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American Shared Hospital Svces (AMS-AMEX)

Strategy Expected to be Uninterrupted as AMS Strengthens Management Team

Research Note

STRENGTHEN AND BROADENING MANAGEMENT TEAM

American Shared Hospital Services (AMS- NYSE American) has acted quickly to strengthen its management team following the unexpected passing of the company's Chief Executive Officer. The ability to act quickly, transition existing team members and add new ones reflects the depth of the company's core team, in our view. Specifically, AMS had recently realigned its management team in advance of embarking on an expansion strategy aimed at diversifying and expanding its product portfolio, entering new geographies, boosting revenue, and developing new business lines within its focus area in the cancer care space. At the time, the company added industry veterans who have substantial experience and also shifted certain team members into new roles to better leverage the experience and expertise.

As a result of these changes, we expect the company's strategy will continue uninterrupted. The company's current Executive Chairman, Ray Stachowiak, has now assumed the role of Executive Chairman and Chief Executive Officer. Mr. Stachowiak has a long history with AMS, having joined the company's board in 2009. He served as CEO since October 2020 and previously was interim president and CEO from May 2020 following the retirement of the company's founder. While he was CEO, Mr. Stachowiak worked to strengthen AMS' processes, balance sheet and management team in order to advance the company's growth initiatives. He also led the refinancing of the company's existing domestic product portfolio and entered into a new credit agreement. As Executive Chairman, he led the expansion of the management team. Importantly, he is also the company's largest shareholder, holding approximately 20% of AMS shares, which likely aligns his interests with the growth objectives and interests of other shareholders, in our view.

In addition, to help strengthen the team, AMS President Craig Tagawa becomes President and Chief Operating Officer (COO). He has extensive experience at AMS and formerly was CFO. His recent focus has been on deal structure and obtaining financing to support AMS' growth initiatives. Mr. Tagawa joined AMS in 1988. He was the company's Chief Financial Officer from 1992 to 2023 and also Chief Executive Officer of AMS subsidiary GK Financing. He served as the company's Chief Operating Officer from 1999-2022.

Company's goal is to expand and diversify revenue stream

Robert Hiatt will continue as Chief Financial Officer, a position he accepted in April, 2023. He has extensive experience and previously served as Chief Financial Officer of a public wholesale mortgage company and a private financial services company. Prior to that he was Chief Accounting Officer and

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Executive Vice President of a public eyecare and surgical facilities company. Earlier, he worked in public accounting in the audit division of Arthur Andersen, LLP for nine years. Ernie Bates will continue as Vice President of International Sales and Marketing. Curtis Ellis will continue as Director of Sales, Western Region, USA.

In addition to a management team with extensive industry related experience to support its growth strategy, the company has a strong balance sheet. AMS ended December with $13.8 million in cash and equivalents and amended its credit facility in 1Q24 to attain increased financial flexibility. The facility includes a $7 million revolving line of credit. The company also consistently generates positive cash flow, which has averaged about $8 million per annum since 2013.

Separately, Ranjit Pradhan is being promoted from Head of Marketing and Customer Advocacy to Vice President of Customer Advocacy and Global Marketing. He has 30 years of experience in healthcare and previously served in product management, marketing, technology and general management positions at Fortune 100 companies and global leaders including GE, Abbott, Elekta, Sysmex and Philips.

O&O direct footprint to boost & diversify revenue; New SVP of Radiation Oncology appointed

A core element of AMS's growth strategy includes taking stakes in certain treatment centers to capture more of the expected profits and upside. These venues represent the direct revenue segment compared to the company's traditional business leasing costly equipment to medical centers and cancer treatment centers.

Per the company's owned and operated (O&O) strategy and diversification initiatives, AMS is acquiring 60% interest in three Rhode Island radiation therapy cancer centers equipped with Linear Accelerators (LINACs).

The LINACs will further diversify revenue and expand the O&O footprint. The transaction is expected to be completed in 1H 2024. All three sites are equipped with state-of-the-art cancer treatment technology using LINACs, as noted, and comprehensive treatment planning software. The centers are close to Rhode Island hospital campuses:

