February 26, 2025

Zacks Small-Cap Research

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American Shared Hospital Svces (AMS-NYSE AMERICAN)

AMS: Positive Implications of Expanding O&O Footprint, Patient Retail Segment

We are optimistic about AMS's measures to expand its O&O footprint. O&O or patient retail segment revenue more than tripled in 2024 through 3Q24 – the Puebla, Mexico center first began patient treatments in 3Q24 & therefore did not reflect a full quarter of revenue – and AMS continues to advance its O&O initiative.

Current Price (2/25/25)	$2.97
Valuation	**$4.85**

OUTLOOK

With recent approval from state regulators to move forward on a planned O&O PBRT facility in Rhode Island, we expect this and other potential new projects will likely leverage an 'asset-light' approach. The company has outlined a relatively asset-light model that includes seeking partners to reduce its upfront capital investment and still retain a majority interest in the center. Depending on the potential partner, this measure could not only reduce AMS's upfront capital commitment, but potentially also broaden the medical services that the center could offer. Moreover, AMS has a strong cash position to support its growth initiatives.

SUMMARY DATA

52-Week High	**$2.51**
52-Week Low	**$4.60**
One-Year Return (%)	**9**
Beta	**0.66**
Average Daily Volume (sh)	**9,761**
Shares Outstanding (mil)	**6**
Market Capitalization ($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	**5**
P/E using 2025 Estimate	**6**
P/E using 2026 Estimate	**10**

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	7 A	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	-0.03 A	0.01 E	0.53 E
2025					0.30 E

Quarters might not sum due to rounding & share counts

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EXPANSION OF O&O SEGMENT; POSITIVE IMPLICATIONS

Recent new O&O locations add new revenue streams

American Shared Hospital Services (AMS-NYSE American), which provides stereotactic radiosurgery equipment and advanced radiation therapy treatment systems to treat cancer patients, is conducting an ambitious growth strategy aimed at boosting and diversifying revenue. Recent measures include expanding operations geographically and by business line. For example, AMS purchased three Rhode Island facilities under its model to own and operate (O&O) equipment itself at select locations. The company also began operating a new Versa HD Linear Accelerator (LINAC) at its 85%-owned facility in Puebla, Mexico, which represents another new revenue stream. Growing its O&O or retail footprint is a core objective for AMS.

O&O or retail patient segment revenue more than tripled in first 9-months 2024…

In all, the company owns treatment centers in Rhode Island, Peru, Ecuador and the site in Puebla, Mexico that has the Versa HD LINAC noted above. The cancer centers in Rhode Island represent AMS's first domestic retail locations and expand AMS's retail / direct business segment footprint substantially. All three Rhode Island sites are equipped with state-of-the-art cancer treatment technology using LINACs and comprehensive treatment planning software. The centers are located near 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 AMS has expanded its direct or retail segment footprint, the revenue contribution from this segment has increased significantly. Specifically, revenues from the retail patient segment more than tripled in the first nine months of 2024 to $7.8 million, compared to $2.4 million for the same period of 2023. The increase primarily reflected revenue from the Rhode Island facilities, with some contribution from the radiation therapy center in Puebla, Mexico. As the latter only began treating patients in July 2024, it did not represent a full quarter revenue contribution.

As AMS continues to expand the direct retail footprint, we expect strong growth of the direct segment to continue. AMS signed a JV in 3Q24 for a Gamma Knife facility in Guadalajara, Mexico, the 4th international site 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%. The JV plans to upgrade HSJ's existing Gamma Knife® Perfexion™ system to an Esprit (see below). The company expects the facility to begin treating patients this year.

New PBRT opportunity in Rhode Island moving forward – expect asset-light approach…

In addition to the new Guadalajara JV, the company has a range of growth opportunities under consideration. For example, the company filed a CONs (Certificate of Need) with the Rhode Island Department of Health to install a PBRT device in the state under the O&O model, thereby expanding its direct retail network to include a PBRT center, and has obtained the CON to acquire the technology necessary to construct and operate a freestanding PBRT system in Johnston, Rhode Island. The time required to design, construct the facility and then install the machine means that the facility is not expected to be operational until some two to three years from receipt of the CON. The company expects construction could be completed by late 2027-early 2028 and that the new facility could begin treating patients then.

The company believes its facilities operate in underserved areas of Rhode Island. Moreover, with only two PBRT systems currently in operation in the northeast, according to AMS, the company also believes the location of the planned facility enables access to this treatment and will enable many Rhode Island cancer patients to avoid the need to travel to Boston or New York for critical care.

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 high capital costs.

Given its conservative fiscal strategy, the company has outlined a relatively *asset-light* model for opening a new O&O PBRT center. We would expect the company to seek to partnership to reduce its upfront capital investment and still retain a majority interest in the PBRT center. Depending on the potential partner, this could not only reduce the company's required upfront capital commitment, but potentially also broaden the medical services that the overall center could offer.

