

GROWING UNMET NEED FOR SCHOOL-BASED SERVICES

PEDIATRIC BEHAVIORAL HEALTH SERVICES SECTOR UPDATE | JANUARY 2024



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Pediatric Behavioral Health Services

Growing Unmet Need for School-Based Services

KEY SECTOR TAKEAWAYS

Capstone Partners' [Healthcare Investment Banking Group](#) is pleased to share its Pediatric Behavioral Health Services report. Merger and acquisition (M&A) activity in the Pediatric Behavioral Health Services sector outperformed the broader M&A middle market. Close to 50 deals closed in 2023 down slightly from the 57 transactions completed in 2022. In particular, private equity has shown a strong appetite for school-based therapy providers and companies that have developed solutions to combat the growing pediatric mental health crisis. Several key report takeaways are outlined below.

1. Sector M&A activity has moderated compared to the prior year period, with 49 transactions announced or completed through year-to-date (YTD) 2023.
2. The increased need for special education-related services has coincided with acute shortages of clinicians such as speech language pathologists (SLPs) and board certified behavior analysts (BCBAs).
3. As the pediatric mental health crisis worsens, parents and school administrators recognize that it is critical to deliver mental health services in school-based settings, yet schools lack the expertise and access to clinicians to develop effective programs.
4. School districts struggling to provide the necessary support to students under the Individuals with Disabilities Education Act, have increasingly turned to outsourced providers to deliver allied health, behavioral health, and now mental health services.

Capstone Partners has developed a full suite of corporate finance solutions, including, financial advisory services, merger and acquisition advisory, debt advisory, and equity capital financing to help privately owned businesses and private equity firms navigate through each stage of a company's lifecycle.

To learn more about Capstone's wide range of advisory services and Pediatric Behavioral Health Services sector knowledge, please [contact us](#).

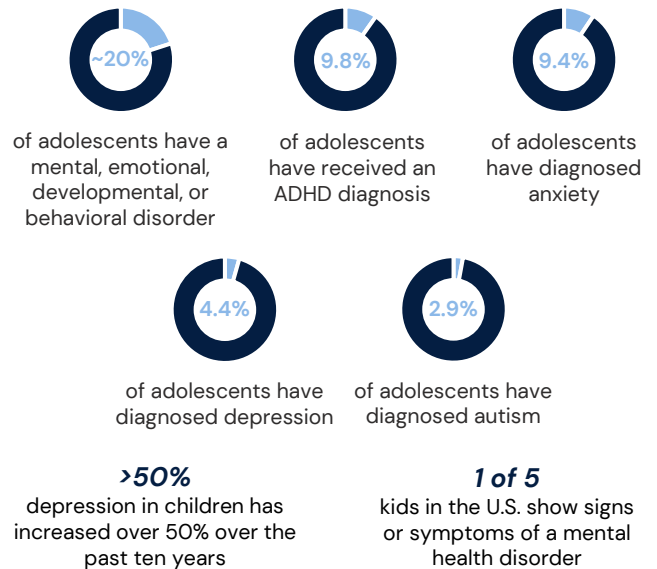
HEIGHTENED DEMAND FOR SCHOOL-BASED THERAPEUTIC SERVICES

Demand for school-based therapy and behavioral health services has continued to grow. Educators, pediatricians, parents, social workers, and the government have increasingly recognized the benefits of intensive therapy to enhance critical language, social, occupational, and fine/gross motor skills; all of which are vital building blocks for academic success.

