

Behavioral Health Care

Q1 2024

Long-term tailwinds are expected to fuel a rebound in M&A activity as macro conditions improve

Behavioral health care remains an area of focus for investors due to strong, long-term thematic tailwinds. Increased awareness, support and funding, as well as the lasting effects of the COVID-19 pandemic, have led to a surge in demand for behavioral and mental health services. Looking forward to 2024, we anticipate that there will be a rebound in consolidation activity as interest rates stabilize and credit markets become more accommodating.

Industry Drivers

- ◆ Demand has been driven by a marked increase in people experiencing, and seeking treatment for, mental illness, substance abuse, learning disabilities and other behavioral issues.
 - In addition, increases over the past decade in disposable incomes, access to health insurance and federal funding have led to a greater portion of the population having access to behavioral health services.

Current Trends and Outlook

- ◆ Supply/Demand Gap: Staffing challenges have been a primary constraint on revenue growth for companies operating in behavioral health. As these positions generally require a high level of specialized education and training, the available workforce has been unable to match the pace of the increased demand.
 - As this dynamic incentivizes companies to increase operational efficiency to maximize the productivity of their existing staff, we believe it could be an additional catalyst in driving consolidation in the sector.
- ◆ The Biden Administration's American Rescue Plan has funded billions to support behavioral health care services, targeted at growing the workforce to adapt to the rising demand for these services.
 - Federal and state policy changes have also strengthened access to outpatient care through the Centers for Medicare and Medicaid Services.
- ◆ We believe that a growing share of treatment will be delivered virtually. This would be a further driver of consolidation, as larger, well capitalized firms would be better positioned to invest in developing online platforms and complying with the requisite regulatory hurdles.

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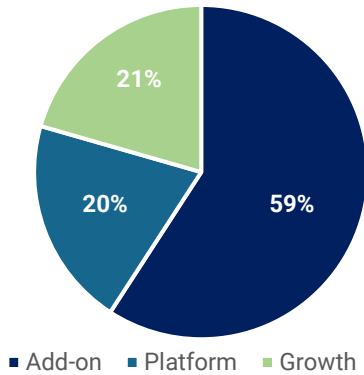
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Private Equity Activity in Behavioral Health Care

M&A activity in Health Care Services surged during the pandemic. While interest in the sector remains strong, deal count has reverted to pre-pandemic levels.

- ◆ While deal activity is down year-over-year (YoY), it is interesting to note that pricing multiples have risen this year (see Exhibit 4). While it is hard to pinpoint the exact cause of this trend, we believe there are two primary factors at play.
 - First, the breakdown in deal count reveals that add-on activity as a percentage of the total deal flow dropped from 78.4% to 72.5% from 2022-2023. In this case, it would be expected that the “median deal” would be larger (platform deals) and have a higher growth profile (growth investments).
 - Secondly, given the overall sentiment that deal activity would be slow and pricing would be less aggressive on average, it is possible that the average “quality” of companies that chose to pursue capital in that environment was higher relative to the prior few years when investors were being less selective (and more aggressive with pricing). A company that is on the bubble of being ready for market might choose to hold off when the market cools, whereas highly sought after assets would still command a premium valuation on their own merit.

Exhibit 1: Last 5 Years Behavioral Health PE Deals by Type



Behavioral Health PE-Backed Platforms



Exhibit 2: Mental Health and Substance Use Disorder (SUD) Treatment PE Deal Count by Stage

