

Healthcare Services Quarterly Roundup

Sector Spotlight: Behavioral Health

Spring 2023



Welcome

It's hard to underscore the increased importance and reduction in stigma surrounding mental health in America.

As a result of the pandemic, rates of mental illness are up - one in five adults have a diagnosis but less than half receive treatment. The result is not much better for youth, where anxiety, depression, and behavioral are becoming more prevalent.

Public perspectives on behavioral health are shifting and investment is up, both publicly and privately. In Q1 2023, we saw a continuation of the investment trends from 2022, and significant interest from private equity-backed acquirers completing platform and add-on deals.

This report delves into the key behavioral health transactions in Q1 2023, while shedding light on key trends and M&A data.

Please reach out with any questions you may have on the report or related to your own business – we are always happy to speak with you.

Enjoy the Report!

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DAK's Healthcare Team



Melvyn Peters
Director,
Healthcare Services
Direct: (201) 478-5274



Alan Scharfstein
President & CEO
Direct: (201) 478-5275



Jesse Del Buono
Analyst,
Healthcare Services
Direct: (201) 478-5269

Healthcare Services

Sector Spotlight: Behavioral Health | Spring 2023

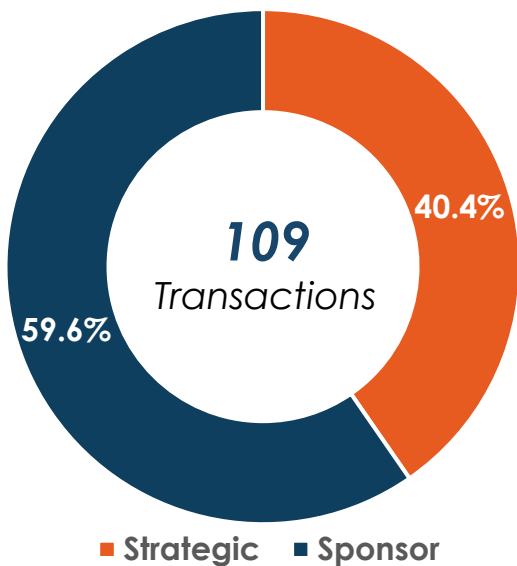
The imbalance of supply and demand, increasing acceptance of care, and staffing challenges all rank high among the rationale for investment in 2023.

2023 is shaping up to be another strong year, with strategic and financial buyers alike keen to grow via acquisition, and private equity groups leading the charge in Q1 2023 across mental health and addiction treatment.

Notable Behavioral Health Transactions

<p>Catalyst Speech Language Pathology</p> <p>has been acquired by</p>  <p>THE STEPPING STONES GROUP Transforming Lives Together</p> <p>a portfolio company of</p> 	 <p>has been acquired by</p> 	 <p>has been acquired by</p> 	 <p>Recovery Centers of America</p> <p>has been acquired by</p>  <p>Adolescent and Young Adult Advocates</p>	 <p>Wellington COUNSELING GROUP</p> <p>has been acquired by</p>  <p>ARC Psychiatry Healing your mind, body, and soul.</p> <p>a portfolio company of</p>  <p>TG THURSTON GROUP</p>
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U.S. Behavioral Health M&A Activity (Q1 LTM 2023)



Key Points

- Behavioral Health M&A transactions were driven by Mental Health acquisitions, approximately 54% of all transaction activity
- Heavy transaction activity from financial sponsors; 71%/29% Add-on/Platform ratio of all sponsor activity

Articles We're Reading

[Top Behavioral Health Trends for 2023](#)



[The Implications of COVID-19 for Mental Health and Substance Use](#)



[We're Facing a Shortage of Mental Health Professionals](#)



[Mental Health By the Numbers](#)



Key Behavioral Health Trends

Shifting demographic factors, destigmatization and attention, and investment signal **positive long-term demand drivers for the sector.**



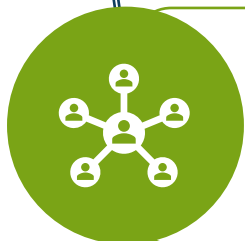
Although access to mental health treatment – therapy, medication, and self-care has improved, there are still **major gaps in access to care:**

- 1/5 (~50 million) U.S. adults experience mental illness; only 1/2 receive treatment
- Only 1/3 U.S. adults with serious mental illness receive treatment
- Anxiety, Depression, and PTSD have the greatest prevalence – all are on the rise



The Surgeon General released an advisory on the youth mental health crisis, as **people aged 3-17 have seen major increases in mental illness:**

- Anxiety, depression, & behavioral conduct diagnoses have risen by 20-30%
- Suicide was the second leading cause of death for ages 10-14 and 25-34
- Drug overdose and alcohol related deaths have risen ~20% from 2019-2020



The COVID-19 pandemic accelerated the prevalence of anxiety, depression, and other mental illnesses. This has resulted in a wave of **public destigmatization and support for treatment** that has been embraced by individuals, the government, and the private sector.



The **shift towards value-based care is gaining momentum.** Whereas in the past, payors paid individual rates for a healthcare service, value-based rates of pay are based on patient outcomes.

