



# Capstone Partners

## BEHAVIORAL HEALTHCARE SERVICES

Q1 2016

### CONTACTS

#### **John Ferrara**

Founder & President  
(617) 619-3325  
jferrara@capstonellc.com

#### **Sophea Chau**

Director  
(617) 619-3307  
schau@capstonellc.com

#### **Dan Schultz**

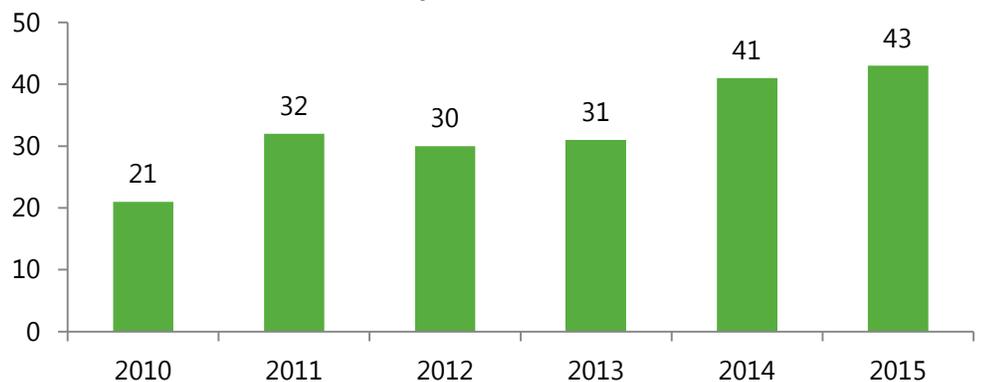
Director, Business Development  
(617) 619-3368  
dschultz@capstonellc.com

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

### **MERGER & ACQUISITION ACTIVITY**

M&A activity within the Behavioral Healthcare sector continues to rise given the favorable industry dynamics. Transaction levels remain elevated as 2015 saw a record number of deals in the industry. Of the 43 transactions completed, 33 were completed by strategic buyers and 10 by financial buyers. Strategics made acquisitions to penetrate new geographies and/or add new programs/services to their existing platforms. Certain private equity groups made add-on investments as part of their roll-up strategy while other groups made platform investments as an initial entrance into the industry. American Addiction Centers was the most active buyer with 4 deals executed throughout the year, while Acadia, JourneyPure, South Bay, Summit and Convalo remained active with each involved in multiple transactions in 2015.

#### **M&A Activity: Behavioral Healthcare**



Source: Capital IQ; Capstone Partners LLC Research

### **INDUSTRY OUTLOOK**

Demand for behavioral health services will continue to grow due to increased awareness and affordability of mental health and substance abuse treatment options. According to the Substance Abuse and Mental Health Services Administration ("SAMHSA"), expenditures on mental health and substance abuse treatment are estimated to have reached \$239 billion in 2014. By comparison, expenditures only totaled \$42 billion in 1986 and \$121 billion in 2003. More specifically, revenues generated by the substance abuse treatment industry reached an estimated \$29.8 billion in 2015, a 3.5% growth over the prior year and 2.9% annual growth rate since 2006. Industry revenues are expected to grow 2.6% annually to reach \$33.9 billion by 2020. There are a variety of factors that impact growth of the substance abuse treatment market, including development of new treatments, drug availability and healthcare reform, as detailed on the following page.

## INDUSTRY DRIVERS

**Increased exposure to drugs and alcohol** – In the United States, illicit drug use and alcoholism have grown significantly among all age groups due to increased availability of prescription drugs and medication. This has resulted in an unfortunate trend of increased prescription medication abuse by secondary school and college-aged young adults.

**Development of new treatments and programs** – Clinical advancements in therapy and medication management have yielded new and better procedures for both psychological and detoxification treatments. Over the past several years, medication-assisted opioid therapy, which allows patients to rid their system of substance dependence through new-aged medication treatments, has led to an increased demand for treatment. Another driver is the future need for clinics to provide youth, elderly and gender-specific programs.

**Healthcare reform and affordability** – Healthcare in the U.S. has undergone significant changes in recent years that are favorable for the substance abuse treatment industry. Healthcare reform, specifically the Affordable Care Act (“ACA”), the Mental Health Parity and Addiction Equity Act (“MHPAEA”) and the Medicaid Certified Match Substance Abuse Program (“MCMSAP”), has led to more affordable substance abuse treatment.

**Growth in private insurance** – In the five years following the 2014 health insurance exchange implemented by healthcare reform, the number of people with private health insurance is predicted to significantly increase.

**Increased Awareness** – One of the biggest challenges for the industry has been the reluctance of substance abusers and addicts to undergo treatment. Individuals afflicted by substance abuse typically refuse treatment due to the social stigma associated with admitting they have a problem or lack of knowledge about the treatments available. However, recent efforts by health and government agencies have resulted in greater public awareness and acceptance of substance abuse as a disease.

## REGULATION

Mental health and substance abuse services are subject to many federal, state and local regulations regarding licensing, operations, facility ownership, reimbursement rates and procedures. These regulations and strict licensure requirements create high barriers to entry for the industry. Licensing prerequisites typically relate to the provider’s medical qualifications, personnel and equipment, staff-to-patient ratio, adequate records maintenance, rate-setting and compliance with standard building and safety codes. Expansion of substance abuse facilities are also subject to state regulations. The construction of new facilities; expansion of existing facilities; transfer or change of ownership; and the addition of new beds, services or equipment may be subject to state laws that require prior approval by regulatory agencies under certificate of need (“CON”) laws. CON laws generally require that a state agency determine the public need for construction or acquisition of facilities/addition of new services.

**NOTABLE RECENT M&A TRANSACTIONS**

Several notable transactions were completed or announced in the Behavioral Healthcare industry in 2015. Selected transactions are outlined below, followed by a more comprehensive list in the following table.

- ▶ **U.K. based Priory acquired by Acadia in an approximately \$2.2 billion deal (December 2015)** – Priory Group, a leading provider of behavioral care services in the U.K., was acquired by Acadia Healthcare for approximately \$1.9 billion in cash considerations and 5.4 million shares of Acadia common stock, which was worth over \$330 million when the deal was announced on December 31, 2015. Priory has been a longstanding flagship of behavioral care in the U.K., known for treating celebrities such as Eric Clapton, Kate Moss and Amy Winehouse. Acadia initially began its expansion into the U.K. with the acquisitions of Partnerships in Care Limited (\$674 million) as well as Health and Social Care Partnerships (undisclosed) in June 2014. The recent acquisition of Priory significantly enhances Acadia's capabilities in the region, adding about 300 facilities and 7,200 beds to its existing network of 54 facilities and 2,200 beds. Acadia cited long-term growth as the need for independent sector support for inpatient behavioral health as the major motivation for the transaction. Tom Riall, Chief Executive Officer of Priory, said, "The combination of our two companies will provide the right platform to deliver long-term market leadership and sustainable growth. We are creating a genuine world leader in the provision of behavioral healthcare services, and we are excited about the opportunities for the future."
  
- ▶ **Co-occurring treatment center for mental health and substance abuse, Foundations Recovery, acquired by Universal Health (September 2015)** – Brentwood, TN based Foundations Recovery Network, a provider of integrated treatment for co-occurring mental health and substance abuse disorders, was acquired by Universal Health Services for \$350 million. Through the acquisition, Universal will add a total of 12 facilities and 322 residential beds to their offering, with plans to add an additional 140 beds in the near future. The deal is Universal's latest expansion into the growing behavioral healthcare industry, coming on the heels of their acquisitions of Alpha Hospitals for \$149 million and Orchard Portman House for an undisclosed amount. Both are based in the U.K. and were acquired through Cygnet Health, a subsidiary of Universal. Alan B. Miller, CEO and Chairman of the Board of Universal Health, said, "We are pleased to announce the forthcoming acquisition of Foundations. We were attracted to their proven track record of providing high quality treatment and reputation for excellence in this very attractive market segment. They bring expertise as a published authority on integrated treatment and also have excellent clinical programs and customer relationships."

