



Capstone Partners

BEHAVIORAL HEALTHCARE SERVICES

Q1 2017

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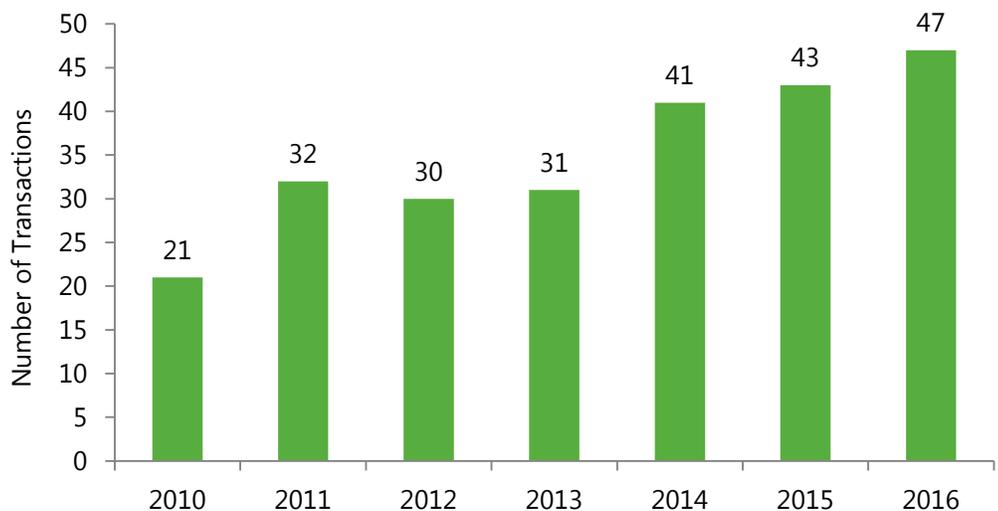
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MERGER & ACQUISITION ACTIVITY

Capstone identified 47 announced or closed transactions in the Behavioral Healthcare Services industry in 2016, pushing activity slightly ahead of the record high deal volume seen in 2015. Strategic buyers and private equity groups alike have been drawn to the industry due to its strong fundamentals, robust growth trajectory and fragmented market. Financial buyers seeking platform or add-on acquisitions accounted for a significant 48.9% of deal activity in 2016 – a 4.0% increase from financial buyer activity in 2015. Strategic buyers accounted for the remaining 51.1% of transaction volume. The sector is poised for growth as companies look to expand their operations into varying geographic locations and achieve operational efficiencies through economies of scale.

Demand in the industry has grown significantly as mental illness awareness has increased and care becomes a more integrated aspect of overall healthcare services. In 2008, the Mental Health Parity and Addiction Equity Act (MHPAEA) began requiring commercial healthcare providers to expand coverage to include mental health and substance abuse treatment. Additionally, last spring, the Centers for Medicare & Medicaid Services (CMS) finalized a change to allow non-aged adults to use federal and state Medicaid funds at Institutions of Mental Diseases (IMD). Prior to that change, anyone between the ages of 21 and 64 was excluded from using Medicaid at facilities established primarily for the care and treatment of mental diseases. These legislative changes have greatly expanded the availability of behavioral healthcare services to an increased number of Americans and have opened new channels for industry activity.

M&A Activity: Behavioral Healthcare



Source: Capital IQ; Capstone Partners LLC Research

BOSTON
CHICAGO
LONDON
LOS ANGELES
NEW YORK
ORANGE COUNTY
PHILADELPHIA
SAN DIEGO
SILICON VALLEY
TAMPA

SEGMENT HIGHLIGHT: SUBSTANCE ABUSE

Substance abuse is a rising concern across the US and has recently garnered more attention as states grapple with how to hamper expanding abuse. In 2015, almost 67 million Americans reported binge drinking and more than 25 million reported illegal drug use or prescription drug misuse, according to US Surgeon General Dr. Vivek Murthy's report "Facing Addiction in America." In fact, in recent years, drug overdose has surpassed car accidents as the leading cause of accidental death in the US. Specifically, the US is in the middle of an opioid epidemic with the number of opioid overdose deaths quadrupling since 1999, according to the Center for Disease Control (CDC). Nearly 100 Americans now die every day from an opioid overdose.

As substance abuse continues to be a growing problem, federal and local governments are focusing on preventative care methods to help stymie the estimated \$400 billion annually spent on substance abuse-related crimes, healthcare and lost productivity. Through 2019, the CDC has committed to giving select states (largely in the Northeast and along the Westcoast) an annual award of between \$750,000 and \$1 million each to advance prevention efforts. This increase in funds and awareness should help drive industry growth.