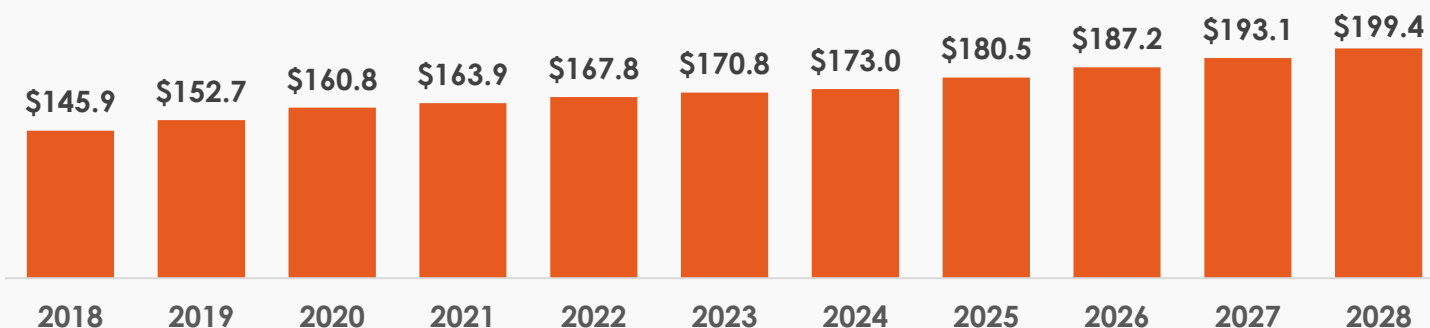
The more compelling the clinical outcome, cost efficiency, and data behind the service, the better the reimbursement outcome for the provider.



The U.S. spends over \$160 billion on mental health with care coming from Medicare & Medicaid (58%), commercial insurance (34%), and private pay / patients (8%). However, coverage is not as comprehensive as it needs to be, and there exists a shortage of ~12,000 clinicians which will only continue to increase. Private companies have begun to make serious investment into the space to help bridge the gap in care.

U.S. Behavioral Health Revenue 2018 - 2028

\$'s in billions



Company Performance & Valuation Continuum

Understanding how company, market, and regulatory-specific drivers can affect risk, growth, and targeted outcomes is critical to both operational and financial performance as well as valuation upon a potential exit.

Company Specific Factors		
Key Factors	Performance Impact	Valuation Impact
Company Momentum	●	●
Customer (Payor) Diversity / Concentration	○	●
Geographic (State) Diversity / Concentration	○	●
Scope of Services Offerings	○	●
Fill Rates / Strength of Staffing	●	●
Strength of Systems (EMR & EHR)	○	●
Strength of Management Team	●	●
Sustainability of Business Model	○	●
Financial Profile & Unit Economics	●	●
Growth Trajectory	○	●
Aggregate Scoring	○	●

Market Specific Factors		
Key Factors	Performance Impact	Valuation Impact
Strength of M&A Market	?	●
Strength of Financing Markets / Rate Risk	●	●
Availability and Bandwidth of Buyers	○	●
Opportunity Size vs. Market Appetite	?	●
Aggregate Scoring	○	●

Regulatory Specific Factors		
Key Factors	Performance Impact	Valuation Impact
Macro Healthcare Regulatory Risk	○	○
Exposure to Medicare / Medicaid	●	●
Availability of Labor and Staffing	●	○
Aggregate Scoring	●	○

6 Key M&A Trends in Behavioral Health

Strategic and financial buyers alike are keen to grow via acquisition as they seek to increase their services offering and address marketplace growth challenges.

1 Supply & Demand Imbalance

The behavioral healthcare market is understaffed by ~12,000 clinicians; ~50% of Americans live in an area with a workforce shortage. As patient referrals have increased by 2-3x over the last three years, some clinicians have reduced treatment session duration by 10-25%. These factors are driving M&A, investment, and innovation into services supply.

2 Cost Pressure Catalysts

High inflation has increased the cost of doing business. Gaining scale helps to defray operating costs and rising wages resulting from staffing shortages, which is the only way for some clinicians and providers to increase profitability.

3 Pricing and Reimbursement Pressure

Reimbursement rates are everchanging and for smaller to mid-size providers, often difficult to negotiate. M&A can act as a means to diversify a Company's payor base and improve pricing, particularly as the disparity between reimbursement rates increases.

4 Rising Debt Costs

Rate increases from the FED have increased the cost of borrowing, driving credit spreads for lenders and increasing the cost of capital for acquirers. More expensive debt means higher risk and lower returns, which often results in lower valuations and more structured transactions.

5 Vertical Investment Trends

According to BHB's 2023 Outlook Survey, 63% of respondents ranked mental health and 21% ranked addiction and substance abuse as the most attractive area for investment, followed by psychedelics, autism, IDD, and eating disorders. Q1 2023 has mental health as the most common vertical for investment, with addiction treatment second.

6 Scaled and PE-Backed Acquirers

Larger providers, such as UnitedHealth Group, Walgreens Boots Alliance, and CVS will look to integrate traditional and mental health care services into their delivery models. Private equity will continue to invest in new assets and complete add-ons. In Q1 2023, 20% of all transactions were platform investments and 60% were add-ons.

Deals to Know from Q1 2023



Acquirer



Target

March 2022: ARC Psychiatry, a provider of mental health treatment services based in Beachwood, Ohio backed by **Thurston Group**, acquired **Wellington Counseling Group**, a provider of multi-specialty psychotherapy services in the Chicago metropolitan area. With this acquisition, ARC Psychiatry opened its first practice in Illinois, expanding its geographic reach to 13 states.



Recovery Centers of America

Acquirer



Adolescent and Young Adult Advocates

Target

March 2023: Recovery Centers of America, a provider of accessible and affordable addiction treatment services, acquired **Adolescent & Young Adult Advocates**, an outpatient provider treatment of substance abuse, anxiety, ADHD, and other mental health issues. Through this acquisition, Recovery Centers of America expanded its services to address early-stage addiction in outpatient settings.



Target

February 2023: Eads Bridge Holdings, a California-based private equity firm, acquired **Stokes Counseling Services**, a provider of therapy services including trauma support, stress management, youth counseling and other therapy services. This transaction was Eads Bridge Holdings' first platform company and an additional example of PE firms expanding into the behavioral health sector.



