

CONTINUUM OF CARE PROVIDES GROWTH OPPORTUNITIES FOR SECTOR PLAYERS

BEHAVIORAL HEALTHCARE SERVICES SECTOR UPDATE | OCTOBER 2023



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Behavioral Healthcare Services

Continuum of Care Provides Growth Opportunities for Sector Players

KEY SECTOR TAKEAWAYS

Capstone Partners' [Healthcare Investment Banking Group](#) is pleased to share its Behavioral Healthcare Services report. Merger and acquisition (M&A) activity in the sector has surged through year-to-date (YTD) 2023, outpacing transaction levels from the prior year period. A heightened focus on patient outcomes, greater access to high quality and affordable care, and specialized service offerings to treat addiction, substance abuse and co-occurring mental health disorders, has led to increased investment in sector players by private equity firms. Additional report takeaways are outlined below.

1. M&A activity has risen year-over-year (YOY) to 70 transactions announced or completed to-date, an increase from 65 transactions in YTD 2022.
2. Substance use disorders (SUD) in the U.S. continue to rise at alarming rates with 46.3 million people aged 12 and older having an SUD in 2021, up from 40.3 million the year prior.
3. While the need for SUD treatment services is at an all time high, only 7% of individuals receive care due to a variety of systemic challenges including demand/supply imbalances, lack of coverage, high cost of care, and the persistent social stigma of addiction.
4. Sector players have made strategic investments to enhance access to high quality, effective and affordable care while expanding the continuum of care, enhancing patient outcomes, and further addressing the growing need for SUD and mental health services nationwide.

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 Behavioral Healthcare Services sector knowledge, please [contact us](#).

COMPOUNDING CRISES DRIVES DEMAND FOR COMPREHENSIVE SERVICES

SUDs in the U.S. have been rising at staggering rates. According to the most current data available, 46.3 million people aged 18 and older had an SUD in 2021, up from 40.3 million in 2020, a 15% year-over-year increase, according to the Substance Abuse and Mental Health Services Administration (SAMHSA).¹ Drug overdose deaths have also continued to hit record levels each year, with 112,024 predicted fatalities in the U.S. reported for the 12-month period ending May 2023, according to the Center for Disease Control (CDC).² Compounding the elevated levels of SUDs is an acute mental health crisis affecting 50 million adults (Mental Health America Adult Data 2022).³ According to SAMHSA more than 25% of adults with a serious mental illness also suffer with a substance use disorder.

While the U.S. continues to face a growing behavioral and mental health crisis, only a fraction of individuals receive care. 93.5% of adults with an SUD in the past year went untreated, 55% of adults with mental illness received no treatment, and 60% of youth with major depression did not receive mental health services, according to the 2023 State of Mental Health in America Report.⁴ There are several notable factors for the disparity in care, including limited access to treatment resources, high cost of care, limited availability of insurance coverage, workforce shortages, and the persistent social stigma of addiction deterring individuals from seeking help.

Despite the large number of individuals that go untreated each year, providers are operating at



Mark Surowiak, Director

"Post pandemic, the demand for mental and behavioral health services continues to rise at alarming rates. While 19% of adults now struggle with a substance use disorder and nearly half of adults aged 18 and 25 have either an SUD or mental illness, a staggering percentage are not receiving care. Investments to add capacity, value-focused programs, and tailored patient-centric services across the continuum are key initiatives among industry players to address the nation's mental and behavioral health crisis".

near capacity. To address the heightened demand for high quality and affordable care, sector players have continued to make significant investments to expand bed capacity and broaden care models that offer a comprehensive and wholistic continuum of care. For example, 72% of providers now offer pharmacotherapies as part of their treatment services and 34% have tailored programs for LGBTQ clients, according to SAMHSA.⁵ Private equity firms have also been highly active investors in the space. Recently, private equity firm TPG Capital acquired mental health and SUD treatment provider Banyan Treatment Centers. The new investment is expected to grow Banyan's geographical coverage, capacity, and treatment offerings which already includes detox, residential, partial hospitalization, intensive outpatient, telehealth, and a new program for eating disorders, according to a press release.⁶

