Assure Holdings Corp. TSXV:IOM

FQ3 2018 Earnings Call Transcripts

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S&P Global Market Intelligence Estimates**

**Estimates Data not available.

Table of Contents

Call Participants

EXECUTIVES

John Allen Farlinger
Executive Chairman & Interim CEO

Preston Thomas Parsons
Founder & Director

Trent J. Carman
Chief Financial Officer

ANALYSTS

Martin Gagel

Michael David Potter
Monarch Capital Group, LLC

Rob Innes

ATTENDEES

Unknown Attendee

Presentation

Operator

Good afternoon, and thank you for participating in today's conference call for the Assure Holdings financial results for the third quarter ended September 30, 2018. Joining us today are Assure Holdings' Executive Chairman and Interim CEO, John A. Farlinger; CFO, Trent Carman; and Assure's Founder and Director, Preston Parsons. Before we start, please note the remarks on this 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 can be no assurance that such estimates and assumptions will prove to be correct. Many factors that could cause the actual results to differ materially from those expressed or implied by forward-looking statements. As a result, Assure cannot guarantee any forward-looking statements will materialize or are cautioned not to place any undue reliance on those forward-looking statements. Except as required by law, Assure has no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

In addition, information on those assumptions and risks, please consult the cautionary statement regarding forward-looking information contained in the company's earnings release dated November 27, 2018.

Please note that Assure reports in US 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 11, starting at 7:30 p.m. Eastern Time today. A link to a webcast replay of this call was available and provided in the earnings press release. Any redistribution, 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 Executive Chairman and Interim CEO of Assure Holdings, John Farlinger. John?

John Allen Farlinger
Executive Chairman & Interim CEO

Thank you. And thank you, everyone. To all our shareholders, thank you for your patience and your trust through 2018. On behalf of the management team, we're extremely pleased with the results today, and we're really excited for the huge opportunity in front of the company in 2019.

Now we're stating the fact, the company has overcome a lot of challenges this year. The results of the Q3 numbers and year to date reflect both the demand for our services and our ability to properly expand and deliver services. I assume that most of you have seen the interim numbers for quarter 3. I'll talk briefly about them, and the direction of the business may hand this over to Trent Carman and Preston Parsons. But regarding Q3, the moment of our business -- the momentum of our business has continued in the third quarter with 57% revenue growth and a 90% increase in managed case volume versus the same period in 2017. It was a record quarter in terms of number of procedures at 760. EBITDA growth was 74% higher from the same period in 2017, reaching USD 4.7 million for the quarter. This was driven by the continued expansion in Louisiana, Pennsylvania, Texas and Utah, which represented over a third of our cases during the third quarter.

We also continue to grow organically in Colorado, with strong customer referrals and an increasing number of doctors and institutions seeking our services. Looking to the remainder of 2018, we're well positioned to penetrate new markets and further build scale in states of existing operations while driving various operational efficiencies.

I also want to comment on other metrics, and more specifically those that are on cash collections and recovery on accounts receivable, which I promised during our last earnings call that I will deliver to you. I'll cover some high-level numbers, and Trent will go -- Carman will go through it in more detail.

But overall, Q3 marked a record quarter on the collection of accounts receivable as we collected approximately $3 million at the Assure level. And almost $2.5 million for our PNE partners, which we have in minority interest in. With respect to the collection of [indiscernible], I want to highlight that to date we've collected almost 74% of the revenue build in 2016 and over 56% of the 2017 reported revenue, realizing that the majority of this revenue happened in the latter half of each year. Are we satisfied? No. But as you can see, we're collected appropriately on our revenue, only making every effort to speed up these collections of AR. We're making progress. The key focus for us will be our continuing to improve these collection levels and accelerating collections in Q4 of '18 and throughout 2019.

Regarding Q4, we're anticipating extremely strong quarter. It's now almost 2/3 over and we have now insight into the schedules for the balance of 2018.

On that note, we've had back to back record months in October and November for the numbers of procedures delivered.

Additionally, as we previously press released, we've expanded in Pennsylvania and are getting ready to announce another state, which should be ready over the next month. We have doctors signed, and we have approval from the state to commence activities.