Acquirer



Target

January 2023: Turnwell Mental Health Network, an integrated mental health group that provides behavioral health care to patients with mental health disorders in underserved markets, was acquired by **Patriot Capital**, a Maryland-base private equity firm. This transaction further expands Patriot Capital's portfolio of investments within the healthcare sector.



Acquirer

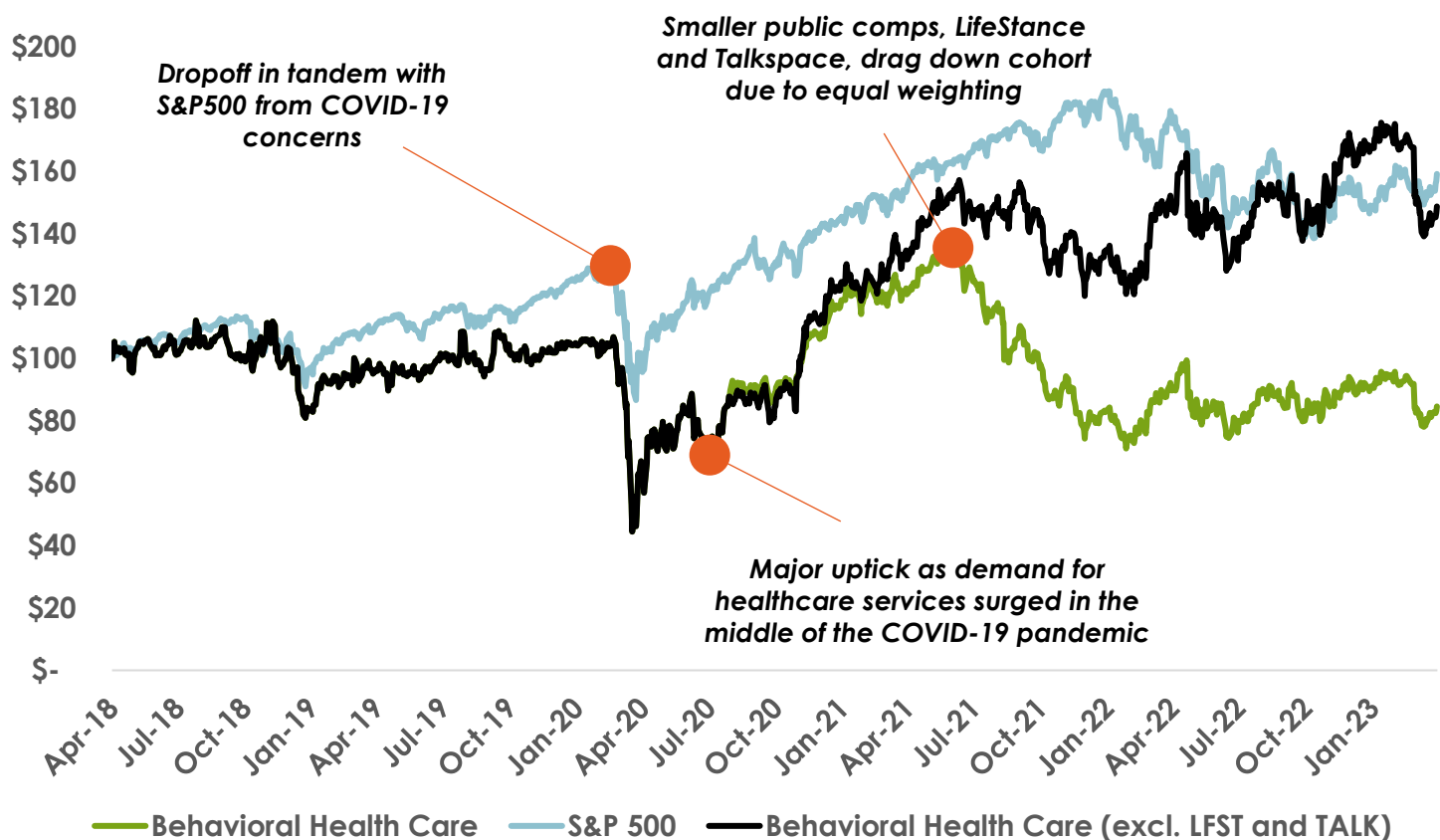
Catalyst Speech Language Pathology

Target

January 2023: The Stepping Stones Group, a provider of school-based behavioral health and therapy services for children with special needs and autism backed by **Five Arrows Capital Partners** acquired **Catalyst Speech Language Pathology**, a school-based speech-language pathology services provider. This acquisition closed amid the expanding demand for speech therapy services.

Behavioral Health Public Comparable Companies

Behavioral Health Public Company Stock Performance – Last 5 Years



Public Comparable Company Analysis

As of March 31, 2023

(US\$ in millions, except per share data)

Behavioral Health					EV / Revenue		EV / EBITDA	
Company	Ticker	Share Price	FD Market Cap	Enterprise Value	LTM	2023E	LTM	2023E
Universal Health Services	NYS: UHS	\$127.10	\$9,022	\$14,240	1.1x	1.0x	8.8x	7.8x
Acadia Healthcare	NAS: ACHC	\$72.25	\$6,790	\$8,311	3.2x	2.7x	14.2x	11.4x
LifeStance Health	NAS: LFST	\$7.43	\$3,027	\$3,397	4.0x	2.9x	NM	NM
Talkspace	NAS: TALK	\$0.70	\$119	\$35	0.3x	0.2x	NM	NM
Median					2.1x	1.8x	11.5x	9.6x
Average					2.1x	1.7x	11.5x	9.6x
25th Percentile					2.1x	0.8x	10.1x	8.7x
75th Percentile					1.8x	2.7x	12.8x	10.5x