Percentage of People in the U.S. Ages 18 or Older With an SUD



Percentage of People in the U.S. Ages 18 to 25 With an SUD



Percentage of Adults in the U.S. With an SUD not receiving treatment



Percentage of People in the U.S. Ages 18 to 25 With a Serious Mental Illness in the Past Year



Percentage of People in the U.S. Ages 18 to 25 With Either an SUD or Mental Illness in the Past Year



Percentage of People in the U.S. Ages 18 to 25 With Both an SUD and Mental Illness in the Past Year



Source: SAMHSA and Capstone Partners

PRIVATE EQUITY CONSOLIDATES THROUGH EXISTING PLATFORMS

In the current interest rate environment, private equity has focused their investment strategy on higher quality providers and strategic add-on opportunities for existing platforms. Sponsors have historically been attracted to the space and have increased their exposure in recent years. Key takeaways surrounding investor activity are outlined below.

- Private equity firms are actively enhancing portfolio holdings through strategic add-on acquisitions, often pairing complementary services to extend the continuum of care.
- 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 September 2021, Summit BHC was acquired by Patient Square Capital for an undisclosed sum. Summit provides SUD treatment and acute psychiatric care, as well as acute inpatient care and detoxification services. In the time since Patient Square's acquisition, Summit has completed the purchase of seven psychiatric hospitals in Iowa, Tennessee, Texas, New Mexico, and North Carolina (January 2022, undisclosed). This expands Summit's geographic coverage to over 30 facilities across 16 states, according to a press release.⁷ Additionally, Patient Square's acquisition was a sponsor-to-sponsor deal which saw FFL and Lee Equity Partners exit Summit after helping the company achieve 200% growth.



Discovery Behavioral Health has proven to be a robust example of successful private investment in the sector. Since Webster Equity Partners' recapitalization, the company has completed 12 acquisitions as of 2022, expanding its geographic presence to 16 states with over 150 treatment centers, according to a press release.⁸ As Webster's flagship platform in the Behavioral Healthcare Services sector, Discovery Behavioral Health's current continuum of care includes four service lines: eating disorder, substance use, mental health and psychiatric services.



As previously mentioned, TPG Capital's investment in Banyan Treatment Centers (June, undisclosed) is expected to grow Banyan's geographical coverage, capacity, and treatment offerings. Additionally, the investment came from TPG's Rise Fund, the firm's multi-sector global impact investing strategy. Banyan becomes one of 10 companies in the Healthcare industry to receive a growth investment from the global investment fund. "The Rise Fund's focus on improving access to care for fragile populations, combined with their healthcare experience made them the mission-aligned partner of choice for Banyan," said Banyan CEO, Joe Tuttle, in a press release.⁹



Chicago Pacific Founders-backed Recovery Ways has rapidly expanded its geographic and treatment coverage following its acquisition in December 2014 and the creation of the Recovery Ways Family of Programs. In 2021, Recovery Ways completed its acquisition of Omega Recovery, Breakthrough Recovery Group, Alpine Recovery Services, and Colonial Clinic for an undisclosed sum. The four acquisitions were the creation of the Recovery Ways Family of Programs, the company's nationwide expansion in the Behavioral Healthcare Services space. Since 2021, the company's family of programs has expanded to clinics located in Idaho, Nevada, and Texas.