A number of you are looking for forward information. I now want to highlight that a significant portion of Q4 has been focused on building competencies for accelerated growth and funding for expansion.

Management's focus for 2019 will be on accelerated growth and leveraging our balance sheet through debt funding. We have nothing to announce yet, it does not mean we've not been busy or not made progress.

Our focus for 2019 will be on geographical expansion, continued expansion in the markets we're currently serving and additional verticals, which will include vascular and ear, nose and throat. To that end, we're making plans to provide services from coast to coast in the United States in 2019 rather than being limited to the regional south and Midwest and going after the larger markets on both coasts.

A major focus for growth will be on marketing and creating the ability to reach out to every doctor, clinic and hospital across United States as we attempt to evangelize our service and create a national brand. This will only augment and assist in expanding sales team and accelerating growth.

Lastly, one of the key challenges for myself and the rest of team is the race for human talent, we're making progress toward it. Trent Carman was a recent hire, and we are actively searching for 2 other key hires. One to run our billing process and the other will be our regional VP for the western United States. We've identified key candidates for both of these roles and we expect to close both of those hires through December of 2018.

On a couple of other notes, I know a number of you are interested in our progress with respect to achieving QB trading status in the U.S. and DTC eligibility. We have made progress, we've got our forms, we've bid our applications, came back with some comments, we expect to resubmit that over the next several days. And we expect to have this resolved over the next few weeks. It's a priority for the management team and the board to have this resolved.

Before Preston walks you through the business development activities in further detail, I'd like to pass the call to our new CFO, Trent Carman, and he will walk you through the results of our third quarter in detail. Trent?

Trent J. Carman
Chief Financial Officer

Thanks, John. Good afternoon, everyone, and thank you for joining us on the call today. As discussed in the press release, revenue for the quarter ended September 30, 2018, was up 57% compared to the quarter ended September 30, 2017. The increase was primarily due to a significant amount of growth in our case counts, as John previously mentioned. This growth in case counts was a result of existing operations in Colorado and our new operations in Louisiana, Texas, Pennsylvania and Utah.

Bad debt expense related to our outstanding accounts receivable aged over 2 years was $1.6 million for the quarter ended September 30, 2018. There was no bad debt expense recorded in the quarter ended September 30, 2017.

Gross margins for the company decreased from 84.5% in the third quarter of 2017 to 80% in the third quarter of 2018, primary reason for this gross margin decline related to increased hiring and training of technicians in our new markets prior to the start of any material revenue generation and on the bad debt expense recorded in the third quarter of 2018.

General and administrative expenses increased 13% during the third quarter of 2018 versus the third quarter of 2017, primarily due to the staffing additions to support the growth of the company, legal and professional fees and cost related to earlier issues in 2018.

Earnings from equity investments increased 38% during the third quarter of 2018 versus the third quarter of 2017, primarily due to the company's expanded network entities in Colorado, Louisiana, Texas, Pennsylvania and Utah.

Adjusted EBITDA as defined in our MD&A increased 74% over the third quarter of '18 versus the third quarter of '17 as John previously mentioned, primarily as the result of the increased revenue associated with the company's expanded operations and our earnings from equity investments. Net income increased 38% to $3.1 million or $0.07 per share during the third quarter of 2018 compared to revised net income of $2.3 million or $0.06 per diluted share for the third quarter of 2017. Revised net income in 2017 was not burdened by income tax expense. However, if income tax had been recorded in the third quarter of 2017, equivalent to the income tax rate accrued in the third quarter of 2018, net income and earnings per share in third quarter 2017 would have been $1.5 million and $0.04 per share, respectively.