Public Company Landscape



Healthcare Services Quarterly Roundup

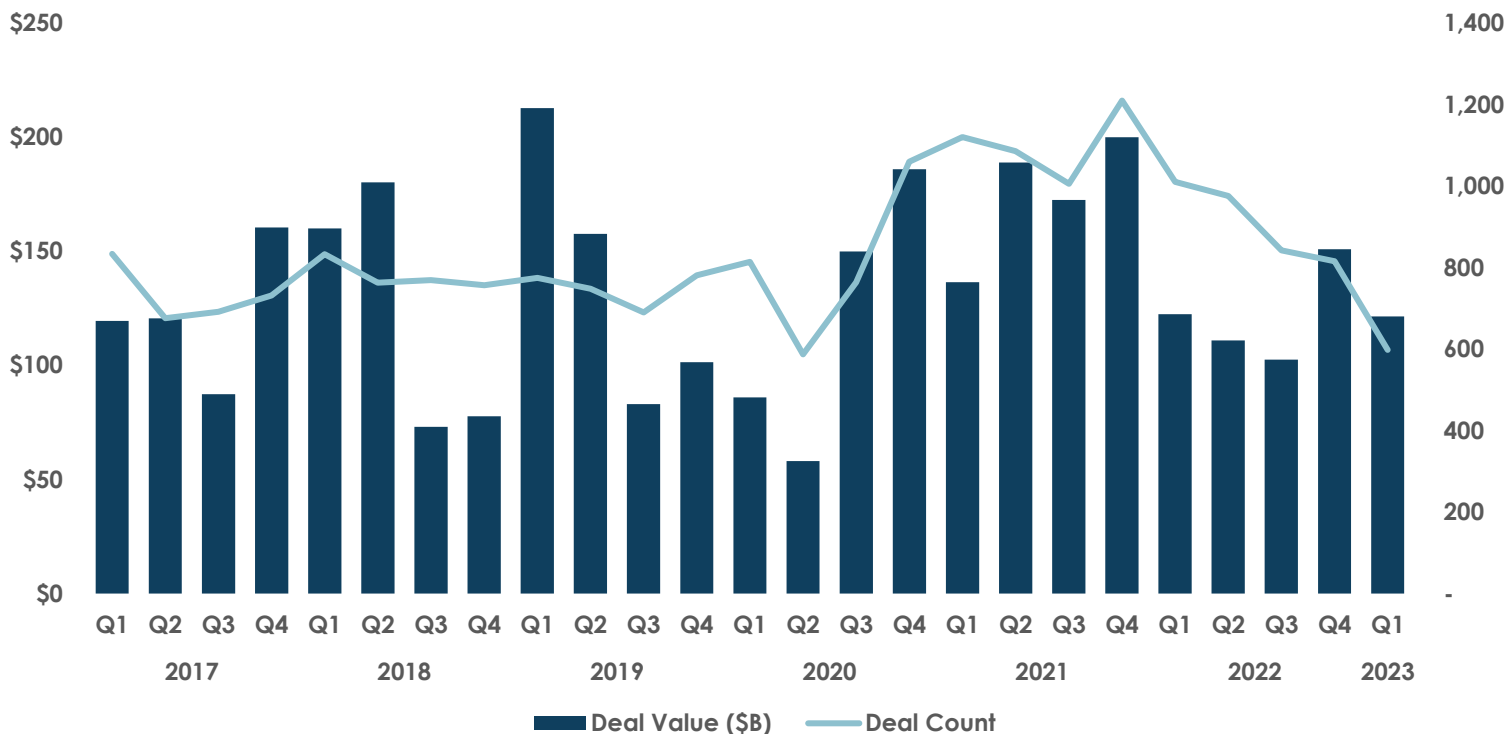
Sector Spotlight: Behavioral Health

Valuation Pointers

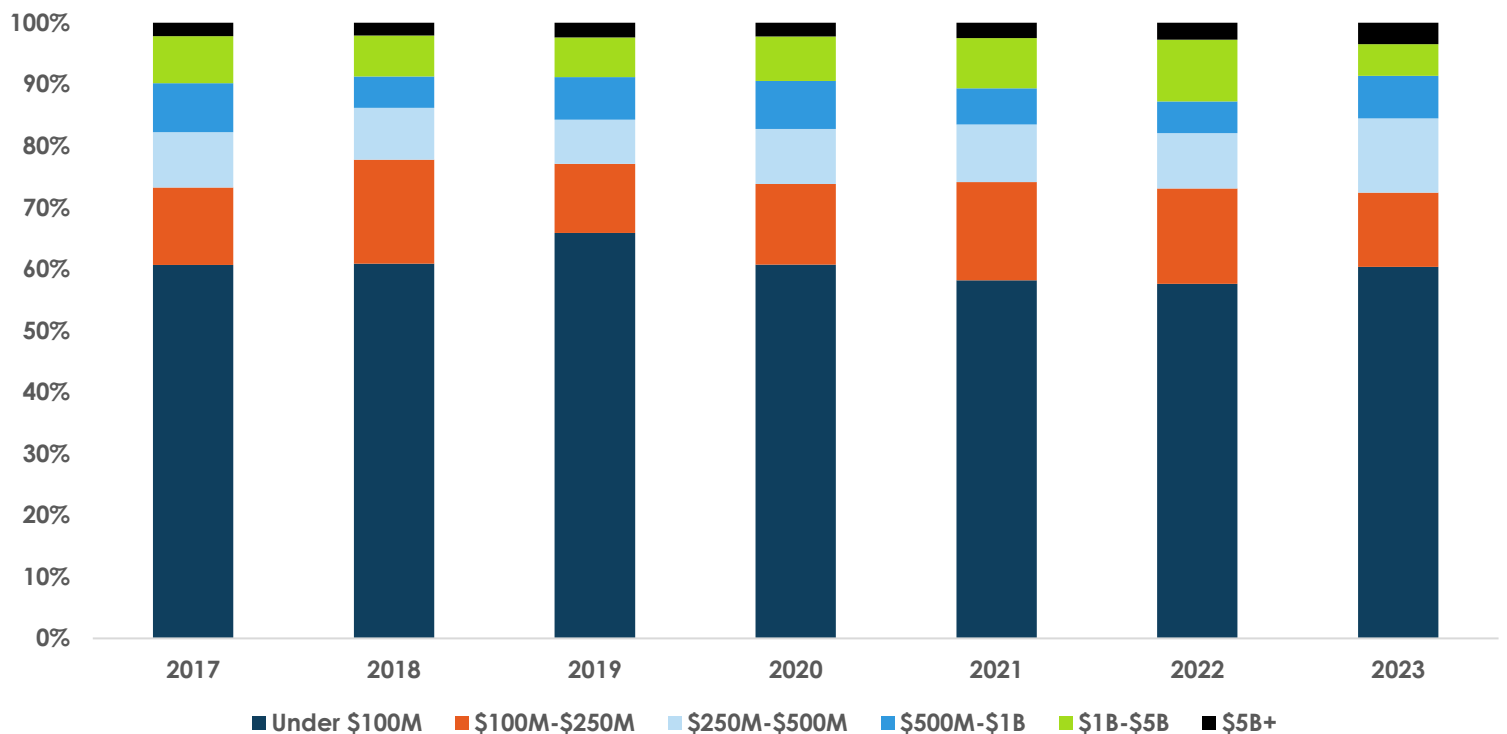