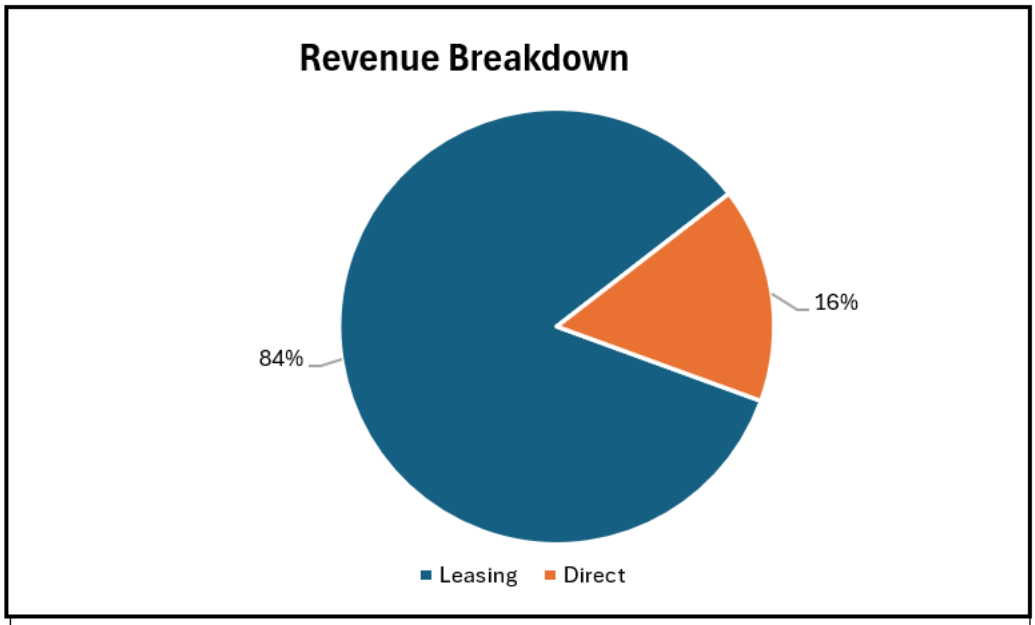
- Southern New England Regional Cancer Centers in Warwick
- Landmark Radiation Therapy in Woonsocket
- Roger Williams Cancer Center in Providence

The company views this as a milestone acquisition that expands its footprint of O&O radiation oncology centers into the U.S. If consummated, the transaction would add three new revenue streams that are expected to be accretive and come online this year. The company is acquiring these centers out of a bankruptcy proceeding, implying that the cost is attractive, and the company can continue to provide needed care in these markets and therefore avoid treatment delays for cancer patients.

AMS has appointed Greg Mercurio as Senior VP of Radiation Oncology, a position that is particularly important given the company's pending acquisition of the above noted 60% stake in the three Rhode Island radiation centers. He has extensive experience in the radiation oncology space, including 20 years in Certificate of Need attainment for the development and operation of radiation therapy facilities, according to AMS. Mr. Mercurio previously served a nationally renowned provider of radiation therapy for 15 years, strategizing the attainment of Certificates of Need to establish five radiation therapy facilities in Rhode Island in joint venture partnership with five community hospitals that in the aggregate treat more than 1,000 patients annually, producing $10 million in annual revenue. Mr. Mercurio has also been a radiation business consultant to major healthcare systems nationwide, manufacturers of radiation therapy products and others.

AMS also currently owns cancer care treatment centers in Peru, Ecuador, and Mexico. The venues in Ecuador and Peru are stand-alone Gamma Knife facilities. A new Gamma Knife Esprit upgrade earmarked for Peru represents the first Gamma Knife Esprit in Peru, according to management. The site in Puebla, Mexico is with a Versa HD Linear Accelerator that is slated to begin treating patients in 1H 2024. The Puebla, Mexico facility is the company's newest cancer center and a joint venture. In April of 2022, the company entered into a JV with Guadalupe Amor Y Bien to treat cancer patients in Puebla, Mexico. AMS holds an 85% stake in the JV, while JV partner Guadalupe, holds 15%.

The direct revenue segment contributed 16% of 2023 revenue and 16% of total revenue in 2022. As the company continues to expand the direct retail footprint, particularly with the pending closure of the Rhode Island transaction, we expect strong segment growth to continue.



Source: Company reports

New revenue expected to come online in 2024 from O&O businesses

The agreement to acquire controlling 60% interest in three radiation therapy cancer centers in Rhode Island is expected to expand the direct footprint and contribute annual revenue of roughly $9 million to $10 million. The pending acquisition is expected to close this month, we are optimistic about the outlook for the company.

Moreover, the installation of the digital linear accelerator with IMRT, VMAT, IGRT and radiosurgery capability, or LINAC, will be the most advanced radiation therapy treatment system in the company's installed base. It is also expected to produce a new revenue stream for AMS as patient treatments begin.

Growing revenue streams and business pipeline

As the company continues to expand the direct retail footprint, we expect strong segment growth to continue. AMS expects to expand its footprint further in South America and it would not surprise us to see AMS add new offshore sites over time. At the same time, the company has indicated that its sales pipeline is the strongest it has been in years, reflecting an enhanced focus on marketing and services, expansion into new business lines, opportunities to upgrade existing & install de novo equipment and its enhanced financial flexibility. AMS is engaged in multiple discussions for additional new business opportunities

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