

Industry Report Behavioral Health



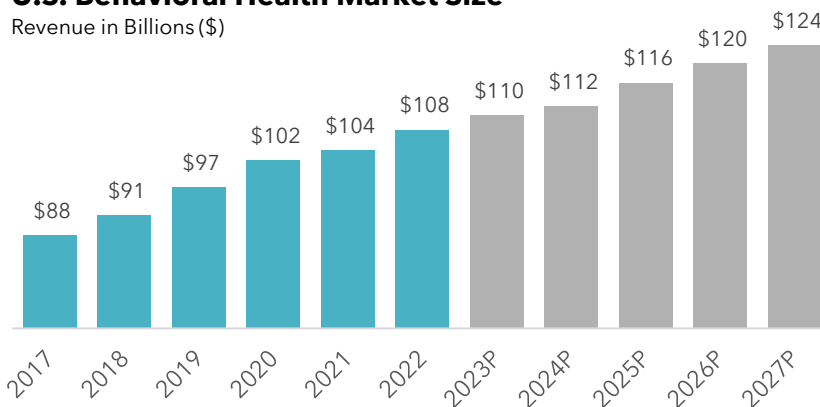
The Behavioral Health (“BH”) industry is expected to grow at an annual rate of 3% through 2027⁽¹⁾, as a result of rising demand for mental health and substance abuse resources. The continued trend of de-stigmatizing mental illness, coupled with expanding health insurance coverage are the primary drivers of overall growth in behavioral health services. Additionally, the COVID-19 pandemic has led to the rapid adoption of telehealth, further enabling more people to seek behavioral health resources. Despite a robust need for behavioral health resources, the industry will continue to struggle from a lack of counseling and medical professionals. As a result, access to care is scarce in many areas - particularly, in rural communities.

Key Trends

- » A collective understanding of mental illness has encouraged employers, legislators, and regulators to offer differentiated BH benefits that increase employee productivity, including pushing insurers for reimbursement
- » 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
- » The rapid adoption of telehealth services driven by the pandemic is here to stay. According to the American Psychological Association, half of psychologists have adopted both virtual and in-person treatment modalities⁽⁵⁾
- » Steady growth in industry revenue has been offset by rapidly expanding wages caused by a structural deficit of qualified behavioral health professionals. An increasing number of cities are now requiring therapists on a contract basis to render care at local psychiatric facilities⁽⁴⁾
- » Softening economic conditions have contributed to heightened behavioral health issues, particularly depression. Recent studies suggest that the unemployed are 4x more likely to report symptoms of depression⁽⁴⁾

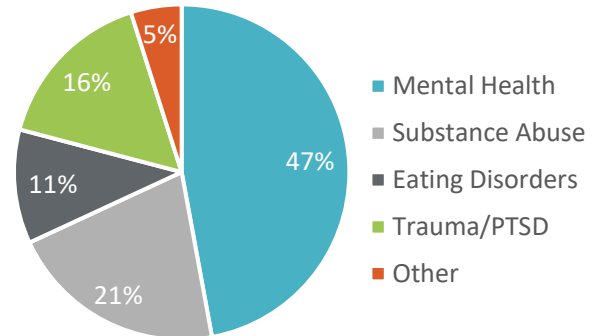
U.S. Behavioral Health Market Size⁽²⁾

Revenue in Billions (\$)



Sources: (1) CP Research, (2) IBISWorld, CP Research, (3) Fortune Business Insights, (4) IBISWorld, (5) American Psychological Association

2021 Market Share by Segment⁽³⁾



Key Statistics: Q4 2022

- 1 in 5** U.S. adults suffered from mental illness in 2022, according to Mental Health America
- 37%** of people live in an area with a shortage of mental health professionals; two-thirds of rural communities lack resources⁽⁴⁾
- 21%** of adults with substance use disorders reported forgoing treatment due to an inability to pay⁽⁴⁾
- <5%** of industry revenue is expected to be earned by the top five competitors in behavioral health⁽⁴⁾

Select Industry Aggregators



Increased Investor Interest

An abundance of capital coupled with the establishment of new private equity and family offices have resulted in a very competitive M&A environment

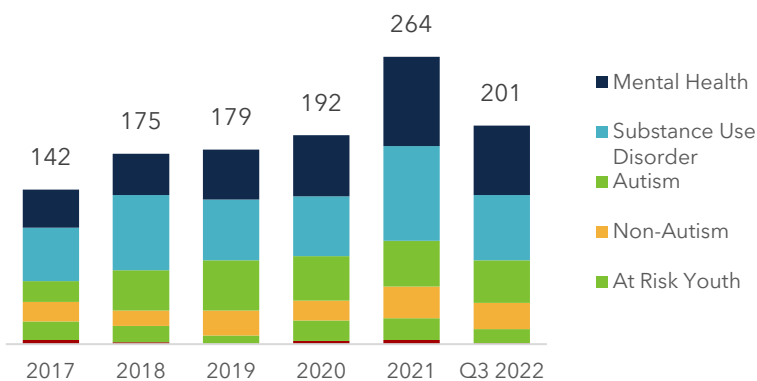
- » Over \$1.3 trillion of capital and private investment available
- » Consistency and growth in clinical space is attracting investors
- » Competition is driving investors to pursue a variety of industries for high quality deals

M&A Driver Considerations

Key motivations for behavioral health practice owners contemplating private equity include:

- » 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

Behavioral Health M&A Activity⁽⁵⁾



Select Cascade Partners Healthcare Experience

<p>Sell-Side Advisor</p>  <p>has been partnered with</p>  <p>a portfolio company of</p> 	<p>Sell-Side Advisor</p>  <p>was acquired by</p>   <p>a portfolio company of</p> 	<p>Strategic Advisor</p> <p>Undisclosed</p> <p>Cascade Partners has provided strategic advice to a leading behavioral health practice in the Midwest</p>
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Sources: (5) The Braff Group, Capital IQ, Mertz Taggart

Recent M&A Activity

Date	Target	Acquirer
Oct-22	Addiction & Mental Health Services	Lee Equity Partners
Sep-22	Innovation360	Pathway Healthcare
Aug-22	Springstone Health	LifePoint Health, Inc.
Aug-22	Column Health	BrightView, LLC
Jun-22	Stepping Stone of North Carolina	Pinnacle Treatment Centers
Jun-22	Acadia Counseling and Wellness	Mindpath Health
May-22	Howard J. Chudler & Associates	Enhanced Healthcare Partners
May-22	Weldon	Spring Health Inc

Multi-Platform Private Equity Players

NMS Capital	Shore Capital	KKR
 	  	 
Wind Rose	Summit Partners	Pharos Capital
  	 	  

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