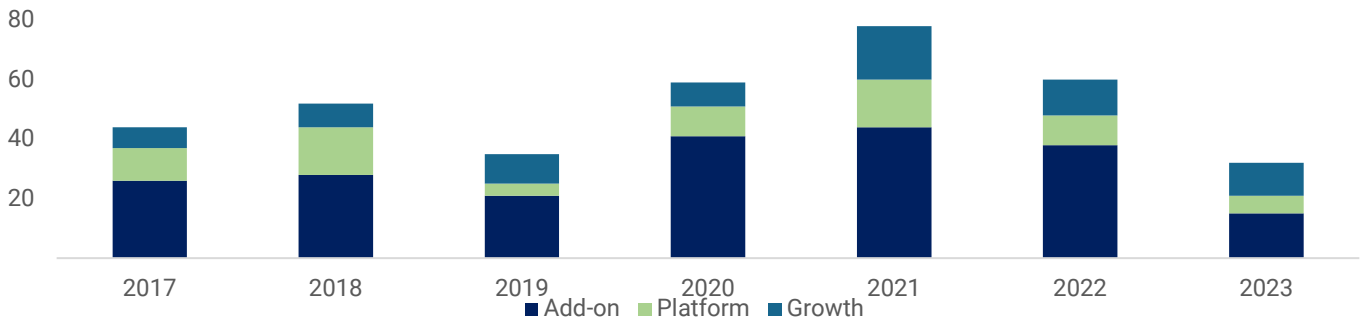
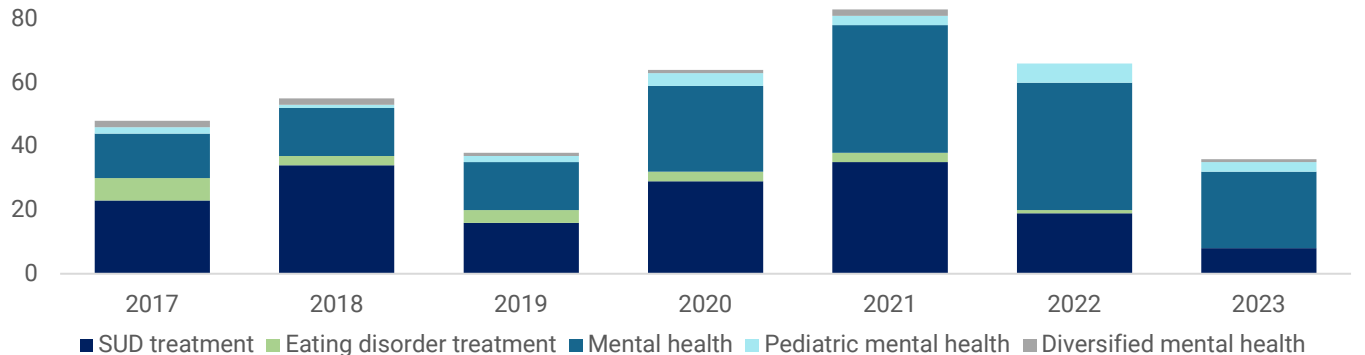
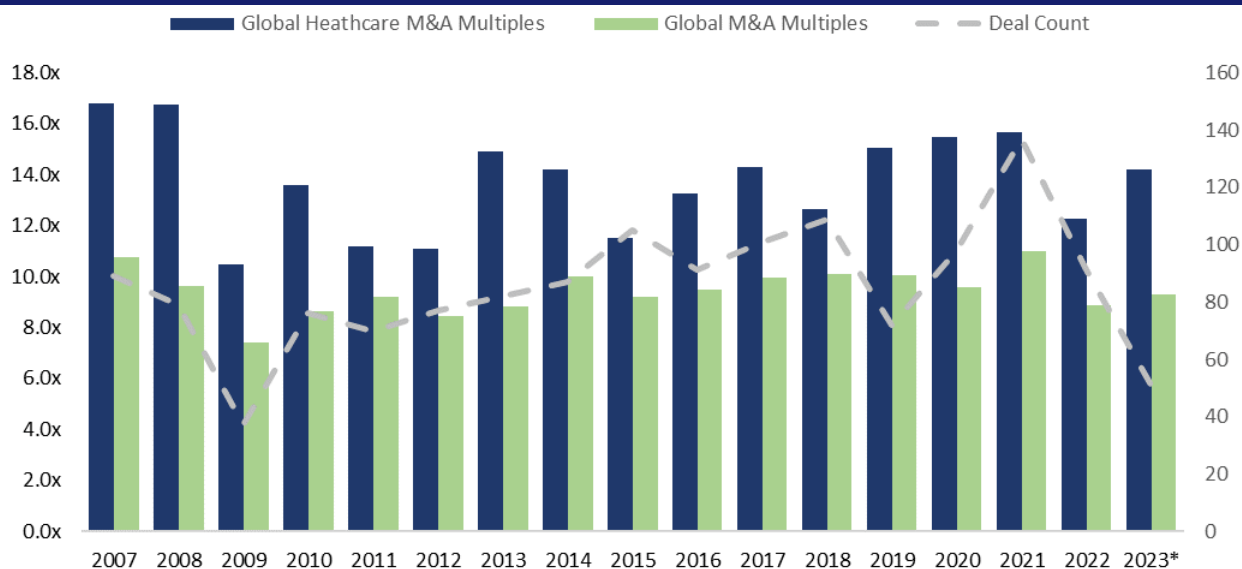


Exhibit 3: Mental Health and SUD Treatment Deal Count by Subcategory



Valuation Trends

Exhibit 4: Historical EV/EBITDA Multiples



- ◆ In comparing Health Care Service multiples vs. the broader M&A market, companies in the industry have, on average, commanded higher EBITDA and Revenue multiples. In 2023, the average industry M&A multiple was 14.2x EBITDA, whereas the overall average for disclosed M&A multiples was 9.3x EBITDA.

