May 15, 2024

Zacks Small-Cap Research

Sponsored – Impartial - Comprehensive

M. Marin
312-265-9211
mmarin@zacks.com

scr.zacks.com

10 S. Riverside Plaza, Chicago, IL 60606

American Shared Hospital Svces (AMS-NYSE AMERICAN)

AMS: 1Q24 Revenue Up, With Rhode Island Centers Coming on Stream in 2Q

AMS completed the acquisition of 60% interest in three Rhode Island radiation therapy cancer centers last week, expanding its direct footprint, which also includes cancer treatment centers in Peru, Ecuador & Mexico. Rhode Island is expected to add annual revenue of ~$9M-$10M. We are optimistic about AMS' prospects as its direct retail footprint & traditional business grow.

OUTLOOK

Revenue in 1Q24 advanced 5.9% y/y, driven by 14.5% & 38.4% respective improvements in PBRT and direct patient revenue, the latter due to international operations where patient volumes continue to increase. Ecuador's recently installed new Gamma Knife ICON and Peru's Gamma Knife represent the only Gamma Knife machines in these markets. AMS has indicated that its sales pipeline is the strongest it has been in years & revenue backlog has reached more than $210M, more than double the level at YE 2023.

Current Price (5/14/24)	$3.52
Valuation	**$4.80**

SUMMARY DATA

52-Week High	**$2.16**
52-Week Low	**$3.69**
One-Year Return (%)	**27**
Beta	**0.66**
Average Daily Volume (sh)	**12,811**
Shares Outstanding (mil)	**7**
Market Capitalization ($mil)	**$19**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**N/A**
Insider Ownership (%)	**28**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**39**
P/E using 2024 Estimate	**12**
P/E using 2025 Estimate	**9**

Risk Level	**Average,**
Type of Stock	**Small-Value**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2022	5 A	5 A	5 A	5 A	20 A
2023	5 A	6 A	5 A	6 A	21 A
2024	5 A	6 E	8 E	8 E	26 E
2025					32 E

Per Share Data

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2022	0.04 A	0.08 A	0.05 A	0.04 A	0.21 A
2023	0.03 A	-0.02 A	0.02 A	0.06 A	0.10 A
2024	0.02 A	0.07 E	0.10 E	0.10 E	0.29 E
2025					0.40 E

Quarters might not sum due to rounding & share counts

Disclosures on page 9

© Copyright 2024, Zacks Investment Research. All Rights Reserved.

HIGHLIGHTS 1Q24 FINANCIAL RESULTS

Revenue up, Revenue from Rhode Island cancer centers comes on stream in 2Q24

American Shared Hospital Services (AMS-NYSE American) reported 1Q24 results yesterday and provided a business update. The company provides stereotactic radiosurgery equipment and advanced radiation therapy treatment systems to treat cancer patients and has embarked on an ambitious growth strategy aimed at expanding by geographic market and by business line and boosting and diversifying revenue.

AMS recently launched a business model to own and operate (O&O) equipment itself at select locations, an initiative that is expected to boost revenue growth. To further this initiative, the company recently acquired controlling 60% interest in three radiation therapy cancer centers in Rhode Island, which is expected to expand the company's direct footprint. AMS also currently owns cancer care treatment centers in Peru, Ecuador and Mexico. Rhode Island is expected to contribute annual revenue of roughly $9 million to $10 million. As the company continues to expand the direct retail footprint, we expect strong segment growth to continue.

Revenue in 1Q24 advanced 5.9% year-over-year to $5.2 million. The increase was driven by a 14.5% advance in total PBRT (proton beam radiation therapy) revenue. While PBRT fractions fell 16.9% to 1,276 reflecting normal cyclical fluctuations, according to management, average reimbursements improved.

PBRT delivers higher radiation doses to the tumor with less radiation to healthy tissue. PBRT is an alternative to traditional external beam, photon-based radiation delivered by linear accelerators that was introduced clinically in the 1950s, and is currently used to treat multiple cancer types, including prostate, brain, spine, head and neck, lung, breast, gastrointestinal tract and pediatric tumors. Despite the advantage of the technology, the use of PBRT in the U.S. has been relatively limited until recently, primarily reflecting the high capital costs of developing these services.

