BEHAVIORAL HEALTH CRISIS CONTINUES TO DRIVE MERGER AND ACQUISITION ACTIVITY

BEHAVIORAL HEALTHCARE SERVICES SECTOR UPDATE | OCTOBER 2022
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Behavioral Healthcare Services
Behavioral Health Crisis Drives M&A Activity

KEY SECTOR TAKEAWAYS

Capstone Partners’ Healthcare Investment Banking Group is pleased to share its Behavioral Healthcare Services report. Sector merger and acquisition (M&A) activity has continued at a strong pace through year-to-date (YTD), led by a flurry of private equity add-on engagements. Pent-up demand for behavioral healthcare services, coupled with shifting reimbursement models among sector participants, has provided a strong backdrop for patient-centric service providers in 2022. The report includes an exclusive interview with Kristi Shain, CEO and President of Palladium Equity Partners-backed Health Connect America, and Scott Martin, CEO of Pinnacle Family Services and COO of Health Connect America, discussing the company’s mission, offerings, industry insights, and acquisition strategy (beginning on page 11). Capstone also served as advisors to Pinnacle Family Services on its sale to Health Connect America in December 2021. Additional key takeaways are outlined below.

1. COVID-19 has further exacerbated the mental health crises within the U.S. as anxiety, depression, suicidal ideation, and substance abuse continue to rise at unnerving rates.

2. The mental health crisis in the U.S. has led to additional funding from the Federal government as well as heightened investments from the private sector.

3. Sector participants are increasingly adopting value and evidence-based care models to measure outcomes and improve the quality of care.

4. The rising rate of patients seeking behavioral healthcare services has outpaced the available resources in the U.S., resulting in a supply and demand imbalance.

5. Armed with $1.2 trillion in dry powder, private equity buyers are driving merger and acquisition activity through platform investments and synergistic add-on transactions.

6. Sector players are making strategic investments to expand the continuum of care, enhance patient outcomes, and to further address the growing need for behavioral and mental health services nationwide.

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To learn more about Capstone’s wide range of advisory services and Behavioral Healthcare Services sector knowledge, please contact Mark Surowiak and Eric Williams.
MENTAL HEALTH CRISIS SPURS HIGHTENED FUNDING AND INVESTMENTS

Demand in the Mental/Behavioral Healthcare sectors has far outpaced the available supply as nearly one-fifth of U.S. adults have experienced a mental or behavioral health issue in 2019 (see page seven for more details); however, only 46.2% receive treatment. The added pressures of COVID-19 on the behavioral healthcare system has led to heightened federal funding and investments to expand coverage and access to critical services, particularly in underserved populations. In March 2022, the U.S. House of Representatives passed a $1.5 trillion spending package that included financial support programs to expand mental health care, according to the National Alliance on Mental Illness (NAMI). The package granted $2.14 billion in funding to the National Institute for Mental Health (NIMH) to bolster research on the impact of the pandemic on mental health, an increase of $37 million from 2021. At the state and local levels, the package allocated $857 million to the Mental Health Block Grant, aiming to address mental healthcare gaps. This also requires states to spend at least 5% of their block grant funds for mental health services.

Behavioral Healthcare Services M&A took center stage in 2021 and YTD 2022 with record deal volume and healthy valuations as investors are seeking to expand offerings, geographic presence in underserved regions, and capture heightened market share. Of note, Patient Square Capital, a California-based healthcare private equity firm, acquired Summit Behavioral Healthcare from FFL Partners and Lee Equity Partners in September 2021. At an enterprise value of ~$1.3 billion, the transaction marks one of the highest M&A valuations in the sector to-date. Summit provides substance use disorder treatment and psychiatric care at 24 facilities across 16 states. Summit has been steadily growing nationwide with its most recent addition having come in August 2022 with the opening of Raleigh Oaks Behavioral Health. “We anticipate dramatic growth in behavioral health care services, driven by increasing societal recognition of its importance and continued need for expanded access. We have had a 12-year relationship with Summit’s leadership team, and our partnership in 2021 strengthens our conviction in our alignment with their mission, values and patient-centric approach,” said Alex Albert, Founding Partner at Patient Square Capital, in a press release.

While the sale of Summit is indicative of the size and scale at the top-end of the market, middle market players have comprised the majority of acquisitions in the sector, fortifying strong levels of M&A activity throughout 2022. Private equity firms have been particularly acquisitive attracted to the acute need for quality mental and behavioral healthcare services, greater recognition and funding programs to expand mental healthcare coverage and access to care, and the highly fragmented nature of the sector.