Exhibit 5: Public Comparable Multiples

Company	Stock Price	% 52-Week High	Market Cap	Enterprise Value	LTM Revenue	1-Year Revenue Growth (%)	LTM EBITDA	EBITDA Margin (%)	TEV / Revenue	TEV / EBITDA
Acadia Healthcare Company, Inc.	83.1	95.1%	7,603.2	9,135.2	2,861.2	9.6%	616.3	21.5%	3.2x	14.8x
Amedisys, Inc.	93.8	88.5%	3,041.4	3,507.1	2,227.7	0.2%	217.0	9.7%	1.6x	16.2x
National HealthCare Corporation	91.9	91.9%	1,405.1	1,298.3	1,104.7	2.8%	82.9	7.5%	1.2x	15.7x
HCA Healthcare, Inc.	307.9	97.8%	81,751.6	125,146.6	64,968.0	7.9%	12,704.0	19.6%	1.9x	9.9x
Universal Health Services, Inc.	162.7	98.6%	11,038.1	16,387.5	14,025.4	4.7%	1,734.0	12.4%	1.2x	9.5x

Select Public Companies Summary

Mean	94.4%	5.0%	14.1%	1.8x	13.2x
Median	95.1%	4.7%	12.4%	1.6x	14.8x
Maximum	98.6%	9.6%	21.5%	3.2x	16.2x
Minimum	88.5%	0.2%	7.5%	1.2x	9.5x

- ◆ Similarly, we have observed that public health care service companies trade, on average, at higher multiples than the overall market. From 2014-2022, average trading multiples for S&P 500 Health Care companies were in the top three highest valued sectors 7 of 9 years. Our behavioral health index is currently trading at a median of 1.6x TEV/Revenue and 14.8x TEV/EBITDA.
- ◆ Our peer group consists of companies in the following sectors: Behavioral Health Services, Autism Services, Applied Behavioral Analysis Services and Addiction Services. It should be noted that the companies included in this analysis have broad and diversified business models, which may include the operation of general and multispecialty practice services.

