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Zacks Small-Cap Research

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American Shared Hospital Svces (AMS-NYSE AMERICAN)

AMS: Benefits of Rhode Island, New International JV, Expected '*Asset-Light*' Model

AMS's O&O business model is driving revenue growth, with sites internationally & domestically, now that the acquisition of controlling interest in 3 Rhode Island centers has closed. Rhode Island expanded AMS's O&O retail / direct segment footprint substantially & contributed to a 27% y/y revenue increase in 2Q24.

Current Price (8/21/24)	$3.60
Valuation	**$4.85**

OUTLOOK

AMS's Versa HD Linac in Mexico began patient treatments this month, representing a new revenue stream set to begin in 2H24. AMS also recently signed a JV for a Gamma Knife facility in Guadalajara, Mexico, marking its 4th international O&O location. AMS will upgrade an existing Gamma Knife® Perfexion™ system there to an Esprit & also extended another lease agreement with a planned Esprit upgrade. AMS Leasing has extended 5 leases in the past 15mos. AMS has a range of opportunities under consideration. With $14.5m in cash to support its growth initiatives & a conservative fiscal strategy that leverages JVs and an 'asset-light' approach, we expect to see new projects unveiled over the next several quarters.

SUMMARY DATA

52-Week High	**$2.16**
52-Week Low	**$4.60**
One-Year Return (%)	**38**
Beta	**0.70**
Average Daily Volume (sh)	**102,717**
Shares Outstanding (mil)	**6**
Market Capitalization ($mil)	**$21**
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*	**36**
P/E using 2024 Estimate*	**20**
P/E using 2025 Estimate	**9**

*Adjusted EPS

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	7 A	8 E	8 E	27 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	0.55 A	0.08 E	0.08 E	0.73 E
2025					0.40 E

Quarters might not sum due to rounding & share counts

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HIGHLIGHTS RECENT MILESTONES, 2Q24 FINANCIAL RESULTS

Rhode Island cancer centers open; contributing to 2Q24 revenue advance

American Shared Hospital Services (AMS-NYSE American) reported 2Q24 results last week 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.

Retail segment revenue increased more than four-fold; expect O&O footprint to expand...

AMS's recently launched business model to own and operate (O&O) equipment itself at select locations is driving revenue growth. The company owns cancer care treatment centers in Peru, Ecuador and Mexico and also has a direct site in Puebla, Mexico that has a Versa HD Linear Accelerator. On May 9, 2024, AMS closed a transaction to acquire controlling 60% interest in three radiation therapy cancer centers in Rhode Island. Rhode Island represents AMS' first domestic retail locations and expand AMS's retail / direct business segment footprint substantially.

Direct business line expanded with Rhode Island acquisition

Revenue increased 27% year-over-year in 2Q24 to $7.1 million. The three Rhode Island radiation therapy facilities accounted for $1.9 million of the increase. Revenue from the Rhode Island operations were only included in consolidated results in mid-2Q24 and so did not include a full quarter. On an annual basis, Rhode Island is expected to contribute roughly $9 million to $10 million. With Rhode Island up and running, revenue from AMS's retail or direct patient services segment increased more than four-fold to $3.2 million, compared to $756,000 in 2Q23. Higher volumes at the company's other retail locations also contributed to the increase. Moreover, AMS's Versa HD Linear Accelerator at its 85%-owned Radiation Therapy Facility in Puebla, Mexico began patient treatments earlier this month, with contribution to consolidated revenue set to begin in 2H24. This represents a new revenue stream for AMS.

All three Rhode Island 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. The company views the Rhode Island deal as a milestone acquisition that expands its footprint of O&O radiation oncology centers into the U.S. As the company continues to expand the direct retail footprint, we expect strong segment growth to continue. A JV AMS signed in 3Q24 for a Gamma Knife facility in Guadalajara, Mexico marks the company's 4th international location and newest O&O location. AMS will hold a 70% interest and its partner, HSJ (Hospital San Javier, Mexico's first medical center to offer Gamma Knife treatments beginning in 1994) will own 30% interest. The JV plans to upgrade HSJ's existing Gamma Knife® Perfexion™ system to an Esprit.

Leasing segment revenue down, but new lease upgrade/extension sighed, with discussions continuing for additional site extensions

Revenue from the leasing segment was $3.9 million, down 19% compared to $4.8 million in 2Q23, partially reflecting the expiration of two contracts in 2023. Specifically, Gamma Knife revenue fell 9% to $2.7 million, compared to $3.0 million in 2Q23. The impact of the two expired contracts noted above was partially offset by a 67% increase in international Gamma Knife revenue. Total Gamma Knife procedures increased by 10% to 340 in 2Q24 compared to 309 in 2Q23, reflecting growth at international locations.

