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IOM.V - Q2 2021 Assure Holdings Corp Earnings Call

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## CORPORATE PARTICIPANTS

**John Price** Assure Holdings Corp. - CFO

**John Allen Farlinger** Assure Holdings Corp. - Executive Chairman & CEO

**Scott Kozak** Assure Holdings Corp. - Director of Investor & Media Relations

## CONFERENCE CALL PARTICIPANTS

**James Philip Sidoti** Sidoti & Company, LLC - Research Analyst

## PRESENTATION

### Operator

Good day, and welcome to the Assure Holdings' Second Quarter 2021 Earnings Call.

(Operator Instructions)

Please note, this event is being recorded. I would now like to turn the conference over to Scott Kozak. Please go ahead.

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**Scott Kozak** - Assure Holdings Corp. - Director of Investor & Media Relations

Hello everyone, thank you for participating in today's conference call to discuss Assure Holdings' financial results for the second quarter ended June 30, 2021.

On the call today are Executive Chairman and CEO, John Farlinger; Assure's Founder and Director, Preston Parsons; and CFO, John Price. After the market closed this afternoon, the company issued a press release announcing its results for the second quarter of 2021. The release is 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 its quarter report on Form 10-Q for the second quarter 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 June 30, 2021, which is available on the SEC website. In addition, please note that Assure reports in U.S. dollars and all amounts to be expressed today are in U.S. currency.

Finally, I would like to remind everyone that this call will be recorded and made available for replay via link 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?

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**John Allen Farlinger** - Assure Holdings Corp. - Executive Chairman & CEO

Thank you, Scott, and hello, everyone. Today, we'll provide an update on Assure's progress in the second quarter and discuss our vision for sustained rapid growth over the next several years.

The company had an extremely active second quarter, including 2 acquisitions, significant progress being made on our NASDAQ planning and prep work and significantly improving our balance sheet through a newly expanded credit facility with Centurion Financial Trust. Assure also increased revenue and procedure counts during the period, while reducing adjusted EBITDA-related burn despite the professional fees and integration costs incurred as a result of the second quarter activities I just mentioned.

Looking forward, we are focused on supporting and sustaining our rapid growth in scale, building out a robust revenue cycle management function, taking advantage of accretive acquisitions, while fostering swift integrations and launching a telehealth offering for neurologist services that we consider our single most important opportunity.

At the same time, we are intent on sharply reducing our cost of delivery, while maintaining excellence in clinical care. From a corporate expense perspective, we had significant onetime costs in the second quarter related to recent acquisitions, IT investments to support automation and analytics, the NASDAQ uplisting and the signing of a new credit facility. The company has already taken action and started cost-cutting in August, which will continue on an ongoing basis for the remainder of the year.

While we did not expect or forecast to be adjusted EBITDA positive in the second quarter, we were committed to lowering the burn rate. And in fact, the company was adjusted EBITDA positive in the month of June. Looking forward, we believe that Assure will continue to grab market share in 2021 and beyond, both organically and through M&A to take advantage of a highly fragmented industry where many of our peers lack the capabilities to adapt, grow or even survive.

On the back of this growth and scale, we expect to generate substantial gains on the top line. We see ourselves becoming an industry leader in the interoperative neuromonitoring space over the next 24 to 36 months. While at the same time, expanding into remote neurology services, an adjacent vertical in which we will be selling into that same group of potential users, including surgeons, ambulatory surgery centers, hospitals and health care networks to motivate them to outsource to Assure.

I don't think I've ever been more excited about the opportunities in front of the company right now as we prepare to uplist to NASDAQ. The company continues to forecast 17,000 procedures for full year 2021, representing an increase of more than 70% compared with 2020. This projection excludes the potential impact of M&A activity that could occur in the second half of 2021. From a 2022 perspective, we believe the company can perpetuate our 2021 growth rates into 2022.

The foundation for this growth is the continued progress we are making on our 4 corporate objectives. As a reminder, they are: number one, improving the performance of our billing and collections function; number two, developing an in-network revenue stream; number three, scaling our platform through both organic growth and M&A activity; and number four, becoming a recognized clinical leader in the interoperative neuromonitoring industry.

I'll first address the progress of our billing collections objective. We continue to double down on our investments in revenue cycle management as we progress the automation of transactional functions, improved data visibility and speed.

In June, we hired Jared Powell as Chief Information Officer. Jared has significant experience in developing a deep analytical, automation and data warehousing capabilities that we need. He also has significant experience in cyber security and artificial intelligence capabilities that we will need to grow our business over the next several years. Assure's growing strength in billing and collections is a key differentiator in the interoperative neuromonitoring industry.

This dovetails into our second corporate objective, which is the development of an in-network revenue stream. In-network agreements help Assure reduce risk, minimize complexity, accelerate the timing of payments and protect our liquidity. Driven by this progress, the Company is now collecting over 50% of the amounts that are billed or invoiced within six months. This represents a significant step forward from where we were in early 2020.

Overall, across all markets, we have nearly 30% of our total commercial volume in contractual rates with payors, either directly or indirectly. Very few of our intraoperative neuromonitoring peers have the scale in terms of procedure volume nor the organizational expertise to strike similar deals.

In the second quarter, we signed in-network insurance agreements with Aetna Colorado, and a large Louisiana commercial insurer. We are currently in active negotiations with numerous other potential partners.

Having said that, we are carefully monitoring for any potential near-term shift in payor behavior ahead of the January 2022 implementation of federal legislation related to the No Surprises Act. This law was passed in December of 2020. We are looking forward to this badly needed legislation, as we believe it will help balance the playing field for health care services providers like ours.

Once it goes into effect, we expect it to encourage the resolution of out-of-network billing disputes via an independent dispute resolution process. Currently, arbitration is not available in all states. So for locations and jurisdictions with no arbitration mechanism, the only avenue available for providers like Assure to push back against insurance non-payment is through costly litigation.

In addition, the arbitration process will improve as a result of No Surprises Act. Once the law goes into effect, arbitration will become automated and batched. We expect this to substantially accelerate a process that is currently manual and one-off in states that have any arbitration mechanism at all. Assure's Vice President of Managed Care, Paul Webster and his team are mobilizing with this key shift in the arbitration process.

Ahead of this regulatory shift, there's always some risk of attempted brinkmanship by the payors. We are working carefully to manage these relationships with insurance companies and position our company to work with them, not as an enemy but as a partner. That means continuing to clearly define our value proposition. Assure's investment in data and analytics allows us to effectively demonstrate to individual insurance payors, how much money we save them by delivering a higher quality of care for surgeons and their patients.

The development of a new in-network revenue stream fits with our third objective, which is expanding Assure's scale. In terms of monthly procedures, the company largely returned to pre-pandemic levels back in May 2020. However, we are seeing an increase in COVID-19-related disruption because of the Delta variant in certain markets, particularly Texas and Louisiana. To date, we've had a little bit disruption from COVID-19, but it has gotten worse in the past few weeks, and we are continuing to carefully monitor the situation.

While we continue to manage the impact of the COVID Delta variant, Assure is pursuing a number of opportunities to accelerate growth in 2021. These efforts include:

Firstly, opportunistic M&A. In the second quarter, we acquired 2 high-quality interoperable neuromonitoring companies at attractive valuations. Sentry Neuromonitoring, a joint commission certified interoperable neuromonitoring company in Texas, was purchased for \$3.5 million. At the point of reference, since closing this transaction, Assure is approaching \$1 million in collection of Sentry's old accounts receivable, reinforcing the value of this transaction. Sentry primarily serves Texas but also has operations in Kansas and Missouri, which added these states to Assure's operational footprint. In 2020, Sentry performed more than 5,500 interoperable neuromonitoring procedures and approximately 50% of these cases were with commercial insurance payors. In addition to Sentry, Assure closed a second separate acquisition of a Texas-based intraoperative neuromonitoring company in April. The company acquired, called Elevation, performed 550 procedures in 2020. Our integration of these acquisitions is progressing quickly and performing as we expected. We're identifying additional interoperable neuromonitoring assets, we believe we can make more valuable by putting them on to Assure's platform. By leveraging our strength in revenue cycle management, we can generate higher yields than our peers in collecting accounts receivable. Our expected uplist to NASDAQ will provide us with a strong public company currency that almost none of our competitors can match, as we pursue new acquisition targets. We see ample buying opportunities in the market and are intent on acquiring more high-quality businesses at attractive valuations.

Secondly, we are organically expanding into new states, and extending our reach within states where we currently have a presence. In August, Assure expanded into Nebraska, our 11th state. Our entry into Nebraska was spurred by a distributor referral that facilitated this new surgeon relationship and helped us open a new market. We expect distributor relationships to help add one or more additional states over the balance of this year. Candidly, Assure expects to improve our organic growth performance in the second half of this year, and our pipeline has never been more active.

Thirdly, we are building a platform for selling directly to hospitals. The costs and disruptions hospitals are experiencing as a result of COVID-19 are opening the door for a value proposition that Assure marketing as an outsourced provider of intraoperative neuromonitoring services. We fully anticipate winning larger facility-wide contracts that could generate thousands of procedures annually as more hospitals transition to outsourcing intraoperative neuromonitoring, which for them is a non-core service as well as a cost center.

Fourthly, Assure launched our telehealth offering in March of 2021. Over the course of the year and beyond, we will be transitioning our currently outsourced neurologist services for interoperative neuromonitoring to an in-sourced function. We've already made our first four position hires for professional neurology services two of whom have already started and are currently managing cases for Assure. In fact, in the third quarter of 2021, we anticipate providing services for more than 550 remote neurology procedures, subject, of course, to any potential impact from COVID-19. Our new telehealth offering is a simple transition as we replace a third-party vendor with professional services furnished through a wholly owned subsidiary. Bringing the function inside the organization should allow us to control quality of service in all aspects of our intraoperative neuromonitoring offering. This is important because it is a key consideration for payors as we negotiate new in-network agreements. Further, it strengthens our offering as we position to sell directly to hospitals.

In addition, telehealth neurology services make every part of our existing business more valuable. It achieves this by substantially reducing our cost of delivery. Historically, we've been paying for neurologist services on a per diem basis. We believe we can cut the cost of delivery for the service by more than half by doing it ourselves. Further, delivering remote neurology services will add organic growth opportunities and make acquisition targets such as Sentry much more valuable to Assure than any other potential buyers.

Rather than giving up margin to outside vendors for neurology services, we will be performing these services ourselves and capturing the margin for performing these services. To further illustrate the potential for scale each telehealth neurology professional is expected to perform 2,500 procedures or more per year, whereas each of our technologists performs approximately 200 procedures annually.

As we start to scale our offering, we will benefit from that same lift that the neurologist contracting companies currently enjoy. And with scale and effective scheduling, this business can become a substantial profit center for Assure. Our expectation is that we will first serve our own patients and partners. However, we believe that very quickly we will be able to deliver these same services to hospitals and competitors that need a partner to supply telehealth neurology services for intraoperative neuromonitoring. Teleneurology also has a third growth leg. It will become the basis for generating new business in adjacent markets, that are also served by remote neurology services. services such as EEG, stroke and epilepsy as we migrate our business and pursue these opportunities.

We're currently building our telehealth platform, but there may be opportunities to acquire teleneurology groups, which would accelerate our expansion in this area and pivot the business to more of a telehealth focus. Want to make sure that you all understand that what we are creating here is a new valuable revenue stream for Assure. Further, we expect company margins to benefit as we scale the telehealth offering on the back of this valuable recurring revenue model. We are all-in on this and consider our telehealth offering to be Assures' greatest potential opportunity.

We believe the intraoperative neuromonitoring industry is experiencing disruptive change. Assure is helping to drive this transformation and is well positioned to seize the opportunities that are emerging as a result of this disruption. The reason why we are expanding while so many of our peers are stagnating is because Assure has invested in creating sustainable competitive advantages.

Our unique selling proposition includes exceptional quality of service and clinical care, robust billing and collections based on data, analytics and automation, forming true partnerships with insurance companies, organic growth and M&A, and the build-out of our professional neurologist oversight business.

To be clear, Assure is willing to sacrifice near-term profitability as we continue to act as a consolidator in the interoperative neuromonitoring industry. However, by the same token, we will not fall in the trap of using market share gains as an ongoing crutch for performance that does not meet our expectations.

In the second half of 2021, we will run leaner, including cutting overheads and other costs coming out of the two acquisitions that we've made. We couldn't be more pleased with how the company is progressing or the opportunities in front of us right now. Assure is eager to uplist, and I want to emphasize that I do not believe we are finished from an M&A standpoint this year.

Now I'll turn it over to John Price to go through the company's financials. John?

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**John Price** - Assure Holdings Corp. - CFO

Thanks, John. Hello, everyone, and thank you for joining us today. I will provide a narrative on the second quarter 2021 results and a brief overview of factors that impacted the company's financial performance and financial position. After that, I will conclude by highlighting areas of focus for the second half of 2021.

Total revenue for the second quarter was \$6.2 million, an increase of \$1.4 million sequentially. Managed case volumes increased 52% from 2,794 cases during the first quarter of 2021 to 4,257 cases during the second quarter of 2021.

The increase in volume was anticipated based upon the acquisition of Sentry, which we completed on April 30, and seasonality in our business with the first quarter consistently representing our lowest managed case count of the year. Our revenue accrual rate was stable, experiencing only a slight decrease when compared to the first quarter of 2021. Importantly, our business is steady over the past 12 months as revenue per procedure has stabilized. A primary factor for this stabilization is a greater proportion of our commercial insurance volume is now set by contracted in-network rates with payors, either directly or indirectly.

As a result, our in-house revenue cycle management team is currently collecting cash on more than 50% of our billed cases within 6 months of service. Looking towards the second half of 2021, we anticipate signing additional in-network agreements. But as John previously mentioned, the company is also monitoring for potential brinksmanship from insurance payors ahead of the implementation of the No Surprise Billing Act in January 2022.

On a year-over-year basis, our Q2 2021 case volumes increased by 114% from 1,991 during the second quarter 2020. As a reminder, the company preemptively recorded accounts receivable reserves of approximately \$15 million in the year ago period and further reduced the accrual rate per case to more precisely reflect the amounts we expect to collect.

Moving on to the rest of the income statement. Gross margins in the second quarter of 2021 improved to 49.1% compared to 46.9% in the first quarter of 2021. Margins at these levels reflect the impact of:

Seasonality on payor mix, which typically improves over the course of the year as patients schedule surgical procedures to align with their insurance deductibles.

Higher technologist-related expenses associated with hiring in multiple new markets. As we previously mentioned, there is a lag between onboarding new personnel and revenue generation as we move into new markets.

The building of our in-house revenue cycle management function compared to previously utilizing a third-party billing company whose fees were variable depending upon the amount they billed.

And the impact from the continuing reserving of claims associated with hospitals in Louisiana that have failed to reimburse the company for technical claims despite Assure providing outstanding service. Currently, we do not accrue revenue for these technical claims. We continue to perform cases in Louisiana and anticipate reaching a resolution to these disputes.

Net loss was \$1.3 million compared to a net loss of \$1.2 million in the first quarter of 2021. And the adjusted EBITDA was a loss of approximately \$0.7 million compared to a loss of \$1 billion in the first quarter of 2021.

On a sequential basis, our operating expenses increased to \$4 million versus \$3.8 million. Our operating expenses include several onetime costs including legal costs to support our NASDAQ application, start-up costs associated with our new telehealth business unit, IT investments to support data analytics initiatives, due diligence and integration costs associated with our acquisitions of Sentry and Elevation, and infrastructure costs to support anticipated growth.

The company's total cash collections were \$6 million in the second quarter of 2021 compared to \$6.1 million during the first quarter of 2021 and \$6.4 million in the year earlier period. In regards to cash collections that Assure retains 100%, the company collected \$3.8 million in the second quarter of 2021 compared to \$3.1 million during the first quarter of 2021 and \$4.0 million for the same period of 2020. We anticipate collections to improve in the second half of this year.

Turning to our balance sheet, we ended the quarter with \$4 million in cash compared to \$4.4 million at the end of 2020. Additionally, during the second quarter of 2021, the company strengthened its balance sheet and provided additional financial flexibility and liquidity by securing an expanded credit facility with Centurion Financial. As a result, our working capital improved to \$26.3 million at June 30, 2021, compared to \$18 million at March 31, 2021. Our partnership with Centurion supports our ability to take advantage of growth opportunities, including organically extending the company's operational footprint in the new states, expanding our telehealth function for professional and neurology services and additional M&A activities.

Before concluding, I want to highlight Assure's 2021 financial goals of tightly managing expenses while continuing to improve cash collections.

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

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

Our first question comes from Jim Sidoti with Sidoti & Company. LLC.

### James Philip Sidoti - Sidoti & Company, LLC - Research Analyst

I'll start out asking about the Delta variant because there's been a lot of talk about the delta variant spreading pretty quickly in Texas and some elective procedures are getting canceled again. Are you seeing that? And how has it impacted your business? .

### John Allen Farlinger - Assure Holdings Corp. - Executive Chairman & CEO

Jim, it's John Farlinger. Last week, we had about 20 procedures that were deferred in both Texas and Louisiana because of Delta. And certainly Louisiana, it's pretty bad right now. We're monitoring it closely. We're having, over the last couple of weeks, an average of about 20 procedures a week being canceled and deferred.

### James Philip Sidoti - Sidoti & Company, LLC - Research Analyst

Okay. All right. And so that could be up to without -- well, for the back half of the year would be on the order of 500 procedures?

