

BEHAVIORAL HEALTH INDUSTRY REPORT



Acquisitions | Divestitures | Financings | Private Investment

Behavioral health (BH) has risen to the forefront of the U.S. healthcare industry due to the unprecedented persistence of the COVID-19 pandemic – now about to enter its third year, the worry created by the growing national political divide, and a variety of other socioeconomic concerns. These factors have exacerbated BH illnesses, such as suicide and substance abuse, and are hastening other mental health conditions such as depression, anxiety and other less acute general behavioral health challenges. Together, these factors, along with increasing parity in healthcare benefits, have made the business of behavioral health compelling to investors.

DEMAND FAR EXCEEDS SUPPLY

It has become apparent that there are not enough resources to handle the exploding demand for mental health services which impact nearly 50 million Americans.



55% of people requiring mental health treatment claim to have received no care as of 2021



60% of the youths with major depression do not receive any treatment



90% of people who require substance abuse counseling have not received it during the pandemic



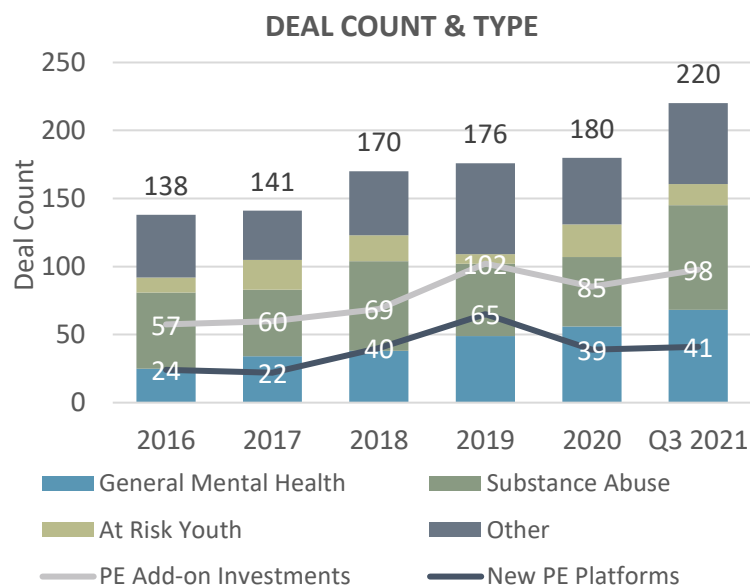
95% of people who require eating disorder treatment do not receive it

TECH & INCREASED SOCIAL ACCEPTANCE

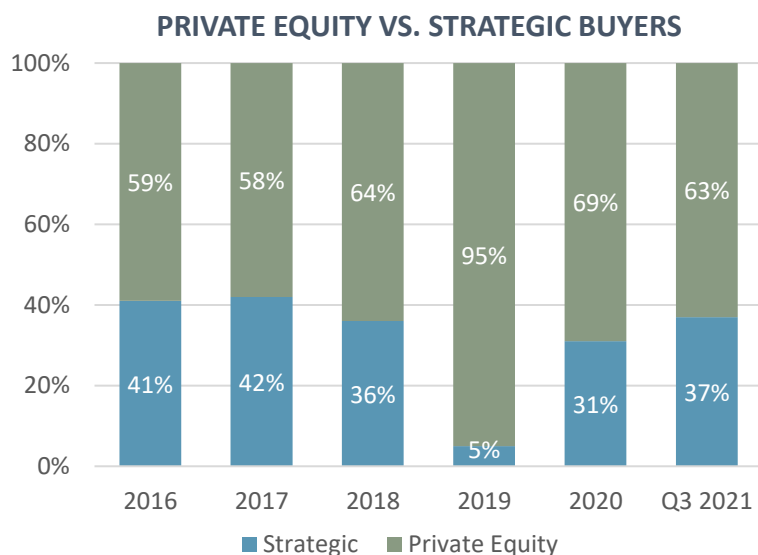
- **Telehealth** – Well-run BH practices did not miss a beat during the spring of 2020 due to the rapid adoption of telehealth. Many showed strong growth, starting with fewer than 10% of encounters occurring on telehealth platforms and growing to over 90% just a few months later.
- **Data Analytics** – Insurers are leveraging an array of data gathered from technological advancements to forge new relationships with patients and implementing personalized care practices that acknowledge BH issues.
- **Recognition & Reduced Stigma** – Acknowledging the problem has encouraged employers, legislators, and regulators to offer differentiated BH benefits that increase employee productivity and are pushing insurers for reimbursement.

ACCELERATING PRIVATE EQUITY INTEREST

Exploding demand for behavioral health services, parity in reimbursement, and rapid adoption of telehealth opened the world of BH to millions of patients providing significant tailwinds to a highly fragmented market of providers and clinics.



Investors have taken notice. 2021 BH deal activity is on pace to reach over 300 transactions compared to roughly half that level in each of the last 5 years. Specifically, private equity's share of deals has increased from 61% of the total deal count between 2016 and 2018 to 75% of total deals since 2019.



BEHAVIORAL HEALTH INDUSTRY REPORT



Acquisitions | Divestitures | Financings | Private Investment

KEY MOTIVATIONS FOR PRACTICE OWNERS

- Oversight of clinical aspects of the practice remain with care providers, while non-clinical aspects are handled by centralized management
- Increased resources and a stronger organizational structure improves clinician utilization and scope of treatment leading to better patient care
- Decreased financial risk by realizing significant value for the practice today, with an opportunity to gain upside in the long-term growth of the practice group
- Broader expertise, management resources and access to investment capital to accelerate the growth of each practice
- Expertise to accelerate growth to support scale, recruit providers and to build marketing outreach

RECENT M&A ACTIVITY

| Date | Target | Acquirer |
|--------|------------------------|------------------------|
| Sep-21 | Summit BHC | Patient Square Capital |
| Sep-21 | Renew Consulting | Pathways Health |
| Aug-21 | ARC Health | Thurston Group |
| Aug-21 | Connections Health | Heritage Group |
| Aug-21 | Health Connection | Palladium Equity |
| Jul-21 | Walden Behavioral Care | Monte Nido |
| Jul-21 | Lighthouse Autism | Cerebus Capital |
| Jul-21 | Newport Healthcare | Onex Partners |
| Jun-21 | Hudson Executive | Talkspace |
| Mar-21 | Harbor Psychologist | Centerbridge Partners |
| Jan-21 | Oswald Counseling | Marshfield Clinic |

Source: Pitchbook

SELECT MULTI-PLATFORM PRIVATE EQUITY PLAYERS

The compelling characteristics of behavioral health investing have enticed many private equity firms to establish multi-company BH portfolios covering a wide variety of patient conditions.



SELECT CASCADE PARTNERS HEALTHCARE EXPERIENCE

| | | |
|--|---|---|
| <p>Sell-Side Advisor</p> <p>NorthwestEye Be Eye Wise</p> <p>has partnered with</p> <p>UNIFEYE VISION PARTNERS</p> | <p>Strategic Advisor</p> <p><i>Undisclosed</i></p> <p>Cascade has provided strategic advice to a leading behavioral health practice in the Midwest</p> | <p>Sell-Side Advisor</p> <p>Capitol COLORECTAL SURGERY</p> <p>has partnered with</p> <p>PINNACLE GI PARTNERS</p> <p>a portfolio company of</p> <p>H. I. G. GROWTH PARTNERS</p> |
|--|---|---|

CONTACT

Rajesh U. Kothari, CFA
248.430.7723
raj.k@cascade-partners.com

David Thomas, Director
248.430.6266
davidt@cascade-partners.com