Importantly, in late 2Q24 the company extended its existing 10-year agreement with PeaceHealth Sacred Heart Medical Center at RiverBend in Springfield, Oregon and plans to upgrade the existing Gamma Knife ® Perfexion™ system there with an Esprit, which is Elekta's newest Gamma Knife ® radiosurgery system. 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. With the Esprit Gamma Knife treatment, patients can return home the same day as treatment. Installation is expected to be completed by October 1, 2024. Over the last 15 months, the AMS leasing segment has signed five lease extensions from its base of ten domestic Gamma Knife sites.

AMS has indicated that it is in in discussion for upgrades and extensions at several other locations. The company believes its enhanced focus on sales, marketing, and customer service under a newly aligned and expanded management team has led to improved customer relations and greater success at achieving contract extensions, as well as growing its pipeline for future new business. As noted, the company currently has Gamma Knife equipment installed in ten medical centers in the U.S. Most of these are Gamma Knife Perfexion units, while AMS continues to upgrade platforms to the ICON and Esprit models.

Revenue from the company's proton beam radiation therapy (PBRT) system installed at Orlando Health in Florida fell 5% to $2.4 million. Total proton beam radiation therapy fractions in 2Q24 were 1,236 compared to 1,370 in 2Q23, which represents a 10% decline, primarily attributable to general cyclical fluctuations, according to AMS.

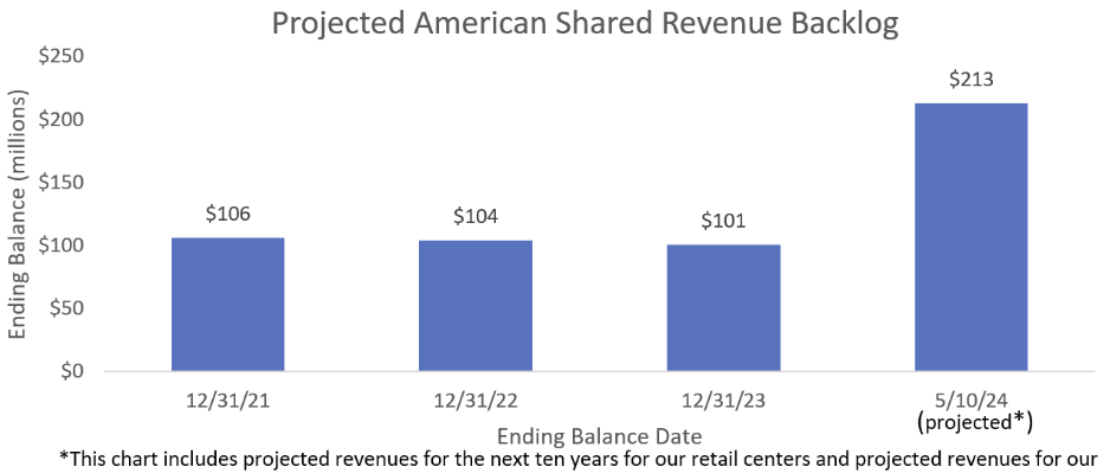
The company’s gross profit fell 2% to $2.5 million in 2Q24 and the gross margin was 35% compared to 45% in 2Q23. Margin compression is anticipated as the lower margin retail segment expands. AMS is optimistic about this segment and we expect the company to prioritize **direct segment** expansion over leasing segment going forward. Reflecting non-recurring costs related to the closing of the Rhode Island acquisition and other new business opportunities, 2Q24 operating income was breakeven. Reflecting interest income, an income tax benefit and $3.7 million gain on the Rhode Island acquisition (see below), net income attributable to AMS in 2Q24 was $3.6 million, or $0.55 per share, compared to a net loss of $111,000, or ($0.02) in 2Q23.

Adjusted EBITDA was $2.0 million, compared to $1.9 million in 2Q23. The increase primarily reflected the Rhode Island centers. At June 30, 2024, AMS had cash of $14.5 million up from $13.8 million at year-end 2023.

Conservative fiscal approach to expansion initiatives; ‘asset-light’ model anticipated

Management maintains a conservative approach to expenditures, including growth initiatives and acquisitions. For example, the company acquired the Rhode Island centers out of a bankruptcy proceeding, implying that the cost was attractive. This resulted in the above-noted immediate gain of $3.7 million on the acquisition, reflecting that the valuation of the assets acquired exceeded the purchase price, as indicated by third party valuation assessment.

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 – reached more than $210 million or more than double the level at year-end 2023. Recent lease extensions on its base of ten Gamma Knife sites are expected to further augment backlog, as is the recently announced JV with HSJ. Management has indicated that it is engaged in discussions with several other medical centers for additional 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

New PBRT opportunity in Rhode Island under direct segment model, asset-light model…

The company has a range of growth opportunities under consideration and also indicated that its sales pipeline remains strong. The company's growth strategy includes expanding internationally, growing its product line and diversifying revenue and obtaining a majority ownership in select cancer care treatment centers. The company has indicated that it is engaged in multiple discussions for additional new business opportunities and believes that its cash balance, combined with the roughly $7 million on the revolver, can potentially be leveraged to provide $100 million in acquisition capital.

