Transcript : Assure Holdings Corp., Q3 2022 Earnings Call, Nov 14, 2022

11/14/2022 | 04:30pm

Presentation Operator Message
Operator (Operator)

Good day, everyone, and welcome to the Assure Holdings Third Quarter 2022 Earnings Call. At this time, all participants are in a listen-only mode. [Operator Instructions] It is now my pleasure to turn today's program over to Scott Kozak, Director of Investor Relations.

Presenter Speech
Scott Kozak (Executives)

Please go ahead. Hello, everyone. Thank you for participating in today's conference call to discuss Assure Holdings' financial results for the third quarter of 2022. On the call today are Executive Chairman and CEO, John Farlinger; and CFO, John Price. After market closed this afternoon, the company issued a press release announcing its results for the third quarter of 2022. The release and investor presentation are available on the Investors section of our website.

Before we begin the prepared remarks, I would like to remind you that some of the statements made will be forward-looking and are made under the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those projected or implied due to a variety of factors. We refer you to Assure's recent filings with the SEC, including our quarterly report on Form 10-K for the fourth quarter and full year for a more detailed discussion of the risks that could impact the company's future operating results and financial condition.

Also on today's call, management will reference certain non-GAAP financial measures, which we believe provide useful information for investors. For a reconciliation of these non-GAAP measures, please consult the most recently filed 8-K associated with the filing of the earnings release for the 3 months ended September 30, 2022, which is available on the SEC website.

Finally, I would like to remind everyone who dialed into the call by telephone, you may want to join our webcast or download our third quarter 2022 earnings presentation on Assure's Investor Relations site found at ir.assureneuromonitoring.com in order to see the slides referenced today. This call will be recorded and made available for replay via link and on the company's website. Now I would like to turn the call over to the Executive Chairman and CEO of Assure Holdings, John Farlinger. John?

Presenter Speech
John Farlinger, CEO

Thank you, Scott. Hello, everyone, and thanks for joining us today. On Slide 3 in front of you, you'll see the agenda of key topics we'll cover on today's earnings call. I will begin with a review of recent corporate developments and then talk about the interoperative neuromonitoring industry environment before transitioning to a discussion on cash receipts. And our CFO, John Price, will go through financial results and discuss accounts receivable trends. I will wrap up with a discussion around fourth quarter 2022 expectations.

Assure's third quarter results improved operationally. However, these results were masked by the diminishing effect of accounting basis related challenges and charges. Overall, Assure is laying the foundation for what we believe will be further improvement in the fourth quarter of 2022. Assure continued growing our managed case volume and maintained accelerated cash collections during the quarter, underscoring the underlying strength of the business.

To support these results, the company utilized market intelligence and data warehousing analytics, we did not previously possess to inform our decision to exit markets that were dragging down our average revenue and margin per case. Our go-forward strategy is anchored on achieving the benefit of scale in geographies underpinned by above-average commercial health insurance reimbursement obtained. These combined actions are expected to lower our 2022 managed cases from 25,000 to a range of 21,000 to 22,000 while at the same time improving the company's utilization, margin and profitability. To be clear, Assure was on track to perform 25,000 cases in 2022. But management chose to forego a segment of volume in order to focus on profitable growth and improving margins. And even with the reduced forecast, our managed case volume in full year 2022 is expected to increase between 21% and 26% compared to 2021.

In addition, a key focus for Assure in the fourth quarter of 2022 will be on reducing the company's average cost of delivery for providing our services, both on the technologist and the remote neurology portions of our business.

We've also taken steps to become leaner and more profitable, continuing a strategic cost reduction effort that will yield more than $5 million of annualized savings compared to the first quarter of this year. Assure expects to further reduce cash burn in the fourth quarter of 2022. This reflects our focus on becoming self-sustaining from a cash flow perspective in the near term. Assure reported substantial progress on its accounts receivable reserve, reporting $2.1 million in the third quarter after reporting a combined $12.0 million in the first half of this year.

In addition, Assure strengthened its financial position and created runway to capitalize on our most promising growth opportunities by closing an underwritten public offering with net proceeds to the company of approximately $5.8 million. Despite macroeconomic headwinds and a challenging environment for micro-cap stocks, I'm pleased to report that this financing was completed as a straight-up sale of equity without warrants.

Finally, we're also pleased to extend our footprint in the state of New Jersey, which also demonstrates a very strong reimbursement profile. Our ability to secure new business with a surgeon of the stature of Dr. Marc Levin, reflects the strong reputation that we have built in the IOMN industry, which is really focused on providing outstanding clinical care.