SEGMENT HIGHLIGHT: MENTAL HEALTH

There are many opportunities for treatment providers to better penetrate the mental health industry and to reach the estimated 90% of people that suffer from mental health issues that are not being treated. The US continues to struggle from a shortage of mental health professionals with some areas only having one physician for every 30,000 people. In response to the gap in physician supply, facilities are seeking innovative approaches to address the disparity. One suggested solution is to promote digital psychotherapy. Not only does this erase geographic boundaries, but it also allows persons experiencing mental health concerns to talk with a physician while in the comfort and privacy of their own home. Additionally, due to the MHPAEA which ensures that behavioral health costs are covered by healthcare plans, *IBISWorld* estimated that 32 million Americans will gain access to mental health treatment by the 2020. Capstone identified 17 transactions of exclusively mental health facilities in 2016, more than any other segment. As companies seek to capitalize on the growing market and acquire new technologies, this segment of the M&A market is expected to see healthy levels of deal volume.

SEGMENT HIGHLIGHT: YOUTH BEHAVIORAL

Approximately 1 in 5 adolescents between the ages of 8 and 12 struggle with some type of diagnosable mental disorder, according the National Institute of Mental Health (NIMH). Among these, the most popular are ADHD, mood disorders, depression and conduct disorder. One area of youth behavioral services currently seeing rapid growth is Applied Behavioral Analysis (ABA). This form of treatment seeks to systematically modify a person's behavior through analysis and learning techniques such as positive reinforcement. ABA is most commonly used with autism or related disorders. According to the CDC, only about 1 in every 2,000 children were diagnosed with autism in the 1970s, and today, around 1 in every 68 is diagnosed. In response to growing demand, companies have become acquisitive of treatment centers that offer ABA therapy and have accounted for five deals in 2016 compared to zero in 2015.

NOTABLE TRANSACTIONS

Several notable transactions were completed or announced in the Behavioral Healthcare industry through Q1 2017. Select transactions are outlined below, followed by a more comprehensive list in the following table.

- ▶ **BayMark Health acquires two opioid treatment facilities (January 2017)** – BayMark Health Services (BayMark Health), a provider of medication-assisted treatment in 14 states, began 2017 with back-to-back acquisitions, acquiring both The Coleman Institute (Coleman) and AppleGate Recovery (AppleGate) in January. Terms of the deals were not disclosed. Coleman is an outpatient detoxification company based in Virginia that provides customized detoxification and after-care support, including naltrexone therapy. The acquisition is BayMark's first expansion into outpatient detoxification and complements its existing medication-assisted treatment modalities, such as methadone and buprenorphine. David K. White, Ph.D., CEO of BayMark, commented, "The possibilities for collaboration and subsequent growth between the current BayMark programs and those of The Coleman Institute are very exciting for BayMark, for The Coleman Institute, and for our patients. Our priority is to bring evidence-based, high quality and individualized opioid addiction treatment to all those we serve. Those priorities aligned with The Coleman Institute." AppleGate, on the other hand, is an office-based opioid treatment provider in Louisiana and Texas that also expands BayMark's treatment modalities. In reference to the acquisition of AppleGate, White commented, "Their office-based treatment setting will play an integral role in our mission to provide comprehensive medication-assisted treatment for opioid use disorder by adding a new treatment modality and setting to the range of services we currently offer."
- ▶ **Autism Learning Partners acquires Proof Positive ABA Therapies (December 2016)** – Autism Learning Partners (ALP), a provider of health care services for children and families with autism and other developmental disorders, recently acquired California-based Proof Positive ABA Therapies (Proof Positive) for an undisclosed amount. The deal will create one of the few large, scaled providers of autism and developmental treatment in the US. Jeffrey Winter, ALP's CEO, said, "I believe [ALP] and Proof Positive working together will be an exceptional partnership. Both organizations are committed to common core values around excellence, teamwork and compassion for the many families and children we provide exceptional care to. In fact, the combined organization will be providing care for over 2,500 clients nationwide."
- ▶ **Meridian Behavioral Health acquires Red River (September 2016)** – Meridian Behavioral Health (Meridian), a leading provider of behavioral healthcare services in the Upper Midwest, recently acquired Red River Behavioral Health (RRBH), an acute psychiatric hospital in North Dakota. Terms were not disclosed. "We are thrilled about the prospects of providing much needed, high-quality psychiatric services in Grand Forks with Red River Behavioral Health System," said Fran Sauvageau, President and CEO of Meridian. "The leadership team of John Baker, RRBH's CEO, and Dr. Bradford Frank, RRBH's new Medical Director, brings a stellar track record in psychiatric health, and the team is looking forward to working with local clinicians and referral sources to provide a full spectrum of mental health and psychiatric services to those in need."