**BEHAVIORAL HEALTHCARE: SELECT M&A TRANSACTIONS**

Date	Target	Acquiror	Target Business Description	Enterprise Value (mm)	EV / LTM	
					Revenue	EBITDA
12/31/15	Priory	Acadia Healthcare	Provides behavioral care services in the United Kingdom.	\$2,225.0	-	10.3x
12/29/15	Aurora Recovery	Greenestone Healthcare	Operates an addiction treatment facility.	\$13.0	-	-
12/21/15	Seabrook in Pennsylvania	Summit Behavioral	Offers an addiction treatment center located in the United States.	-	-	-
12/11/15	Solutions Recovery	American Addiction Centers	Provides individualized treatment services to people with alcohol and drugs addiction problems.	\$13.0	-	-
12/11/15	Wetsman Forensic	American Addiction Centers	Operates a network of addition treatment centers in Louisiana.	\$21.1	-	7.0x
12/03/15	Sherman Consulting	Crestview Capital	Operates outpatient mental health facilities for the treatment of individual adults, families and children.	-	-	-
11/23/15	AdvoServ	Wellspring Capital	Offers behavioral healthcare services for children and adults with intellectual and developmental disabilities.	-	-	-
10/15/15	Northstar Psychological	South Bay Mental Health	Offers psychological evaluation, counselling and treatment to individuals and families in Georgia.	-	-	-
10/08/15	Start Fresh	MyLife Recovery	Offers drug and alcohol addiction treatment services for patients.	-	-	-
09/18/15	Foundations Recovery	Universal Health Services	Offers treatment for co-occurring mental health and substance use disorders.	\$350.0	-	-
09/08/15	Greenfield Counseling	Pinnacle Treatment	Provides medication assisted treatment programs to opiate dependent individuals.	-	-	-
09/03/15	Providence Human Services	Molina Healthcare	Offers behavioral and mental health services.	\$200.0	-	-
08/21/15	Monte Nido	Levine Leichtman Capital	Provides treatment for eating disorders and exercise addiction.	\$280.0	-	-
07/30/15	Pasadena Villa And Lifeskills	Odyssey Behavioral Healthcare	Operates behavioral healthcare facilities.	-	-	-
07/29/15	Greenlight Recovery	Sherwood Hills Recovery Resort	Provides drug and alcohol treatment rehabilitation services.	-	-	-
07/27/15	The Ranch at Dove Tree	Summit Behavioral Healthcare	Provides rehabilitation services for treating addiction.	-	-	-
07/24/15	Community Psychiatry	New Harbor Capital	Offers mental healthcare services.	-	-	-
06/02/15	Agape	Cherokee Health Systems	Operates a rehabilitation facility for women.	-	-	-
05/20/15	Accredited Rehab	Convalo Health	Offers alcohol and drug detoxification services.	\$11.9	1.0x	4.0x
05/13/15	The Oxford Centre	American Addiction Centers	Operates a drug and alcohol addiction treatment center.	\$35.0	2.9x	6.3x
04/08/15	St. Louis Psych. Stabilization	BJC Health System	Operates a unit for patients who need stabilization during a mental health crisis.	-	-	-
04/07/15	The Gateway Center	CARD Capital	Offers specialized treatments for children and adults with behavioral disorders.	-	-	-
04/07/15	12 Keys Rehab	JourneyPure	Provides drug and alcohol rehabilitation services.	-	-	-
03/30/15	Sunrise House Foundation	American Addiction Centers	Operates a drug and alcohol detoxification, rehabilitation and addiction treatment center.	\$7.1	-	-
03/02/15	Quality Addiction	Acadia Healthcare	Offers narcotic addiction treatment services.	\$53.0	-	-

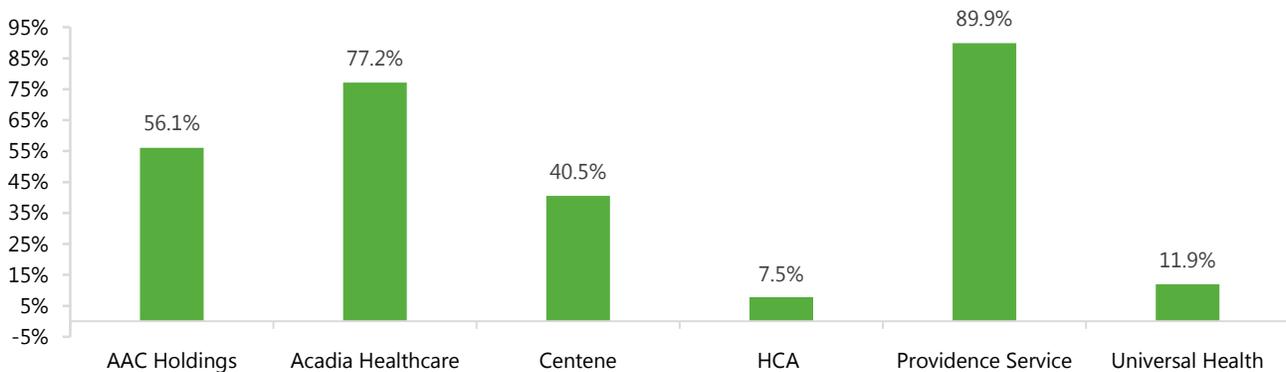
**PUBLIC COMPANY TRADING & OPERATING DATA**

