

Behavioral Health Summary October 2018

Executive Summary

Behavioral Health comprises the fields of mental health, behavioral disorders, substance abuse disorders and developmental disabilities. Behavioral health providers include psychiatrists, psychologists, counselors, special educators, behavioral analysts and supporting providers. For many years, behavioral health and traditional medicine were partitioned, as were the providers, systems and organizations which attended to them. As a result, behavioral healthcare in the United States has developed as a distinct segment of the healthcare sector with its own challenges, regulatory concerns, reimbursement landscape and operating models.

As data driven healthcare gains prominence in the US, we expect behavioral healthcare to undergo greater integration within the traditional continuum of care. This is in large part due to the trend toward at-risk reimbursement for healthcare providers, who are increasingly aware of the burden that unmet behavioral needs can place on the healthcare system. To facilitate the behavioral health “renaissance”, the federal government and many states have instituted laws requiring reimbursement parity for behavioral treatments. This has contributed to the growth of outpatient treatment centers and curbing the historic decline of inpatient capacity. AMB expects heavy consolidation as thriving pure-play operators seek to acquire one another to achieve scale and capitalize on operational efficiencies. Furthermore, we anticipate strategic enthusiasm as healthcare systems and population health managers seek behavioral health solutions and partnerships.

Key Tailwinds

The key driver of sector growth over the past several years has been the increase in behavioral health coverage subsequent to healthcare reform and the accompanying growth in government spending for behavioral health. These forces have unlocked demand for behavioral services that has long been constrained by various factors limiting access to behavioral health treatment services. Notable among these factors – the patients most in need of behavioral treatment tend to fall within groups that are historically uninsured and lacking access to care. Even for patients who had health insurance, coverage for behavioral services was historically lacking prior to the legislative efforts listed below.

Government & Legislative Tailwinds

Total spending by the Centers for Medicare & Medicaid Services on behavioral health services is expected to grow from \$136.3 billion in 2015 to \$179.4 billion by 2020.

The Mental Health Parity and Addiction Equity Act of 2008

- Requires parity among employer plans which offer mental health and substance abuse benefits

The Patient Protection and Affordable Care Act of 2010

- Specifically includes behavioral health coverage in the essential benefits package

Comprehensive Addiction and Recovery Act of 2016

- Expands MAT prescribing privileges to midlevel providers and increases maximum patients per subscriber to a maximum of 275

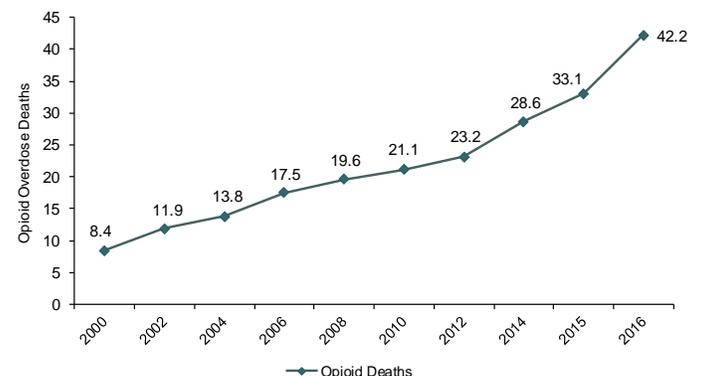
Key Facts and Figures

In the US, 21.6 million people are affected by substance abuse. Heroin overdoses are up more than 539 percent since 1999. Further highlighting the issue of substance abuse in the US, prescription drug overdoses have increased 242 percent since 1999. Drug poisoning is also a leading cause of emergency department hospitalizations. For all age groups (excluding those patients 50 years or older), one out of every four patients that visits an emergency department for drug poisoning is admitted to the hospital.

~\$21 B	Estimated 2018 U.S. market size for substance abuse and mental health clinics
~15,650	Estimated substance abuse and mental health facilities in the US
~253k	2018 estimated employment at substance abuse and mental health facilities in the US
5.1%	Annual growth from 2013 to 2018
~197	US deaths caused by overdose each day in 2017
~\$740 B	Annual societal cost of substance abuse disorders (related to crime, lost work productivity, and health care)

Spotlight on Opioids: Overdoses are Increasing

- In the latter years of the 1990s, access to prescription opioid painkillers was relaxed across the US as a result of lobbying in multiple states by patient advocacy groups and pain specialists to allow prescription for noncancer pain
- The resulting epidemic has reached the national spotlight, and multiple attempted solutions are being explored, including MAT, expansion of midlevel prescription privileges, and rolling back the prescription of opioids