Notable Mental Health Federal Funding Programs in 2022

- **$2.14 billion** for the NIMH, a $37 million increase that includes $20 million to expand research on the impact of COVID-19 on mental health.
- **$857 million** for the Mental Health Block Grant (a $100 million increase) to help state and local governments address gaps and needs in their communities, including requiring states to spend at least 5% of their block grant funds for mental health crisis services.
- **$120 million** for Project AWARE (a $13 million increase 2022), a program that builds awareness and helps provide training and resources in school settings.
- **$111 million** for school mental health professionals and school-based mental health services, a $95 million increase from 2021.
- **$101.6 million** for the National Suicide Prevention Lifeline (a $77 million increase from 2021), supporting the launch of 988 as the national hotline for suicide prevention and mental health crises in July 2022.
- **$10 million** for a new Mental Health Crisis Response Partnership Pilot Program, aiming to help communities establish mobile crisis teams that provide a non-law enforcement response to mental health crises.

_Source: National Alliance on Mental Illness and Capstone Partners_
SECTOR PARTICIPANTS MOVE TO VALUE-BASED CARE

The move toward value-based care in the Behavioral Healthcare Services sector has had a positive impact on patient outcomes. This has become increasingly more prevalent as payors are showing preferential treatment to providers that demonstrate compelling value propositions—better clinical outcomes, incorporation of evidence-based models, and long-term cost reductions. Using the traditional structure, an insurer pays an agreed-upon rate for a healthcare service, while in a value-based care model reimbursement rates are predicated on efficacy of care incentivizing sector participants to measure outcomes, institute proven evidence-based models of care, and ultimately lower healthcare costs. This has become especially prevalent in recent years, with U.S. mental health costs reaching $225.1 billion in 2019, up 52.1% from 2009, according to Open Minds’ market intelligence report.3 As outlined on the following page, pandemic-induced isolation has further strained Americans’ mental health and chronic behavioral conditions, resulting in a supply and demand imbalance for behavioral healthcare services.

Vertava Health, a Tennessee-based addiction treatment services provider, recently participated in a panel hosted by Behavioral Health Business to discuss its value-based care method. “In terms of the investments that we’re making, it really is about the outcomes data. Behavioral health is far behind the Physical Health Care space in trying to track outcomes. We certainly have not done a good job with data outcomes tracking. The more dollars that are coming in to invest in those kinds of tools, and the more tools that become available to us as providers, the more that we can track outcomes and keep a live view of our patients. This also enables providers to negotiate better reimbursement rates,” said Tom Viscelli, Vertava Health Chief Development Officer, during the panel.4 In addition to utilizing the value-based care model, Vertava Health provides a complete continuum of care for patients afflicted with substance abuse and addiction conditions, including detoxification, inpatient, partial hospitalization, and outpatient treatment programs. Since joining Summit Partners’ portfolio in March 2018 (undisclosed), Vertava has completed two add-on acquisitions to bolster its outpatient services and fortify the continuum of care, a strategy employed across the Behavioral Healthcare Services M&A market.

Key Components of Value-Based Care

Mark Surowiak, Director

“The need and demand for mental/behavioral health is at an all time high, exacerbated by the pandemic. Over half of those in need are without care and even for those that receive services, the care is often inadequate. Expanded funding, outcomes- and performance-based contracting, value-focused programs, and patient-centric services across the continuum of care are key initiatives being readily adopted by industry participants to address our country’s mental and behavioral health crisis.”

3 Source: National Library of Medicine and Capstone Partners

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THE STATE OF MENTAL HEALTH IN 2022

Mental Health Conditions Spike

The pandemic has undoubtedly strained Americans’ mental health, with COVID–induced isolation and economic stressors driving the total number of U.S. adults experiencing mental health conditions to ~50 million in 2019 (19.9% of the U.S. population), according to Mental Health America.\(^5\) Despite easing COVID–19 restrictions, the longevity and uncertainty of the pandemic has resulted in an unprecedented and lingering impact on the prevalence of mental health issues in the U.S. Depression rates alone in the U.S. tripled when the pandemic first hit and the latest research from Boston University suggests the number has worsened, climbing to 32.8% in late 2021.\(^6\) Other mental health issues have also spiked including anxiety (exhibited by 11.3% of Americans), suicidal ideation (4.6%), and substance abuse (7.8%) all rising year–over–year (YOY).

Access and Disparities in Treatment

The rising rate of patients seeking behavioral healthcare services has outpaced the available resources in the U.S., resulting in a concerning supply and demand imbalance. Currently, more than half of adults with a mental illness do not receive treatment, over 60% of youth with major depression do not receive treatment, and youth with a severe depression who do receive treatment only 27% receive consistent care.