Company	Price 02/04/16	% 52 Wk High	Market Cap	Enterprise Value	LTM			EV/LTM	
					Revenue	EBITDA	Margin	Revenue	EBITDA
AAC Holdings, Inc.	\$18.27	39.2%	\$409.4	\$516.8	\$175.3	\$32.4	18.5%	2.9x	15.9x
Acadia Healthcare Company, Inc.	\$60.10	70.2%	\$4,999.2	\$7,091.4	\$1,594.1	\$341.8	21.4%	4.4x	20.8x
Centene Corp.	\$59.94	72.2%	\$7,214.9	\$6,988.9	\$19,854.0	\$853.0	4.3%	0.4x	8.2x
HCA Holdings, Inc.	\$70.20	73.5%	\$27,991.5	\$59,291.5	\$39,678.0	\$7,869.0	19.8%	1.5x	7.5x
Providence Service Corp.	\$44.93	78.9%	\$690.7	\$1,143.9	\$1,983.8	\$111.7	5.6%	0.6x	10.2x
Universal Health Services Inc.	\$111.58	75.1%	\$10,987.5	\$14,356.7	\$8,764.7	\$1,653.7	18.9%	1.6x	8.7x

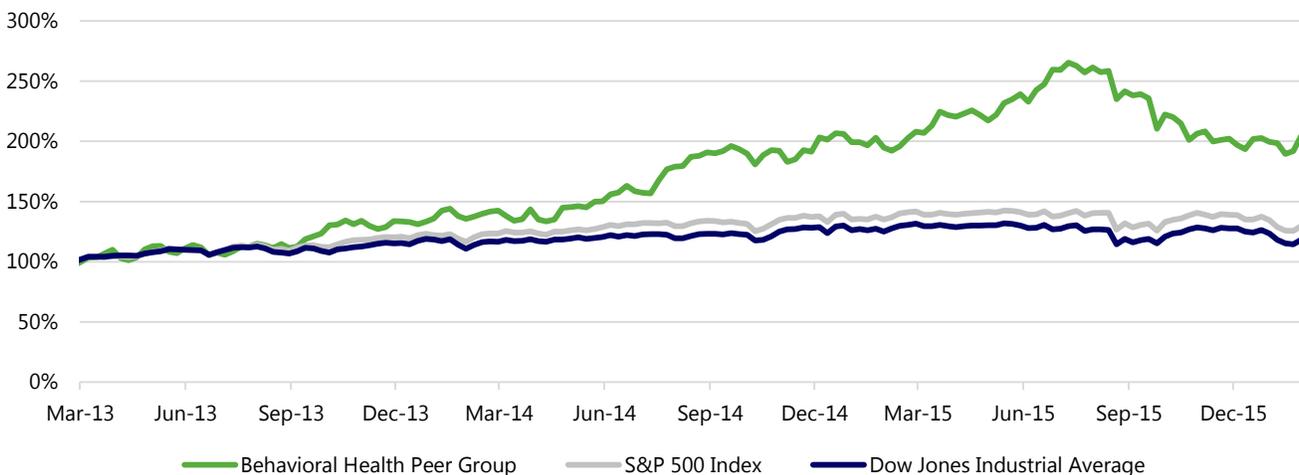
EV = enterprise value; LTM = last twelve months  
\$ in millions, except per share data  
NM = Not Meaningful; NA = Not Available

<b>Mean</b>	<b>14.8%</b>	<b>1.9x</b>	<b>11.9x</b>
<b>Median</b>	<b>18.7%</b>	<b>1.6x</b>	<b>9.5x</b>
<b>Harmonic Mean</b>	<b>9.8%</b>	<b>0.9x</b>	<b>10.4x</b>

