So on June 30, we updated the collection rate. It came down slightly for our technical cases compared to what it was in December, and we will update that again at December of this year. There is disclosure in the MD&A that says for those cases that are open that will be impacting the collection rate for 12/31, our collection rate is 92% through September 30 of the accounts that relate to 2017, that's the basis for our collection rate for the end of 2019. We obviously have collections for October, November and December of this year. And to the extent that they increase the collections for those 2017 cases, that collection rate will actually go up. So we don't have any more information that we're disclosing at this time because we haven't updated the collection rate. But there is about an 8% delta there as of the end of September. We hope that closes to 0, and that we collect 100% of what we're accruing but as you may recall, we go through an exhaustive analysis on the collection rate, we also write off all of the receivables that are 2 years. That is part of the process as well. So as of right now, the collection rate is holding based on our historical collection. So I'll let Paul talk about the -- some of the things that happened during the year with the billing and collection and other things. Paul?

Paul Webster, [5]

Sure. Thanks for the question, Jon. In terms of the revenue cycle management process, we have transitioned all of the billing and collections as was mentioned by John, into what is now a joint venture. Initially, we were reassigning part of the market, about half of the market, over to an additional third-party biller, and now we're partnering with them and have joined them in this joint venture process of doing the billing and collections. So we're really in transition and reinventing this process. We've made a lot of progress with regard to building a billing and collections team that going forward will generate the cash.

John Allen Farlinger, Assure Holdings Corp. - Executive Chairman & CEO [6]

I think the only additional comment, Jon, on this is because Paul and I have spent a lot of time in New York and building the team here. We anticipated that there would be issues during the transition. We're talking about moving thousands and thousands of files and procedures from an outsourced group to our team. And we did expect collections to slow down a little bit as we made that transition. And we will see how things play out in Q4, Q1 and Q2, but we are 100% behind this process and moving everything in-house and getting greater transparency over the process when we go forward.

Jon Jung, [7]

Thank you for that information. Can you extend that then John to talking about the cash flow to operate the business since you collected $6.7 million in 2019. That's probably not covering the cost of operating the business, you're going out for a financing now, a subordinated debt deal? How have you positioned that?

John Allen Farlinger, Assure Holdings Corp. - Executive Chairman & CEO [8]

Yes. I think, obviously, the softness in Q3, as we transition, hurt our cash flow position over the course of the year. To be clear, over the history of the business, we have not went to the market for any capital since May of 2017. So we've been able to finance the business on the back of the cash flow and the back of collections. But we're at a point in time where we want to expand faster, and to date, working capital has been an inhibitor. That lack of capitalization is really slowing us down as we look to enter new markets. And there is a cost to go into every new market that we open up, there is legal, there is setup costs. And there is hiring of techs and other support people that all happen in advance of revenue. So to date, we've been able to live on cash flow and to support the business. But as we look at going into 2020, we are really hiring now in a number of states in advance of revenue, and the reason we're going up with the debenture is to make sure that we are not slowed down in Q1 and Q2 of 2020. If we were to stop growing, cash flow becomes less of an issue, because we're not making an investment in new markets and growth.

Jon Jung, [9]

Terrific. I understand that. Can you tell us anything about the -- have you presold any of this subordinated debt? Or what's the progress on finding investors?

John Allen Farlinger, Assure Holdings Corp. - Executive Chairman & CEO [10]

Well, we announced it on Friday, and it is a short week. And we've already got probably about 5 people that have committed to the instrument. And there are several dozen -- there are a number of other people that want to participate. We think it's very attractive. We have tens of millions of dollars of AR. And really, this with the coupon rate makes it attractive, it's convertible. The only issue here to be clear is there is still, until we finalize the U.S. registration, there will be a 1-year hold on the debenture, at which point in time, it could be converted in and free trading shares obtained. That's the only inhibitor. But Jon, I'm very optimistic that this will be completed by the end of December that we will have the capital in, and the funding completed by the end of this calendar year.

Operator [11]

(Operator Instructions) Our next question comes from the line of David Lavigne of Trickle Research.

David Lavigne, Trickle Research, LLC - Founder & Senior Analyst [12]

I missed the top end of the full year guidance on procedures. I think the lower end was 5,400, but I think you kind of broke up, I was trying to get that number?

John Allen Farlinger, Assure Holdings Corp. - Executive Chairman & CEO [13]

Dave, our high-end was 5,800 procedures.

David Lavigne, Trickle Research, LLC - Founder & Senior Analyst [14]

Okay. And my second question is, can you give us any sense, I know it's early, and you're just kind of working through some of these. But given the focus on receivables and whatnot but I think it's kind of topical going forward. So can you give us any sense of rates and margins that at least you're looking for on the in-network side, or something we can sort of tie some numbers to?

John Allen Farlinger, Assure Holdings Corp. - Executive Chairman & CEO [15]

Paul, why don't I hand it over to you, and I'll say obviously, every negotiation is different. And we are in discussions with probably 4 or 5 other groups right now. But I don't want to take Paul's thunder. Why don't you jump in?

Paul Webster, [16]

Sure. Thanks, John. Now obviously, the rates that we negotiate within these contracts are confidential. And so we can't comment specifically on what those rates are. They are at a little bit of a discount, but I can't really give you specifics around that. Certainly, as we go forward and negotiate additional contracts, we're in discussions right now with 5 additional payers, and these are reflecting both national and regional payers. And so those ongoing discussions, obviously, are fluid and having negotiated 1 in-network contract so far certainly does not give us a broad benchmark, but it was at a slight discount below what we accrue, if that's helpful?

John Allen Farlinger, Assure Holdings Corp. - Executive Chairman & CEO [17]

Dave, just 1 point. We've been offered in-network rates by a number of groups, but they just don't fit our economics. The challenge for Paul next year is to accelerate the in-network process, at the same time, being opportunistic. We're not going to take an in-network deal if our margin evaporates. We'll wait, we'll be patient. We were very happy with the deal that Paul struck in Michigan. And I think part of our challenge will be wanting to go in-network, but yet being patient enough to say no and only take the deals that work for us.

David Lavigne, Trickle Research, LLC - Founder & Senior Analyst [18]

Yes. I mean, that -- I mean, conceptually, I guess, as you look at this, if you're bringing collections in-house and collections are increasing or presumably getting better, then there's some number out there, where an in-network deal, although it's better for cash flow and better for a net collection number, there's some place where I suppose that doesn't make sense to do an in-network. So I get it. That's helpful.

Operator [19]

At this time, this concludes our question-and-answer session. I would now like to turn the call back over to Mr. Farlinger for any closing remarks.

John Allen Farlinger, Assure Holdings Corp. - Executive Chairman & CEO [20]

Thank you. We'd like to thank everyone for listening to today's call. Assure was proud to report record third quarter results, highlighted by strong organic growth and continued market expansion. And we are all very excited about the prospects we have in front of us. Please join us again when we present at the OTC Virtual Conference on December 5 and at the LD Micro Main Conference on December 11 in Los Angeles.

Additionally, as we've mentioned, we're completing a convertible debenture. If anyone is interested, please reach out to myself or Trent Carman, and we'd be happy to discuss this in more detail. Thanks again for joining us, and Happy Thanksgiving to everyone.

Operator [21]

Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation.