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Assure Holdings Corp. TSXV:IOM

FQ2 2018 Earnings Call Transcripts

Thursday, August 30, 2018 3:00 PM GMT

S&P Global Market Intelligence Estimates**

**Estimates Data not available.

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Call Participants

EXECUTIVES

John Allen Farlinger
Executive Chairman & Interim CEO

Preston Thomas Parsons
Founder & Director

ANALYSTS

Martin Gagel

Michael David Potter
Monarch Capital Group, LLC

Unknown Analyst

Presentation

Operator

Good morning, everyone, and thank you for joining. Thank you for participating in today's conference call to discuss Assure Holdings' financial results for the second quarter ended June 30, 2018. Joining us today are Assure Holdings' Executive Chairman and interim CEO, John A. Farlinger; and Preston Parsons, Assure's Founder and Director.

Before we start, please note that 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 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 responsible in the circumstances. However, there can be no assurances 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 statements whether as a result of new information, future events or otherwise.

For additional information on these assumptions and risks, please consult the cautionary statement regarding forward-looking information contained in the company's earnings release dated August 29, 2018. 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 September 13, starting at 2:00 p.m. Eastern time today. A link to a webcast replay of this call was also provided in the earnings press release. Any redistribution, retransmission or rebroadcast of this call in any way without the express written consent of Assure Holdings is strictly prohibited.

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

John Allen Farlinger
Executive Chairman & Interim CEO

Thank you, Doug, and good morning, everyone. It's been a busy month for the company as we've been involved in completing 2 [awards] and 2 quarterly filings, all in a 30-day period. It feels good to finally have those behind us and to allow management to be able to focus on our core business and its profitable growth rather than filings and MD&A.

Through the second quarter of 2018, we continue to experience strong results, driven by a 97% increase in managed case volume. Our new markets in Texas and in particularly Louisiana experienced very strong growth while we continue to grow organically in Colorado, resulting in a 46% year-over-year increase in total revenue.

Our business fundamentals have remained strong during this significant growth period, as evidenced by our 82% gross margin. We are pleased with the continued success in the market adoption of our unique neuromonitoring platform despite recent distractions. In fact, the only clients that have left our partnership is one physician who moved to practice to another state that we currently don't operate in and another physician who stopped practicing. This is also a testament to the platform that we built and the high level of service our team offers.

Before we go any further in the operations of the business, I'll go over the financial results in more detail, starting with the consolidated statement of income. Total revenue in the second quarter increased 46% to $6 million compared to a revised $4.1 million in the second quarter of 2017.

The significant improvement was due to increased cases generated from the company's existing surgeon network, the onboarding of additional surgeons and the continued expansion into new states. In fact, revenue generated outside Colorado was 35% of total revenue in the second quarter of 2018. This compares to no revenue outside of Colorado in the same quarter of last year.

It reflects our strong growth in new states and our continued increased number of procedures. Managed cases increased 97% to 677 versus 344 in the second quarter of 2017, driven significantly by the expansion into Louisiana, Texas and Utah.

As I mentioned during the course of the first quarter results a few weeks ago, Assure makes money in 2 different ways. The first is the fees we collect from our Assure-employed technologist monitor or procedure, or what we refer to as the technical bill. This revenue comprises 100% of the $6 million in total revenue we reported in the second quarter.

While our technologists are monitoring a live surgery, a contracted neurologist is simultaneously monitoring the procedure from a remote location. This is what we refer to as a professional bill. This is reported in the line item titled earnings from equity method investments that appears below operating income in our profit and loss statement.

The below-the-line treatment of the professional bill, which increased 18% to USD 700,000 in our second quarter, slightly understates our total revenue. So please keep in mind as we walk through the various P&L -- please keep this in mind as we walk through the various P&L accounts on today's call.

Moving to gross margin. Gross margin, as indicated, was 82.1% compared to a revised 82.3% in the same quarter last year. Again, the fundamentals of our business remain very strong. Total operating expenses increased to $1.4 million compared to $1.2 million in the same quarter in 2017, and this is primarily due to expenses associated with growing the business, cost of being a public company and onetime legal expenses related to the company's 2018 compliance and forensic work. Net income in 2018 increased to $3.3 million or $0.07 per fully diluted share compared to net income of $200,000 or $0.01 per share, fully diluted, in the second quarter of 2017.

The 2018 per fully diluted share reflects 6 million of incremental shares relating to the performance of share issuance in December of 2017. Further, in the second quarter of last year, in 2017, we paid no taxes while tax expense in the second quarter of 2018 was [$1 million].

Adjusted EBITDA increased 50% to $4.2 million compared to $2.8 million in the same quarter in 2017 due to the increased case volume, which significantly improved revenue and earnings as well as the increase in revenue from the equity method of investment.

Moving on to the balance sheet. At June 30, 2018, cash was $440,000 compared to $1.5 million at the end of June 2017. Obviously, the June numbers were buoyed by the fact that we just completed an RTO and had significant cash in treasury at that point.

Returning to my discussion about our treatment of professional bill in our balance sheet. This relationship appears as an asset called equity method investments and includes cash received from our [prorating interest] of surgeons. At June 30, the balance of this account was $3.3 million. At June 30, 2017, the balance was $2 million.

Accounts receivable at June 30, 2018, were $24.8 million, growing from $9.9 million a year ago at the same time. While this balance may seem high, it's worth adding some perspective. First, our AR balance is growing at a rate consistent with the scaling of our business. Secondly, the balance sheet reflects the large amounts of accounts receivable given the cycle to collect and realize this revenue.

Third, we have not received -- we have not experienced any compression on reimbursement levels and still believe the environment to be stable. As part of our year-end process, we had our auditors specifically look at the collection cycle versus other out-of-network providers, and they found that our billing and collection methodology was consistent with those of other companies in this space.

I want to highlight that during the course of this year and the past audit, we've set a policy of providing an allowance for doubtful accounts on all accounts receivable that are greater than 24 months old. AR will be written off after 36 months. But in some cases, we'll still be attempting to collect these amounts even after 36 months.

This policy is consistent with that of other companies in our industry and will allow the company to take a more conservative perspective in its assessment of accounts receivable balances. The approach we have taken is to reduce revenue and AR by the amount of the provision. This policy had a significant impact in Q2 on both the -- on both Assure and its PNE entities. Over $600,000 was set up as an allowance in Q2.

An obvious focus for the company going forward will be on improving its billing and collection processes. On that note, it should be highlighted that we collected over $3.5 million of cash from accounts receivable over the past 6 months compared to $1.6 million in the first 6 months of 2017. $1.9 million of that cash collation came in the second quarter. Cash distributions from PNE entities totaled $500,000 in the 3 months ended June 30, 2018, compared to $100,000 in the same period last year.

Total cash inflows in collections and distributions increased 252% year-over-year as collections from 2017 accelerated growth. Total current debt at June 30, 2018, was $5.9 million compared to $3.3 million at June 30, 2017. This includes $500,000 of bank debt, trade payables, current taxes payable and the current portion of leases [under our] monitoring equipment.

Total liabilities at the end of June were $22.6 million compared to $3.4 million at the end of June 2017. The significant increase in liabilities was primarily due to the $16 million provision for performance shares, which is not a cash item.

With that, I'll summarize -- I'll finish the balance sheet and income statement here, and I'll turn it over to Preston Parsons, who will give you an update on growth and development. Preston?

Preston Thomas Parsons
Founder & Director

Thanks, John. In the second quarter, we continue to execute on our proven business model, and we're able to drive record revenue for the quarter. It's very important to point out that even though the company and shareholders were enduring a difficult time during Q2, the sales and operations of the company continued to prosper. With the exception of one doctor that moved out of state, Assure did not lose any doctors in Q2. In fact, we continued our expansion efforts and we're able to onboard new doctors during the quarter.

Geographical expansion continues to play a key role in our ability to drive revenue. Our continued efforts in the state of Louisiana are an integral reason we were able to finish the quarter with 35% of our overall revenue coming from outside of Colorado.

Speaking of Louisiana, I'd like to speak a little more about our operations there and how we're able to grow so quickly. When we partnered with the Culicchia Clinic back in January, we also hired 2 experienced technologists that have worked with the group for many years. We were quickly able to train these techs in the Assure way of doing things and at the same time, started flying some of our techs that are based here in Colorado down to Louisiana to help cover cases while in the process of hiring additional techs for the area.

Subsequently, we were able to deliver a higher caliber of service than what the Culicchia group historically was used to. This led to immediate referrals to new doctors in the area, and also -- we also started receiving calls from hospitals asking for our services to cover their cases. Additionally, we are now exploiting a couple of larger opportunities to cover all cases at a couple of surgery centers and hospitals in Louisiana.

Louisiana is a great example of the snowball effect of expansion I've spoken about in the past. It's more efficient, more cost-effective and more profitable to capitalize on these opportunities that come our way once words starts getting around about the benefits of partnering with Assure.

As mentioned on our previous conference call, we are excited about our opportunities in Texas as it is the home state of our Director of Business Development, George Sims. George has done a fantastic job setting up a significant pipeline of doctors that we'll look to onboard through the balance of '18 and in 2019.

We are also working on our expansion in geographies. We are currently past the legal due diligence phase of the process and in various stages of discussions with doctors in the states of Michigan, Pennsylvania and Oklahoma. We look forward to updating everyone as these opportunities progress.

Now I'd like to hand the agenda back to John for some additional comments.

John Allen Farlinger
Executive Chairman & Interim CEO

Thanks, Preston. I thought I might, at this point, respond to some questions from some of you that kind of have a recurring theme on a few issues. And so I'm going to touch on the following issues to try to give more clarity around capitalization and funding to start with.

Over the last several months, specifically June, July and August, Assure has been cash flow positive. During that period of time, we've paid down $1 million bank line, and we've been able to self-fund and meet our ongoing obligations plus deal with a significant number of professional fees over the early part of the year.

I want to be clear. We have no plans to tap the equity markets or attempt to do an equity round of funding in the near term. I think our position and our perspective is that we'll go out and attempt to borrow money and leverage our existing accounts receivable balance to facilitate growth. To that end, we're engaged in multiple discussions with multiple groups as we plan to leverage our debt to allow us to expand and to continue to grow with the rates that we've experienced in 2017.

Geographical expansion. Even though we haven't announced the fact that we've expanded beyond the 4 states that we're currently in, it doesn't mean we're not working on it. As Preston alluded to, we haven't officially announced anything, but we continue to do a lot of work and are putting a lot of effort into additional geographical expansion.

Hiring. The search for a CFO has been a priority, certainly for me and the organization, over the past few weeks. We've interviewed several strong candidates for this position who have the criteria that we were looking for. Completing this key hire will be a priority for the company, and I expect that it will take place by mid-September. It should be noted, this is not the only key hire that we're going to be searching for during the latter part of the year.

Our focus for the balance of 2018 will be, for the most part, on tactical execution, more doctors, more procedures, more revenue, more earnings, consistent with what we've done over the first 2 quarters. The plan for '19 will be about accelerating growth, building competencies, assessing and possibly entering other verticals and building a defensive position to keep and protect our business over the long term. A key focus will be on building a strong team, which can lead the company to do great things.

Lastly, I just want to highlight that August has been our best month for case volume. And I think it's a good harbinger of what's going to happen over the next 4 to 5 months as we complete the rest of the year and go into 2019.
Thank you for all of your interest and supporting our company. And with that, I'll turn it back over to Doug, our operator.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of [Jay Kumar] with [Midsouth Fund].

Unknown Analyst

Yes. Since the stock looks cheap on earnings and everything, you -- is there something that the board can buy some stock or the management -- top management can look at buying stock because that will give some confidence to the investors?

John Allen Farlinger
Executive Chairman & Interim CEO

Well, good question, Jay. I think part of what we're working on now is -- certainly, the board and certain members of management are looking to the allocated auctions in the go-forward. And I can't speak for everybody on the board, but I know myself, I'm interested in buying more stock. I'm a stockholder already. And I think those discussions will be ongoing over the next several months.

Unknown Analyst

Okay. Because I think if insiders buy stock, gives a big boost for the investment community.

John Allen Farlinger
Executive Chairman & Interim CEO

Agreed.

Operator

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

Martin Gagel

On your equity earnings, year-over-year revenues grew -- like overall revenues grew by 46%, but the equity earnings grew by about 18%. And I was -- thought those were -- and even on -- sequentially, from Q1, they actually declined a bit. I would've thought they'd be highly correlated, the equity earnings with the revenues. Could you sort of explain the dynamics of how those 2 operate in conjunction or separately?

John Allen Farlinger
Executive Chairman & Interim CEO

Yes, I can. It's pretty straightforward. And you're seeing also an inhibiting of the rate of revenue growth to cases and case volume. And that's because we've taken the perspective that we are going to provide an allowance for AR going forward to be more conservative in the presentation of our statements. So what happened with the PNE and the equity, earnings pick up. There was some -- there was a significant provision in some of the PNEs for an allowance. Doesn't mean the accounts are written off, but they've been provided for an allowance. And the treatment for that is to reduce revenue and to reduce AR as part of a transaction. So it was a significant allowance provision at the PNE level and hence, a reduction in revenue and hence, a reduction in the earnings that we pick up from the PNEs. The -- that same reduction wasn't as pronounced at the Assure level where we didn't have as much in the way of AR that had to be provided for. But does that answer your question, Martin, in terms of why that ratio isn't kind of linear?

Martin Gagel

Yes, it does. But I guess, how come that sort of similar AR adjustment wasn't made on the Assure level, the AR from the equity earnings has different dynamics than the build case AR?

John Allen Farlinger

Executive Chairman & Interim CEO

It comes down to the amount of AR and when it ages. So as on month 25, it simply comes down to what portion of that AR is aging on month 25. And there was a higher portion in the PNEs than it was in Assure at that point.

Martin Gagel

Okay. All right. You commented on your -- looking at some debt funding. It's early stage. But do you have any sense of what debt levels would be good for Assure? I don't know one, a multiple of EBITDA or what kind of metric? You've got lots of room on an EBITDA multiple base at this point. But can you comment on that?

John Allen Farlinger
Executive Chairman & Interim CEO

Yes. I think it's a little early to say the exact number. And we're going through a fairly detailed planning process in September. And that's the -- the results of that and the results of that outcome will determine the rate of growth, the level of risk we want to take on and hence, the amount of debt needed. But if you're asking the -- what kind of a range of debt, it's probably going to be in the $5 million low end to $10 million high end, and it will probably be -- ideally, it would be some form of some -- in fact, similar to your bank debt or alternatively, maybe some type of alternative lending relationship going forward.

Operator

[Operator Instructions] Our next question comes from the line of Michael Potter with Monarch Capital Group.

Michael David Potter
Monarch Capital Group, LLC

Just a -- I have a lot of questions, but I'll just ask a couple at this point. The -- what was -- I know now we're operating in Colorado, Texas, Louisiana and Utah. Did we have organic growth in Colorado? And if so, can you break that out for us since that is our primary state still?

John Allen Farlinger
Executive Chairman & Interim CEO

Well, the number of procedures have increased, Michael.

Michael David Potter
Monarch Capital Group, LLC

Okay. In Colorado specifically?

John Allen Farlinger
Executive Chairman & Interim CEO

In Colorado. But you're seeing that the rate of growth is accelerating outside of Colorado and specifically in Louisiana, which has been affecting the split of the ratios across all of the other markets.

Michael David Potter
Monarch Capital Group, LLC

Okay. So we're still seeing good organic growth in our core state at this point in time.

John Allen Farlinger
Executive Chairman & Interim CEO

And just on that note, and Preston can speak to it, but we are working on multiple other expansion opportunities within Colorado right now, some of them very significant.

Michael David Potter

Monarch Capital Group, LLC

And then the revenue per procedure, I did see, went down in Q2. If my numbers are correct, it looks like the average revenue was $8,862 versus $11,918, is that correct?

John Allen Farlinger
Executive Chairman & Interim CEO

No, I think it's -- I think that's been biased by the amount of doubtful accounts. I don't -- I'd have to look and go through your calculation. But again, I think it's biased by the fact that we're setting up this doubtful accounts, this allowance. And again, it doesn't mean that we're not going to collect the AR, but we want to be conservative in how we really handle the AR going forward. And obviously, if you're looking at procedures versus total revenue, that bias is that number downward by taking the effective -- the allowance in the quarter.

Michael David Potter
Monarch Capital Group, LLC

We can certainly discuss it offline so I could understand it a little better. In regards to AR, is there any way you could break out -- and I understand it is the kind of the operating model of this business that we will be carrying a significant amount of AR and it will be stretched out. But is there any way where you could break it out of how much is outstanding that's under 90 days, and perhaps [screen] 91 or 180, 181 to 360 and what's outstanding that's greater than 360 days?

John Allen Farlinger
Executive Chairman & Interim CEO

Yes, we could and we track that weekly, obviously looking at where our stress points are in terms of collecting the amounts. Yes, we can probably come back and share that information.

Michael David Potter
Monarch Capital Group, LLC

Okay, I'd appreciate that. That would be very helpful, okay.

Operator

There are no further questions in the queue. I'd like to hand the call back to Mr. Farlinger for closing comments.

John Allen Farlinger
Executive Chairman & Interim CEO

I don't have a lot more to say, I think, on today's call. I think it's been a -- it's been certainly a fairly busy 5 to 6 months over the first quarter of the year. But I think notwithstanding some of the distractions we've had, the business has held up very well. And I think the management team and the board are looking forward to really being able to focus on the business and really profitable growth over the latter part of this year. And I think we look forward to coming back to our shareholder base and interested parties with really a plan for 2019, which I think the market and our shareholders will be very excited about. So with that, I'll close off, and thank you, everyone, for your participation, and thank you for your interest in Assure. Thank you.

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