Healthcare M&A: Aggregate Activity

Healthcare M&A Activity by Quarter (2017 – Q1 2023)

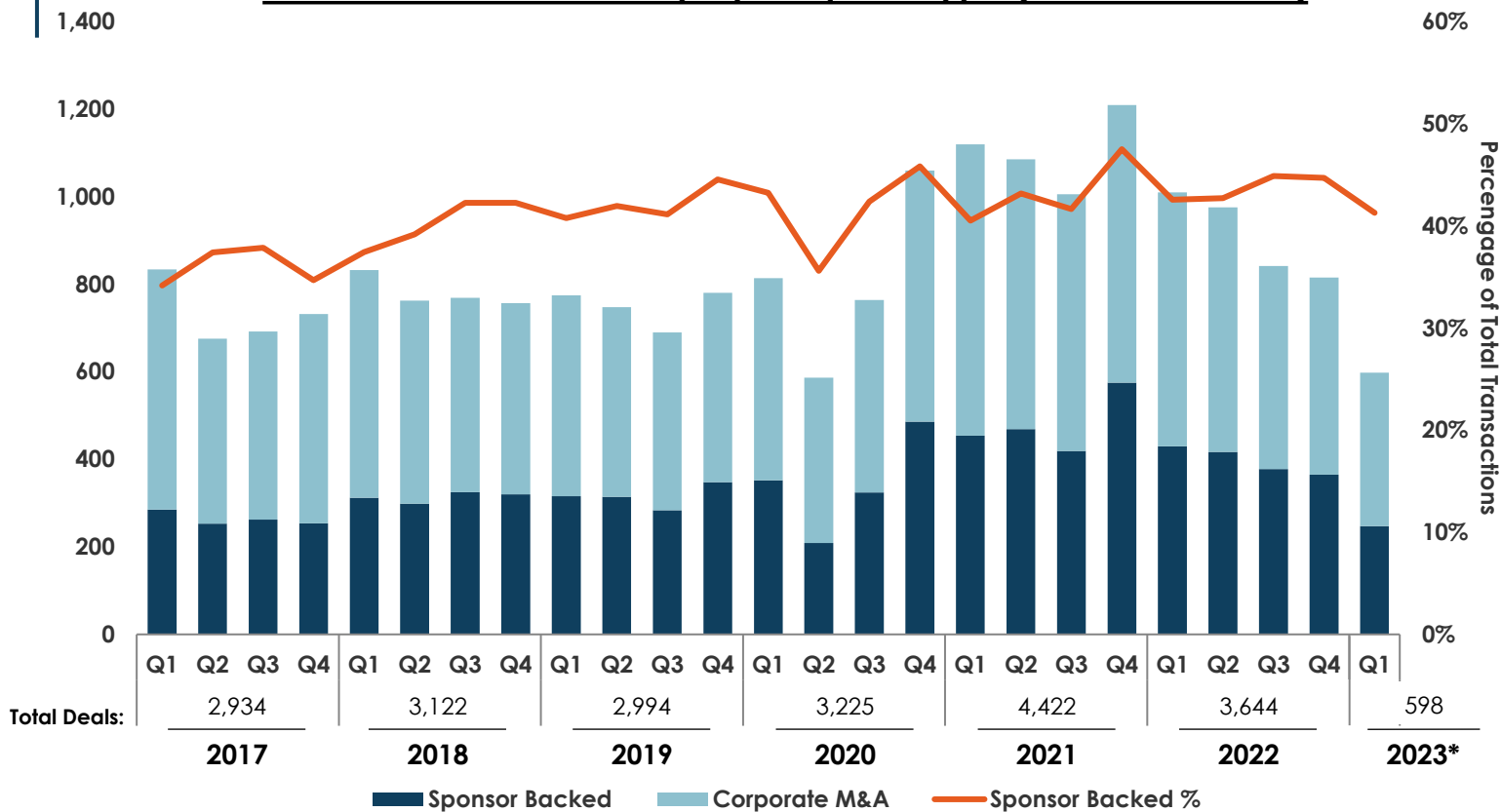


U.S. Healthcare M&A Activity by Size (2017 – Q1 2023)