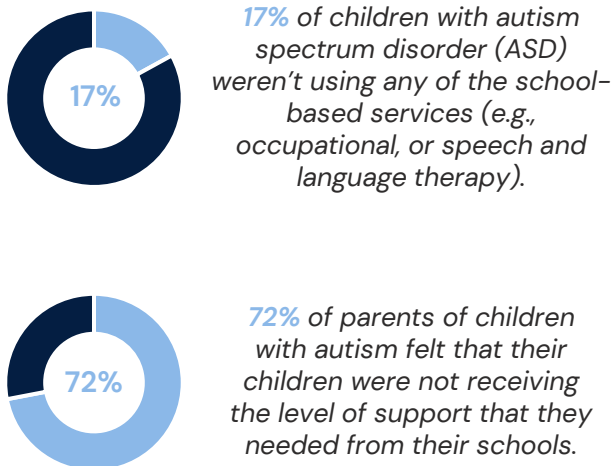
The increased need for special education-related services has coincided with acute shortages of clinicians such as SLPs and BCBA's, posing challenges for schools to provide the necessary support to students under the Individuals with Disabilities Education Act. The shortage of SLPs in the U.S. has largely been due to the limited number of openings in graduate programs, and the increased need for SLPs as their scope of practice widens and the autism rate grows. Employment for speech-language pathologists is projected to grow 19% between 2022 and 2032, according to the Bureau of Labor Statistics.¹ Additionally, demand for BCBA's has been outpacing supply. Currently, there are 66,339 BCBA certifications in the U.S. as of 2023, while at the same time there were 57,569 BCBA job postings in 2022 alone, according to the Behavior Analysis Certification Board.^{2,3}

In addition, school administrators and teachers have been clamoring for mental health support solutions driven by an unprecedented increase in mental health issues facing children and teenagers. Prior to COVID, the U.S. had already been seeing a significant increase in the prevalence of mental health issues among adolescents. Anxiety and depression have increased markedly among children and teenagers in line with the rise of social media, ubiquitous use of smartphones, and after-effects of the COVID-19 pandemic.

Mental Health Statistics for Youths Ages 3-17



Dire Need for Therapeutic Care in Schools



School districts have been providers of pediatric mental health out of both necessity and choice. Students who have faced a lack of external options have been more likely to utilize school-based services, even when external options are available. Students struggling with psychological or emotional issues have also been more likely to be distracted in class, not attend school, or drop out of schools entirely. Surveys have shown that the majority of school officials identify "adolescents in crisis" as a top concern, while serious mental health-related crises now affect more than a third of U.S. adolescents, according to a study by EAB.⁴ Additionally, 50% were concerned that districts don't have adequate staff to address student mental health needs, according to a nationwide survey of parents and administrators on perceptions of school-based mental health.⁵

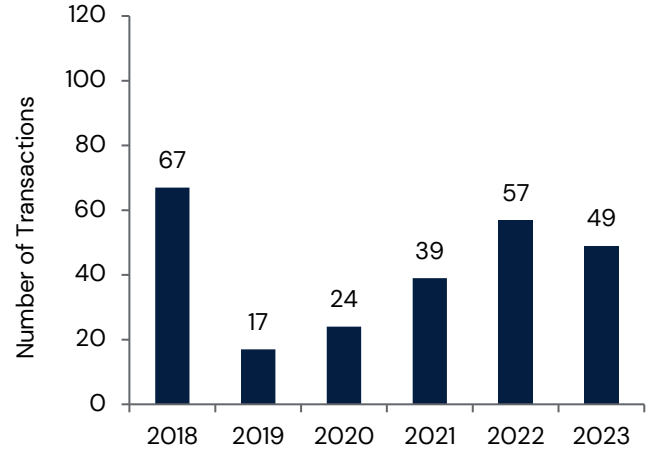
Source: Ontario Autism Coalition and Capstone Partners

SECTOR M&A OUTPACES BROADER MARKET

Deal volume moderated slightly in the Pediatric Behavioral Health Services sector with 49 transactions announced or completed through 2023, following a more robust M&A environment in 2022. This marks a 14% decrease over the prior year period, which compares favorably to the broader M&A markets, which declined 25.2% YOY, according to Capstone Partners' Q3 2023 Capital Markets Update.

