

Behavioral Health Overview

January 2017

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

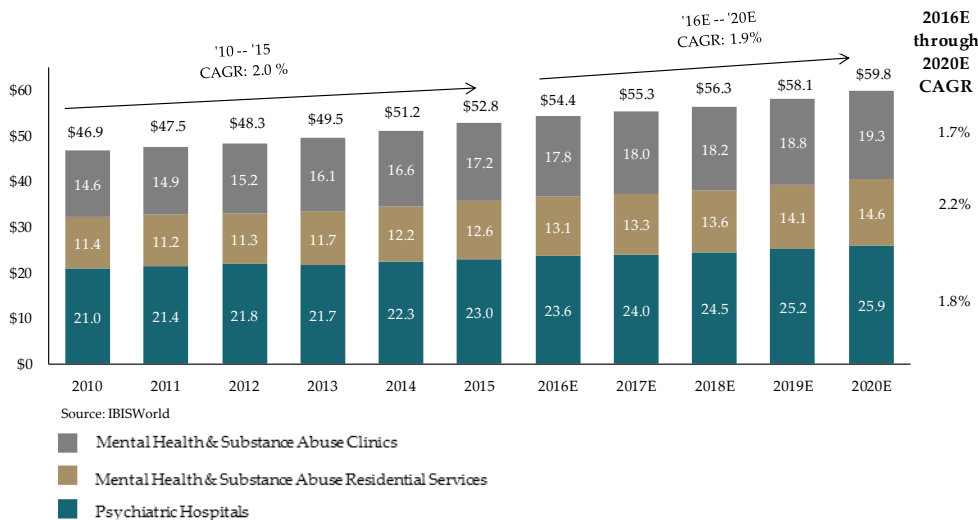
- Specifically includes behavioral health coverage in the essential benefits package

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

Industry Growth & Outlook

Expected Industry Revenue Growth



The behavioral health services industry remains extraordinarily fragmented, and AMB expects that ongoing consolidation will result in a few national strategic operators and an assortment of regional or "super-regional" private equity-backed operators. A sizable portion of the industry will likely continue to be made up of non-profits and community organizations due to its sensitive and local nature.

Ultimately, AMB expects that continued experimentation with integrated care models and highly localized health system joint ventures will yield promising outcomes, facilitating adoption by industry operators as they prepare for the future at-risk reimbursement environment.

Substance Abuse

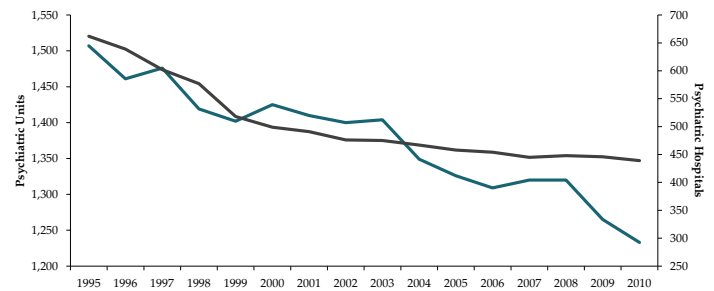
In the US, 21.6 million people are affected by substance abuse. Heroin overdoses are up more than 539 percent since 1999. Further highlighting the issue of substance abuse in the US, prescription drug overdoses have increased 242 percent since 1999. Drug poisoning is also a leading cause of emergency 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.