Substance Abuse and Behavioral Health Market Update

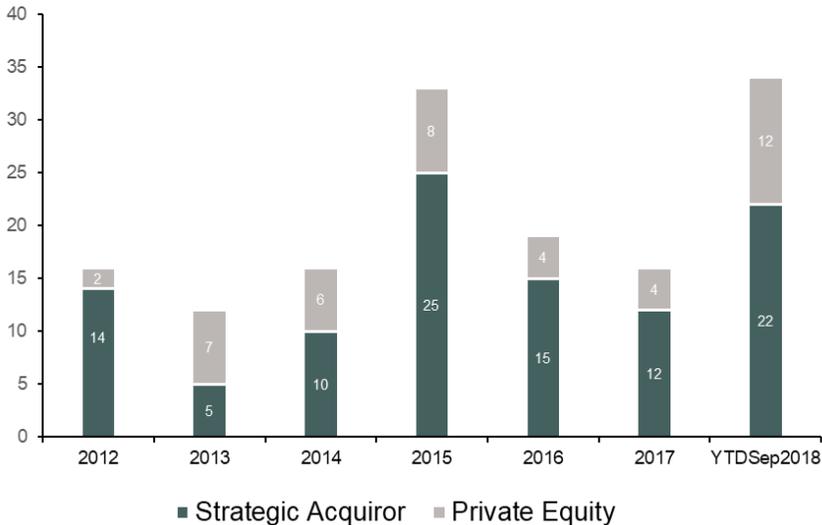
Behavioral Health Transaction Overview

- Heavy consolidation as a result of the post-ACA behavioral health renaissance
- Ongoing transition of facility ownership from government and non-profit organizations to for-profit operators
- Strategic transactions commonplace as both UHS and Acadia as well as competitors are pursuing acquisitive growth strategies
- Expected growth in private equity add-on transactions due to multiple firms' entrance to the industry

Select Recent Platform Investments

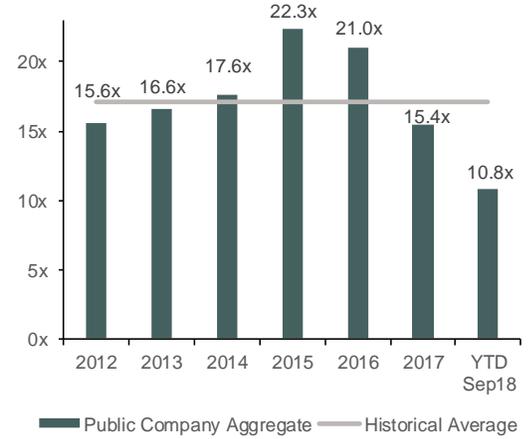


Behavioral Transactions by Acquirer Type

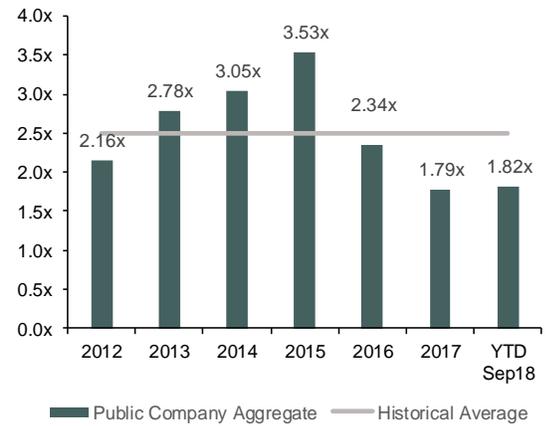


Public Behavioral Health EV / EBITDA

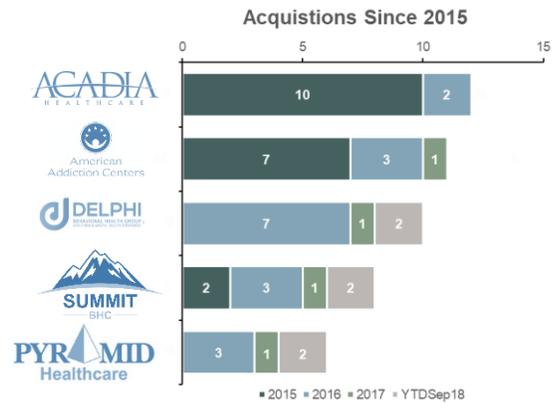
Note: Public Company Aggregate multiples of Revenue and EBITDA consists of ACHC, AAC and UHS. Data as of 09/26/18



Public Behavioral Health EV / Revenue



Select Key Acquirers



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