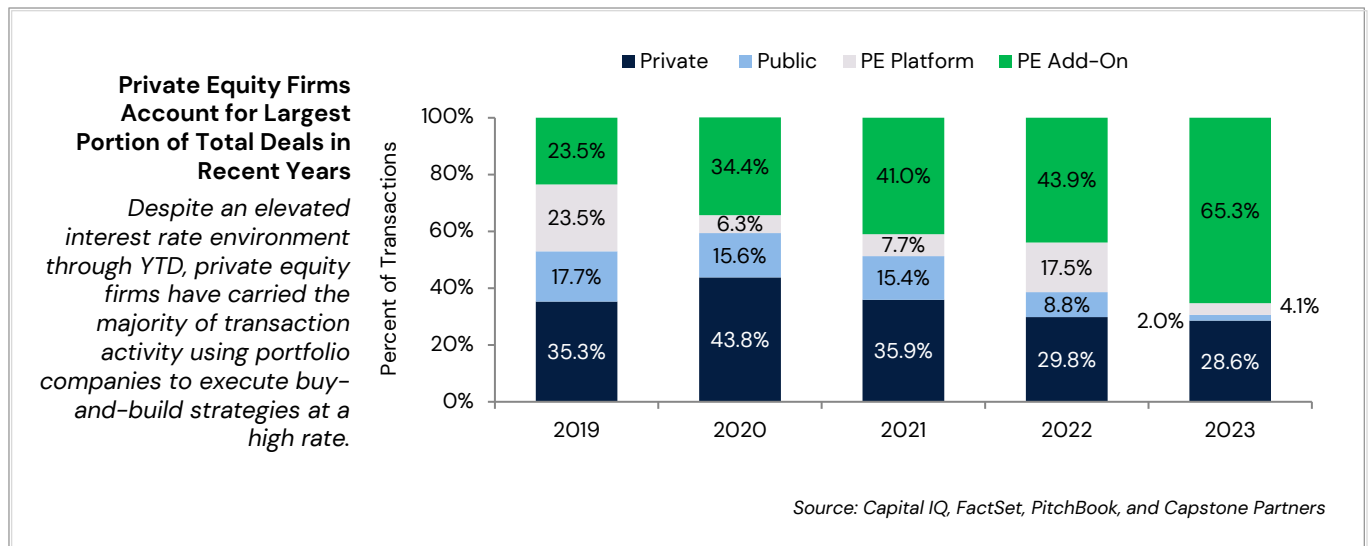
Deal volume was primarily driven by private equity add-on acquisitions, accounting for 65.3% of total transactions for 2023. However, platform investments from sponsors had fallen to 4.1% of deal volume through full-year 2023, compared to 17.5% of deal volume through full-year 2022. Private equity transaction activity in general softened in 2023, as exits of middle-market companies dropped by 25% during Q3, according to PitchBook.⁶

Sector M&A Keeps Pace With 2022 Levels



Source: Capital IQ, FactSet, PitchBook, and Capstone Partners

Buyers showed a strong appetite for sector players that maintained robust financial performance through 2023, many of which were focused on offering school-based and mental health related services. For clinic and home-based autism service providers, labor challenges and stagnant payer rates forced sponsors to prioritize operational improvements alongside organic growth. "I think a lot of investors mistook a surplus of demand for an easy ability to generate good financial outcomes. Meaning that there were so many children who needed access to care, they assumed financial success would follow," said John Hennegan, Partner at Shore Capital Partners, in an October interview with Behavioral Health Business.⁷ In some cases, market participants have prioritized school-based services over clinic and home-based care models. Of note, Golden Gate-capital backed Invo Healthcare Associates has left the home and center-based autism therapy segments to focus on its legacy offering of school-based allied and behavioral health services. Despite the challenges, a number of private equity backed companies are still pursuing acquisitions of autism home and center-based providers with deals completed by BlueSprig Pediatrics, New Story, and Dallas-based Aparra.



NOTABLE M&A TRANSACTIONS

Mental and Behavioral Health M&A Transactions from 2023



EmpowerU, a provider of evidence-based education and behavioral health solutions, was acquired by FullBloom in September 2023 for an undisclosed sum. Launched in 2018 to support rising levels of anxiety and depression among young people, EmpowerU develops digital educational platforms scaling mental health services at a reduced cost. FullBloom supports 150,00 students, according to a press release.⁸



Kohlberg, Kravis, Roberts & Co. (NYSE:KKR)-backed BlueSprig Pediatrics acquired WindRose Health-backed Trumpet Behavioral Health in October 2023 for an undisclosed sum. The deal includes the 37 locations across seven states operated by Trumpet, including the company's two subsidiaries, Therapeutic Pathways and The Behavior Center, according to a press release.⁹ The acquisition also adds to Houston-based BlueSprig's 137 centers.