**John Allen Farlinger** - Assure Holdings Corp. - Executive Chairman & CEO

Yes. We're obviously watching it daily. There's a lot of data out there. We've seen some reports from groups like Mackenzie. We expect that this will continue during August and September as COVID, we think will be a problem certainly in Louisiana and Texas. But we are optimistic by the end of September, October that we'll see -- we hope we will see a return to normality. In other states like Colorado, Pennsylvania, Michigan. It hasn't affected us at all. So it's primarily been limited to your point, to Louisiana and Texas.

**James Philip Sidoti** - Sidoti & Company, LLC - Research Analyst

Okay. Right. And both you and John Price mentioned you're taking steps to manage expenses. Can you give us -- what does that mean? .

**John Allen Farlinger** - Assure Holdings Corp. - Executive Chairman & CEO

Yes -- we're being aggressive. Obviously, we had a very busy quarter, 2 acquisitions, negotiating a credit facility, finalizing NASDAQ. With any integrations and acquisitions there are obviously surplus costs. So we're cutting those costs. But I think our focus over the balance of the year, we're riding a fine line. We want to run leaner. We can run leaner, and we're going to. I think when you look at our margins, we're holding true in our margins. In fact, we improved from Q1 to Q2.

I think the thing that follows like John and I said the most, I think we can cut down on some of the professional services costs. No offense to lawyers on the call or the accountants, but I think we can spend less money in those areas. We spent a lot of money in automation, a 6-figure amount on automation and a similar amount of a large amount on launching telehealth as it relates to professional fees, legal setup, et cetera. These were onetime costs. They won't be recurring.

But I think, frankly, we're trying to shed about \$200,000 a month plus in costs over the balance of the year and going into 2022. And that's our objective right now. We started cutting costs and shedding costs, and that will be our objective for the balance of the year.

**James Philip Sidoti** - Sidoti & Company, LLC - Research Analyst

And you've mentioned the NASDAQ uplift a couple of times. What's the updated timeline for that?

**John Allen Farlinger** - Assure Holdings Corp. - Executive Chairman & CEO

We filed what we hope is our last paper work last Friday. We're waiting now for NASDAQ to respond to us. And we are optimistic that we will be trading by the end of September or earlier.

**James Philip Sidoti** - Sidoti & Company, LLC - Research Analyst

All right. And then last one for me. COVID definitely changed the way businesses operate. I know in our business, there's been a lot of acceleration to remote working and remote services. Has it had the similar effect for your industry? And do you think COVID actually accelerated your ability to get into the telehealth market?

**John Allen Farlinger** - Assure Holdings Corp. - Executive Chairman & CEO

I think it's been a catalyst. We've put together a lot of work and research in the business -- into a business case now. We've been working on it for over a year. We think that ship's left the building. There's going to be a lot more business done on a remote basis. It's much more efficient, certainly than our existing neuromonitoring business. It is clearly more effective to have remote neurologists to perform procedures.



We see that shift continuing and we see being able to add additional services to our platform, as we go in and position those sales to the hospitals, hospital groups, et cetera, going forward. And the data is pretty compelling. I think we want to be part of that way and we see ourselves being a significant player in remote neurologist services going forward.

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**Operator**

This concludes the question-and-answer session. I would like to turn the conference back over to CEO, John Farlinger for any closing remarks.

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**John Allen Farlinger** - Assure Holdings Corp. - Executive Chairman & CEO

Thank you. Firstly, I'd like to apologize for the delay in getting the financial data out. We had an issue with the TSXV and the fact that they have aftermarket trading for about 1-hour after the market closes, which delayed us and forced us to delay the press release, again apologies from Assure management on that issue. And 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 last comments on behalf of the team here. I want to reiterate that Assure's greatest opportunities going forward include: number one, expanding our remote neurology services. Number two, continuing to leverage and be opportunistic regarding M&A, and to be able to leverage that using a public currency. This is an advantage that none of our other intraoperative neuromonitoring focused competitors can have or can duplicate. Three, we want to continue organic growth, that extends our reach both within existing states, and it helps us expand into new states. Fourthly, I'm not aware of anyone in the industry that is making the strides that we are around growth and growth rates and the quality of service that we are offering. We are using data and analytics and automation to strengthen the revenue cycle management cycle going forward. This is a differentiator. This will lead us to facilitate the signing of new in-network contracts as we look to partner with insurers going forward. We are all in on this initiative. Sixthly and lastly, we expect and we are looking forward to up listing at NASDAQ over the next 30 to 45 days, and we believe that will be a significant accomplishment for the company, and it will benefit all of our shareholders as we go forward.

With that, I'm going to conclude. We thank all of you for your participation today, and we look forward to seeing you again on our third quarter earnings call. Thanks for joining us.

**Operator**

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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