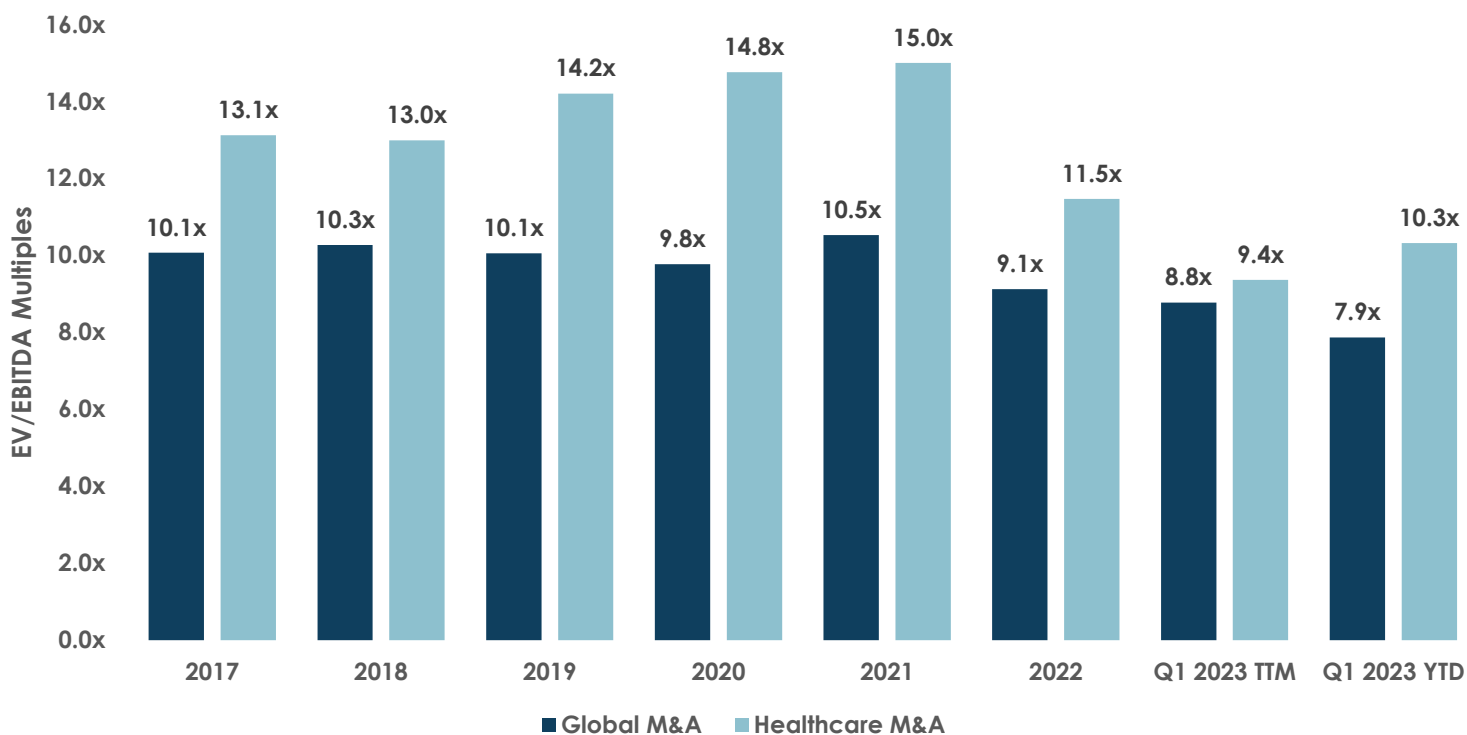


Healthcare M&A: Acquirer Activity and Multiples

Healthcare M&A Activity by Acquirer Type (2017 – Q1 2023)

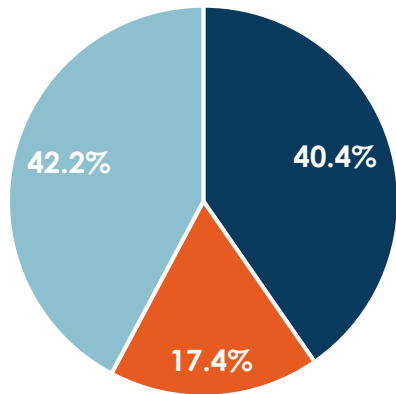


Healthcare M&A Transaction Multiples (2017 – Q1 2023)

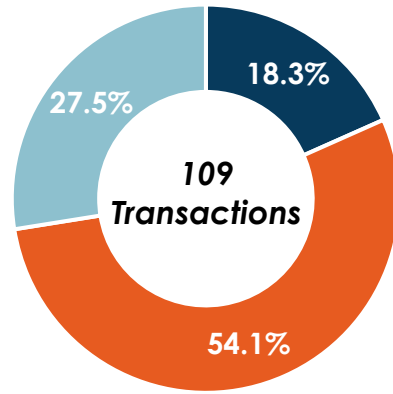


Behavioral Health Precedent Transactions Analysis (Q1 LTM 2023)