Thurston Group-backed ARC Health, a leading behavioral health platform, acquired DaySpring Behavioral Health in August 2023 for an undisclosed sum. DaySpring provides healthcare services such as mental health needs for children and adolescents. The Washington-based business supports 450 clients a month over 1,600 sessions according to a press release.¹⁰ The acquisition is part of ARC's aggressive M&A strategy in the sector since its inception in 2021.



New Story Group, a portfolio company of Audax Management, acquired Thrive Alliance Group in September 2023 for an undisclosed sum. New Story operates 75 schools and behavioral health clinics across the Northeastern U.S., Virginia, and Ohio. Thrive Alliance, which supports children with mental health needs in public schools, is New Story's latest acquisition which extends the company's continuum of programs to the general education population.



Avesi Partners-backed, Point Quest, a leading provider of pediatric behavioral health and special education services, announced its acquisition of EdLogical (June 2023) and Pacific Coast Speech Services (PCSS) (March 2023) for undisclosed sums. Both EdLogical and PCSS serve Southern California school districts, providing behavioral health and speech therapy services. The deals expand Point Quest's presence into California.



Specialized Education Services (SES), a provider of special education and behavioral health support programs, acquired Lattice Educational Services in July for an undisclosed sum. Lattice is a nonpublic school program in the California Department of Education offering programs to students with developmental disabilities. The acquisition of Lattice expands SES's programs in California to nine total, according to a press release.¹¹



SELECT TRANSACTIONS

Date	Target	Acquirer	Target Business Description	Transaction Type
12/04/23	Advanced Psychiatric Group	ARC Health	Operates the APG Center for Autism & ADHD treatment.	Private Equity Add-On
11/28/23	The Learning Spectrum	New Story Group	Provides behavioral and educational services intended for individuals with autism spectrum disorder.	Private Equity Add-On
11/21/23	Westchester Therapy Solutions	Family of Kidz	Offers pediatric physical, occupational, and speech language therapy services.	Private Strategic
10/30/23	Manhattan Psychology Group	ARC Health	Delivers mental health treatment for children, adolescents, and young adults.	Private Equity Add-On
10/18/23	Trumpet Behavioral Health	Blue Sprig Pediatrics	Provides treatment for patients with autism spectrum disorders and developmental disabilities.	Private Equity Add-On
09/20/23	Spectrum House Autism Center	Proud Moments Behavior Analysts	Offers treatment for children with autism spectrum disorder based in Pensacola, Florida.	Private Equity Add-On
09/18/23	Thrive Alliance Group	New Story Group	Provides mental wellness support services intended for students and school staff.	Private Equity Add-On
09/13/23	EmpowerU	FullBloom	Develops an e-learning platform intended to improve mental health, behavior, and academic outcomes.	Private Equity Add-On
09/11/23	SHE Health	Backpack Healthcare	Offers mental and sexual health support for female identifying adolescents and young adults.	Private Equity Add-On
08/16/23	Bright Behavior	Austin Connect to Wellness	Provides applied behavior analysis (ABA) therapy for children.	Private Equity Add-On
08/15/23	DaySpring Behavioral Health	ARC Health	Offers healthcare services, such as mental health needs for children and adolescents.	Private Equity Add-On
07/27/23	Virginia Assets of CARD	New Story Group	Comprises the Virginia assets of the Center for Autism & Related Disorder.	Private Equity Add-On
07/14/23	Limbix	Big Health	Develops a digital therapeutics platform intended for the treatment of adolescent mental health.	Private Equity Add-On
07/11/23	Lattice Educational Services	Specialized Education Services	Operates a nonpublic school mental health program intended for students from kindergarten.	Private Strategic
06/27/23	Your Behavioral Health	Comvest Partners	Provides behavioral health services and residential care for teens.	Platform Investment
06/26/23	ABA2DAY Behavior Services	Invo HealthCare Associates	Offers educational and behavioral health services for children with autism.	Private Equity Add-On
04/18/23	EdLogical	Point Quest	Provides special education, behavioral health, and child development services to school districts in California.	Private Equity Add-On
03/09/23	Adolescent & Young Adult Advocates	Recovery Centers of America	Offers mental health services to adolescents.	Private Equity Add-On
03/09/23	Pacific Coast Speech Services	Point Quest	Provides speech therapy services to school districts in Southern California.	Private Equity Add-On
02/22/23	North Star Counseling Florida	Health Connect America	Offers behavioral therapy focusing on children and their families.	Private Equity Add-On
02/16/23	Sora Therapy	IVY Rehab Network	Provides pediatric rehab space for children with developmental delays.	Private Strategic