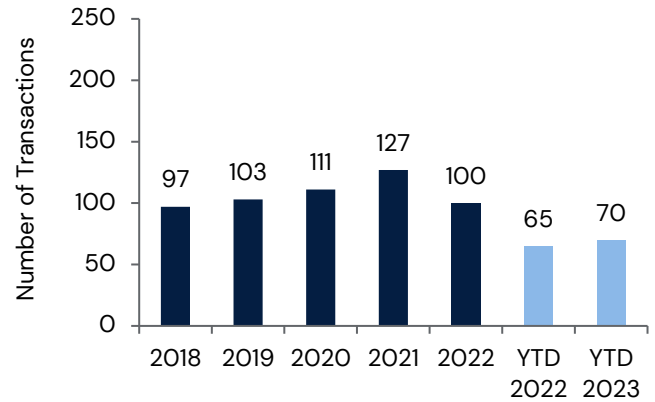
SECTOR M&A RISES DUE TO HEALTHCARE INDUSTRY DEFENSIBILITY

M&A volume in the Behavioral Healthcare Services sector has accelerated through YTD 2023, with 70 transactions announced or completed. Dealmaking in the sector has outpaced the prior year period by a robust margin, increasing 7.8% from 65 transactions in YTD 2022. Despite overall declines in activity in the broader M&A market, the Healthcare industry's resilience against major economic headwinds has fostered a steady transaction environment in the Behavioral Healthcare Services sector. Transaction multiples for middle market businesses (EV<\$500mm) across the Healthcare industry have remained strong in 2023, averaging 11.7x EV/EBITDA in Q2 2023. The defensibility of the Healthcare space has trickled down to the Behavioral Healthcare Services sector where buyers have paid an average of \$104.7 million in disclosed enterprise value through YTD 2023 compared to \$60.2 million through YTD 2022.

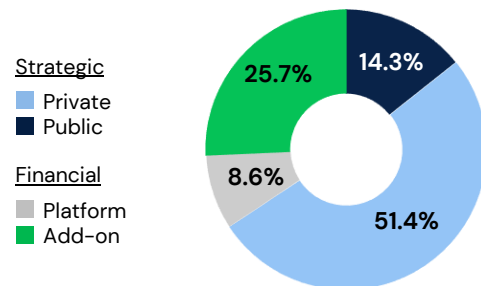
Capstone expects consolidation activity in the sector to continue its robust performance through year-end, supported by strong activity among both strategic and financial buyers. Private strategic buyers have accounted for 51.4% of transactions to-date, while add-on transactions have comprised the second highest percentage of total deals (25.7%). Healthy transaction volume from financial buyers in the Behavioral Healthcare Services space suggests sponsors have viewed the sector as an attractive area to deploy capital and expand their platforms, despite challenges to transaction markets.

Buyers have shown an appetite for targets with an expansive suite of treatment offerings. Of note, Youme Healthcare acquired Backpack Healthcare in August for an undisclosed sum. Backpack Healthcare offers a comprehensive list of mental health services from culturally responsive treatments for domestic violence and race and racism, to money and finances. Backpack also provides more traditional behavioral services including substance abuse treatment. Another notable transaction includes Acadia Healthcare's announced acquisition of residential, partial hospitalization and outpatient service provider, Turning Point Centers (July 2023, undisclosed). The company offers specialty SUD and primary health treatment. Buyers have rapidly targeted businesses with well-rounded service offerings that also address more specific forms of care.

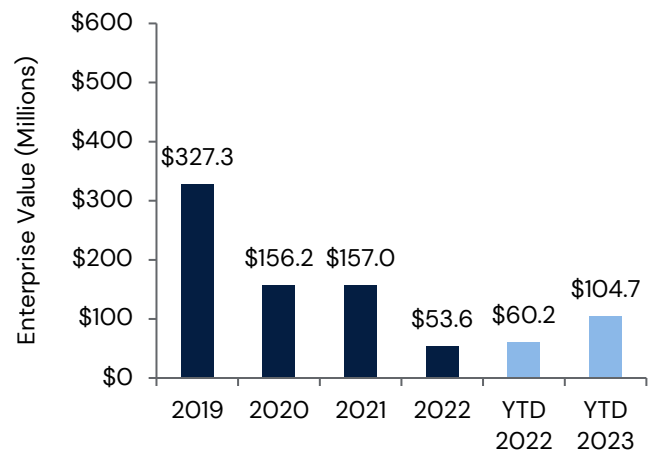
**Behavioral Healthcare Services
Dealmaking Rises Year-Over-Year**