Transactions by Category

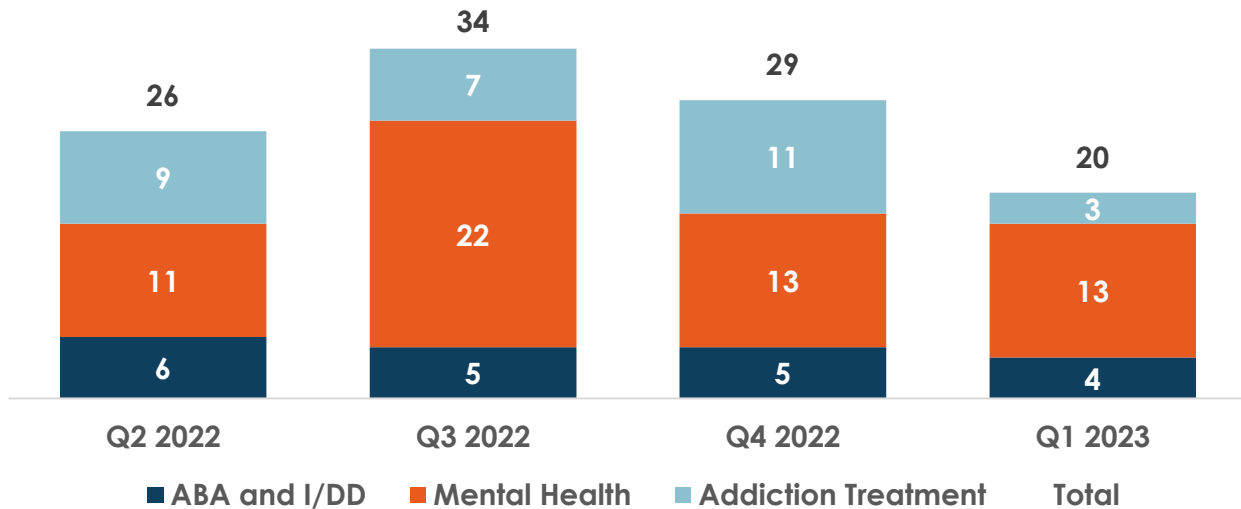


Transactions by Type



■ Strategic ■ Platform ■ Add-On ■ ABA and I/DD ■ Mental Health ■ Addiction Treatment

Transactions by Quarter by Type



Key Acquirers

Strategic



Sponsor-Backed



Financial Sponsors



Recent Home Health & Home Care Transactions: Q1 2023 (1/2)

Behavioral Healthcare: Precedent Transaction Analysis

3/31/2023

Date	Target	Target Description	Acquirer	Industry	Platform/Add-On/Strategic	Strategic vs. Sponsor/Sponsor Backed
27-Mar-23	Wellington Counseling Group	Provider of multi-specialty psychotherapy services in the Chicago metropolitan area.	ARC Psychiatry	Mental Health	Add-On	Sponsor
09-Mar-23	Adolescent & Young Adult Advocates	Provider of outpatient services including comprehensive, multi modality treatment for anxiety, depression, ADHD, and other mental health issues based in Bryn Mawr, Pennsylvania.	Recovery Centers of America	Mental Health	Strategic	Strategic
01-Mar-23	ABA2DAY Behavior Services	Provider of educational and behavioral health services intended for toddlers, children and adolescents with autism and other special needs.	Invo Healthcare Associates	ABA and I/DD	Add-On	Sponsor
01-Mar-23	Everest Rehabilitation Hospitals (Four Inpatient Rehabilitation Facilities in the United States)	A portfolio of four rehabilitation facilities located in the United States.	Invo Healthcare Associates	Addiction Treatment	Add-On	Sponsor
28-Feb-23	Davis Regional Medical Center	Operator of a medical center focused on behavioral health services.	Novant Health	Mental Health	Strategic	Strategic
22-Feb-23	First Home Care	Provider of therapeutic foster care (TFC) services across Virginia.	Health Connect America	Mental Health	Add-On	Sponsor
22-Feb-23	North Star Counseling	Provider of mental health counseling services intended to restore skills and abilities essential for independent living.	Health Connect America	Mental Health	Add-On	Sponsor
21-Feb-23	Maui Recovery	Operator of a luxury rehabilitation center intended to help individuals with personal growth and healing.	Behavioral Health Acquisitions	Addiction Treatment	Platform	Sponsor
16-Feb-23	Serenity Health	Provider of anesthesia infusion therapy catering to patients with mental health issues.	Irwin Naturals	Mental Health	Strategic	Strategic
07-Feb-23	Springstone	Operator of psychiatric hospitals intended to serve the people who are struggling to deal with their stresses.	LifePoint Health	Mental Health	Add-On	Sponsor

Recent Home Health & Home Care Transactions: Q1 2023 (2/2)

Behavioral Healthcare: Precedent Transaction Analysis

3/31/2023

Date	Target	Target Description	Acquirer	Industry	Platform/Add-On/Strategic	Strategic vs. Sponsor/Sponsor Backed
01-Feb-23	Stokes Counseling Services	Provider of counseling services intended for children, adults and families.	Eads Bridge Holdings	Mental Health	Platform	Sponsor
31-Jan-23	Scottsdale Mental Health & Wellness Institute	Operator of a mental health and wellness institute intended to offer care for those needing mental health services or struggling with substance abuse.	Turnwell Mental Health Network	Addiction Treatment	Add-On	Sponsor
31-Jan-23	Turnwell Mental Health Network	Operator of a clinician-led, integrated mental health group aimed at enabling access to affordable care in underserved markets.	Patriot Capital	Mental Health	Platform	Sponsor
25-Jan-23	Autism Learning Collaborative	Provider of applied behavior analysis (ABA) services intended for children.	Apara Autism Center	ABA and I/DD	Add-On	Sponsor
25-Jan-23	Early Autism Services (Missouri Operations)	Provider of clinic and home-based applied behavior analysis therapy services to children.	Apara Autism Center	ABA and I/DD	Add-On	Sponsor
23-Jan-23	Cornerstone Healthcare Group (Dallas)	Operator of a network of behavioral health, senior living and specialty hospitals based in Dallas, Texas.	ScionHealth	Mental Health	Add-On	Sponsor
23-Jan-23	Cornerstone Behavioral Health El Dorado	Provider of mental health care services intended to serve adult patients.	LifePoint Health	Mental Health	Add-On	Sponsor
17-Jan-23	Catalyst Speech Language Pathology	Provider of school-based speech-language pathology services across the greater Los Angeles area.	The Stepping Stones Group	ABA and I/DD	Add-On	Sponsor
06-Jan-23	Muir Wood Adolescent And Family Services	Provider of adolescent and family care services intended for teenagers.	Avesi Partners	Mental Health	Platform	Sponsor
01-Jan-23	Northside Mental Health Center	Provider of behavioral health care services intended for a productive recovery and an enriched quality of life.	BayCare Health System	Mental Health	Strategic	Strategic