In order to accommodate for the surge in demand, many providers reduced counseling sessions to 45 minutes and extended operational hours, according to Forbes.\(^7\) However, the limited number of professionals has led to clinician burnout, as nearly 90% of behavioral healthcare professionals reported feelings of anxiety and exhaustion. In some cases, patient referrals have increased to three per week in 2022 from one–to–two referrals a month in 2019. The expansion of workforces and offerings in the sector has become paramount to improving patient outcomes.
PRIVATE EQUITY INTEREST CONTINUES TO BOLSTER M&A MARKET

Behavioral Healthcare Services sector M&A volume reached a record high of 127 deals announced or completed in 2021, an increase of 14.4% compared to 2020. Deal activity has remained strong into 2022, with 63 transactions announced or completed YTD, just trailing 2021’s record pace (81 deals YTD). The heightened consolidation in the sector can largely be attributed to buyers, both strategic and private equity-backed, seeking to extend the continuum of care with bundled treatment options that adapt to patients’ needs.

Private equity firms have historically been attracted to the sector and have increased their exposure recently through add-on acquisitions, which comprised nearly half (47.6%) of deals to-date. Armed with $1.2 trillion in dry powder, private equity firms have utilized sponsor-to-sponsor deals to rapidly scale platforms, increasing returns upon exit and putting capital to work. In addition, Capstone Partners’ private equity caucus identified the Behavioral Healthcare Services sector as one of their top five preferred targets across all industries, according to Capstone’s Q2 2022 Capital Markets Update.

While limited disclosed valuations make it difficult to analyze M&A pricing trends at the sector level, heightened competition for assets utilizing value-based care models in the broader Healthcare industry has led to a robust 11.5x EV/EBITDA purchase multiple average over the past three years. The shift in reimbursement models, coupled with pandemic-driven demand, is likely to uphold buyer interest in the foreseeable future.

![Behavioral Healthcare Deal Volume Continues at Rapid Pace](image)

![Sponsors Set Record Activity in 2022](image)

![Healthcare Industry M&A Snapshot](image)

![Industry Valuations Outpace Middle Market](image)
SPONSORS ENHANCE PORTFOLIOS’ MISSION-LED INITIATIVES

Abundant levels of dry powder and a favorable interest rate environment have created a healthy backdrop for private equity transaction activity, which has heavily targeted the Behavioral Healthcare Services sector. Sponsors have historically been attracted to the space and have increased their exposure in recent years. Several key takeaways surrounding sponsor activity are outlined below.

- Private equity firms are actively enhancing portfolio holdings through add-on acquisitions, often pairing complementary services to extend the continuum of care.
- There has been healthy sponsor-to-sponsor activity in the market through YTD, with notable private equity firms realizing strong outcomes on assets sold to another financial buyer.
- Many private equity firms see the space as an opportunity to bring expertise in efficiencies, key performance indicators, and negotiations with payors to middle market providers.

In April 2022, Centre Partners-backed Bradford Health Services acquired The Estate at River Bend for an undisclosed sum. The Estate at River Bend offers evidence-based drug and alcohol addiction rehabilitation at its 108-acre residential site, located in southern Mississippi. Accredited by the Joint Commission, the company’s offerings include individualized treatment programs, therapies, and specialty services for patients with chronic relapse or reoccurring mental health disorders.

Leading substance use disorder treatment provider Bradford joined Centre Partners’ portfolio in 2016 and has since expanded its geographic presence throughout the Southeast. The acquisition of The Estate represents Bradford’s entry into the Mississippi market. Bradford now owns 40 addiction treatment facilities across Alabama, Arkansas, North Carolina, Tennessee, and Mississippi, according to a press release. Centre Partners’ specialized Healthcare practice has engaged in six successful exits from holding companies, and currently maintains a majority stake in three behavioral healthcare portfolios including Bradford, The IMA Group, and Covenant Care, according to the firm’s website.

Shore Capital Partners-backed Transformations Care Network acquired New Directions Counseling Services in March 2022. Terms of the transaction were not disclosed. Transformations operates as a Massachusetts-based network of outpatient mental health clinics providing psychiatry and therapy services. New Directions, which offers counseling, therapy, psychological and psychiatric services, medical guidance, and nutrition coaching to patients of all ages, marks Transformations’ third add-on deal since joining Shore Capital Partners’ portfolio in October 2020.