On Slide 5, I will relay an update on the interoperative neuromonitoring industry. The reimbursement environment in the interoperative neuromonitoring industry has shifted significantly. We've begun to see contraction in the technical bill even before the COVID pandemic began. And over the past 12 months, as commercial insurance payors sought to leverage their position ahead of the implementation of the No Surprise Act and the ramping up of federal arbitrations. -- including the dispute resolution processes intend to help level the playing field between provider and payor, we have seen payors play hardball to try to force interoperative neuromonitoring providers to take unfavorable network agreements or accept delayed payment or even nonpayment for services. This was particularly felt on the technical bills and the technical portion of our business, which, as a reminder, is compensation for technologists, providing interoperative neuromonitoring services in the operating room. From Assure's perspective, the amount of accounts receivable related to the technical claims dropped from $18.9 million at December 31, 2021, to $9.5 million at September 30, 2022. The value of the AR has dropped because payors have pushed down the associated levels of reimbursement for technical claims.

As a result, Assure has moved aggressively to maximize collections on the professional bill, or compensation for remote neurology services provided by Assure. We are also moving away from master services agreements, or the MSA model, so that we can keep all collections from the professional bill. We are accelerating this initiative during the fourth quarter.

Anticipating these trends, Assure had already been moving in this direction with the launch of our remote neurology business services in the second quarter of 2021. Our focus is leveraging a dedicated platform to provide neurology services to make sure we are able to fix costs and ensure margin.

Where this is heading from a industry perspective is that interoperative neuromonitoring providers with sophisticated revenue cycle management will know with a high degree of certainty what they are going to receive for services provided.

The next steps for Assure are clear. We are aligning our costs with updated managed case revenue expectations. We're adding scale in favorable markets. We are leveraging state and federal arbitration programs and augmenting and supporting those with data-driven revenue cycle management functions that will lead to ultimately signing in-network agreements to speed up cash flow and improve participation rates. And lastly, we want to leverage and take advantage of an opportunistic M&A environment. In an industry that appears likely to see substantial near-term consolidation.

On Slide 6, we see assures a substantial increase in total cash collections over a trailing 6, 12 and 24-month period. For 100% owned Assure entities, the company is collecting approximately 65% of its cash in the first 6 months and 85% in the first 12 months. Both of these figures maintain the record rates the company has generated in recent quarters. Importantly, we are collecting what we are accruing on the front end. Assure is driving higher participation rates, shortened cash cycles and better collections.

Accelerating our cash flow reduces our need for working capital and also serves to minimize reserves in the future. Cash collected also supports our accrual rates and supports earnings. The company has built a sophisticated data-driven revenue cycle management function in-house, and we are collecting rapidly. In contrast, most of our competitors in the neuromonitoring space still depend on third-party billing providers.

The last point I will add on cash receipts is that Assure has far better data and visibility on reimbursement than we had previously. We are leveraging that information to inform and educate ourselves on what markets we should be scaling as well as states like New Jersey which we are now entering. And we're also identifying new states and ranking and prioritizing them as we expand in the future. Assure is focused on identifying and adding scale where we can achieve the best margin, work with the best payors and collect reimbursement with the least friction. Further, we expect to see improvement in interoperative neuromonitoring reimbursement rates -- as the dispute resolution process associated with the No Surprises Act federal legislation begins to have an impact during the fourth quarter of this year and into 2023.

Next, John Price will walk us through the quarterly financials. John?

Presenter Speech
John Price, CFO

Thanks, John, and thank you everyone for joining us today. On Slide 7, I will provide color on financial results from our third quarter 2022.

Assure continued to generate procedure growth, performing 5,300 managed cases during the period, an increase over prior year Q3 despite Assure exiting certain low performing markets during the period.

Assure reported gross revenue of $8.3 million and net revenue of $6.2 million, adjusted EBITDA loss of $1.2 million and net loss of $1.4 million. The reserve of aged receivables netted against current quarter revenue negatively impacted our financial results in the third quarter, although by a much lesser degree than it did in the first half of this year. The company's operating expenses was $3.8 million, and we expect cost to be reduced further in the fourth quarter. In addition, Assure collected approximately 64% more cash in Q3 2022 compared to Q3 2021 at $7.2 million versus $4.4 million.

Another item I'd like to mention is that Assure's understanding of the value of a managed case has improved considerably, driven by an increasingly sophisticated revenue cycle management function and data analytics.