Reflecting the apparent benefits of PBRT therapy and economics of owning the equipment, AMS has indicated that it would consider expanding its direct retail network to include a PBRT footprint when/where it can, although the company will also continue to engage in discussions with medical centers for partnership agreement via the traditional business model.

PBRT revenue offset a 1.7% decrease in Gamma Knife revenue to $2.6 million, as there were 6.8% fewer Gamma Knife procedures due to the expiration of two customer agreements. Importantly, direct patient services, or retail, revenue was $963,000, up 38.4% compared to $696,000 in 1Q23 due to the company's international operations. Patient volumes continue to grow at the international locations, Ecuador (which recently installed a new Gamma Knife ICON) and Peru. AMS' operations in both markets operate the only Gamma Knife machine in the respective country.

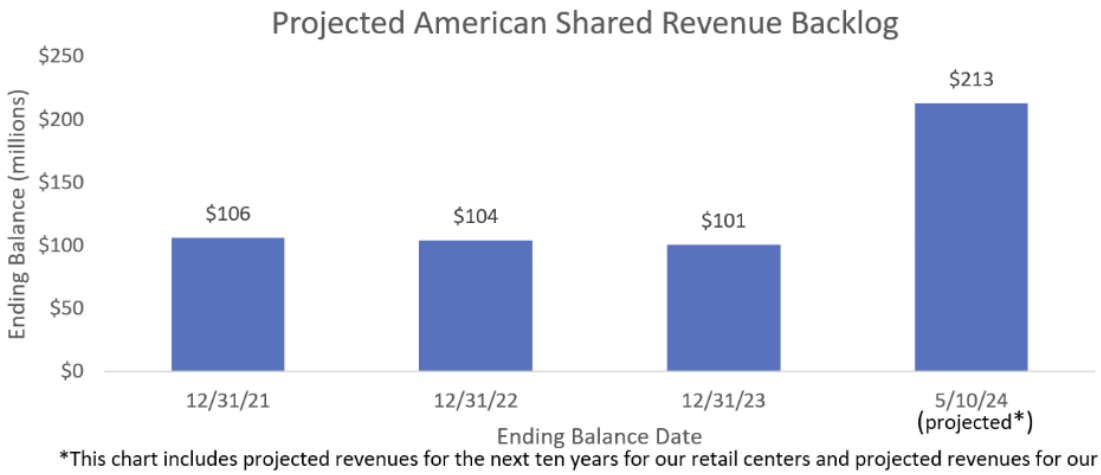
RI represents AMS' first domestic retail locations. Although the company incurred costs to close that transaction, there was no revenue as the deal closed after the quarter ended. The company will consolidate revenue from the new Rhode Island operations day 1 following the teal close on May 15, 2024, and is therefore expected to contribute to 2Q24 results. In addition, the site in Puebla, Mexico that has a Versa HD Linear Accelerator is slated to begin treating patients within the next 60 days and also represents a new revenue stream once patient treatments begin.

AMS registered gross profit of $2.1 million, up 12.3% from $1.91 million in 1Q23. The company's gross margin was 41.1%, compared to 38.7% in 1Q23. However, AMS recorded higher operating expense of to support expected growth, as well as non-recurring costs largely related to the recent acquisition of Rhode Island cancer treatment centers. The company reported an operating loss of $85,000 compared to operating income of $98,000 in 1Q23. Management indicated that some $377,000 of SG&A related to

new business opportunities, including the Rhode Island Radiation Therapy Cancer Centers acquisition. A tax benefit of $44,000 contributed to net income of $119,000, or $0.02 per share, compared to $188,000, or $0.03 in 1Q23.

Backlog up, with additional traditional, O&O projects expected over time

The company noted that its sales pipeline is robust and management anticipates announcing additional projects over time. Moreover, with Rhode Island , AMS' projected revenue backlog – measuring projected revenues for the next 10 years from retail centers and lease agreements through their respective expiration dates – has reached more than $210 million which is more than double the level at year-end 2023. In addition, over the past 12 months AMS has signed four lease extensions from its base of ten Gamma Knife sites, including an upgrade to a Leksell Gamma Knife Esprit (Elekta's latest model) for an existing customer, further augmenting backlog. Management indicated that it is engaged in discussions with several other medical centers for potential upgrades and lease extensions.



*This chart includes projected revenues for the next ten years for our retail centers and projected revenues for our lease agreements until their expiration dates.