**Last Twelve Month 1-Year Revenue Growth**



**Year-to-Date Performance**



Source: Capital IQ as of February 4, 2016

CAPSTONE PARTNERS: HEALTHCARE TRANSACTIONS

  
has been acquired by  


  
has recapitalized with  
**A PRIVATE INVESTMENT GROUP**

  
has been acquired by  
  
a portfolio company of  
**AUDAX GROUP, INC.**

  
has been acquired by  


  
has been acquired by  


  
has been acquired by  


*AGCU \* MET LASER, inc.*  
has been acquired by  


  
has acquired  
**CERTIFIED IT & ITRICITY FREEDOM DATA**

  
has recapitalized with  


  
has been acquired by  


  
has been acquired by  


  
has been acquired by  


  
has divested assets to  


  
has been acquired by  


  
has been acquired by  
  
a portfolio company of  
**MVC | CAPITAL**

  
has been acquired by  


  
has been acquired by  


  
acquisition advisory  


  
has divested assets to  


  
has been acquired by  


BEHAVIORAL HEALTHCARE TEAM



**John Ferrara, Founder & President**

[jferrara@capstonellc.com](mailto:jferrara@capstonellc.com) • (617) 619-3325

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**

[schau@capstonellc.com](mailto:schau@capstonellc.com) • (617) 619-3307

Sophea specializes 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 Vice President of the Columbia Alumni Association of Boston and holds a Bachelor of Arts in Economics from Columbia University.



**Daniel Schultz, Director of Business Development**

[dschultz@capstonellc.com](mailto:dschultz@capstonellc.com) • (617) 619-3368

Dan oversees Capstone's national business development and industry coverage activities, working closely with current and prospective clients of the firm on matters related to corporate sales, recapitalizations, mergers & acquisitions and growth financings. In his role, Dan is able to deliver specific market intelligence to clients regarding M&A, financing, strategic, industry and competitive trends. Prior to spearheading the firm's business development and market initiatives, he was a Vice President in Capstone's M&A group, managing numerous successful transactions across a variety of industries. Dan also gained hands-on transaction experience as an investment banker at Headwaters MB. He started his career with Ernst & Young's National Professional AABS practice and later worked in Assurance and Advisory Business Services in the Denver office. Dan received a BE in Biomedical Engineering with a Business Minor from Vanderbilt University. He earned an MBA and a Master of Accountancy from the Daniels College of Business at the University of Denver.

## CAPSTONE'S OFFICE LOCATIONS

### BOSTON

176 Federal Street  
3rd Floor  
Boston, MA 02110  
(617) 619-3300

### CHICAGO

200 South Wacker Drive  
Suite 3100  
Chicago, IL 60606  
(312) 674-4531

### LONDON

42 Brook Street  
London W1K 5DB  
United Kingdom  
+44 (0) 203 427 5068

### LOS ANGELES

401 Wilshire  
Suite 1200  
Santa Monica, CA 90401  
(858) 926-5950

### NEW YORK

41 Madison Avenue  
31<sup>st</sup> Floor  
New York, NY 10010  
(212) 634-0855

### ORANGE COUNTY

23046 Avenida de la Carlota  
Suite 600  
Laguna Hills, CA 92653  
(949) 460-6431

### PHILADELPHIA

1515 Market Street  
12th Floor  
Philadelphia, PA 19102  
(215) 854-4063

### SAN DIEGO

12707 High Bluff Drive  
Suite 200  
San Diego, CA 92130  
(858) 926-5950

### SILICON VALLEY

228 Hamilton Avenue  
3rd Floor  
Palo Alto, CA 94301  
(650) 319-7370

### TAMPA

1550 W Cleveland Street  
Suite 10  
Tampa, FL 33679  
(813) 251-7285

## ABOUT CAPSTONE PARTNERS

Capstone Partners LLC is a premier investment banking firm dedicated to serving the corporate finance needs of middle market business owners, investors and creditors. The firm provides M&A, corporate restructuring, private placement and financial advisory services. 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](http://www.capstonellc.com)**



# Capstone Partners

World Class Wall Street Expertise. Built for the Middle Market