The company has indicated that reflecting the apparent benefits of PBRT therapy and economics of owning the equipment, it would consider expanding its direct retail network to include a PBRT center. The company has filed a CONs (Certificate of Need) with the Rhode Island Department of Health to install a PBRT device in the state.

Given its conservative fiscal strategy, an O&O PBRT center likely would be launched under a relatively *asset-light* model. The company would not plan to own the actual facility, but would seek to partner with a REIT or other investor. This would reduce the company's upfront capital investment significantly. In addition, AMS also would likely seek to enter into a JV, if applicable, with a medical center, while retaining a majority interest in the PBRT center. This would further reduce the company's required upfront capital commitment and also likely broaden the medical services that the overall center could offer.

PBRT has several advantages compared to more traditional treatments. It 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. We also note that the time required to design, construct the facility and then install the machine likely means that if/when the CON is approved it would not be operational until some two to three years later.

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

With cash and equivalents of $14.5 million at the end of 2Q24, up from $13.8 million at year-end 2023, we believe AMS has the financial flexibility to continue to upgrade its installed base and pursue other growth measures. 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, as indicated earlier, the company believes that its cash balance, combined with the roughly $7 million on the revolver and 'asset-light' JV approach could potentially be leveraged to provide $100 million in acquisition capital.

VALUATION

We are encouraged about the potential benefits of the company's recent initiatives. The contribution from the Rhode Island facilities and 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 2Q24 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 $4.85.

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 2Q24 results on August 14, 2024.
- On August 6, 2024, AMS announced that patient treatments at Puebla, Mexico had started.
- AMS signed a JV for a Gamma Knife facility in Guadalajara, Mexico on July 9, 2024.
- On June 7, 2024, AMS extended its agreement with PeaceHealth Sacred Heart Medical Center.
- AMS closed the Rhode Island deal on May 9, 2024.
- On December 13, 2023, AMS announced an agreement with Lovelace Medical Center.
- 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.

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 with new businesses 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.
- AMS might need to raise capital to support its strategy that might be dilutive to current shareholders.
- Government initiatives aimed at changing reimbursement rates and other potential regulatory changes could be more substantial than management anticipates.
- The company faces revenue concentration risk.
- The company faces technology risk.

PROJECTED FINANCIALS

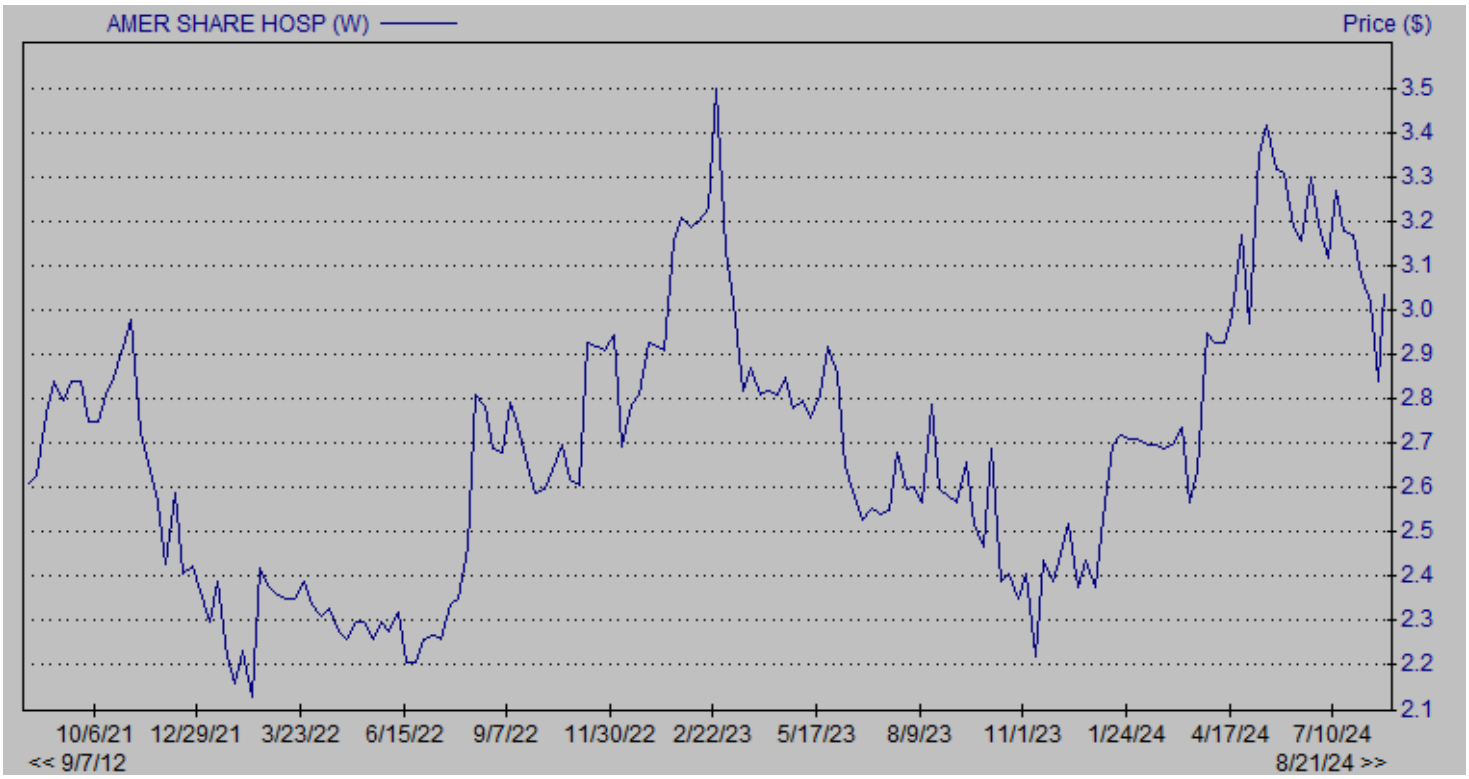
American Shared Hospital Services Income Statement & Projections ($ Mns except per share data)