**Private Strategic Buyers Account for
Majority of Transactions To-Date**



**Average Disclosed Deal Value Showcases
Strength Through Year-to-Date**

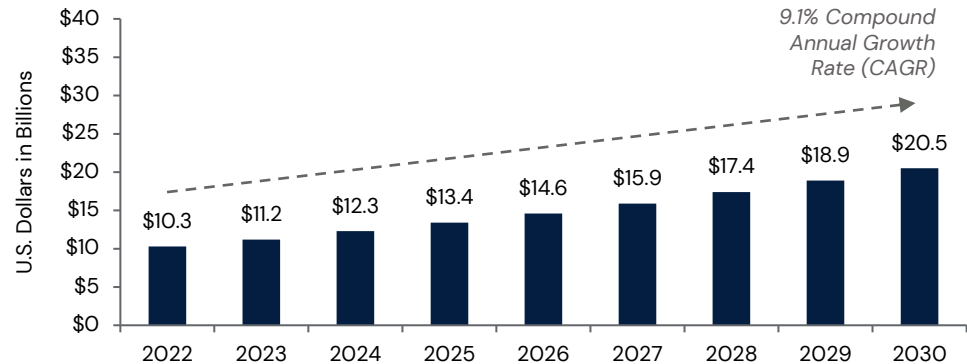


Year-to-date (YTD) ended September 30
Source: Capital IQ, FactSet, PitchBook, and Capstone Partners

MARKET OVERVIEW AND M&A DATA

Market Size for Substance Abuse Treatment Forecasted to Rise

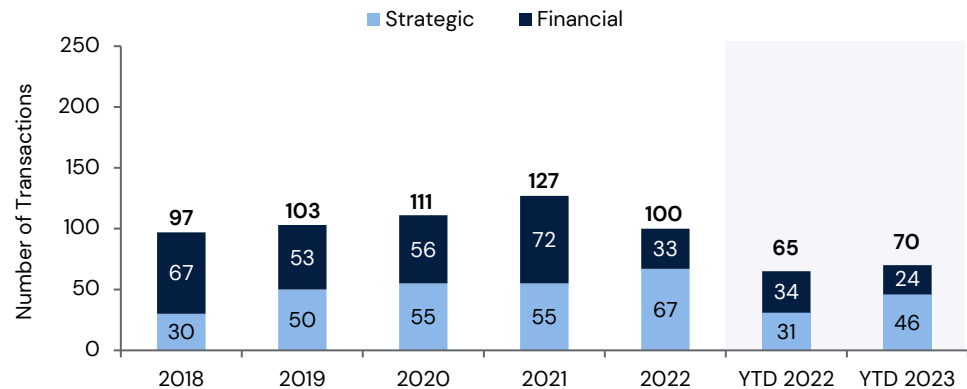
The market size for Substance Abuse Treatment is forecasted to increase by 9.1% annually through 2030. Favorable demand for therapeutic solutions and value-based care is expected to drive segment growth.