BEHAVIORAL HEALTHCARE SERVICES: SELECT M&A TRANSACTIONS

Ann. Date	Target	Acquirer	Target Business Description	Enterprise	EV / LTM	
				Value (mm)	Revenue	EBITDA
01/31/17	Willow Crest Hospital	Vizion Health	Provides treatment for emotional, psychiatric, behavioral and substance abuse issues.	-	-	-
01/30/17	Philmont Guidance	Holy Redeemer Health	Provides behavioral health care services.	-	-	-
01/23/17	The Coleman Institute	BayMark Health	Offers outpatient detoxification programs for addiction treatment.	-	-	-
01/20/17	AppleGate Recovery	BayMark Health	Operates addiction recovery clinics.	-	-	-
01/11/17	Sequel Youth & Family Services	Global Partner Acquisition	Operates programs for people with behavioral, emotional or physical challenges.	\$317.1	-	10.1x
01/06/17	Novo Healthnet	Turbine Truck Engines	Operates rehabilitation clinics.	-	-	-
01/06/17	Ridgeview Institute	US HealthVest	Operates a hospital that provides psychiatric and addiction treatment services.	-	-	-
01/03/17	Castlewood Treatment	Riverside	Provide eating disorder treatment services.	-	-	-
12/19/16	Lakeview Health	Riverside	Operates a substance abuse treatment center.	-	-	-
12/15/16	Proof Positive ABA Therapies	Autism Learning Partners	Provides behavioral therapy treatment for children.	-	-	-
12/12/16	Magnolia Creek	Odyssey Behavioral Healthcare	Provides care services for women struggling with eating disorders.	-	-	-
11/30/16	Pride In North Carolina	Seaside Healthcare	Operates as a critical access behavioral health agency.	-	-	-
09/28/16	Bella Monte Recovery	Alanco Technologies	Operates as a drug addiction treatment center.	-	-	-
09/13/16	Red River Behavioral	Meridian Behavioral Health	Operates as a psychiatric care hospital.	-	-	-
09/13/16	North Jersey Counseling	Post Acute Recovery	Offers addiction and substance abuse counseling.	-	-	-
08/10/16	Pinnacle Treatment	Linden	Operates a network of drug addiction treatment facilities.	-	-	-
08/05/16	Highland Hospital	Acadia Healthcare	Operates a psychiatric hospital.	-	-	-
06/30/16	Addiction & Mental Health	Centre Partners Management	Provides alcohol and drug addiction-treatment services.	-	-	-
06/27/16	Patterns Behavioral	SAILS	Provides services for children with autism.	-	-	-
06/17/16	Autism Behavioral	CARD Capital	Provides instructional services to children with autism.	-	-	-
06/07/16	Valhalla Place	Meridian Behavioral Health	Provides addiction and mental health services.	-	-	-
05/24/16	Ed Support	Platinum Health Care	Provides education and behavioral health services.	-	-	-
05/24/16	Pathway Houses of Rochester NY	Syracuse Brick House	Offers programs for recovering alcohol and substance abusers.	-	-	-
05/23/16	Seastone of Delray	Greenestone Healthcare	Operates a drug rehabilitation and alcohol treatment center.	-	-	-
05/20/16	KP Counseling	Crestview	Provides mental health counseling services.	-	-	-