Next, on Slide 8, we will look at days sales outstanding. In this table, we see that Assure's DSOs have decreased dramatically from nearly 600 days during a COVID-impacted 2020 to 343 days in the third quarter of 2022. We are simply collecting cash faster. As a result, there is significantly reduced exposure to future accounts receivable reserves.

While we are pleased with this reduction in DSOs, there is still room for improvement. We are focused on driving this significantly lower from current levels.

Next, on Slide 9, we will look at trends in accounts receivable aging by quarter. Comparing the time periods, you could see that in the third quarter, Assure has 76% of its outstanding accounts receivable in the 12 months or less bucket. In comparison, during the first quarter of 2022, just 68% of AR was categorized as 12 months or less. What this shows was by the end of Q3, a much larger proportion of our accounts receivable are in what we consider a current bucket of 12 months or less compared with earlier this year.

The shift to the accounts receivable towards the current bucket reduces Assure's exposure and susceptibility to future reserves. And as John mentioned earlier, we are collecting what we are accruing for on the front end. We are turning the corner here and have better visibility into the risk of this type of reserve occurring again.

With that said, I'd like to remind investors that in the fourth quarter of 2021, Assure formalized a new holistic accounts receivable accrual and reserve strategy based on our historical collection experience. The new process provides a clearer picture of our estimated collectible AR by taking a conservative approach and reserving claims earlier in the process rather than waiting for the legacy 24-month threshold.

The benefit of taking these reserves earlier is, one, it provides clear visibility into future accounts receivable write-down expense; and two, our anticipated go forward exposure in 2023 is substantially reduced because there is less residual accounts receivable. As we continue to accelerate our cash receipts and DSOs to under 300 days, there is less AR at risk. The downside of this new process is that it has led to higher-than-anticipated reserves in fiscal 2022.

Now I'll pass the call back over to John Farlinger for expectations, fourth quarter and 2022. John?

Presenter Speech
John Farlinger, CEO

Thanks, John. On Slide 10, we provide a guidance forecast for the fourth quarter of 2022.

Like the third quarter, we expect the fourth quarter to be much cleaner certainly with respect to reserves compared with the first half of 2022. Starting at the top, we see managed case volume of approximately 4,800 to 5,800 procedures. This total reflects continued growth in key geographies as well as the impact of exiting less profitable markets to support our profitability and cash flow goals.

Q4 results will benefit from the seasonality of our business, including our ramp-up of case volume and a more beneficial revenue mix with a higher proportion of patients utilizing more profitable commercial insurance programs relative to the proportion of government insurance patients. Our accounts receivable reserve is $2 million in the third quarter and was in-line with expectations. We are hoping for a reserve of less than $3 million in the fourth quarter. Overall, in the fourth quarter of 2022, we anticipate a far nearer gap between gross revenue and net revenue compared to what we've experienced in the first half of 2022. On the cost side, Assure will continue to see a reduction in operating costs in the fourth quarter. As we benefit from the administration and other operational cuts we have made we are going to continue to cut costs and run leaner in the fourth quarter.

Further, we will no longer be burdened by severance expense associated with actions taken earlier this year to make our business leaner. Finally, we see continued strength in collections as we further accelerate collections on new claims and improve collections on aged accounts receivable.

Taken together, Assure is focused on significantly reducing its AR reserve. -- substantially lowering its cost structure and generating higher quality managed case volume centered on going deeper in our more profitable markets.

We've also worked to fix the cost of our cases going forward with an impetus on driving those costs lower. We expect that these factors will continue our progress on running leaner and reducing cash burn in the fourth quarter of 2022.

In October, we experienced a meaningful decrease in the Texas reimbursement benchmark, which has been utilized in state arbitration claims to great success through September of this year. At this point, Texas state arbitration reimbursement has been realigned to a level much closer to the state average across our operational footprint. As a reminder, Texas is Assure's largest market and represents approximately 60% of our patient volume. The company is focused on improving margin and increasing participation rates for state arbitrations in Texas. This change does not affect the larger pool of federal arbitrations associated with Texas still to come. This pool is anticipated to be much larger than the pool of state arbitration claims.

One final comment I want to make relates to the M&A environment. It is ripe with opportunity and highly favorable for buyers. Assure seeks targets with operations in states where we have existing profitable presence as this helps us leverage our existing employee footprint, utilization and revenue cycle management competencies. I expect Assure will be active in the M&A marketplace.