Source: Capital IQ, PitchBook, FactSet, and Capstone Partners



BUYER UNIVERSE

Capstone has built relationships with and tracked buyers that have been highly acquisitive in the Healthcare industry, particularly those that have completed notable transactions in the Pediatric Behavioral Health Services sector. Our sector knowledge and network provides us with unique insights into this buyer universe and growth drivers for the companies within it. If you would like to learn more about relevant buyers in your sector, please reach out to [Eric Williams](#) or [Mark Surowiak](#).



Source: Capstone Partners



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Based out of Philadelphia, Eric serves as a Managing Director at Capstone Partners and leads Capstone's Health and Medical practice. Eric has successfully completed more than 100 transactions in sectors including health care services, medical devices and diagnostics, pharmaceutical outsourcing, behavioral health, and healthcare staffing. Prior to Capstone, Eric was responsible for managing the Eastern region for Morgan Stanley Smith Barney's Capital Strategies Group and its predecessor, Citi Capital Strategies. Eric has 25 years of experience managing strategic sale assignments and leveraged recapitalizations for owners of privately held companies. In 2022, he received the "Americas M&A Deal of the Year" at the M&A Atlas Awards for his work on the acquisition of EBS Healthcare.

He has also executed complex cross-border transactions with foreign buyers based in London, Germany, Sweden and Switzerland and has structured deals with leading private equity groups and strategic corporate buyers. Previously, Mr. Williams worked as a senior executive with Newport Securities Corporation.

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Mark is a Director in the Philadelphia office with over 15 years of experience in mergers & acquisitions, private placements and financial advisory services. While Mark's primary focus includes clients in the health and medical industry, his experience spans a broad range of industries, including government and defense contracting, manufacturing and outsourced business services sectors. Prior to investment banking, he enjoyed a career in the social services field.

Previously, Mark served over 10 years as a senior investment banking professional in Morgan Stanley Smith Barney's Capital Strategies Group. Over his career, Mark has focused on developing deep credentials and expertise in the sale and recapitalization of privately held businesses.

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Joe is a Market Intelligence Analyst at Capstone Partners primarily focusing on the Aerospace, Defense, Government & Security (ADGS) and Healthcare industries. Prior to joining Capstone's Market Intelligence Team, Joe was an intern at Recount Media Inc., a digital media and political news company. At Recount Media he worked on client outreach, social media strategy, and database management for content produced by the company's slate of news podcasts. Joe has a BA in Politics from Bates College.

FIRM TRACK RECORD

Capstone's Healthcare Investment Banking Group has represented numerous businesses in the Pediatric Behavioral Health Services sector. The Healthcare Group's highly skilled transaction execution team leverages their extensive buyer and investor relationships and in-depth sector knowledge to provide a favorable outcome on behalf of their clients. Sample recent engagements are outlined below.

 <p>HAS BEEN ACQUIRED BY</p> 	 <p>HAS BEEN ACQUIRED BY</p>  <p>A portfolio company of</p> 	 <p>HAS BEEN ACQUIRED BY</p> 	 <p>HAS PARTNERED WITH</p> 
 <p>HAS BEEN ACQUIRED BY</p> 	 <p>HAS BEEN ACQUIRED BY</p> 	 <p>HAS BEEN ACQUIRED BY</p> 	
<p>A Leading Provider of Rehabilitation Services</p> <p>HAS RECEIVED A SENIOR CREDIT FACILITY FROM</p> 	 <p>HAS BEEN ACQUIRED BY</p> 	 <p>HAS BEEN ACQUIRED BY</p> 	