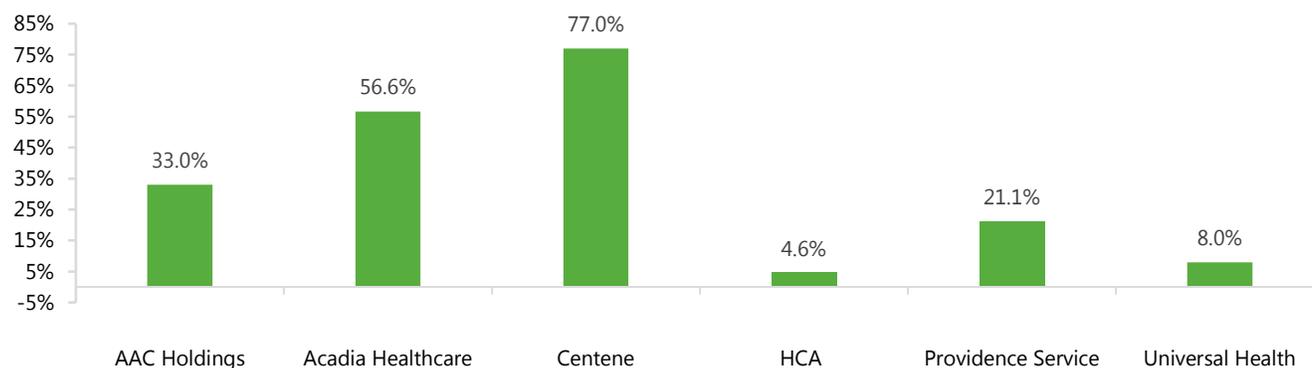
PUBLIC COMPANY TRADING & OPERATING DATA

Company	Price	% 52 Wk	Market Enterprise		LTM			EV / LTM	
	03/09/17	High	Cap	Value	Revenue	EBITDA	Margin	Revenue	EBITDA
AAC Holdings, Inc.	\$8.69	35.6%	\$205.9	\$381.0	\$258.3	\$28.4	11.0%	1.5x	13.4x
Acadia Healthcare Company, Inc.	\$43.60	67.1%	\$3,817.3	\$7,065.8	\$2,810.9	\$580.2	20.6%	2.5x	12.2x
Centene Corp.	\$70.24	92.9%	\$12,083.4	\$13,029.4	\$37,688.0	\$1,965.0	5.2%	0.3x	6.6x
HCA Holdings, Inc.	\$86.48	97.6%	\$32,053.9	\$64,415.9	\$41,490.0	\$8,164.0	19.7%	1.6x	7.9x
Providence Service Corp.	\$41.22	74.6%	\$583.9	\$931.6	\$1,783.6	\$117.4	6.6%	0.5x	7.9x
Universal Health Services Inc.	\$123.81	88.6%	\$11,959.8	\$16,135.9	\$9,766.2	\$1,698.0	17.4%	1.7x	9.5x

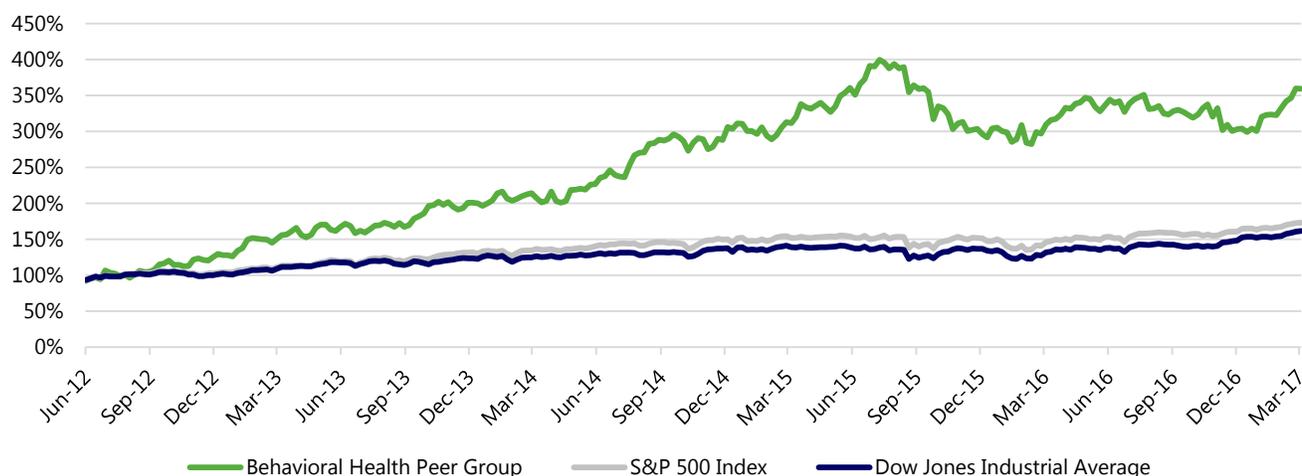
EV = enterprise value; LTM = last twelve months
\$ in millions, except per share data
NM = Not Meaningful; NA = Not Available

Mean	13.4%	1.3x	9.6x
Median	14.2%	1.5x	8.7x
Harmonic Mean	10.1%	0.8x	9.30x

Last Twelve Month 1-Year Revenue Growth



Year-to-Date Performance



Source: Capital IQ as of March 7, 2016

CAPSTONE PARTNERS: HEALTHCARE TRANSACTIONS

AVOMEEN
ANALYTICAL SERVICES

has recapitalized with

HIGH STREET CAPITAL

Accurate
NEUROMONITORING

has been acquired by

HP
HOUSTONIC PARTNERS

Progressus Therapy

has been acquired by

Invo
HealthCare Associates®

WH
WHITEHOUSE
LABORATORIES

has been acquired by

AMRI®
Albany Molecular Research Inc.

