



KPMG Corporate Finance LLC

Substance abuse treatment
facilities M&A

June 2020

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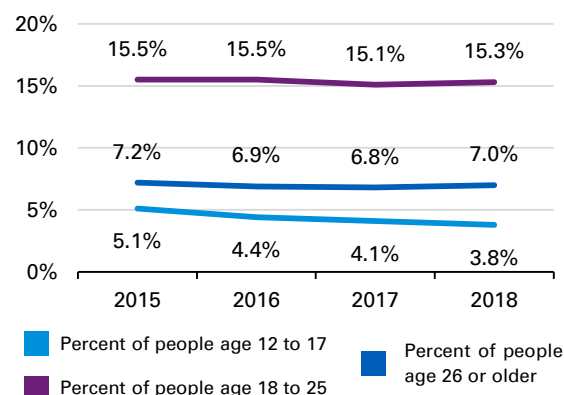


U.S. substance abuse treatment market at a glance

The U.S. addiction/substance abuse treatment market is comprised of over 14,500 specialized drug treatment facilities

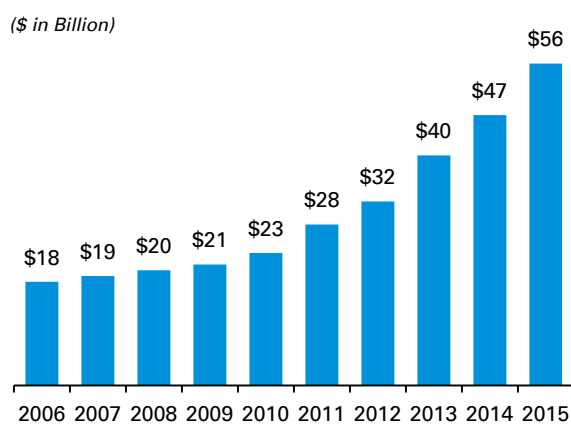
- 67,367 drug overdose deaths occurred in the U.S. in 2018, 4.1 percent lower than 2017.⁽¹⁾
 - Opioids were involved in over 69 percent of all drug overdose deaths and approximately 32.0 percent of opioid deaths involved a prescription opioid.⁽¹⁾
- In 2018, an estimated 20.3 million people aged 12 or older had a substance use disorder. Of these only 18.2 percent people received SUD treatment.⁽²⁾
- In 2019, the U.S. government's spending on federal drug control increased to nearly \$30 billion.⁽³⁾
 - U.S. accounts for less than 5 percent of the global population, yet Americans consume 80 percent of all opioids produced in the world.⁽³⁾
 - The annual cost of substance abuse to the U.S. economy is estimated to be over \$740 billion, including forgone productivity, healthcare, crime, etc.⁽⁴⁾
- The vast majority of substance abuse treatment facilities in the U.S. are privately operated, either for-profit or non-profit.⁽⁵⁾
- Under the Affordable Care Act (ACA), substance abuse treatment became an essential health benefits requiring coverage by health insurance plans.
 - Prior to the ACA, substance abuse treatment services were not covered by 43 percent of non-group plans.
 - By 2020, the ACA is likely to increase mental health and SUD treatment spending by 2.7 percent.⁽⁶⁾