The transaction follows Transformations’ acquisition of Columbia Associates in Psychiatry (January 2022, undisclosed), with both acquisitions bringing Transformations’ total operating clinics to 25, according to a press release. “As part of Transformations Care Network, we will be able to provide more access to care for people that are looking to enact change in their lives, and make sure that our clinicians and staff have the tools and resources to help our clients achieve their goals,” said Dr. Michael Schneider, Founder of New Directions Counseling Services, in the press release.
In January 2022, Capstone Partners advised **Pinnacle Family Services** on its sale to **Health Connect America (HCA)**, a portfolio company of **Palladium Equity Partners**. Terms of the transaction are confidential.

Pinnacle, a leading provider of outpatient behavior health and foster care services to at-risk youth, utilizes evidence-based clinical models to offer an array of behavior health services. Pinnacle’s clinical models benefit at-risk youth and their families with a full suite of home- and community-based programs that reduce costs associated with unnecessary institutional placements, resulting in significant cost savings to payors. The company is 3-year CARF (Commission on Accreditation of Rehabilitation Facilities)-accredited and is well positioned to capitalize on the trend among payors to favor community-focused providers utilizing evidence-based models.

The transaction further establishes HCA as a premier provider of mental health services for at-risk youth and expands its coverage in the Southeast. “We are excited to join the HCA family of companies. HCA is uniquely positioned to support and accelerate the next phase of Pinnacle’s growth while maintaining the evidence-based and patient-first mission of the company,” said Scott Martin, CEO of Pinnacle Family Services, in Capstone’s press release. For more insight into this transaction, buyer interest in the space, and sector trends, please see Capstone’s exclusive interview with HCA and Pinnacle Family Services beginning on the next page.

“I was impressed with Capstone’s attention to detail throughout the transaction process. They clearly knew the industry, sector, and buyer landscapes, and they were fantastic at driving the deal process through closing by remaining hyper-focused until the very end.”

Marc Cabrera
Founding Board Member, Pinnacle Family Services

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**Mark Surowiak**
Director, Capstone Partners

“Demand for Pinnacle’s services is expected to continue to grow at a record pace due to the social isolation, lack of routine, increase in drug use and alcoholism, family stress, and economic instability exacerbated by the pandemic. As these pressures mount, many families are reaching the ‘Coronavirus breaking point’ leading to a tsunami of trauma and unprecedented need for therapeutic foster care and behavioral health services for at-risk youth.”
Q&A WITH HEALTH CONNECT AMERICA & PINNACLE FAMILY SERVICES

Following the Capstone-advised sale of Pinnacle Family Services to Palladium Equity Partners-backed Health Connect America (HCA), Capstone Partners spoke with Kristi Shain, CEO & President of HCA, and Scott Martin, CEO of Pinnacle Family Services and COO of HCA, in an exclusive interview to discuss their experience during the deal process, company mission, offerings, value-based model, and acquisition strategy.

Could you provide an overview of HCA as well as its various services? What differentiates the company and how does it serve individuals, families, and communities?

Kristi: Health Connect America is a community-based behavioral health and mental health provider. We do all things that keep families together in the community. The company was founded doing community-based work for the state of Tennessee that encompassed, assessments, intensive in-home, homebuilders, and parenting. We have built that into a full continuum of services which includes everything from intensive outpatient, intensive in-home, targeted case management, integrated care, traditional outpatient treatment, and medication management. We also provide in-home ABA [applied behavioral analysis], adult IDD [intellectual and development disabilities] services, therapeutic foster care, and private day schools as part of our service offerings.

One of the reasons we were extremely excited about Pinnacle Family Services is their outcomes-focused and value-based service offerings. Family center treatment is something we plan on using in our intensive in-home arena across all eight states. Within the first several months that Pinnacle and Health Connect were together, we had meetings with several other states to consider a different reimbursement process that considers a value-based model. With that, our core continuum has just gotten stronger and one of our big priorities is to find M&A targets that create density in our states and add value to the core continuum. We also want to find in-home ABA [applied behavioral analysis], adult IDD [intellectual and development disabilities] services, therapeutic foster care, and private day schools as part of our service offerings.