park bench

has been acquired by

elements
BEHAVIORAL HEALTH
CREATING EXTRAORDINARY LIVES

LSP
LUTZ
SURGICAL
PARTNERS

has recapitalized with

**A PRIVATE
INVESTMENT GROUP**

FDOC
AIR-CHARGED
CATHETERS®

has recapitalized with

LABORIE
a portfolio company of
AUDAX GROUP, INC.

Invo
HealthCare Associates, Inc.
...Helping Kids Be Kids®

has been acquired by

**POST
CAPITAL**

SMA
Surgical Monitoring Associates®
Guardians of the Nervous System®

has been acquired by

SC
SpecialtyCare
Your Trusted Clinical Partner

Tricore®
Educate. Influence. Motivate.

has been acquired by

highroad
CAPITAL PARTNERS

AGGU * MET LASER, inc.

has been acquired by

RiversidePartners™

the ame group
Providing Human Performance, Management, & Consulting

has acquired

**CERTIFIED IT &
ITRICITY FREEDOM DATA**

Meridian
BEHAVIORAL HEALTH NETWORK

has recapitalized with

Triton Pacific
Capital Partners, LLC

nova science

has been acquired by

Abbott
A Promise for Life

DR
Drug-Research-Development

has been acquired by

BHG Behavioral
Health
Group

Radius) Medical
TECHNOLOGIES, INC.

has divested assets to

Vascular
SOLUTIONS

Catalyst on-line

has been acquired by

**GREY
HEALTHCARE
GROUP**

**Squire Cogswell
aeris**

has been acquired by

Ohio
Medical Corporation
a portfolio company of
MVC CAPITAL

angioLINK

has been acquired by

Medtronic

EMERSON

has been acquired by

RESPIRONICS®

BEHAVIORAL HEALTHCARE TEAM



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John Ferrara, the founder and principal shareholder of Capstone, serves as the firm's President and Managing Partner. Over his extensive career in investment banking, venture capital and management consulting, John has executed over 100 related engagements representing in excess of \$6 billion in value. John was formerly a Regional Managing Partner with Andersen Corporate Finance, where he founded the Boston office and held various national and global leadership positions. He started his career in Lehman's Brothers' M&A group in New York, London and Riyadh, later becoming a founding member of Rodman & Renshaw's M&A practice in New York. He earned an MBA in Entrepreneurial Studies from The Anderson School at UCLA and the London School of Economics, during which time he founded and operated a corporate finance advisory boutique, JG Atlas Advisors, and its related investment arm, Atlantis Capital Partners. He holds dual BA degrees from Wesleyan University and is qualified as a General Securities Principal.



Sophea Chau, Director
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Sophea has more than 10 years of experience in mergers & acquisitions, private placements and financial advisory services. Her responsibilities include providing financial and valuation analysis, performing due diligence, asset positioning and strategy articulation. Prior to joining Capstone, Sophea was an analyst at FTN Midwest Securities, a full-service investment banking firm based in Cleveland. While working in their New York office, she focused on M&A advisory for middle-market companies in a variety of industries, including healthcare, pharmaceutical services and marketing & advertising. Sophea is on the Board of the Columbia Alumni Association of Boston and holds a Bachelor of Arts in Economics from Columbia University.



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ABOUT CAPSTONE PARTNERS

Capstone Partners LLC is an award-winning investment banking firm dedicated to serving the corporate finance needs of middle market business owners, investors and creditors. Over the past 15 years, Capstone has earned a reputation as one of the most innovative firms in the industry, offering corporate sale & divestiture, merger & acquisition, private placement, corporate restructuring, valuation and financial advisory services. The firm maintains seven industry practices, including: Business Services, Consumer Products, Education & Training, Government Services, Health & Medical, Manufacturing & Industrial, and Technology & Telecom. Headquartered in Boston, Capstone has offices in Chicago, London, Los Angeles, New York, Orange County, Philadelphia, San Diego, Silicon Valley and Tampa with an international presence that spans 450+ professionals in 70 offices across 31 countries.

**For more information
about our expertise,
please visit
www.capstonellc.com**



Capstone Partners

World Class Wall Street Expertise. Built for the Middle Market