Percent of people in U.S. needing substance abuse treatment in the past year⁽²⁾

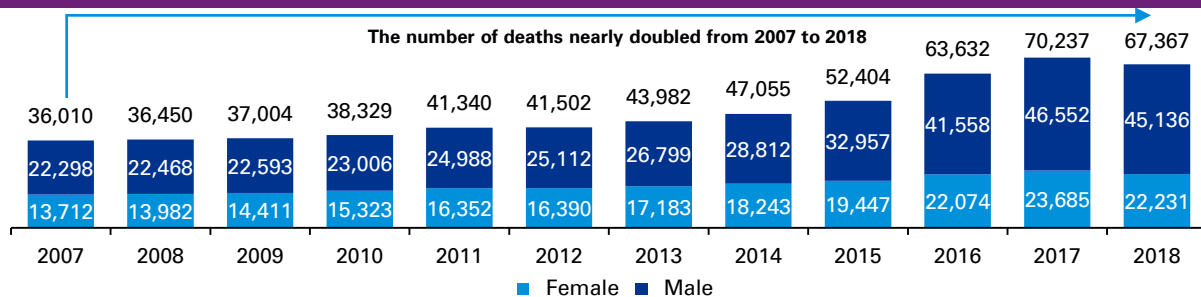


(People classified as needing substance abuse treatment if they had an SUD in the past year or if they received substance use treatment at a specialty facility in the past year)

U.S. spending on SUDs⁽⁶⁾



Number of drug overdose deaths in the U.S.⁽¹⁾



Sources:

- (1) National Center on Health Statistics, "CDC WONDER - Drug Overdose Deaths in the United States" (March 2020);
 - (2) Substance Abuse and Mental Health Services Administration, "2018 NSDUH Annual National Report" (August 2019);
 - (3) National Center for Drug Abuse Statistics, War on Drugs Cost Statistics (2019);
 - (4) National Institute on Drug Abuse, Trends & Statistics (February 2020);
 - (5) Substance Abuse and Mental Health Services Administration, "Projections of National Expenditures for Treatment of Mental and Substance Use Disorders" (October 2014);
 - (6) Substance Abuse and Mental Health Services Administration, "Behavioral Health Spending & Use Accounts (2006 - 2015)" (February 2019).
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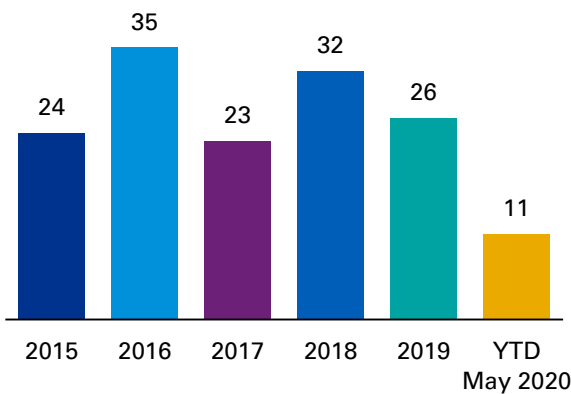
Substance abuse treatment facilities M&A activity overview

Several factors are driving consolidation of addiction/substance abuse treatment facilities by both private equity funds and strategic healthcare organizations

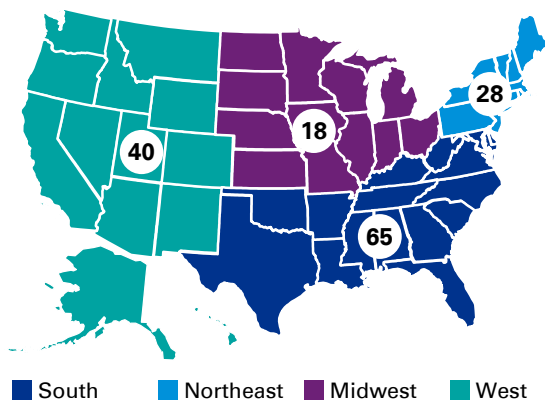
- The addiction/substance abuse treatment market in the U.S. is highly fragmented and is ripe for merger and acquisition activity, investments and partnerships.
- Historically, deals for substance use disorder treatment facilities have accounted for more than 40% of the total behavioral healthcare sector deals.⁽¹⁾
 - The ACA’s mandate for health plans to cover substance abuse services has put health insurance coverage within reach of many more affected individuals, which is increasing deal activity in the sector.
- Going forward, a healthy amount of activity is expected to continue within the sector and a number of small independent programs are likely to be acquired by larger, better capitalized, and more managerially sophisticated enterprises.
 - Consolidation is expected to be driven by opportunities to leverage new regulations that increase access to care, and to introduce economies of scale and scope into a highly fragmented industry.
 - The COVID-19 pandemic is expected to act as another factor driving increased consolidation of independent practices going forward.