	1Q23	*2Q23*	*3Q23*	*4Q23A*	*2023A*	*1Q24A*	*2Q24A*	*3Q24E*	*4Q24E*	*2024E*	*2025E*
Revenues:											
Rental income from medical services	$4.23	$4.81	$3.95	$4.79	$17.77	$4.25	$3.90	$4.28	$4.27	$16.70	$19.87
Patient income	0.70	0.76	0.99	0.91	3.35	0.96	3.16	3.25	3.24	10.61	11.88
Equipment sales, net	-	-	0.20	-	0.20	-	-	-	-	-	-
Total revenue	4.93	5.57	5.13	5.70	$21.33	5.22	7.06	7.53	7.52	27.32	31.75
Costs of revenue:											
Maintenance & supplies	0.49	0.51	0.52	0.52	2.03	0.51	0.55	0.59	0.60	2.25	2.68
Depreciation & amortization	1.36	1.23	1.23	1.26	5.07	1.30	1.46	1.47	1.47	5.70	6.78
Other direct operating costs	0.88	1.02	1.10	1.03	4.03	1.09	2.42	2.46	2.50	8.47	9.74
Other	0.30	0.30	0.19	0.07	0.85	0.17	0.17	0.17	0.15	0.66	0.75
Total direct costs	3.02	3.05	3.03	2.88	11.98	3.07	4.59	4.70	4.72	17.08	19.96
Gross margin	1.91	2.52	2.10	2.82	9.34	2.14	2.47	2.83	2.80	10.24	11.79
Selling & administrative expense	1.54	1.99	1.74	1.76	7.02	1.88	1.90	1.75	1.75	7.28	7.70
Interest expense	0.27	0.28	0.28	0.29	1.11	0.35	0.39	0.29	0.28	1.30	1.20
Loss, write down		0.58	-	0.36	0.94		0.19	-	-	0.19	-
Operating income (loss)	0.10	(0.33)	0.09	0.41	0.27	(0.08)	(0.00)	0.79	0.76	1.47	2.90
Purchase Gain RI Acquisition							3.68			3.68	
(Loss) on early extinguishment of debt	-	-	-	-	-						
Interest & other income	0.07	0.11	0.14	0.11	0.43	0.11	0.06	0.13	0.11	0.41	0.41
Pretax income	0.17	(0.21)	0.23	0.51	0.70	0.02	3.74	0.92	0.88	5.56	3.31
Income tax expense	0.07	(0.04)	0.06	0.34	0.43	(0.04)	(0.03)	0.29	0.28	0.50	0.83
Net income	0.10	(0.18)	0.17	0.18	0.26	0.07	3.77	0.63	0.60	5.06	2.48
Plus (less) minority interests	0.09	0.07	(0.05)	0.24	0.35	0.05	(0.17)	0.01	0.02	(0.08)	0.07
Net income to AMS	0.19	(0.11)	0.12	0.41	0.61	0.12	3.60	0.64	0.62	4.98	2.55
Per share data											
EPS (FD)	$0.03	($0.02)	$0.02	$0.06	$0.10	$0.02	$0.55	$0.08	$0.08	$0.73	$0.40
Avg shares out (FD)	6.472	6.336	6.432	6.552	6.393	6.576	6.583	6.584	6.585	6.582	6.585

Source: Company reports, Zacks estimates

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