We work with a lot of families in rural markets that don’t have access to services. There is such a need in rural communities where people don’t have access to care. The primary care physicians in these rural areas don’t have access to the mental health expertise or provider agencies that might be the closest to them. Ultimately, HCA’s growth and trajectory has been to go to all of those markets, meet the need and develop excellent relationships and partnerships to ensure services are accessible. Back in 2009, I had gone to our primary investor and said, “We need to open up seven more locations this year and we need to do it in rural markets.” The growth happened as we built out that core continuum in those areas. It’s a giant step in defragmenting services in the states where we can accomplish that. In Tennessee, for example, we serve all...
Q&A WITH HEALTH CONNECT AMERICA & PINNACLE FAMILY SERVICES

95 counties. With the Pinnacle acquisition, we are in eight states and our goal is to serve every county in all eight of those states. A couple years after we started autism services, we saw a need for therapeutic foster care. At the time, kids were being put up in hotels in Georgia and there was a waitlist for kids coming into custody in Alabama and Virginia. In states where foster care services are unbundled, meaning the state’s reimbursing you as a provider for only housing and food, there is no therapeutic reimbursement until you are also approved to bill Medicaid reimbursed services. That’s where our core continuum comes in, we can provide whatever the child or their biological family needs. Who better to meet the need for foster care in those states than somebody who can offer the full continuum of therapeutic services and expedite putting families back together or preventing them from ever being separated. We jumped in and filled out three child placing applications at the same time and went on to get licensed in Tennessee and Mississippi. When we bought Pinnacle and HEADS [Healing Educational Alternatives for Deserving Students] we added licenses in Florida and North Carolina, so now we have child placing license in all eight states we represent. The other big play with Pinnacle was their value-based foster care model which we have been discussing with a number of our state representatives. One of the acquisitions we did in 2014 was a company called Counseling Interventions that had a core continuum business, and in addition to a private day school called KEYS Academy. We now have four KEYS Academy schools, having opened three in the last eight years.

We see the industry changing rapidly and we’re going to get a lot of things we always needed by way of reimbursement and recognition, but for some of the smaller entities there will be pain points they won’t be able to handle regarding billing, accreditation, and outcomes tracking as the costs are often too high. We’re going to see other providers struggle to meet those requirements, so we’re excited that we are in a place where we can meet those requirements and are up for the challenge to get it done. We welcome the opportunity to acquire agencies that have done a great job providing clinical services but would benefit from having a larger provider handle the administrative duties, leaving them to focus on clinical quality and outcomes.

Scott: As it relates to HCA and Pinnacle, the similarities were already there in terms of the mission, which is trying to keep kids and families in their home communities and family settings and doing so by whatever means necessary. The mission on both sides started in that same manner and the progression is meeting in the middle. To Kristi’s point on value-based and performance-based care, we both have done things the right way not knowing if it is going to work out financially. If we do the right things, we know this will set ourselves apart in that way. We took a similar approach in Fostering Solutions and Family Centered Treatment with the messaging to the payors that we are a provider of excellence. We put the mission first and it has worked out financially but that wasn’t the guiding light. It is important to highlight that this similarity in both organizations was putting ourselves out there to try to do great things for kids and families before knowing what those financial implications might look like. Obviously, we weren’t doing something we thought we were going to lose money doing, but that wasn’t the driving factor. We have now come full circle as a combined group and there are regions we are going to bring Fostering Solutions and Family Centered Treatment whether the payor is ready for it or not because the families need it.

Can you speak to Palladium’s 2021 investment in HCA and its investment thesis in the space? Also, where would you ideally like to see HCA in five years?

Kristi: One of the similarities Scott and I have is that we are not the kind of people who change jobs every two years. We may have been at two different agencies, but the storyline flows really well. I’ve had two employers in 25 years, but a number of job titles and, interestingly, the first time we met with Palladium was when I was with Camelot Care Centers in Tennessee. Camelot was acquired by Providence Service Corporation, which was private equity backed. Palladium had studied Providence; they had been a minority investor in Providence in the very early stages and watched the evolution of that company as it became publicly traded. It then morphed into a different type of business as they got heavy into Medicaid transportation.

Palladium had been a student of the game; they had really studied the space, when the HCA opportunity
Q&A WITH HEALTH CONNECT AMERICA & PINNACLE FAMILY SERVICES

came up, Palladium met our team for the first time, and it was clear they understood the fragmented market, consolidation, outcomes- and performance-based contracting, and value-based models, and knew we could really do a lot together. Our first tranche into that was through Tennessee Health Link, which is a care management tool that helps coordinate both the physical and mental health sides. Palladium saw our success in Tennessee and came strong at HCA and won the deal. The first time I met with them I said, "I don’t know if M&A is a love language, but if it is, it’s mine." Within five months of their ownership, we did three deals that doubled the size of the company. We are continuing to move forward and will narrow our focus a bit as we see great opportunities to expand services with the three deals we did in December. There is great expansion opportunity in Florida, South Carolina, and we may add Louisiana organically, which would be our ninth state, before the year is up. We have to make sure our focus is on creating density and getting things completely built out in our states. We are very concentrated on making sure we take the time to standardize and replicate clinical models we see as best practices across the entire organization, even if we are not getting paid for it in some states. We are driving forward in creating the density that will come from M&A, organic growth, and renegotiating contracts to fit within value-based and performance-based contracting. I can’t wait to see the success stories we will write over the next five years.