Substance abuse treatment facilities M&A activity⁽¹⁾

Deal activity since 2015



Deal activity by geography since 2015



Key factors driving consolidation activity in the substance abuse treatment sector



Highly fragmented market with low concentration

The market is highly fragmented with most enterprises operating on a local or regional basis.



Macro trends

The number of substance users has increased to 164.8 million in 2018 which presents an opportunity for treatment facilities to grow⁽²⁾.



Potential for economies of scale

Size advantages present an opportunity for investors to create value through improved profit margins and return on growth investments.



Favourable regulatory environment

Expanded healthcare coverage under the Mental Health Parity and Addiction Equity Act of 2008 and the Affordable Care Act of 2010.

Sources:

⁽¹⁾ Capital IQ, Company websites, and Press releases;
⁽²⁾ Substance Abuse and Mental Health Services Administration, “2018 NSDUH Annual National Report” (August 2019)
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Selected precedent substance abuse treatment M&A transactions (1/3)

Closed Date	Target Name	Target Location	Acquirer Name	Deal Value (\$ mm)
May-20	Medication Assisted Recovery Centers	LA	AppleGate Recovery	Undisclosed
Apr-20	Crossroads Treatment Centers	SC	Yukon Partners	Undisclosed
Apr-20	IHP-Med-Psych-Solutions	OH	Community Medical Services Holdings [Clearview Capital]	Undisclosed
Apr-20	BRC Recovery	TX	Veronis Suhler Stevenson; NewSpring Capital	Undisclosed
Apr-20	Lionrock Behavioral Health	CA	Big Spruce Holdings	Undisclosed
Mar-20	The Gables Women's Treatment Program	MN	NUWAY Alliance	Undisclosed
Mar-20	Ophelia Health	NY	Y Combinator Management	Undisclosed
Mar-20	New Hope Ranch	TX	Discovery Behavioral Health	Undisclosed
Jan-20	Aegis Treatment Centers	CA	Pinnacle Treatment Centers	Undisclosed
Jan-20	Peak View Behavioral Health	CO	Summit Behavioral Healthcare	Undisclosed
Jan-20	Clearpoint Recovery Center	CT	Turning Point	Undisclosed
Dec-19	Fairbanks Addiction Treatment and Recovery Center	IA	Community Health Network	Undisclosed
Dec-19	Recover Together	NH	Transformation Capital Partners	Undisclosed
Dec-19	Casa Palmera Care Center	CA	Discovery Behavioral Health	Undisclosed
Dec-19	Aspen Investment Group	NC	Pyramid Healthcare	Undisclosed
Nov-19	Authentic Recovery Center	CA	Discovery Behavioral Health	Undisclosed
Oct-19	New Life Addiction Counseling Services	MD	Discovery Behavioral Health	Undisclosed
Oct-19	Encore Recovery Solutions	VA	Maryland Addiction Recovery Center	Undisclosed
Sep-19	Prescott Medical Executive Detox	AZ	SCB Global Healthcare Services	Undisclosed
Aug-19	Sunrise Ranch	CA	Sierra Tucson	Undisclosed
Jul-19	Aquila Recovery Clinic	DC	Ashley	Undisclosed
Jul-19	Frontline Foundations	IN	North Shore Health Centers	Undisclosed
Jun-19	SAS Healthcare/Sundance Behavioral/RCR Healthcare	TX	REP Perimeter Holdings	\$22.0
Jun-19	BioCare Recovery	PA	Kolmac Outpatient Recovery Centers	Undisclosed
Jun-19	A.M.C. Nashville	TN	Baymark Health Services	Undisclosed
Jun-19	Next Chapter Addiction Treatment	FL	CSMN Operations	Undisclosed
Jun-19	Gray Wolf Ranch	WA	Monroe Operations	Undisclosed
May-19	Corona Detox Center of Ventura Cannabis	CA	Undisclosed	\$1.4
May-19	Addiction Medicine Care of Columbus	OH	Pinnacle Treatment Centers	Undisclosed
Apr-19	Recovery Services of New Mexico	NM	BayMark Health Services	Undisclosed

Sources: Capital IQ, Company websites, and Press releases.