- ~\$35 B** The total estimated US market opportunity for substance abuse treatment services
- ~16,700** Estimated substance abuse facilities in the US (across ~8,100 enterprises)
- ~1.4%** Market share of the largest operator (highly fragmented)
- ~45%** Percent of operators with only one facility
- ~105** Deaths caused by accidental overdose each day
- ~\$600 B** Annual societal cost of substance abuse disorders in the US
- 97%** Percent utilized of all residential and hospital inpatient beds that are designated for substance abuse treatment

Mental Health

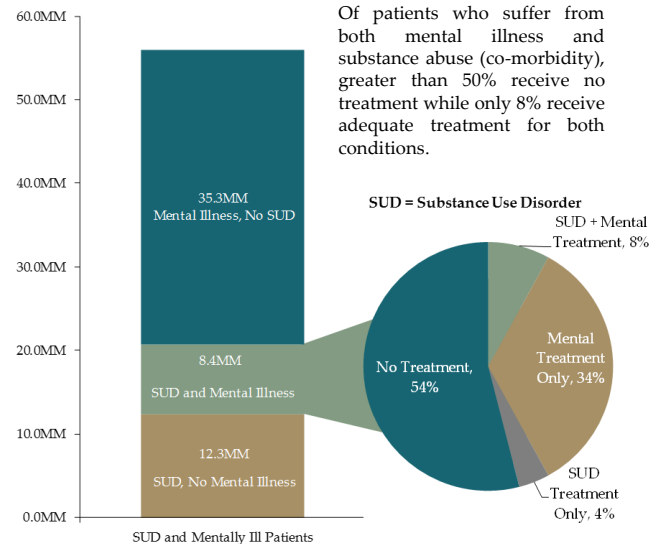
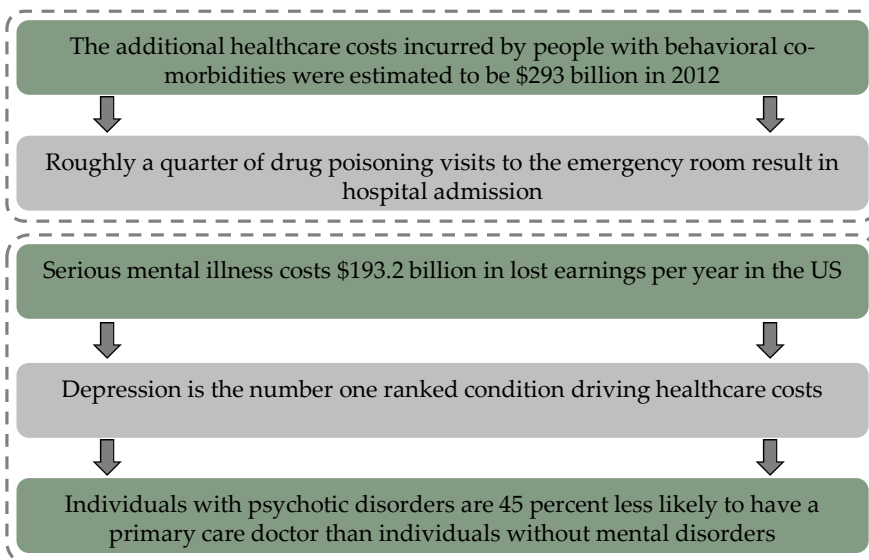
Before the implementation of healthcare reform, behavioral health services and psychiatric services in particular underwent a multi-decade period of decline in availability. There were 274 fewer psychiatric units and 223 fewer psychiatric hospitals in 2010 compared to 1995. Access to care has been particularly low outside metro areas, with 55 percent of US counties lacking a practicing psychiatrist or psychologist. Of the millions affected by mental health and substance abuse disorders, only a third will receive minimally adequate treatment. Many patients suffering from both substance abuse disorders and mental illness struggle to find adequate care for both types of behavioral disorders. 25 percent of US adults experience mental illness in a given year and 4.2 percent live with a serious mental illness such as schizophrenia, major depression or bipolar disorder.

Psychiatric Units in US Hospitals and Freestanding Psychiatric Hospitals



Impact on Total Health

The impact of behavioral health disorders on total patient health as well as the financial impact of these disorders upon the healthcare system are both widely documented. Medical costs for treating patients with chronic medical and co-morbid mental health and substance abuse disorders can be two to three times as high as those patients without co-morbidities.



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