Capstone's Healthcare Transaction Awards

<p>2022</p> <p>AMERICAS M&A DEAL OF THE YEAR</p>  	<p>2021</p> <p>RECAPITALIZATION DEAL OF THE YEAR</p>  	<p>2016</p> <p>U.S.A. MID MARKETS DEAL OF THE YEAR</p>  
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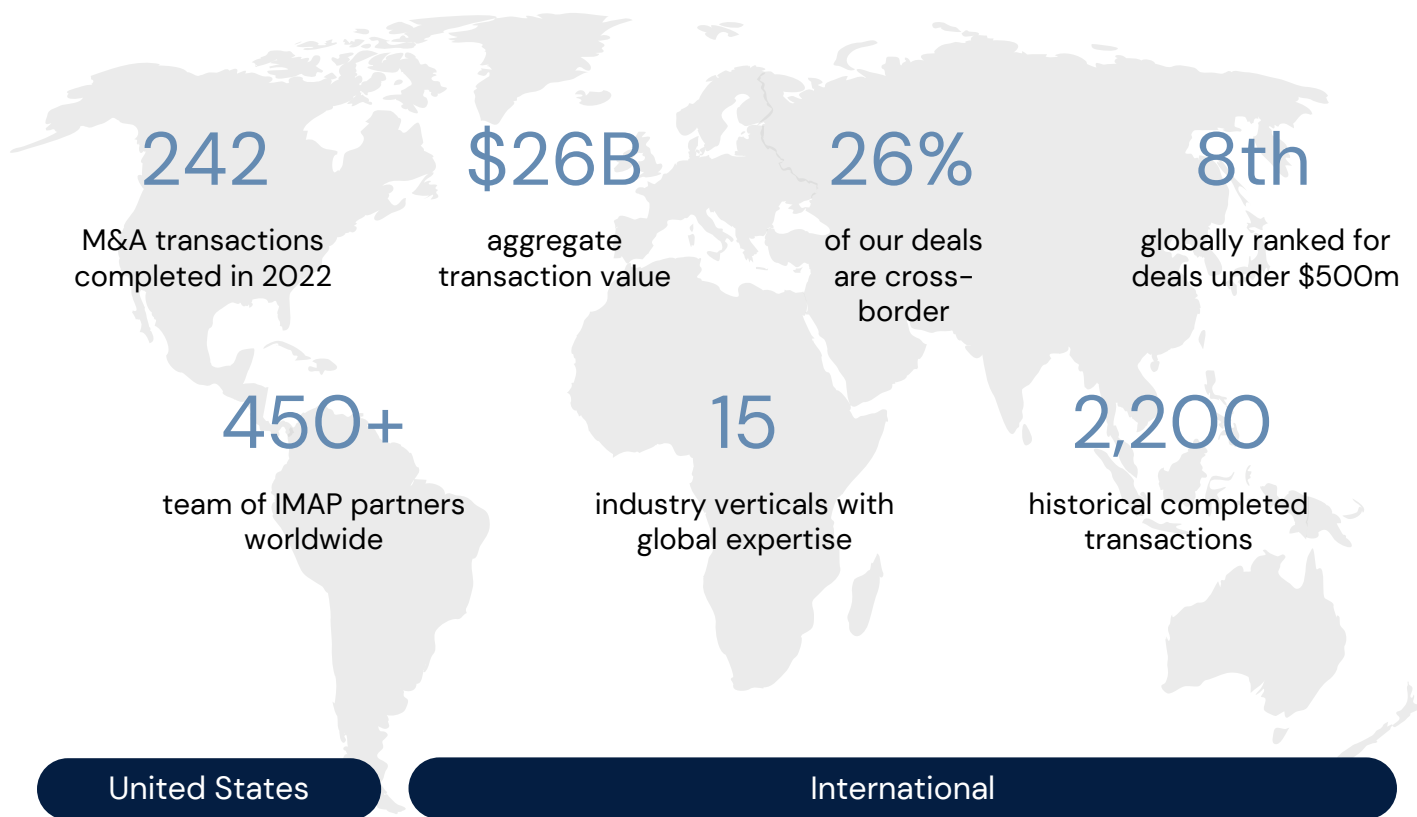
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