Source: Research and Markets and Capstone Partners

M&A Activity Accelerates Through Year-to-Date 2023

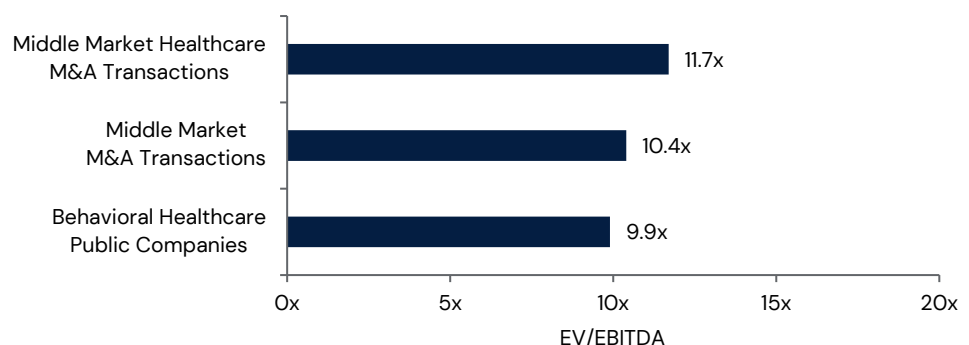
M&A activity has elevated YOY as financial buyers have increased their investment in the space primarily through add-on transactions. Rising interest rates have reduced private equity firms' appetite for direct investments in the space.



Year-to-date (YTD) ended September 30
Source: Capital IQ, FactSet, PitchBook, and Capstone Partners

Healthcare Industry Valuations Outpace Broader Market

Through Q2 2023, middle market M&A transaction multiples in the Healthcare industry have outpaced the broader middle market, averaging a healthy 11.7x EV/EBITDA. The industry's defensibility against macroeconomic headwinds has helped to strengthen valuations.



Note: M&A Transactions span 2020-Q2 2023
Middle Market = EV < \$500 Million
Source: Capital IQ and Capstone Partners



SELECT TRANSACTIONS

Date	Target	Acquirer	Target Business Description	Enterprise Value (mm)	EV/LTM Revenue	EBITDA
09/28/23	Beacon Point Recovery	Praesum Healthcare	Operates a drug and alcohol addiction treatment center.	-	-	-
09/13/23	Sesh Therapy	Caraway	Develops a mental healthcare application designed to provide access to therapist-led group support.	-	-	-
09/05/23	Manifesto	ERP Health	Provides a peer support and health coaching service.	-	-	-
09/01/23	Valor Hospice Care	Pennant (Nasdaq:PNTG)	Offers mental therapy and counseling.	-	-	-
08/31/23	Recovering Champions	Haven Health Management	Operates a comprehensive drug and alcohol rehabilitation program.	-	-	-
08/29/23	St. Francis Health Services	Minnesota Odd Fellows	Provides home health care and behavioral rehabilitation therapy.	-	-	-
08/24/23	Montreal Neuro Center	ELNA Medical Group	Offers treatment for neurological disorders.	-	-	-
08/22/23	Backpack Healthcare	Youme Healthcare	Provides culturally intentional mental health services.	-	-	-
08/15/23	DaySpring Behavioral Health	Arc Health	Offers mental healthcare services.	-	-	-
08/10/23	Eastpointe	Sandhills Center	Operates as a mental healthcare center.	-	-	-
08/09/23	Perkins Partial Hospital Program	Pneuma Behavioral Health	Provides mental health programs for people suffering from depression and intense anxiety.	-	-	-
08/08/23	Cascade Behavioral Hospital	Washington State DSHS	Operates a behavioral health center for addiction recovery and treating mental health issues.	\$30.0	-	-
08/03/23	Dallas Counseling and Treatment	Havencrest Capital	Manages an outpatient mental health treatment center.	-	-	-
07/27/23	Turning Point Centers	Acadia Healthcare (Nasdaq:ACHC)	Provides treatment services for patients suffering from substance abuse.	-	-	-
07/17/23	BeWell Network	H.E.R. Management	Operates rehabilitation centers.	-	-	-
06/30/23	Courage Kenny Rehabilitation	Miller-Dwan	Offers rehabilitative services.	-	-	-
06/29/23	Tennessee Valley Home Care	Addus HomeCare (Nasdaq:ADUS)	Provides elderly speech, cognitive skills, and occupational therapy.	\$106.0	-	-
06/27/23	Your Behavioral Health	Comvest Advisors	Offers mental health and addiction treatment services.	-	-	-
06/16/23	Whitney Place at Sharon	CareOne	Operates as a memory care community.	-	-	-
06/09/23	RenuYou	Soak Technologies	Provides personalized therapies addressing mental health issues such as anxiety and depression.	-	-	-
06/09/23	Silver Lake Psychology	ARC Health	Offers mental health care and psychology services.	-	-	-
06/02/23	Banyan Treatment Centers	TPG The Rise Fund	Provides nationwide addiction treatment programs, detox, and treatment for mental health.	-	-	-

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 contact Capstone Director [Mark Surowiak](#).