I wanted to briefly discuss our allowance for bad debt and bad debt expense accounting methodology with you folks. First, our revenue on the income statement is reported net of bad debt expense and our accounts receivable on the balance sheet are reported net of the allowance for bad debt. Second, we record revenue and accounts receivable once we complete a case. The amount recorded is the estimated collection amount that we will receive. Third, we reserve virtually all of our individual accounts once they become 2-years old. This reserve runs through the income statement as bad debt expense, which is a reduction to our revenue and the balance sheet as an increase in our allowance for bad debt, a -- which causes a reduction in our accounts receivable. Lastly, any payments that we receive in excess of the amount of revenue recorded for an individual claim runs through the income statement as a reduction of bad debt expense, which was reflected as an increase in revenue. No entry was recorded to allowance for bad debt on the balance sheet for any -- no entry is recorded, excuse me, to allowance for bad debt on the balance sheet for any excess payment.

As John previously mentioned, the company collected $3 million of cash during the third quarter of 2018. This compares to approximately $2 million for the third quarter of 2017. Day sales outstanding measured on a trailing 12 months basis for out of network revenue were 465 days and 394 days as of September 30, 2018, and December 31, 2017, respectively. We believe that we can improve the current billing and collection process. And as a result, the company's currently looking -- hiring additional manpower resources, as John mentioned, prior to year-end and shortly thereafter to assist us.

Lastly, I want to touch on investments that we have made in new equipment. The company acquired approximately $240,000 of monitoring equipment by a financing leases during the 9 months ended September 30, 2018. The new monitoring equipment relates to our expanded operations in Louisiana, Pennsylvania, Texas and Utah.

With that, I'll turn the call over to Preston Parsons, who'll give an update on growth and development.

Preston Thomas Parsons
Founder & Director

Thanks a lot, John. And welcome aboard from everybody here at Assure. As John mentioned in his opening, we grew case count by 90%, 716 compared to 376 in the third quarter last year. I'm happy to note that 263 of those cases were performed outside of the state of Colorado versus none in the prior year. This is a testament to our geographical expansion plan.

We anticipate this number to grow every quarter as we expand into more state and build out new relationships in the states we're currently operating. While we would continue to enter new states as part of our geographic expansion, we will also concurrently strive to garner new relationships in the areas which we operate. And just quick note on that, one thing we're seeing in some of the areas in which we currently operate is the word-of-mouth referrals by surgeons and hospitals we're getting because of the quality of service we provide. This is helping drive our organic growth in these areas. Back to speaking of new states, I'm pleased to announce today that the next state Assure will enter is Michigan. We've executed contracts with multiple partners and facilities in the Detroit area and have already hired new technologists to cover this new business.

We anticipate seeing revenue attributed to Michigan starting in December. We will have additional states and new partnerships in existing states to announce in the coming months and we look forward to updating the market when appropriate. We've also been working on some larger deals for some time. While I'm not able to announce anything today, these partnerships involve large doctor groups or hospitals where we will partner with many new doctors all in one.

As the founder of Assure, I'm especially proud to see the company evolve from working with just a handful of doctors to now having large groups of [projects] because of the reputation we've been able to establish in a relatively short period of time.

Now turning to Q4 in 2019. As many of you know, because of the number of reasons, most of which involves patients' deductibles having been met towards the end of the year, Q4 is historically the busiest quarter. I'm proud of our operational team for being appropriately staffed with a proper number of technologists to handle the amount of cases we're seeing this quarter. Now this is hard to plan for, and they've done exceptional job utilizing our technologies accordingly. In fact, many other companies are not able to handle the influx of cases in the fourth quarter, and we routinely pick up cases in place of these companies that simply cannot staff these procedures. And looking towards 2019, one thing that has become quite apparent is the success we've had in using our model for business development outside of Colorado. Specifically, I'm referring to our ability to work with regional distributors and utilize their introductions to new surgeon partners.

George Sims has done a great job leveraging this model for regional expansion. And I can now report that we are in the process of recruiting and hiring an additional 2 to 3 new regional Vice Presidents of Sales. These new employees will be tasked with expanding our successful model into new regions, garnering new relationships and ultimately driving increased revenue. We feel this will help further expand our footprint.

Another point on our expansion. We have learnt through our own experience in the data we've been able to gather over the last couple of years that vertical expansion, meaning ear, nose and throat and vascular procedures are very profitable avenue for us to leverage, so we will be focusing more on these verticals in the coming year and will invest appropriately for business development purposes.