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Selected precedent substance abuse treatment M&A transactions (2/3)

Closed Date	Target Name	Target Location	Acquirer Name	Deal Value (\$ mm)
Apr-19	Addiction Medicine Specialists/American Addiction Treatment Center	VA	Pinnacle Treatment Centers	Undisclosed
Apr-19	Opioid Addiction Treatment Center	VA	Behavioral Health Group	Undisclosed
Apr-19	Endeavor House	NJ	Sprout Health Group	Undisclosed
Mar-19	Phoenix Recovery Services	WA	Pioneer Human Services	Undisclosed
Mar-19	Renz Addiction Counseling Center	IL	Ecker Center for Mental Health	Undisclosed
Feb-19	Mission Treatment Services	CA	Acadia Healthcare Company	\$22.5
Jan-19	Carrier Clinic	NJ	Hackensack Meridian Health	Undisclosed
Dec-18	Behavioral Health Group	TX	The Vistria Group	Undisclosed
Dec-18	Odyssey Behavioral Healthcare	TN	The Carlyle Group	Undisclosed
Nov-18	E H C Medical Offices	TN	Crossroads Holding	Undisclosed
Nov-18	Pinelands Recovery Center of Medford	NJ	Discovery Behavioral Health	Undisclosed
Nov-18	Walden/Sierra Corporation	MD	Pyramid Healthcare	Undisclosed
Nov-18	Metamorphosis Ogden	UT	BayMark Health Services	Undisclosed
Nov-18	Naaman Center	PA	Pennsylvania Adult & Teen Challenge	Undisclosed
Nov-18	Treatment Partners of America	FL	Florida House Experience	Undisclosed
Nov-18	Maintenance And Recovery Services	TX	Community Medical Services Holdings	Undisclosed
Nov-18	Premier Care	OH	Community Medical Services Holdings	Undisclosed
Nov-18	SpecialCare Hospital Management Corp.	MO	BayMark Health Services	Undisclosed
Oct-18	The Control Center	CA	Vitality Healthtech	Undisclosed
Oct-18	Recovery Center of Northern Virginia	VA	Aquila Recovery Clinic	Undisclosed
Oct-18	Two Opioid Treatment centers in Dayton	OH	Pinnacle Treatment Centers	Undisclosed
Oct-18	SelfRefind	KY	Spero Health	Undisclosed
Sep-18	MedMark Treatment Centers Los Angeles	CA	BayMark Health Services	Undisclosed
Sep-18	All of the Assets of The Treatment Center of the Palm Beaches	FL	Palm Beach Recovery Center	\$7.8
Sep-18	Life of Purpose	FL	City Line Behavioral Healthcare	Undisclosed
Aug-18	Counseling Solutions of Chatsworth	GA	BayMark Health Services	Undisclosed
Jul-18	Family Recovery Specialists	FL	Delphi Behavioral Health Group	Undisclosed
Jul-18	Magnolia Ranch Recovery	TN	Tulip Hill Recovery	Undisclosed
Jun-18	Beach House Center for Recovery	FL	BelHealth Investment Partners	Undisclosed
Jun-18	Behavioral Health of the Palm Beaches	FL	Banyan Treatment Center	Undisclosed
May-18	Turning Point Centers	UT	InTandem Capital Partners	Undisclosed

Sources: Capital IQ, Company websites, and Press releases.