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

Question and Answer Operator Message
Operator (Operator)

Thank you. [Operator Instructions] we'll take our first question from Jim Sidoti from Sidoti & Co. Jim, your line is open.

Question
James Sidoti, Sidoti & Co.

John you've done a lot to adapt to the changes in the industry. You have improved revenue cycle management. You've implemented data analytics. How is the rest of the industry adopting at this point?

Answer
John Farlinger, CEO

That's a good question. Jim, I think what we've been experiencing is what the rest of the industry is experiencing as well. And we saw a shift in reimbursement probably going back to last year, really hitting home this year. The focus there being on technical claims, lower propensity to pay out on technical and the need to really be all in on the professional side and the remote neurology side of the business. Where this is going is really a model which is going towards really settlements through arbitrations at a state level and at a federal level. And if you don't have data, if you don't have analytics, you're going to be significantly disadvantaged going into next year.

A lot of our success this year, including improving cash flow and stabilizing earnings, was predicated from the data analytics portion of our business which has allowed us to arbitrate hundreds of cases. We haven't lost one yet. And we're just getting into the federal claims now because there's been such a backlog of claims. So, for the most part, that's been really done at the state level.

What we're seeing is really most of the market, at least the smaller competitors are still -- I keep going back to the third-party billing companies. They're still using them. And we probably looked at a half dozen targets where they're still using third-party billing companies. They don't have data. They don't have analytics. These companies don't even have the ability to arbitrate. And without that, they're going to be at a significant disadvantage going into next year. We think it's going to be a very tough winter for a lot of companies in the space.

I think the other thing that the payors have done in advance of the No Surprises Act and full-scale federal arbitrations is they've attempted to push reimbursement down and slow payments down and attempt to try to control the reimbursement environment. So, if you don't have data, if you don't have analytics, if you can't automate and drive more revenue through arbitrations and settlements, it's going to be very difficult to survive. And I think that's why we're feeling pretty good as we look at competitors.

You look at acquisitions and M&A. We feel that for the most part, we can snap these potential opportunities onto our platform and get a higher yield than the existing companies are. That's why we're optimistic about M&A. And we think that will be a key part of what our business plan and model looks like early 2023.

Question
James Sidoti, Sidoti & Co.

So, as you scale up, and as the revenue shift from the technical side to the professional side of the business, where do you think margins start to go in '23 and '24.

Answer
John Farlinger, CEO

As you look at the Q, you will see a significant shift in the amount of technical revenue that we generated from last year to this year. You will see significant growth on the professional side. And where we're going is really inverting the model that we had here that the business was set up around, which was really around monetizing the technical claims and sharing the revenue on the professional side with surgeons. That's a model that we want to get away from. We want to control the professional side. And we're in the middle of migrating away from that revenue share. And if you look at the Q and see where we were a year ago, now almost 70% of our revenue is not associated with revenue shares and partnerships. By Q1, we want to have all of that revenue off of those partnerships. So ultimately, as you shift toward the remote neurology piece, as you get away from a revenue share, we think there's meaningful upside in margins going forward.

The business started off by giving away 70%, 80%, 90% of that professional revenue. We've attempted to shift that and drive it to a model where we're actually keeping all of that remote neurology revenue going forward. Most of the competitors we're looking at that are potentially for sale are still tied to that old model of keeping the tech revenue, giving away the professional revenue and facing lower and lower yields.

It's pretty clear to us now that we were right last Fall thinking that the model will shift to a global bill and you've got to keep as much of that professional revenue as possible. That will be a key part of what we do. And obviously, as you scale, you potentially are generating higher margins, at least on the professional side. I think we're at a point in time now on the technical side where we're just trying to make that part of our business profitable and to cover costs. On the pro side, there is significant upside still to get higher margins.

Question
James Sidoti, Sidoti & Co.

Okay. And during the quarter, you expanded into New Jersey. Are there any other regions you think you'll be expanding into in the fourth quarter in 2023?

Answer
John Farlinger, CEO

No. I think in Q4, we're focused on a couple of things. Reducing costs -- we're in the middle of continuing to reduce cost. Improving utilization of our technologists - we want to get a higher yield on the technical side of our business. Also, really expanding in the existing markets we're in, such as Texas and Colorado, and we want to add business in New Jersey, which is one of the highest reimbursement states in the United States, top 5.

Question
James Sidoti, Sidoti & Co.