Your Strategic and M&A Partners in Behavioral Health

About DAK





Transaction Characteristics

Private Businesses Closely held, entrepreneurial, family owned and multi-generational

Financial Sponsors Committed funds, independent sponsors, and family offices

\$2-40 MM EBITDA

\$10-400 MM enterprise value

\$10-300 MM annual revenue

Focused Middle Market Coverage

Healthcare Services



Generalist Coverage



Diversified Industrials



Pro Audio Visual



Advisory Focused Investment Banking

M&A Advisory

Buy and sell-side domestic and cross-border transactions including sales, divestitures, mergers, acquisitions, recapitalizations, LBOs and MBOs, and distressed or 363 sales

Strategic Advisory & Valuation

Preparation of strategic advisory & planning, business plan, pre-transaction planning, valuation, fairness opinion, and market feasibility analysis

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Director,
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Direct: (201) 478-5274



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Deep Expertise in the Healthcare Services Ecosystem

Trusted advisor to key stakeholders in home health and care, behavioral health, healthcare IT, medical device & lab, and pet healthcare services providers.

Sell Side Advisor



has been acquired by



Financial advisor to
Focus Forward Skilled Care

Sell Side Advisor



has been acquired by



Financial advisor to
Interactive Systems & Management Corporation

Strategic Advisor



has provided strategic guidance to



A Pathology Software Provider

Sell Side Advisor



has been recapitalized by



Financial advisor to
VCI

Strategic Advisor



has provided strategic guidance to



A Multi-Site Senior Citizen
Mental Health Services Provider

Sell Side Advisor



has been acquired by



Financial advisor to
Harrison Research Labs

Sell Side Advisor



BIO MEDTRIX

has been acquired by



Financial advisor to
BioMedtrix

Sell Side Advisor

Marypaul
Laboratories, Inc.

has been acquired by



EMSL ANALYTICAL, INC.

Financial advisor to
Marypaul Labs

DAK Group's Healthcare Services Coverage Area

Home-Based Care

Home service offerings for individuals including skilled and non-skilled assistance in daily life, after surgical procedures or for end-of-life care. Specific services include in-home personal care, nursing, assisted living, rehabilitative therapy, and hospice care.



Key Trends

- The increase of adults aged 65 plus, has resulted in a spike in home health care demand; 20.9% and 50.2% of those aged between 75 – 84 and 85+, respectively, require assistance.
- Home health aides address chronic illnesses such as coronary artery disease and congestive heart failure, which are common among seniors. 6 out of 10 adults in the U.S. have a chronic disease; 4 out of 10 adults have two or more chronic diseases; and chronic illness is on the rise, driving pediatric care.
- Home Care is substantially more affordable when compared to substitute services, such as inpatient care.

Select Market Participants



Behavioral Healthcare

Inpatient and outpatient behavioral healthcare services including psychiatric care, mental health treatment, substance abuse, and addiction care. Patients are treated in a hospital environment or a third-party facility.



Key Trends

- 1 of 25 adults live with a severe mental health illness.
- Increasing consolidation of providers to meet the rising demand and pursue cost efficiencies.
- The COVID-19 Pandemic accelerated mental health issues due to social isolation and financial stress.
- The industry is expected to expand as social stigma related to addressing mental health issues subsides and more individuals seek out behavioral healthcare treatment.

Select Market Participants



DAK Group's Healthcare Services Coverage Area



Healthcare IT

Increasing digitalization and technological advancements are creating new efficiencies in patient care and record keeping. Healthcare Technology Services include electronic health and medical records (EH/MR) as well as telehealth services.



EMR



Telehealth



Data Analytics

Key Trends

- Advancements in and increased ease of use of communication technology has resulted in a dramatic shift towards telehealth services.
- Federal legislation has incentivized providers to digitize records and adopt EMR / EHR systems.
- The COVID-19 pandemic has increased adoption thanks to the demand for patient exposure, infection, and vaccination tracking.

Select Market Participants



Pet Healthcare

Pet health offerings including medical, dental, and surgical treatment performed by licensed veterinary practitioners, laboratory and diagnostic testing, as well as the development of tests, therapeutic drugs, and diagnostic tools for veterinary care.



Veterinary Healthcare



Animal Lab Services



Biotechnology & Devices

Key Trends

- As 70% of U.S. households, or 90.5 million homes, have at least one pet, the demand for routine veterinary services continues to grow.
- Advancements in veterinary technology and medicine has lengthened the lifespan of many pets, driving growth for the industry with routine care and chronic disease management.
- Over the course of the COVID-19 pandemic, 11.4 million U.S. households acquired a new pet which is projected to boost demand for pet healthcare services.

Select Market Participants



BRANFORD CASTLE PARTNERS



For More Information Contact...



Melyvn Peters
Director, Healthcare Services
mpeters@dakgroup.com
(201) 478-5274



Alan Scharfstein
President & CEO
ascharfstein@dakgroup.com
(201) 478-5275



Jesse Del Buono
Analyst, Healthcare Services
idelbuono@dakgroup.com
(201) 478-5269

How We Can Help You

The DAK Group helps middle market, privately held businesses, sponsor backed companies and PE firms in the **Healthcare** space garner the greatest value for their companies.

As owners looking to grow, exit or just “take some chips off the table” by reducing risk, our teams provide operational advice, pre-transaction planning and expertise leading buy side and sell side transactions that create exceptional value.

The **DAK** Group
Investment Bankers to the Middle Market

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