

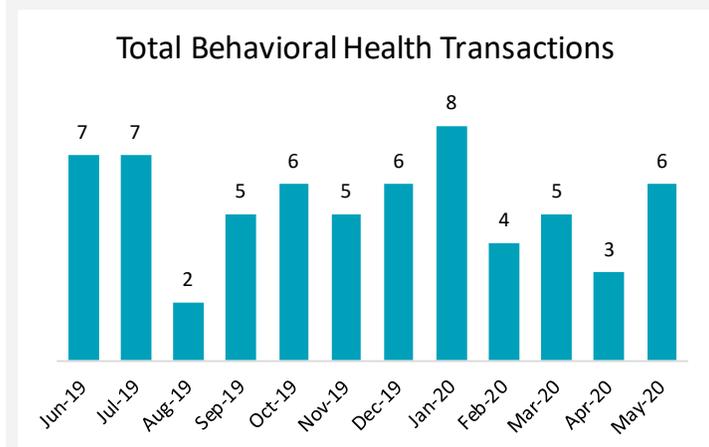
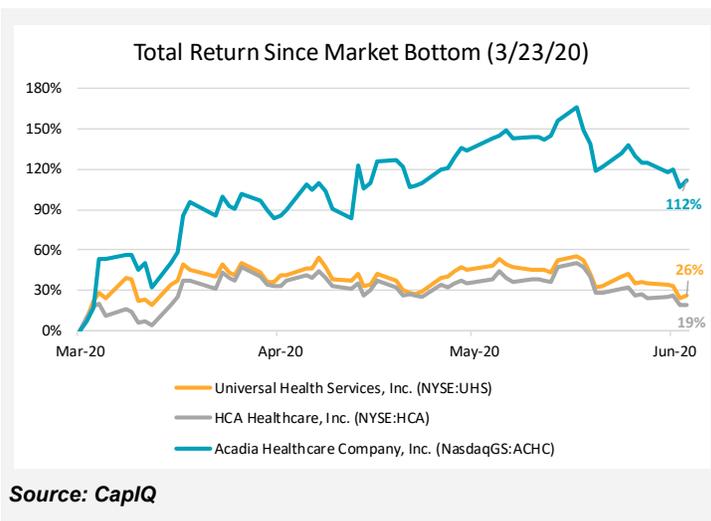


Is the Behavioral Health Sector a Shelter from the COVID-19 Storm?

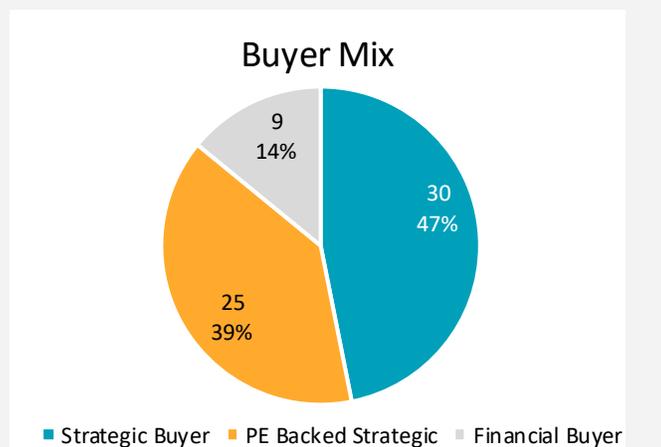
There is little doubt COVID-19 impacted almost every aspect of the healthcare industry; however, some sectors were able to adapt and pivot better than others. Behavioral health providers have been particularly successful at leveraging telemedicine to continue providing care to their patients. Many behavioral health companies, particularly community-based therapy centers, have even reported an increase in patients and a decrease in cancellations.

The comparative strength of behavioral health is reflected in public market data as illustrated by comparing share prices of Acadia Healthcare, Universal Health Services, and HCA Healthcare. All three saw their share prices plummet more than 50% once a national health emergency was declared in March, bottoming out on March 23rd. Since that date, Acadia—the most “pure play” behavioral health company of the group—has regained most of its lost share price and is now up over 100% since its low point. Universal and HCA, which are heavily weighted toward general acute care, have also rebounded, but are up only 26% and 19% respectively.

Given the uncertainty surrounding the reopening of the economy, larger companies and private equity investors alike are looking to grow and fortify their businesses with “pandemic resistant” services such as behavioral health. Acquisition activity in the space is already showing signs of improvement, with May 2020 merger and acquisition volume rebounding to Q4-2019 levels after a brief pause in April. Over the last twelve months, strategic buyers (including those backed by private equity) have been active, representing nearly 86% of buyers. Nine private equity firms made new investments in the sector, which we expect will lead to future M&A activity as they seek add-on acquisitions.