All in all, I'm thrilled with where the company is today, and I'm really looking forward to finish out the year strong, with a big year ahead of us in 2019.
So with that, I'll think we'll turn it back over to the operator and open it up for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Rob Ing with Industrial Alliance.

Rob Innes

That's Rob Innes in London, Ontario. First question I have is, are you still planning to move to NASDAQ? And if so, when are you thinking? Secondly, I noticed on your website that the -- you have quotes, but you don't have quotes from the Venture Exchange, just the over-the-counter and it's very hard to find your financial statement information. So that's kind of what I had to ask you.

John Allen Farlinger
Executive Chairman & Interim CEO

Rob, it's John Farlinger, I'll respond to your 2 questions. With respect to the NASDAQ listing, our current plan is to get through the 2018 audit. And then we will have had 2 full years of audits with our existing audit firm and that will be completed by [end of] April, and our current plan is to do an S-1 registration and to uplist onto NASDAQ next summer.

With respect to the website, we'll take a look at that. It may be that it simply linked to the over-the-counter market, and we'll get that fixed. It should be linked to the TSX Venture Exchange as well.

Rob Innes

Yes, the -- thank you. The other thing was, it's really hard to find financial information on your website. I think you should have a separate section for that.

Trent J. Carman
Chief Financial Officer

Yes, on that note, we are in the middle of retaining a group to do a complete overhaul of the website to make it more user-friendly and robust going forward. We've -- Alex Rasmussen is our VP of Operations, he's working with an outside group now to improve the quality of the website and the messaging from the communication off of the website.

Operator

Our next question comes from the line of Michael Potter with Monarch Capital Group.

Michael David Potter
Monarch Capital Group, LLC

Just a couple of questions. Trent, I just want to make sure, you mentioned the DSOs quickly. Can you just reiterate those numbers again for us, please?

Trent J. Carman
Chief Financial Officer

Yes, as of 930, these are on a trailing 12 revenue for out-of-network revenue. It's 465 at 9/30/18 and 394 at 12/31/17.

Michael David Potter
Monarch Capital Group, LLC

And 394, you said 12/31/17?

Trent J. Carman
Chief Financial Officer

Yes.

Michael David Potter
Monarch Capital Group, LLC

Okay. And where are we with getting an ABL in place or some sort of line of credit?

John Allen Farlinger
Executive Chairman & Interim CEO

It's John. We have a line of credit in place now with CoBiz Bank. But we are looking at...

Michael David Potter
Monarch Capital Group, LLC

That's very small, right?

John Allen Farlinger
Executive Chairman & Interim CEO

It's a $1 million line of credit, and as I alluded to, we are looking at other options for funding. And we are looking at a couple of options right now, and we expect to be able to announce something. Nothing is concluded yet, but we have options available to us now. We expect to be able to announce something prior to the end of the year.

Michael David Potter
Monarch Capital Group, LLC

Okay. And can you give us an update on the CEO search?

Preston Thomas Parsons
Founder & Director

Yes. Michael, this is Preston. There's nothing to report now. Obviously, I will say, John's been doing a fantastic job over the last couple of months. And we really put a lot new -- a lot of new policies and procedures in place, and we've been really focusing on shoring up our -- the company before we move on to that. After the first of year, we'll kind of divulge more into that and be able to update you then. But we've been really head down and we're going to hard back here, and John's been doing a fantastic job.

Michael David Potter
Monarch Capital Group, LLC

Okay. It is still the board's plan to find an outside CEO?

Preston Thomas Parsons
Founder & Director

Actually, Michael, as we have our -- right now -- as of right now the board does -- has not come out with a definitive plan. And we would not announce anything like that so far. We do have a -- we do have our annual meeting on Thursday and with a board meeting to follow. So that will be one of the things we will be discussing, yes.

John Allen Farlinger
Executive Chairman & Interim CEO

Okay. It'll be in agenda item for the new board post-meeting going forward.

Operator

[Operator Instructions] Our next question comes from the line of Norman Hill, private investor.

Unknown Attendee

First question, in terms of the -- you guys have grown the company rapidly in terms of geography, adding new technicians, adding new doctors, et cetera. What do you anticipate this will do as far as gross margins for the year 2019?