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Selected precedent substance abuse treatment M&A transactions (3/3)

Closed Date	Target Name	Target Location	Acquirer Name	Deal Value (\$ mm)
May-18	Methodone Clinics of East Texas	TX	Revelstoke Capital Partners	Undisclosed
Apr-18	Summit Behavioral Health	NJ	Delphi Behavioral Health Group	Undisclosed
Apr-18	Cliffside Malibu	CA	Discovery Practice Management	Undisclosed
Apr-18	Solid Landings Behavioral Health	CA	Alpine Pacific Capital	\$9.1
Apr-18	Community Medical Services Holdings	AZ	Clearview Capital	Undisclosed
Mar-18	Clearbrook Manor Adult Treatment Center	PA	Banyan Treatment Center	\$7.0
Mar-18	AdCare	MA	AAC Healthcare Network	\$85.0
Jan-18	CLARE Foundation	CA	The Matrix Institute on Addictions	Undisclosed
Dec-17	Health Care Resource Centers	MA	BayMark Health Services	Undisclosed
Oct-17	Summit Behavioral Healthcare	TN	FFL Partners; Lee Equity Partners	Undisclosed
Oct-17	New Beginnings Minnesota	MN	Meridian Behavioral Health	Undisclosed
Oct-17	BrightView	OH	Shore Capital Partners	Undisclosed
Oct-17	Delphi Behavioral Health Group	FL	The Halifax Group	Undisclosed
Oct-17	Pat Moore Foundation	CA	D'Amore Healthcare	Undisclosed
Sep-17	BAART Breaux Bridge	LA	BayMark Health Services	Undisclosed
Aug-17	Center of HOPE of Myrtle Beach	SC	Crossroads Holding	Undisclosed
Jul-17	Center for Professional Excellence	TN	JourneyPure	Undisclosed
Jul-17	Valley Alliance Treatment Services	WV	BayMark Health Services	Undisclosed
Jul-17	Red Oak Recovery	NC	Addiction & Mental Health Services	Undisclosed
Jun-17	Women in New Recovery	AZ	Summit Behavioral Healthcare	Undisclosed
May-17	English Mountain Recovery	TN	Summit Behavioral Healthcare	Undisclosed
May-17	Origins Behavioral Healthcare	FL	TRT Holdings	Undisclosed
Apr-17	PB Institute Partners Limited Partnership	FL	Delphi Behavioral Health Group	Undisclosed
Mar-17	Avalon By The Sea	CA	New Vista Behavioral Health	Undisclosed
Mar-17	Hanbleceya Treatment Center, A Psychological Corporation	CA	Constellation Behavioral Health	Undisclosed
Feb-17	Seastone of Delray	FL	Greenestone Healthcare Corporation	\$4.7
Feb-17	TLC Clinic Of Tifton and Private Clinic Albany	GA	Behavioral Health Group	Undisclosed
Jan-17	Gray Wolf Ranch	WA	Atwell Care Management	Undisclosed
Jan-17	The Coleman Institute	VA	BayMark Health Services	Undisclosed
Jan-17	AppleGate Recovery	LA	BayMark Health Services	Undisclosed
Jan-17	Ridgeview Institute	GA	US HealthVest	Undisclosed

Sources: Capital IQ, Company websites, and Press releases.

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 <p>Project Lion</p> <p><i>A gastroenterology physician practice</i></p> <p>Ongoing</p>	 <p>Project Wave</p> <p><i>An anesthesia physician group</i></p> <p>Ongoing</p>	  <p><i>Has been acquired by</i></p>  <p><i>A portfolio company of</i></p>  <p>Closed</p>	  <p><i>Has been acquired by</i></p>  <p>Closed</p>	 <p><i>Deer Meadows</i> <small>Retirement Community</small></p> <p><i>Has been acquired by</i></p>  <p>Closed</p>
  <p><i>Has been acquired by</i></p>  <p><i>A portfolio company of</i></p>   <p>Closed</p>	  <p><i>Has been recapitalized by</i></p>  <p>Closed</p>	  <p><i>Has been acquired by</i></p>  <p>Closed</p>	  <p><i>Has received growth investment from</i></p>  <p>Closed</p>	  <p><i>Has been acquired by</i></p>  <p>Closed</p>