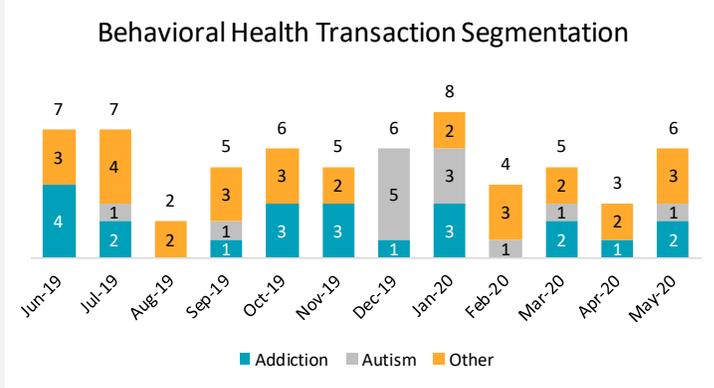


Source: CapIQ, EdgePoint research



Behavioral Health Sector Transactions

Behavioral Health continues to be an active sector for M&A transactions, consistently delivering five or more transactions each month. For the twelve-month period ended in May, there were 64 transactions, with 21 of those related to the acquisition of clinics that specialize in addiction recovery. Clinics serving children with autism or developmental disabilities were also favored targets for acquisition with 12 completed transactions over the past twelve months. We expect this focus on higher-margin niche services to continue; however, we also expect to see more health systems acquire or partner with community-based mental health clinics, given the importance of integrating behavioral health with medical care to maintain good community health at a reasonable cost.



Source: CapIQ

Date Closed	Buyer / Investor	Target	Description
Notable Addiction Acquisitions			
05/15/2020	AppleGate Recovery	Medication Assisted Recovery Centers	Suboxone treatment centers for opioid addiction
01/23/2020	Pinnacle Treatment Centers, Inc.	Aegis Treatment Centers, LLC	Network of clinics that provide outpatient narcotic treatment services
03/05/2020	Discovery Behavioral Health	New Hope Ranch, LLC	Addiction treatment centers
01/07/2020		Associated Behavioral Healthcare, Inc.	
11/15/2019		Authentic Recovery Center	
10/22/2019		New Life Addiction Counseling Services	
01/24/2020	Summit Behavioral Healthcare, LLC	PEAK Behavioral Health Services	Hospital and residential treatment Center in New Mexico
Notable Autism Acquisitions			
01/30/2020	Acorn Health	Macomb Center	ABA center for children with autism
12/09/2019		Behavior Therapy Specialists of IL & MO	
12/20/2019	The Speech Pathology Group, Inc.	Comprehensive Autism Center, Inc.	ABA service provider
12/13/2019	Regal Healthcare Capital Partners	Kidz Therapy, Inc.	Evaluation and behavioral healthcare services for infants and children
12/05/2019	New MainStream Capital	Center for Social Dynamics, LLC	Programs include applied behavior analysis and adult transition
Other Notable Behavioral Health Acquisitions			
03/23/2020	Refresh Mental Health, Inc.	Cielo House	Eating disorder treatment center
02/28/2020	Bay Psychiatric Associates	Lennox Hill TMS Psychiatric Assoc.	Psychiatric services and treatment for depression including TMS
10/30/2020	Ozark Guidance	Counseling Associates, Inc.	General behavioral health companies
10/30/2020		Mid-South Health Systems	

Addiction Treatment Platform Companies

The opioid crisis continues to engulf the nation, driving the demand for substance abuse treatment services. The addiction treatment market is highly fragmented, making it attractive for merger and acquisition activity, investments, and partnership. Historically, deals for substance abuse disorder treatment facilities have accounted for about 33% of the total behavioral healthcare sector deals. This is largely driven by the Affordable Care Act’s mandate for health plans to cover substance abuse services, placing the coverage within reach of many more affected individuals. A healthy amount of activity is expected to continue within the sector as small and moderate-sized, independent programs continue to be acquired by larger, better capitalized, and more managerially sophisticated enterprises.

Outpatient Example:

BayMark Health Services is a leader in the opioid treatment industry operating more than 218 locations, offering various treatment methods for opioid addiction, across the country.

Add-On Investments

- 06/19/2020 • Narcotic Addiction Treatment Agency
- 4/24/2019 • Recovery Services of New Mexico
- 11/01/2018 • SpecialCare Hospital Management Corporation
- 03/02/2018 • Canadian Addiction Treatment Centers
- 12/29/2017 • Health Care Resources Center
- 01/23/2017 • The Coleman Institute
- 01/16/2017 • AppleGate Recovery

Geographic Footprint



Webster Capital acquired BayMark Health Services in 2015. Since then, the company has made 7 add-on acquisitions that diversified the business geographically and increased BayMark’s services offering.