Source: Company reports

The Gamma Knife Esprit was introduced in 2022. Esprit offers enhanced CT imaging, frame or frameless patient treatments and a more flexible and faster treatment planning system with remote access that simplifies and shortens the treatment process. AMS is installing several of the first Esprits in the U.S.

Believe cash supports initiatives to grow, diversify revenue, expand direct footprint…

With cash and equivalents of $13.04 million at the end of 1Q24, compared to $13.80 million at December 31, 2023, we believe AMS has the financial flexibility to continue to upgrade its installed base and pursue other growth measures. We are optimistic about the outlook for the company and also expect non-recurring costs to decrease significantly in 2024 unless the company engages in another significant M&A transaction.

The company's growth strategy includes expanding internationally, growing its product line and diversifying revenue, as well as the above-noted initiative to obtain a majority ownership in select cancer care treatment centers. Towards this latter goal, AMS currently owns cancer care treatment centers in Peru, Ecuador, and Mexico and recently announced the acquisition of three cancer treatment centers in Rhode Island, discussed below. The company is optimistic about its ability to replicate its traditional business model to support new business lines. Moreover, with a stronger sales focus in place, the company has indicated that its sales pipeline continues to grow, which management attributes partially to the expanded financial solutions it can offer customers following recent initiatives discussed below and to working more closely with strategic OEMs to move forward with prospective customers. The company has indicated that it is engaged in multiple discussions for additional new business opportunities.

As noted, the company currently has Gamma Knife equipment installed in ten medical centers in the U.S. Most of the company's Gamma Knife units in the U.S. are Gamma Knife Perfexion units, while AMS continues to upgrade platforms to the ICON and Esprit models. AMS generally aims to renew or extend a contract prior to its expiration. The company believes its enhanced focus on sales, marketing, and customer service under the newly aligned and expanded management team – including a new in-house customer advocate – has led to improved customer and OEM relations and greater success at achieving contract extensions, as well as growing its pipeline for future new business.

In addition, the company consistently generates positive cash flow, which has averaged about $8 million per annum since 2013. (Treatment for Covid patients disrupted other hospital treatments during the pandemic, which impacted the company's financial results in 2021-22.) The steady cash flow generation has enabled the company to accumulate the cash balance noted above. Moreover, reflecting management's conservative approach to expenditures, the company believes that its million cash balance, combined with the roughly $7 million on the revolver, can potentially be leveraged to provide $100 million in acquisition capital.

In addition to its original Gamma Knife operations, other major products for which the company provides financial and other services include:

- Leksell Gamma Knife®, through a partnership with Elekta AB
- Advanced Linear Accelerators (LINACS)
- Proton Beam Radiation Therapy systems (PBRT)
- MR Guided Radiation Therapy Linacs (MR LINACS)
- Brachytherapy Suites and systems

Outside of its JV partnership with Elekta for Gamma Knife installations, AMS is product and vendor agnostic on other radiation therapy products and solutions and, as noted, works with multiple major OEMs to provide financial solutions so that medical centers and cancer care facilities can acquire and offer these products and services to support their practices.

Direct business line expanded with Rhode Island acquisition

AMS closed the Rhode Island acquisition on May 9, 2024. All three sites are equipped with state-of-the-art cancer treatment technology using Linear Accelerators (LINACs) 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 as early as this month. The company has indicated that the aggregate annual revenue stream expected from the Rhode Island operations is expected to be roughly $9 million to $10 million. Moreover, the company believes the purchase price is attractive because AMS is acquiring these centers out of a bankruptcy proceeding and the company can continue to provide needed care in these markets and therefore avoid treatment delays for cancer patients.

In addition, the company is pursuing two other opportunities in Rhode Island and has filed CONs (certificates of need). One CON is to open a cancer treatment center in Bristol, Rhode Island, which AMS believes is an underserved market. The other is to install a PBRT device. While we are optimistic about the prospects of installing a new PBRT device, we note that the time required to design, construct the facility and then install the machine likely means that it would not be operational until some two to three years if/when the CON is approved.

VALUATION

As noted, we are encouraged about the potential benefits of the company's recent initiatives, including the acquisition of the Rhode Island facilities. The expected addition of these venues, plus the company's new Versa HD Linear Accelerator O&O site in Puebla, Mexico represent new revenue sources for AMS. Moreover, the company is optimistic about continuing to grow both its Gamma Knife operations and new businesses, as well as potentially introducing other business lines to support installation of additional radiation therapies in the future.