Leading Buyers



Source: Capstone Partners

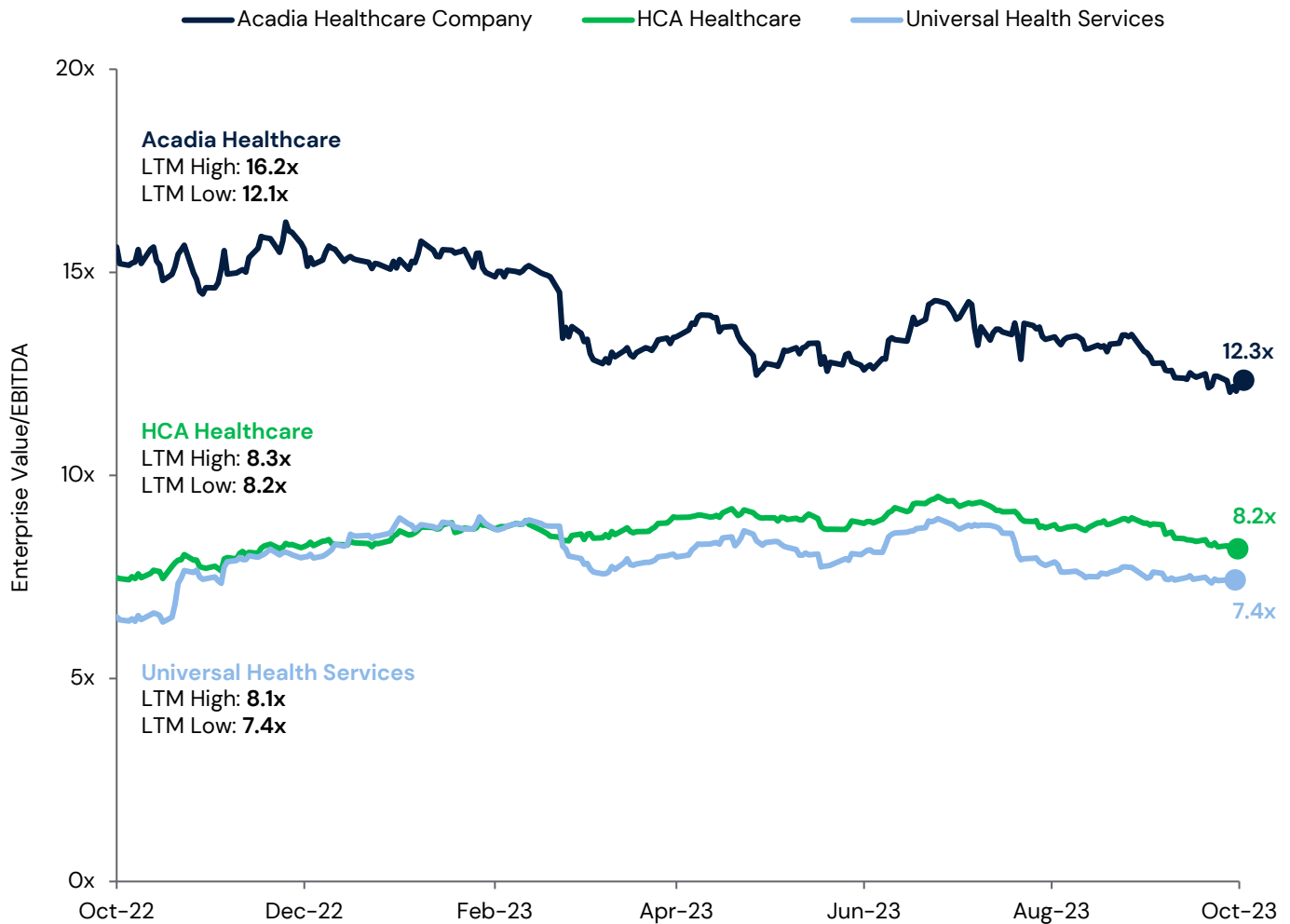


PUBLIC COMPANY DATA

Company	Price 10/06/23	% 52 Wk High	Market Cap	Enterprise Value	LTM			EV / LTM	
					Revenue	EBITDA	Margin	Revenue	EBITDA
Acadia Healthcare Company	\$69.29	77.1%	\$6,386.6	\$7,899.5	\$2,777.6	\$642.6	23.1%	2.8x	12.3x
HCA Healthcare, Inc.	\$245.38	80.5%	\$66,740.4	\$109,281.4	\$61,920.0	\$13,278.5	21.4%	1.8x	8.2x
Universal Health Services, Inc.	\$126.39	79.7%	\$8,770.6	\$13,914.7	\$13,798.7	\$1,872.5	13.6%	1.0x	7.4x
								Mean	19.4% 1.9x 9.3x
								Median	21.4% 1.8x 8.2x
								Harmonic Mean	18.3% 1.6x 8.9x

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

Acadia Healthcare Continues to Outpace Public Companies in the Sector Despite YOY Decline



LTM = Last Twelve Months
Source: Capital IQ as of October 6, 2023



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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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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.

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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 Behavioral Healthcare Services sector. The Healthcare Group is highly skilled transaction execution and leverages its 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.