What has attracted the heightened attention of investors and private equity in the Behavioral Healthcare Services space over the past couple years?

Scott: My original reaction to the M&A environment was just thinking about why people are going to market. The payor side is hard to see sometimes, but they are getting more sophisticated. The payors are raising the bar in terms of data collection, data sharing, and accreditation. As the payors put pressure on some of the smaller groups, these providers realized they are going to need help to do these things. We [Pinnacle] were in the same boat. You’re either growing or dying in this industry, as with most industries. If you are in a stalemate where you can’t seem to grow because of limited resources or infrastructure, the payors will push you to make a decision. In North Carolina, they are encouraging providers to consolidate through M&A. The payors’ pressure on the providers is what has got a lot of people going to market.

Kristi: There’s the old question of what came first, diabetes or depression. Does poor physical health instigate poor mental health or vice versa? There is continued pressure to have parity across services and treat depression just as vigorously as we treat diabetes. It is high time that the spotlight was given to mental health and behavioral health needs, just as it has been given to physical health. People see an opportunity around integrated care, and this keeps bubbling up and getting more important. The pandemic just took that spotlight and turned it into multiple spotlights as all these issues surfaced. Addiction, for the first time, became a real topic of conversation as the class action lawsuits came up surrounding the opioid epidemic and the realization set in that people really need these services and treatment. This is some of the headline material that pushed private equity into the space.

Now you see people specializing in the space, whether it be mental health tracking or addiction treatment. I think all of that’s good as it brings attention to the space overall. The problem with it is there are a lot of people just trying to grow quickly by focusing on one service line and not focusing on doing what’s clinically best no matter what the reimbursement is, thus offering a full continuum so families in need can go to one resource to get any level of the continuum that is needed. We were on a call recently with our largest payor in Tennessee, and they were giving us big kudos for doing this program called IET [Initiation and Engagement of Alcohol and Other Drug Abuse or Dependence Treatment]. The program takes folks out of the ER [Emergency Room] who really need to be in detoxification or outpatient therapy programs, so they don’t unnecessarily sit in the hospital for a couple days. It started right before the pandemic and had been a very slow start, but when they called us, their reaction was the exact opposite. The very little we have been able to do has made a great difference. A lot of the specialized providers don’t think in terms of how they are going to treat the whole family, meeting them where they are. The companies that have done that have peaked investors interest and brought needed dollars into the arena to provide better care and meeting the needs of a growing population.
Q&A WITH HEALTH CONNECT AMERICA & PINNACLE FAMILY SERVICES

How are payors responding to the value-based model? Are they demanding to see outcomes now or do you see this as a requirement that will come in the next few years?

Scott: In North Carolina, payors talk the talk [about value-based care] but when you have a conversation with them, they have no idea how to make it happen. We had to articulate to payors how we thought this could work, even to the point of writing and executing on the scope of work. After the payors’ signed, they still had a hard time figuring out how to set up the billing process in their internal systems. I think payors want to do it, but there were all these barriers that made it difficult to turn into a reality. As much as I’d like to say payors are ready for that, not really. We are way ahead of the curve. However, our approach is to implement an evidence-based model, or at least evidence-based components, in everything we do. With outcomes tracking, it becomes a real product, something the payor can wrap their head around. The payor knows what they are buying, and it is delivering good clinical outcomes.

Kristi: In the industry, everyone talks about how much trauma gets created every time a kid changes placement. Well, let’s talk about the possible trauma in changing providers. You need to have consistency in the model, following that family all the way along. It comes down to length of stay and teaching the family to care for themselves. Value-based models and performance-based contracting creates a necessary accountability for providers. With that, providers will have better success stories and patients will see less hospitalization, less disruption in services and less trauma, which is the most important factor. Success stories could be written everyday if we deliver the full continuum services across the board.
### SELECT TRANSACTIONS