Okay. I mean with regard to costs, you're already down more than 20% from the first quarter, at least in G&A. I mean does that number continue to trend down in the fourth quarter?

Answer
John Farlinger, CEO

There will be a reallocation of costs. But yes, it will continue to trend down in the fourth quarter and in Q1. Also, there could be a shift in where we spend money in Q1 and Q2 going forward. I think we can still run leaner, and we will run leaner going into Q1.

Question and Answer Operator Message
Operator (Operator)

Our next question comes from Bill Sutherland from Benchmark Company.

Question
Bill Sutherland, Benchmark Capital

John, I was wondering on the DSO trend. It seems like it's moved up from the first half of the year. Is there just a timing issue here?

Answer
John Farlinger, CEO

Do you want to speak to that, John?

Answer
John Price, CEO

Yes, Bill, just -- it's a reflection of the mix. So you get a betterment of the mix in the back half of the year. And so, as you roll in the Q1 and Q2 as well as acceleration of our cash receipts, that's where you really start to see the benefit in the AR aging. And in Q3, that's where we really expect it to be. And as we continue to push on cash collections, we'll continue to see more as a percentage of accounts receivable in that first through 12-month bucket that end of the second half.

Question
Bill Sutherland, Benchmark Capital

Okay. And on AR reserves, is that -- should we think of that as we even go into next year is just an ongoing kind of part of the model?

Answer
John Price, CFO

Yes. As we adopted this new estimation process, really what we're doing is starting to take a portion of the receivable bad debt in the fifth quarter through the eighth quarter, whereas previously we would wait for the accounts receivable to age out past 24 months. And so, I think it's a better reflection to build the reserve relative to the overall accounts receivable that we are collecting over that period of time.

So, this is the year that we're adopted that change in estimation and that's why you see a bit more of the bad debt expense coming through this year. But what we found in our analysis is that as you collect the money faster, there's less of a tail to collect later. It's obvious. But what it forced us to do is to accelerate the -- we didn't want to have a large tail at the end 24 months out. And so, we started to take the write-down on the reserving of that AR much earlier.

And as you look at this year versus, say, last Q3 or last Q4, the shift Q3, Q4, Q1 was an acceleration of cash flow and really a speeding up of payments. But with the result being that there was less collected in quarters 6, 7 and 8. And so that led us to the conclusion that we should be accelerating it faster rather than letting it age out after 24 months. And so, it's a more conservative model. We may collect some of that cash later, but it led to an accelerated reserving of the accounts receivable.

Question
Bill Sutherland, Benchmark Capital

Yes, I understand what you were doing this year. And now that you've kind of got things, I guess, I don't know what the right word is, rightsized, is this still going to be a gross and net revenue kind of combination that we have in the model going forward?

Answer
John Price, CFO

I think so for a while, we're trying to narrow that gross to net revenue spread. But frankly, where we see the market going is as these arbitrations become expected and normalized, there's really not going to be a lot of negotiation. You're going to get what the arbitration metrics dictate you get. And ultimately, I think it's going to lead to an accelerated discussion around going in-network -- because we -- I think I highlighted, we haven't lost a state arbitration case yet. We know what we're going to get. And across the table, the insurance companies know what they're going to pay us.

And I think we're starting to escalate discussions now where we were offered low amounts of money to go in-network, at least numbers that didn't work for us early this year. Conversations are changing now because they know what we're going to get paid, and we know what we're going to get paid. And it is simpler to just agree to a number and reduce the amount of work we've got to do to collect that money. And I think that's part of what we want to focus on in Q4 of this year and Q1 of next year and getting a couple of those large payors in Texas to go in-network with us.

Question
Bill Sutherland, Benchmark Capital

Well, that would be great. Yes, I wish you luck on that.

Question and Answer Operator Message
Operator (Operator)

It appears we have no further questions at this time. I will now turn the call back to John Farlinger for any additional or closing remarks.

Answer
John Farlinger, CEO

Thank you. On behalf of the Assure team, we'd like to thank everyone for listening to today's call.

Before concluding, I'd like to add a few final comments. The actions Assure has taken are designed to expand the company's profitable growth, reduce costs and accelerate cash collections. The company is focused on improving margin, profitability and net cash flow.

With that, I'm going to conclude. We thank all of you for your participation today and look forward to seeing you again during our fourth quarter call. Thank you very much.

Question and Answer Operator Message
Operator (Operator)

Thank you, ladies and gentlemen. This concludes today's conference. You may now disconnect.