…While initiatives to grow rental segment also continue…

As the company continues to expand its O&O footprint, it also continues to engage with existing and potential new customers to sign, renew and extend lease agreements. 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.

Generally, extending an existing lease also involves an equipment upgrade so that the facility has the latest technology available and most of the existing leases are of Gamma Knife Perfexion units that are candidates for upgrades to the ICON and Esprit models. For example, the company extended its existing 10-year agreement with PeaceHealth Sacred Heart Medical Center at RiverBend in Springfield, Oregon with plans to upgrade the existing Gamma Knife ® Perfexion™ system with an Esprit. Esprit, introduced in 2022, is the newest Gamma Knife ® radiosurgery system. 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. The company has noted that its sales pipeline is robust and management anticipates announcing additional projects over time, with discussions ongoing with several medical centers for additional potential upgrades and lease extensions. AMS believes its enhanced focus on sales, marketing, and customer service has led to improved customer relations and greater success at achieving contract extensions, as well as growing its pipeline for future new business.

Strong cash position to support growth strategy …

With cash and equivalents of $14.1 million at the end of 3Q24, 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.

Anticipate 4Q24 non-recurring costs related to growth initiatives

Separately, the company is expected to report 2024 results in late March if the timeline is similar to last year. As the Rhode Island treatment centers and Puebla PBRT facility ramp, we forecast 4Q24 revenue of $7.7 million compared to $5.9 million in 4Q23, with a more than tripling of direct patient revenue projected to $3.72 million. With some non-recurring costs related to the above noted JV, planned Rhode Island PBRT and other growth initiatives, we model EPS of $0.01, compared to $0.09 recorded in 4Q23.

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, with the new Guadalajara JV expected to come online this year. 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.

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 17x multiple – within the historic range – and a roughly 90% confidence metric to our 2025 EPS forecast to reflect the potential that revenue ramps more slowly than we forecast or that costs ramp higher, we derive a near-term valuation of roughly $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

- AMS announced it received official notice of Certificate of Need approval to acquire the technology to construct and operate a PBRT facility in Rhode Island on December 17, 2024.
- AMS reported 3Q24 results on November 13, 2024.
- On October 18, 2024, AMS announced key management appointments.
- 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.
- As the company continues its diversification strategy, it still faces revenue concentration risk until the strategy is further advanced.
- The company faces technology risk.

PROJECTED FINANCIALS

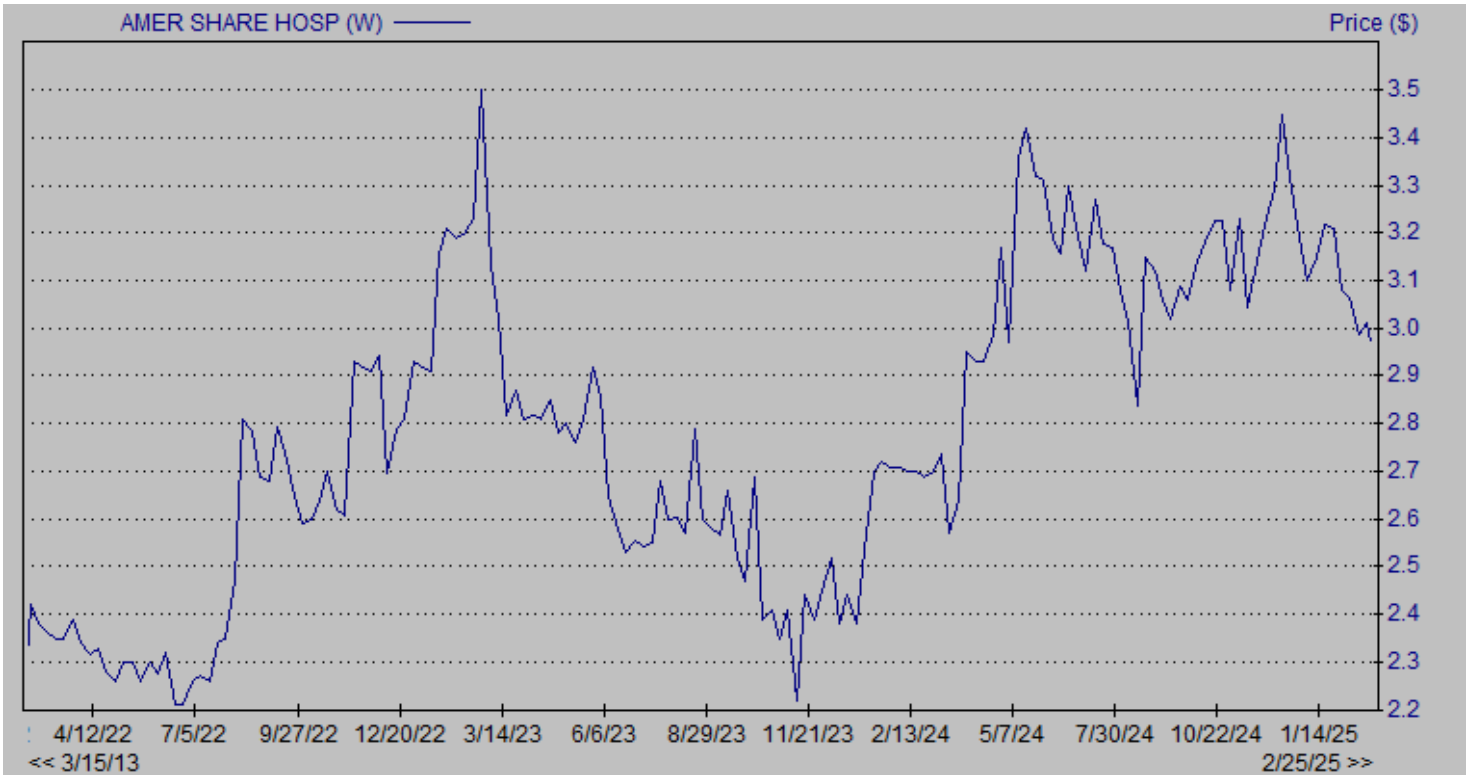
American Shared Hospital Services Income Statement & Projections ($ Mns except per share data)