Select Transactions – Behavioral Health Services

Date	Target	Target Business Description	Investor
12/29/2023	Espyr	Provider of counseling and mental health support intended to help people and organizations. The company focuses on optimizing employee wellness and productivity by identifying and resolving tomorrow's problems, on-site training, critical incident debriefings and organizational and human resources consultation and addressing behavioral issues.	Acentra Health, The Carlyle Group
12/29/2023	Exult Healthcare	Provider of comprehensive, integrated behavioral health and addiction treatment services designed to empower individuals of all ages to achieve optimal mental health and well-being. The company offers a wide range of evidence-based therapies, including psychiatry, and individual and family counseling, delivered by a team of board-certified specialists and licensed counselors.	ARC Psychiatry, Five Points Capital, Thurston Group
12/21/2023	Cameron Care	Provider of residential treatment services intended for adults with mental illness. The company provides compassionate care and treatment to residents in the least restrictive setting so the individual may regain their stability, and obtain the skills necessary to live as independently as possible.	Jackson House, Zamwell Capital
12/4/2023	Advanced Psychiatric Group	Provider of mental health services focused on comprehensive healthcare for Central Florida residents. The company specializes in delivering effective and efficient behavioral health care, psychiatric services, and family counseling spanning psychiatric care for all age groups, mental health counseling, on-site attention deficit hyperactivity disorder (ADHD) testing, and clinical trials.	ARC Psychiatry, Five Points Capital, Thurston Group
11/22/2023	Manhattan Psychology Group	Provider of psychological, behavioral, and educational services intended for individuals and their families to feel supported, connected and empowered together. The company offers multidisciplinary, integrated support for individuals and their families who experience psychological, developmental and educational challenges through evidence-based mental health care.	ARC Psychiatry, Five Points Capital, Thurston Group
11/10/2023	Vertava Health Mississippi	Provider of addiction treatment and mental health services intended to serve families and individuals. The company specializes in the treatment of alcohol addiction, illegal drug addiction, and mental health disorders as well as offers medical assessments and treatment, mental health management, and spirituality education.	Bradford Health Services, Lee Equity Partners
11/3/2023	GROW Counseling	Operator of a mental health group intended to serve individuals, families, and organizations. The company specializes in individual, couples, and group therapy, addressing a wide spectrum of concerns such as anxiety, depression, stress, relationships, trauma, addiction, and more.	ARC Psychiatry, Five Points Capital, Thurston Group
11/1/2023	Discovery Behavioral Health	Provider of behavioral treatment services intended to give evidence-based community treatment programs. The company specializes in offering residential treatment that combines personalized therapeutic care with nutritional education to address eating, mental health, and substance use disorders that support long-term recovery.	GarMark Partners
11/1/2023	Origins Behavioral Healthcare	Operator of alcohol and drug addiction treatment programs and recovery support centers based in Dallas, Texas. The company's centers offer substance abuse treatment and recovery support services, including those with co-occurring disorders, by combining addiction medicine and evidence-based clinical strategies to deliver an individualized, longer-term treatment experience, holistically nurturing the mind, body and spirit of patients on the path to total recovery.	Hanley Center Foundation
10/12/2023	Defining Wellness Centers	Operator of a deaddiction center intended to transform lives through a unique blend of holistic healing and evidence-based addiction treatment. The company offers drug detox, inpatient rehab facility, partial hospitalization program, intensive outpatient care and intervention treatments, thereby helping its customers to overcome substance abuse disorders and mental health issues.	Fulcrum Equity Partners
10/5/2023	Connections Health Solutions	Provider of comprehensive behavioral healthcare services intended to offer immediate access to person-centered behavioral healthcare by improving clinical outcomes and by fighting stigma. The company through its behavioral health urgent care clinics, observation and treatment units and recovery outpatient programs offers crisis stabilization and outpatient behavioral health services.	Heritage Group, Town Hall Ventures
9/1/2023	Ellie Mental Health	Provider and franchisor of talk therapy services intended to serve individuals, couples, and families. The company offers consulting for adjustment issues, anger management, anxiety disorders, attachment disorder, bipolar disorder, body dysmorphia, and burnout, thereby enabling clients with creative consulting services that make wellness accessible in every community.	SkyVision Ventures
8/31/2023	Psych Atlanta	Operator of outpatient psychiatric practice firm intended to serve in Georgia. The company offers adult psychiatric services for conditions such as anxiety, depression, PTSD, schizophrenia, and bipolar disorder, as well as addiction and also provides traditional treatments and innovative therapies like NeuroStar TMS and ketamine therapy, thereby enabling multidisciplinary treatment plans.	Hightop Health, JLL Partners, SV Health Investors
8/15/2023	Dayspring Behavioral Health	Provider of counseling and assessment services intended for children, teenagers, adults and families. The company specializes in hospitality and health care along with coaching and evaluation.	ARC Psychiatry, Thurston Group
8/10/2023	Meridian Behavioral Health	Provider of medical treatment services intended for individuals suffering from addictive diseases and mental illnesses. The company offers acute psychiatric and substance abuse treatment services across a broad continuum of care, including in-patient, residential, out-patient, and medication-assisted treatment.	Renovus Capital Partners
8/2/2023	Better Life Partners	Provider of integrated medical and behavioral healthcare services intended for people to heal from addiction. The company's offerings include real, whole-person care through responsive care, a novel approach blending primary care, urgent care, and mental health care.	.406 Ventures, aMoon Fund, F-Prime Capital
7/17/2023	ARK Integrative Medicine and Therapeutics	Provider of ketamine infusion therapy intended to help alleviate symptoms related to trauma. The company specializes in offering therapy that helps in treating a variety of conditions including depression, obsessive-compulsive disorder (OCD), post-traumatic stress disorder (PTSD), bipolar disorder, general anxiety disorder, fibromyalgia and others.	Stella (Clinics/Outpatient Services)
7/17/2023	BeWell Network	Operator of rehabilitation centers intended to serve patients undergoing addictions. The company's centers provide evidence-based, personalized treatment for substance use disorders through different forms of therapy, enabling individuals to recover from addiction and associated trauma.	H.E.R. Management
7/1/2023	Beyond Healthcare	Provider of Partial Hospitalization (PHP) and Intensive Outpatient (IOP) behavioral health services intended to serve adolescents and their families. The company offers mental health services, mental health assessment, mental health therapy for teens, a partial hospitalization program and intensive outpatient program services, thereby providing both full-day and after-school behavioral healthcare programs coupled with medication management.	Resolute Capital Partners
7/1/2023	Turning Point Centers	Operator of a drug and alcohol treatment center intended to heal and recover from the disease of addiction. The company engages in operating facilities that focus on offering substance abuse and mental health programs that teach emotional regulation skills, motivational interviewing and offer group therapy, enabling adolescents and adults to address behavioral health needs and enhancing treatment quality by providing one-on-one care with masters-level therapists and staff physicians.	Acadia Healthcare (NAS: ACHC)