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<td>Eating Recovery Center</td>
<td>Ventas (NYSE:VTR)</td>
<td>Provides eating disorder treatment services to female and male adults, adolescents, and children.</td>
<td>Platform Investment</td>
</tr>
<tr>
<td>04/25/22</td>
<td>The Estate at River Bend</td>
<td>Addiction &amp; Mental Health Services</td>
<td>Offers alcohol and drug addiction-treatment and rehabilitation services.</td>
<td>PE Add-On</td>
</tr>
<tr>
<td>04/14/22</td>
<td>Foundry Treatment Center Steamboat</td>
<td>NRT Behavioral Health Holdings</td>
<td>Provides residential drug and alcohol rehabilitation services.</td>
<td>Private Strategic</td>
</tr>
<tr>
<td>03/29/22</td>
<td>Comprehensive Behavioral Health</td>
<td>Psych Associates of MD</td>
<td>Operates as a multidisciplinary treatment center that provides mental healthcare services.</td>
<td>Private Strategic</td>
</tr>
<tr>
<td>03/23/22</td>
<td>Psychiatric Centers at San Diego</td>
<td>MindPath Care Centers</td>
<td>Offers psychiatry and psychotherapy services.</td>
<td>Private Strategic</td>
</tr>
<tr>
<td>03/08/22</td>
<td>Dan Med TMS</td>
<td>Discovery Behavioral Health</td>
<td>Provides therapy for depression.</td>
<td>PE Add-On</td>
</tr>
<tr>
<td>03/08/22</td>
<td>Eustice Counseling</td>
<td>Accra Care</td>
<td>Offers office-based and in-home behavioral health services.</td>
<td>Private Strategic</td>
</tr>
<tr>
<td>03/04/22</td>
<td>Pathfinders Recovery Center</td>
<td>BayMark Health Services</td>
<td>Provides addiction treatment services in private facilities.</td>
<td>PE Add-On</td>
</tr>
<tr>
<td>03/02/22</td>
<td>New Directions Counseling Services</td>
<td>Transformations Care Network</td>
<td>Offers counseling, therapy, psychological, and psychiatric services.</td>
<td>PE Add-On</td>
</tr>
<tr>
<td>02/24/22</td>
<td>Mahajan Therapeutics</td>
<td>BayMark Health Services</td>
<td>Provides outpatient mental health and addiction treatment services.</td>
<td>PE Add-On</td>
</tr>
<tr>
<td>02/15/22</td>
<td>Resilience Treatment Lightfully Ctr for Mental Health Behavioral Health</td>
<td>Lightfully Behavioral Health</td>
<td>Offers treatment for primary mental health and psychiatric disorders.</td>
<td>Private Strategic</td>
</tr>
<tr>
<td>02/02/22</td>
<td>PACT Atlanta</td>
<td>Genetic Foresight</td>
<td>Provides multidisciplinary mental health practices.</td>
<td>Private Strategic</td>
</tr>
<tr>
<td>01/25/22</td>
<td>Conscious Discipline</td>
<td>Prairie Capital</td>
<td>Offers social–emotional learning (SEL) solutions.</td>
<td>Platform Investment</td>
</tr>
<tr>
<td>01/18/22</td>
<td>John Brooks Recovery Center</td>
<td>AtlantiCare Health Services</td>
<td>Provides a continuum of care for individuals suffering from substance use disorders.</td>
<td>Private Strategic</td>
</tr>
<tr>
<td>01/13/22</td>
<td>Center For Behavioral Health</td>
<td>Behavioral Health Group</td>
<td>Operates outpatient facilities treating opiate addiction.</td>
<td>PE Add-On</td>
</tr>
<tr>
<td>01/10/22</td>
<td>Columbia Associates in Psychiatry</td>
<td>Transformations Care Network</td>
<td>Operates psychiatric clinics.</td>
<td>PE Add-On</td>
</tr>
<tr>
<td>01/06/22</td>
<td>Pinnacle Family Services</td>
<td>Health Connect America</td>
<td>Offers outpatient behavioral health services.</td>
<td>PE Add-On</td>
</tr>
</tbody>
</table>

Blue indicates Capstone-advised transaction

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 Behavioral Healthcare Services sector. Our sector knowledge and network provides us with unique insights into this buyer universe and sector and growth drivers for the companies within it. If you would like to learn more about relevant buyers in your space, please reach out to Capstone Director Mark Surowiak.

Leading Strategic Buyers

[Logos of various strategic buyers]

Leading Financial Buyers

[Logos of various financial buyers]

Source: Capstone Partners
PUBLIC COMPANY DATA

<table>
<thead>
<tr>
<th>Company</th>
<th>Price 10/05/22</th>
<th>% 52 Wk</th>
<th>Market Cap</th>
<th>Enterprise Value</th>
<th>Revenue  LTM</th>
<th>EBITDA Margin  LTM</th>
<th>EV / LTM  LTM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acadia Healthcare Company</td>
<td>$83.88</td>
<td>96.7%</td>
<td>$7,619.7</td>
<td>$9,144.1</td>
<td>$2,449.4</td>
<td>$578.8</td>
<td>23.6%</td>
</tr>
<tr>
<td>HCA Healthcare, Inc.</td>
<td>$203.90</td>
<td>73.1%</td>
<td>$58,524.4</td>
<td>$100,788.4</td>
<td>$60,105.0</td>
<td>$13,381.0</td>
<td>22.3%</td>
</tr>
<tr>
<td>Universal Health Services, Inc.</td>
<td>$95.80</td>
<td>60.5%</td>
<td>$6,990.6</td>
<td>$11,980.9</td>
<td>$13,047.6</td>
<td>$1,809.7</td>
<td>13.9%</td>
</tr>
</tbody>
</table>