	1Q23	*2Q23*	*3Q23*	*4Q23A*	*2023A*	*1Q24A*	*2Q24A*	*3Q24A*	*4Q24E*	*2024E*	*2025E*
Revenues:											
Rental income from medical services	$4.23	$4.81	$3.95	$4.79	$17.77	$4.25	$3.90	$3.31	$3.98	$15.44	$16.76
Patient income	0.70	0.76	0.99	0.91	3.35	0.96	3.16	3.69	3.72	11.53	14.99
Equipment sales, net	-	-	-	0.20	0.20	-	-	-	-	-	-
Total revenue	4.93	5.57	4.93	5.90	$21.33	5.22	7.06	7.00	7.70	26.97	31.75
Costs of revenue:											
Maintenance & supplies	0.49	0.51	0.52	0.52	2.03	0.51	0.55	0.61	0.59	2.26	2.28
Depreciation & amortization	1.36	1.23	1.23	1.26	5.07	1.30	1.46	1.67	1.67	6.09	6.15
Other direct operating costs	0.88	1.02	1.10	1.03	4.03	1.09	2.42	3.18	3.18	9.87	11.50
Other	0.30	0.30	0.19	0.07	0.85	0.17	0.17	0.17	0.17	0.68	0.69
Total direct costs	3.02	3.05	3.03	2.88	11.98	3.07	4.59	5.63	5.62	18.91	20.62
Gross margin	1.91	2.52	2.10	3.02	9.34	2.14	2.47	1.37	2.09	8.07	11.13
Selling & administrative expense	1.54	1.99	1.74	1.76	7.02	1.88	1.90	1.92	1.81	7.51	7.43
Interest expense	0.27	0.28	0.28	0.29	1.11	0.35	0.39	0.34	0.30	1.37	1.20
Loss, write down		0.58	-	0.36	0.94		0.19		-	0.19	-
Operating income (loss)	0.10	(0.33)	0.09	0.61	0.27	(0.08)	(0.00)	(0.89)	(0.02)	(1.00)	2.51
Purchase Gain RI Acquisition							3.68	0.26		3.94	
(Loss) on early extinguishment of debt	-	-	-	-	-					-	
Interest & other income	0.07	0.11	0.14	0.11	0.43	0.11	0.06	0.05	0.05	0.26	0.26
Pretax income	0.17	(0.21)	0.23	0.71	0.70	0.02	3.74	(0.58)	0.02	3.20	2.77
Income tax expense	0.07	(0.04)	0.06	0.34	0.43	(0.04)	(0.03)	(0.17)	0.01	(0.24)	0.77
Net income	0.10	(0.18)	0.17	0.38	0.26	0.07	3.77	(0.41)	0.02	3.44	1.99
Plus (less) minority interests	0.09	0.07	(0.05)	0.24	0.35	0.05	(0.17)	0.20	0.00	0.09	0.07
Net income to AMS	0.19	(0.11)	0.12	0.61	0.61	0.12	3.60	(0.21)	0.02	3.53	2.06
Per share data											
EPS (FD)	$0.03	($0.02)	$0.02	$0.09	$0.10	$0.02	$0.55	($0.03)	$0.01	$0.53	$0.30
Avg shares out (FD)	6.472	6.336	6.432	6.552	6.393	6.576	6.583	6.482	6.585	6.557	6.559

Source: Company reports, Zacks estimates

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