Sources: S&P Capital IQ, Pitchbook, Griffin Financial Group Research

M&A
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Private
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Board
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- ◆ Griffin Financial Group is a leading investment bank focused on the needs of lower middle market companies.
- ◆ We provide M&A advisory, capital advisory and strategic board advisory services to closely held private and small-cap public companies, with particular expertise regarding family-owned and owner-operated businesses.
- ◆ Our M&A practice is led by experienced senior bankers who have devoted their careers to developing deep professional relationships and building specialized knowledge of buyers, trends and perspectives relevant to our industry and sector-specific areas of expertise
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Representative Transactions



has been acquired by



Principals of Griffin served as financial advisor



has been acquired by



Principals of Griffin served as financial advisor



was acquired by

ACADIA Acquisition, Inc.



has been recapitalized and combined with



a portfolio company of Ampersand Capital



has been acquired by



Dental Care Alliance

a portfolio company of



has been acquired by



has sold four Continuing Care Retirement Communities to

affiliates of

Lion Healthcare Management



was acquired by



a portfolio company of



Appendix

1. Behavioral Therapist in the US: Better Days: Due to more individuals receiving preventive services, industry demand is anticipated to increase <https://www.ibisworld.com/united-states/market-research-reports/behavioral-therapists-industry/>
2. Drug & Alcohol Rehabilitation Clinics in the US <https://www.ibisworld.com/united-states/market-research-reports/drug-alcohol-rehabilitation-clinics-industry/>
3. PitchBook Industry Research: Healthcare Services Report https://files.pitchbook.com/website/files/pdf/Q4_2022_Healthcare_Services_Report.pdf#page=1
4. Mental Health & Substance Abuse Clinics in the US <https://www.ibisworld.com/united-states/market-research-reports/mental-health-substance-abuse-clinics-industry/>
5. Psychologists, Social Workers & Marriage Counselors in the US <https://www.ibisworld.com/united-states/market-research-reports/psychologists-social-workers-marriage-counselors-industry/>
6. Psychiatric Hospitals in the US <https://www.ibisworld.com/united-states/market-research-reports/psychiatric-hospitals-industry/>
7. Family Counseling & Crisis Intervention Services in the US <https://www.ibisworld.com/united-states/market-research-reports/family-counseling-crisis-intervention-services-industry/>
8. PitchBook Annual Global M&A Report 2022 https://files.pitchbook.com/website/files/pdf/2022_Annual_Global_MA_Report.pdf#page=1

About Griffin Financial Group

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- Griffin Financial Group is a leading investment bank focused on the needs of lower middle market companies.
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- Part of Stevens & Lee/Griffin, a multidisciplinary professional services Platform of 250+ professionals providing financial, legal, tax and consulting services.
- We specialize in working with closely held private and small-cap public companies, with particular expertise regarding family-owned and owner-operated businesses.

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- Griffin manages the process of selling or buying a business and analyzing the company and the industry in which it competes. We work closely with clients to identify goals and objectives and in planning an optimal sale or buy strategy. When selling a business, Griffin works with clients to manage an extensive, customized competitive sale process, including:
 - Identifying potential strategic and financial buyers that best meet our client's objectives
 - Developing and assisting in the preparation of management presentations
 - Preparing a confidential, descriptive selling memorandum that highlights the unique aspects of the business customized for different potential buyers
 - Evaluating offers and assisting in negotiations with prospective buyers
 - Managing multiple bidding rounds, including data room management
 - Managing the closing process

What We Offer