Mean 19.9% 2.1x 10.0x
Median 22.3% 1.7x 7.5x
Harmonic Mean 18.8% 1.5x 8.6x

EV = enterprise value; LTM = last twelve months
$ in millions, except per share data
NM = Not Meaningful

Behavioral Healthcare Public Companies Exhibit Resilience Despite Volatile Markets

- **Acadia Healthcare**
  - LTM High: 15.8x
  - LTM Low: 11.2x

- **HCA Healthcare**
  - LTM High: 9.1x
  - LTM Low: 7.3x

- **Universal Health Services**
  - LTM High: 8.2x
  - LTM Low: 6.3x

LTM = Last Twelve Months
Source: Capital IQ as of October 5, 2022
BEHAVIORAL HEALTHCARE SERVICES REPORT CONTRIBUTORS

**Mark Surowiak**  
Director  
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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.

**Eric Williams**  
Managing Director  
Co-Head of Healthcare Investment Banking  
ewilliams@capstonepartners.com | 215-854-4065

Based out of Philadelphia, Eric serves as a Managing Director and Co-Head of Healthcare Investment Banking at Capstone Partners. Eric has successfully completed more than 100 transactions in sectors including contract manufacturing, pharmaceutical outsourcing, medical devices, and life sciences, and health care services. 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 20 years of experience managing strategic sale assignments and leveraged recapitalizations for owners of privately held companies.

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.

**Max Morrissey**  
Market Intelligence Associate  
mmorrissey@capstonepartners.com | 617-619-3336

Max is a Market Intelligence Associate at Capstone Partners with a primary focus on the Healthcare, Business Services, Technology, Media & Telecom, and Education & Training industries. Before joining the Market Intelligence Team at Capstone Partners, Max was an analyst at Lab42 Research, a Chicago-based market research firm. At Lab42 he specialized in the development and analysis of proprietary research projects with a focus in quantitative methodology. Max has a BS in Economics and Marketing from DePaul University.
Capstone’s Healthcare Investment Banking Group has represented numerous businesses in the Behavioral Healthcare 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.

**Capstone’s Healthcare Transaction Awards**

<table>
<thead>
<tr>
<th>Year</th>
<th>Award Category</th>
<th>Firm Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>2022</td>
<td>Americas M&amp;A Deal of the Year</td>
<td>BRC Recovery Family of Programs</td>
</tr>
<tr>
<td>2021</td>
<td>Recapitalization Deal of the Year</td>
<td>Progressus Therapy</td>
</tr>
<tr>
<td>2016</td>
<td>U.S.A. Mid Markets Deal of the Year</td>
<td>BHG Behavioral Health Group</td>
</tr>
</tbody>
</table>
ENDNOTES


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Market Presence

With a long-established U.S. footprint, together with an international partner platform, we provide clients with broad expertise and access to key market relationships on a global basis. Our presence is backed by ~200 professionals in the U.S. with 450+ professionals across 43 countries.

- **218** M&A transactions completed in 2020
- **$12.5B** aggregate transaction value
- **30%** of our deals are cross-border
- **6th** globally ranked for deals under $500m
- **$65.1M** average transaction value
- **51** deals involving foreign private equity firms
- **65%** completed with a European partner

**United States**
- 170+ professionals
- 12 offices
- Boston · Chicago · Dallas · Denver · Detroit · Los Angeles · New York · Orange County · Philadelphia · Richmond · San Diego · Tampa

**International**
- 450+ professionals
- 60+ offices in 43 countries
- Asia: China · India · Japan · Thailand
- Africa: Congo · Egypt · Ghana · Ivory Coast · Mauritius · Morocco · Nigeria · Senegal · South Africa
- Americas: Toronto · Vancouver · Argentina · Brazil · Chile · Colombia · Mexico · Panama & Central America · Peru
- Europe: Belgium · Bosnia & Herzegovina · Croatia · Czech Republic · Finland · France · Germany · Hungary · Ireland · Italy · Netherlands · Poland · Portugal · Russia · Serbia · Slovakia · Slovenia · Spain · Sweden · United Kingdom

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