As the company develops a pipeline of new business opportunities, including additional PBRT and Gamma Knife projects, if new contracts wins close earlier than we forecast, it could imply potential upside to our model. We have made some adjustments to our model following 1Q24 results. We also apply a roughly 80% confidence metric to our 2025 EPS forecast to reflect the potential that revenue ramps more slowly than we forecast or that costs ramp higher.

AMS is not like traditional financial institutions or in-house arms of equipment manufacturers helping finance the installations at hospitals / medical centers. Thus, there does not seem to be a direct competitor, in our view. We look to AMS' recent trading history and note that over the past three years, the shares have traded in a P/E range of about 11x up to 21x on normalized EPS. If we apply a 15x multiple – within the historic range – and the above noted confidence metric to our 2025 forecast of $0.40, we derive a near-term valuation of $4.80.

If the company delivers milestones earlier than anticipated, it could impact these multiples. In success we would anticipate multiple expansion and share price appreciation over time. Any delay or failure in successful execution of the strategy could represent a potential risk to The company's valuation and cause the share price to decline. The company believe the risk / reward ratio could be attractive for investors who have a higher than average risk tolerance and longer time horizon.

RECENT NEWS

- American Shared Hospital Services reported 1Q24 results on May 14, 2024.
- AMS closed the Rhode Island deal on May 9, 2024.
- On December 13, 2023, AMS announced an agreement to reload Lovelace Medical Center ICON with new cobalt sources and a software upgrade.
- On November 28, 2023, American Shared Hospital Services announced the upgrading of its Ecuador Center Gamma Knife to the Gamma Knife ICON.
- American Shared Hospital Services entered into an agreement to acquire 60% majority interest in three radiation therapy cancer centers in Rhode Island on November 20, 2023.
- American Shared Hospital Services reported 3Q23 results on November 13, 2023.
- On October 2, 2023, AMS acknowledged the 20th anniversary of the first patient treated with stereotactic radiosurgery in Peru.
- On September 6, 2023, Gamma Knife Financing LLC, a Subsidiary of American Shared Hospital Services, provided a Gamma Knife ICON upgrade to Providence Swedish Radiosurgery Center, Seattle, WA.

RISKS

We believe risks to American Shared Hospital achieving its goals, and to our valuation, include the following, among others.

- AMS might not gain market share in new areas as quickly as the company expects, which could lead to slower than anticipated revenue ramp.
- The company could incur unanticipated costs associated with its initiatives.
- Competition could increase.
- The company might need to raise capital to support its strategy that might be dilutive to current shareholders.
- Government initiatives aimed at changing reimbursement rates could be more substantial than management anticipates.
- The company faces revenue concentration risk.
- The company faces technology risk. For example, the introduction of the Radiation Oncology Alternative Payment Model (RO APM), and the inclusion of PBRT in this model, may potentially limit the adoption of PBRT by medical centers (see Appendix).