John Allen Farlinger
Executive Chairman & Interim CEO

Carman, do you to comment?

Trent J. Carman
Chief Financial Officer

I certainly can. The technicians that we have in place are obviously adequate for the expansion that we have so far as we continue to grow with Michigan and other places obviously we're going to have to bring in new technicians. There is a start-up time, we hire them today, they're not going to be turned loose on revenue generating activities for some period of time as they get trained and up to speed, shall we say. So for the very short period of time the margins would be depressed, obviously. But as the revenue starts generating from these things and obviously it would expand. So the anticipation is, unless we have tremendous growth, you would have an expansion there back in the gross margins similar to what you saw last year, probably.

John Allen Farlinger
Executive Chairman & Interim CEO

We've got -- we've modeled this out fairly extensively with multiple scenarios at the [transpoint]. There is some degradation of margins as you ramp up. But after 6 to 7 months, in most of these markets we're hitting the margins that we're experiencing now across the board.

Unknown Attendee

And as far as recoveries, are you seeing in terms of the percentage that you're recovering, are you seeing a trend of improvement or degradation? Or how is that progressing?

John Allen Farlinger
Executive Chairman & Interim CEO

You're talking about recoveries on accounts receivable, is that what you're referring to you there, Norman? Is that...

Unknown Attendee

[indiscernible]

Trent J. Carman
Chief Financial Officer

Yes, I mean, there's been no improvement, I would say, no degradation. As the receivable gets larger, obviously, you do get additional payments. And you saw -- or as John discussed and then I discussed, the collections during the quarter were up year-over-year, third quarter. That includes some recoveries obviously in there, so. But no, there's not been a significant change in that, I would say.

John Allen Farlinger
Executive Chairman & Interim CEO

There hasn't -- Norman, there hasn't been a change it, but this is clearly a focus for us going into Q1. And among the things we're looking at are possibly adding some competition on the billing side and creating some tension going forward by bringing in another billing company. And by bringing in some additional manpower internally here to become much more focused with speeding up the billing process and on recovering higher amounts of the AR.

Unknown Attendee

Okay, that's good. I would think that the insurance companies would -- as you guys are are efficient, the number of cases that the -- let's put this way, results -- the patient results accrued from the service -- [indiscernible] your reduction in terms of cost to the insurance companies. Have you guys had discussions with them, the [indiscernible]?

John Allen Farlinger
Executive Chairman & Interim CEO

You want to take that?

Preston Thomas Parsons
Founder & Director

Yes, sure. Yes, I mean, there's definitely some research out there that the service in itself is a cost reduction to hospitals and ultimately insurance companies. But as far as the communication with the insurance companies, there hasn't been a lot of that to date. We're -- we have had some recently with some providers, but it was -- there's nothing material to report as far as I have communication with them.

John Allen Farlinger
Executive Chairman & Interim CEO

As our volumes increase, we become more factor in more of a discussion point with the insurance companies.

Trent J. Carman
Chief Financial Officer

Absolutely.

Preston Thomas Parsons
Founder & Director

You're right.

Unknown Attendee

[indiscernible] question. I live in the state of California, are you guys planning on expanding out here to the state?

Preston Thomas Parsons
Founder & Director

Good question.

John Allen Farlinger
Executive Chairman & Interim CEO

Been a question for a while. The answer to that is yes. We've been saying yes for a while, but I guess the update there is, obviously California has some stricter legal laws than some other states, so it's just taking longer to get the legal structure set up out there. And I can tell you that we're right at the finish line there of being able to open that state up. So you'll see something surely about.

Preston Thomas Parsons
Founder & Director

We've got a pretty good funnel already in California, Washington and Oregon of doctors, et cetera. And one of the key hires -- one of the 2 key hires for December will be a regional Vice President able to service in particular California.

Operator

Our next question comes from the line of Martin Gagel with Leede.

Martin Gagel

I'm curious for Q4. You've given some indication, it sounds like Q4 is bit of a busier quarter, but as well as there's some break and holiday time with Christmas? And then in this quarter you did a good job of bringing the operating expenses down? Could you maybe even, at least, in a direction basis talk about where you see Q4 revenues as well as Q4 expenses going?