 Conscious Discipline® HAS BEEN ACQUIRED BY  PRAIRIE CAPITAL	 Pinnacle FAMILY SERVICES HAS BEEN ACQUIRED BY  HEALTH CONNECT AMERICA A portfolio company of  Palladium EQUITY PARTNERS	 EBS HEALTHCARE We're Making a Difference HAS BEEN ACQUIRED BY  THE STEPPING STONES GROUP Transforming Lives Together	 SPG SPEECH PSYCH BEHAVIOR HAS PARTNERED WITH  Ridgemont EQUITY PARTNERS™
 BRC RECOVERY FAMILY OF PROGRAMS <small>BRC Recovery • Spearhead Lodge • Makana Path • Segue</small> HAS BEEN ACQUIRED BY  NEWSPRING	 Progressus Therapy HAS BEEN ACQUIRED BY  invo Family of Companies	 invo Family of Companies HAS BEEN ACQUIRED BY  POST CAPITAL	
A Leading Provider of Rehabilitation Services HAS RECEIVED A SENIOR CREDIT FACILITY FROM  OpusBank <small>BUILD YOUR MASTERPIECE™</small>	 park bench HAS BEEN ACQUIRED BY  elements BEHAVIORAL HEALTH <small>CREATING EXTRAORDINARY LIVES</small>	 Drug-Research-Development HAS BEEN ACQUIRED BY  BHG Behavioral Health Group	

Capstone's Healthcare Transaction Awards

2022 AMERICAS M&A DEAL OF THE YEAR  THE M&A ATLAS AWARDS  EBS HEALTHCARE <small>We're Making a Difference</small>	2021 RECAPITALIZATION DEAL OF THE YEAR  THE M&A ATLAS AWARDS  BRC RECOVERY FAMILY OF PROGRAMS <small>BRC Recovery • Spearhead Lodge • Makana Path • Segue</small>	2016 U.S.A. MID MARKETS DEAL OF THE YEAR  THE M&A ADVISOR  Progressus Therapy
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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 41 countries.