PROJECTED FINANCIALS

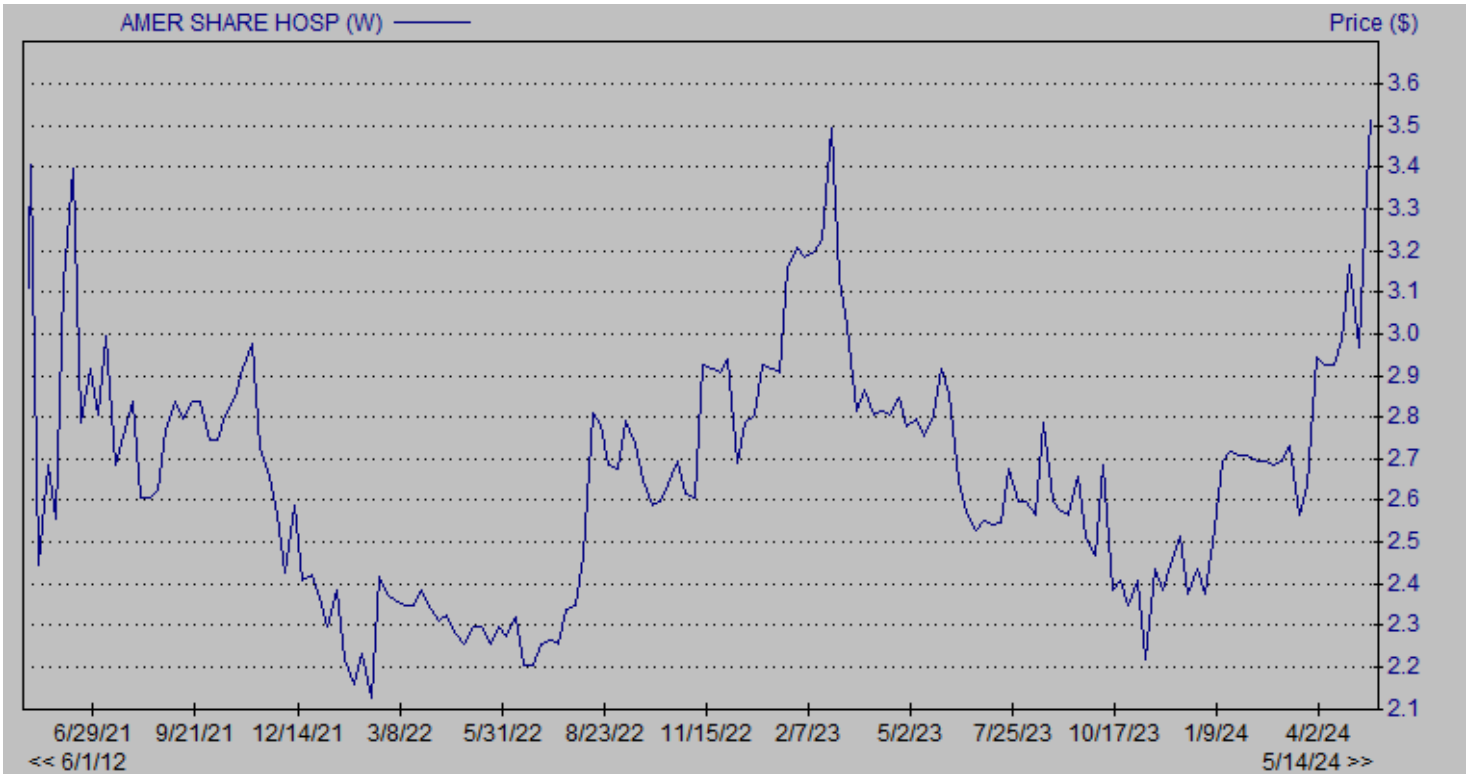
American Shared Hospital Services Income Statement & Projections ($ Mns except per share data)

	2022	*1Q23*	*2Q23*	*3Q23*	*4Q23A*	*2023A*	*1Q24A*	*2Q24E*	*3Q24E*	*4Q24E*	*2024E*	*2025E*
Revenues:												
Rental income from medical services	$16.66	$4.23	$4.81	$3.95	$4.79	$17.77	$4.25	$4.27	$4.28	$4.27	$17.07	$19.87
Patient income	3.09	0.70	0.76	0.99	0.91	3.35	0.96	1.89	3.25	3.24	9.34	11.88
Equipment sales, net	-	-	-	0.20	-	0.20	-	-	-	-	-	-
Total revenue	19.75	4.93	5.57	5.13	5.70	$21.33	5.22	6.15	7.53	7.52	26.42	$31.75
Costs of revenue:												
Maintenance & supplies	1.88	0.49	0.51	0.52	0.52	2.03		0.96	1.57	1.36	3.89	6.73
Depreciation & amortization	4.73	1.36	1.23	1.23	1.26	5.07		1.36	1.42	1.42	4.20	5.92
Other direct operating costs	3.67	0.88	1.02	1.10	1.03	4.03		1.14	1.26	1.47	3.87	5.09
Other	1.09	0.30	0.30	0.19	0.07	0.85	-	0.23	0.27	0.23	0.72	0.99
Total direct costs	11.36	3.02	3.05	3.03	2.88	11.98	3.07	3.69	4.52	4.48	15.74	18.73
Gross margin	8.38	1.91	2.52	2.10	2.82	9.34	2.14	2.47	3.01	3.04	10.67	13.02
Selling & administrative expense	5.15	1.54	1.99	1.74	1.76	7.02	1.88	1.79	1.75	1.75	7.17	7.70
Interest expense	0.81	0.27	0.28	0.28	0.29	1.11	0.35	0.29	0.29	0.28	1.20	1.20
Loss, write down			0.58	-	0.36	0.94		-	-	-	-	-
Operating income (loss)	2.43	0.10	(0.33)	0.09	0.41	0.27	(0.08)	0.39	0.97	1.00	2.30	4.12
(Loss) on early extinguishment of debt	-	-	-	-	-	-						
Interest & other income	0.09	0.07	0.11	0.14	0.11	0.43	0.11	0.13	0.13	0.11	0.48	0.41
Pretax income	2.52	0.17	(0.21)	0.23	0.51	0.70	0.02	0.52	1.10	1.11	2.77	4.53
Income tax expense	0.96	0.07	(0.04)	0.06	0.34	0.43	(0.04)	0.15	0.35	0.36	0.81	1.13
Net income	1.56	0.10	(0.18)	0.17	0.18	0.26	0.07	0.38	0.75	0.76	1.96	3.40
Plus (less) minority interests	(0.23)	0.09	0.07	(0.05)	0.24	0.35	0.05	0.03	0.02	0.03	0.13	(0.85)
Net income to AMS	1.33	0.19	(0.11)	0.12	0.41	0.61	0.12	0.41	0.77	0.79	2.09	2.55
Per share data												
EPS (FD)	$0.21	$0.03	($0.02)	$0.02	$0.06	$0.10	$0.02	$0.07	$0.10	$0.10	$0.29	$0.40
Avg shares out (FD)	6.303	6.472	6.336	6.432	6.552	6.393	6.576	6.586	6.596	6.606	6.591	6.572