Select recent KPMG LLP Deal Advisory credentials

 <p>Compassion-First Pet hospitals (Quad – C) KPMG Deal Advisory</p> <p><i>Sell-side financial due diligence assistance on its sale to JAB</i></p> <p>Closed</p>	 <p>Heartland Dental (Ontario Teachers Pension Plan Board) KPMG Deal Advisory</p> <p><i>Sell-side financial due diligence assistance on its sale to KKR</i></p> <p>Closed</p>	 <p>DentalCorp KPMG Deal Advisory</p> <p><i>Sell-side financial due diligence assistance on its sale to L Catterton</i></p> <p>Closed</p>	 <p>Private equity client KPMG Deal Advisory</p> <p><i>Sell-side financial due diligence assistance on its potential sale of women's health mammography company</i></p> <p>Closed</p>	 <p>Audax Private Equity – Advanced Dermatology KPMG Deal Advisory</p> <p><i>Sell-side financial due diligence assistance on Advanced Dermatology's sale to Harvest Partners</i></p> <p>Closed</p>
 <p>Great Point Partners- Professional PT KPMG Deal Advisory</p> <p><i>Sell-side financial due diligence assistance on sale of Professional PT to Thomas H. Lee Partners</i></p> <p>Closed</p>	 <p>Center for Diagnostic Imaging KPMG Deal Advisory</p> <p><i>Financial due diligence assistance on sale to Wellspring Capital</i></p> <p>Closed</p>	 <p>Forefront Dermatology (Varsity Healthcare Partners) KPMG Deal Advisory</p> <p><i>Sell-side financial due diligence assistance on its sale to Ontario Municipal Employees Retirement System(OMERS)</i></p> <p>Closed</p>	 <p>ATI Physical Therapy (KRG Capital Partners) KPMG Deal Advisory</p> <p><i>Financial pre-sale due diligence assistance on sale of ATI with over 500 clinic locations to Advent International</i></p> <p>Closed</p>	 <p>EyeCare Services Partners (Varsity Healthcare Partners) KPMG Deal Advisory</p> <p><i>Provided financial due diligence assistance on its sale to Harvest Partners</i></p> <p>Closed</p>

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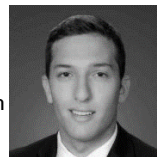
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2015-2019 global advisor ranking ⁽¹⁾		# of Deals
1.	KPMG*	2,462
2.	PwC	2,200
3.	Deloitte	1,631
4.	Rothschild & Co.	1,513
5.	Ernst & Young LLP	1,403
6.	Houlihan Lokey	1,275
7.	BDO	1,029
8.	IMAP	957
9.	Lazard	935
10.	Industrial & Comm. Bank China	916

2010-2019 global advisor ranking ⁽¹⁾		# of Deals
1.	KPMG*	4,321
2.	PwC	4,135
3.	Deloitte	2,827
4.	Ernst & Young LLP	2,654
5.	Rothschild & Co.	2,552
6.	Houlihan Lokey	2,347
7.	BDO	1,883
8.	Lazard	1,859
9.	Goldman Sachs & Co	1,813
10.	Morgan Stanley	1,685

Global coverage. Industry knowledge. Middle-Market focus.

The global Corporate Finance practices of KPMG International's network of independent member firms was ranked #1 as the top M&A middle-market adviser globally by Refinitiv based on number of completed transactions, for 2010 to 2019.

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Note:

⁽¹⁾ League tables include completed deals which have value between \$0 million to \$500 million and also where deal value is not disclosed, as of January 2, 2020.

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