Preston Thomas Parsons
Founder & Director

Mark, this is Preston. Listen, in healthcare and specifically in our line, Q4 is historically the busiest quarter. And like I said before, the main reason is because down here in the States, patients' deductibles haven't been met, so they're more out to get these procedures done. We know it's the busiest quarter. And quite frankly, last -- Q4 of last year, we were stretched and we kind of made a point to say that, that wasn't going to be the case this year. So when I kind of mentioned our operational team and doing a great job, all of our technologists know that they don't take the week of Christmas off, right? They don't take the week after that off. They know -- we have to push our holiday party back for the company until the next month because everybody knows that the rush is on here at the end of Q4 and everybody tries to fit in surgeries. So everybody's working overtime and -- but that's just the way our business goes. So we are appropriately staffed for it. Like I said, the operational team has done a great job of getting us to that spot.

John Allen Farlinger
Executive Chairman & Interim CEO

Martin, I guess, we don't want to comment on the numbers, but I think they only thing we can tell you and you can read in whatever you want. October and November were both record months for the company consecutively. And we expect December will be an improvement on those numbers based upon the scheduled cases. So we're expecting a very, very strong quarter for Q4.

Martin Gagel

Okay, great. Are there any comments you can make on with the insurance companies and billing cycle times and insurance company behavior? Anything notable to comment there?

John Allen Farlinger
Executive Chairman & Interim CEO

What I might ask Trent to do is maybe comment a little bit. You've been -- maybe comment on the metrics that you guys were able to attain at their methods in terms of bringing the billing cycle down. And that's kind of where we're going in terms of setting a benchmark. And secondly, I think one of the things we'll be looking at in 2019 is possibly accelerate the discussions with some of the insurance companies while maybe putting some of our business in network that really -- have a mix of other network business and have a part of our business in network. Not sure yet, but certainly it is something that we would love to investigate in 2019.

Trent J. Carman
Chief Financial Officer

Yes, so what we've done at a previous employer of mine was, we were out of network with virtually all of the insurance providers, like we are here out of network. We had high bills, we had long DSOs, not as long as we have here, but we had long DSOs, and the other thing that we experienced were multiple payments, small amounts and sometimes payments to patients.

And what we did is, we approached not all of the insurance companies. Some of them are more problem children, if you will. And we were able to actually go in network with a large number of them, less than 50% as a total business, but nonetheless a very significant percentage. And what it did is, we actually increased the collection dollar amount and we reduced the DSOs associated with it. The reason for that is, the insurance companies were underpaying us what they really would have paid us, I believe. And that we were a pain in their behind, like they were a pain in our behind, so going in network alleviates that aspect. So it was a win for the company. And we're going to, obviously, look at some of those kinds of agreements going into 2019. As I mentioned, the DSOs for the 930 was higher than the 1231 numbers by not an insignificant amount, it was fairly significant. So we need to address it. And we've identified the roles and responsibilities of the new person that we would like to bring on to facilitate this who has a lot of experience in this arena. And so that will be the expectation going forward. But again, it was a positive on the DSO front and on the overall collection front, believe it or not.

Operator

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

John Allen Farlinger
Executive Chairman & Interim CEO

Lastly, I guess, the parting messages, we're pretty energized throughout the office. We've got through a troubled year. And really, the focus for 2019 will be on accelerating growth and getting into states beyond the southwest and the Midwest and getting to both coasts where there are huge pockets of population.

And to that end, we're working aggressively. And we expect to hit the ground running in January for the full scale force to move across the country.

We expect Q4, for the most part, [indiscernible] cast. We expect to end with a fairly strong quarter. And we look forward to speaking to as many of you as possible at the annual meeting on Thursday.

With that, I'll end the meeting. And leave it, if anybody has any questions that we haven't we been able to get on the floor, feel free to reach out to me or other members of executive. We're happy to bill questions, either today or tomorrow or later this week. Thanks, everyone.

Operator

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

Preston Thomas Parsons
Founder & Director
Thanks.