Source: Company reports, Zacks estimates

© Copyright 2024, Zacks Investment Research. All Rights Reserved.

HISTORICAL STOCK PRICE



© Copyright 2024, Zacks Investment Research. All Rights Reserved.

DISCLOSURES

The following disclosures relate to relationships between Zacks Small-Cap Research ("Zacks SCR"), a division of Zacks Investment Research ("ZIR"), and the issuers covered by the Zacks SCR Analysts in the Small-Cap Universe.

ANALYST DISCLOSURES

I, M. Marin, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

INVESTMENT BANKING AND FEES FOR SERVICES

Zacks SCR does not provide investment banking services nor has it received compensation for investment banking services from the issuers of the securities covered in this report or article.
Zacks SCR has received compensation from the issuer directly, from an investment manager, or from an investor relations consulting firm engaged by the issuer for providing non-investment banking services to this issuer and expects to receive additional compensation for such non-investment banking services provided to this issuer. The non-investment banking services provided to the issuer includes the preparation of this report, investor relations services, investment software, financial database analysis, organization of non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Zacks SCR. The fees for these services vary on a per-client basis and are subject to the number and types of services contracted. Fees typically range between ten thousand and fifty thousand dollars per annum. Details of fees paid by this issuer are available upon request.

POLICY DISCLOSURES

This report provides an objective valuation of the issuer today and expected valuations of the issuer at various future dates based on applying standard investment valuation methodologies to the revenue and EPS forecasts made by the SCR Analyst of the issuer's business.
SCR Analysts are restricted from holding or trading securities in the issuers that they cover. ZIR and Zacks SCR do not make a market in any security followed by SCR nor do they act as dealers in these securities. Each Zacks SCR Analyst has full discretion over the valuation of the issuer included in this report based on his or her own due diligence. SCR Analysts are paid based on the number of companies they cover. SCR Analyst compensation is not, was not, nor will be, directly or indirectly, related to the specific valuations or views expressed in any report or article.

ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports and articles are based on data obtained from sources that it believes to be reliable, but are not guaranteed to be accurate nor do they purport to be complete. Because of individual financial or investment objectives and/or financial circumstances, this report or article should not be construed as advice designed to meet the particular investment needs of any investor. Investing involves risk. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports or articles or tweets are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.

CANADIAN COVERAGE

This research report is a product of Zacks SCR and prepared by a research analyst who is employed by or is a consultant to Zacks SCR. The research analyst preparing the research report is resident outside of Canada, and is not an associated person of any Canadian registered adviser and/or dealer. Therefore, the analyst is not subject to supervision by a Canadian registered adviser and/or dealer, and is not required to satisfy the regulatory licensing requirements of any Canadian provincial securities regulators, the Investment Industry Regulatory Organization of Canada and is not required to otherwise comply with Canadian rules or regulations.