Inpatient Example:

Pinnacle Treatment Centers, headquartered in Mt. Laurel, NJ, provides inpatient and outpatient treatment for those suffering from substance abuse addiction.

Add-On Investments

- 01/17/2020 • Aegis Treatment Centers
- 05/01/2019 • Practice Management Associates
- 05/01/2019 • Addiction Medicine Care of Columbus
- 04/17/2019 • Addiction Medicine Specialists
- 10/05/2018 • Two Opioid Treatment centers in Dayton
- 04/02/2018 • Two Locations of the Family Counseling Center for Recovery

Geographic Footprint



Linden acquired Pinnacle Treatment Centers in 2016. Since then, the company has made 6 add-on acquisitions to expand the business geographically and expand their services offering. Pinnacle is committed to serving communities that have been plagued by the opioid epidemic.

Successful Autism Services Platforms

Private equity buyers pursue a wide range of strategies when it comes to growth of a platform acquisition, with the most common being “Buy & Build” and “Organic Growth,” or a mix of the two. A common element of a private equity transaction is “roll-over equity,” where the seller effectively sells less than 100% and remains invested in the company. By doing this, the seller’s investment grows with the company, often leading to a significant “second bite of the apple.” This approach is common in a platform acquisition (a private equity firm’s first acquisition in the space), and may also be offered for add-on acquisitions (where the platform company is the buyer). Willingness to roll over equity also tends to yield higher valuations as it demonstrates the seller’s conviction the business is poised for future growth.

Buy & Build Example: AUTISM LEARNING PARTNERS

A common approach for private equity is to make a platform acquisition, and make several smaller acquisitions over a period of 3-7 years. After which, they sell to either a large strategic company or another private equity fund.



Great Point made 5 add-on acquisitions that diversified the business geographically, expanding its operational footprint from three to over thirty states, and increasing ALP’s service offerings. Revenue grew approximately 30% annually over these 7 years.

Since being acquired by FFL, the company has completed two more add-on acquisitions.

Organic Growth Example: Florida Autism Center Start here. Go anywhere.

Another common approach is to grow a business organically by opening new locations, expanding services or products offered, and several other strategies.



As part of their investment thesis, Shore Capital developed a plan to grow via organic growth by opening new locations, growing the business from 5 to 52 locations.

Other Notable Transactions

Despite the global pandemic caused by COVID-19, the behavioral health sector stands out as recession-resilient and a safe haven for investors seeking merger and acquisition opportunities. According to the Centers for Disease Control and Prevention, an estimated 50% of the U.S. population will develop a mental illness or disorder that requires behavioral therapy in their lifetime. However, significant treatment needs remain unmet, with more than 55% of adults with significant behavioral health ailments going untreated, according to Mental Health America's 2020 report: The State of Mental Health in America. As a result, the behavioral health sector continues to experience significant economic and demographic tailwinds that are driving acquisition activity. Several notable transactions have been completed in 2020. A few select transactions are outlined below.



Acquired by



Anthem acquires Beacon Health Options— March 2020

Beacon Health Options is the largest independently held behavioral health organization in the country. The acquisition aligns with Anthem's strategy to diversify into health services and deliver market-leading integrated solutions and care delivery models that personalize care for people with complex and chronic conditions.

Anthem is a leading health benefits company dedicated to improving lives and communities, and making healthcare simpler. Through its affiliated companies, Anthem serves more than 78 million people, including over 40 million within its family of health plans.



Acquired by



Refresh Mental Health acquires Cielo House— March 2020

Cielo House is a comprehensive eating disorder treatment center with four locations throughout the San Francisco Bay area. The acquisition of Cielo House expands Refresh's presence to the West Coast and diversifies their services offering.

Founded in 2017, Refresh Mental Health is the parent company of leading mental health practices with unique and specialized programs throughout the United States. Refresh promotes clinical excellence and client access to high quality mental healthcare by partnering with leading practices with specialized programs.



Acquired by



Galen Partners acquires Evolve Treatment Centers— January 2020

Headquartered in Los Angeles, CA, Evolve is a leading adolescent behavioral health services provider, specializing in mental health, trauma, and substance abuse for adolescents in need. Evolve's mission is to transform the teen mental health space, ensuring that teens and their families have the highest level of compassionate care available. Galen Partners is looking forward to expanding the Evolve platform so that troubled adolescents can get the care they need.

Founded in 1990, Galen Partners is a leading healthcare-focused growth equity investment firm. With nearly \$1 billion invested over six funds, Galen has invested in and helped to build more than 80 companies since the firm's inception.

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