



## BH/SS DEAL VOLUME ROCKETS IN FOURTH QUARTER AFTER FOUR CONSECUTIVE YEARS OF RECORD BREAKING ACTIVITY, 2013 VOLUME SLIDES

Like all streaks, the run had to end eventually.

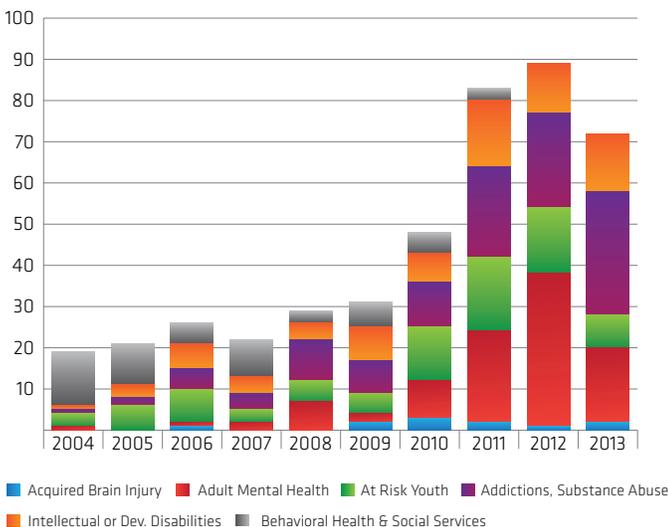
After four consecutive years of record breaking activity, deal volume in behavioral health and social services fell in 2013 vs. 2012. Based upon proprietary data collected and analyzed by The Braff Group, there were 72 transactions completed in behavioral health over the past year, down 19% vs. the record 89 deals closed in 2012. But, the sector was not alone. In fact, in aggregate, deal volume for all the sectors we cover – behavioral health, home health, hospice, pharmacy services, home medical equipment, and health care staffing – fell nearly 26% vs. 2012. Moreover, only one sub-sector, private duty home care, recorded gains in 2013.

One could be forgiven for concluding that, in aggregate, it was a weak year for behavioral health care and health care service M&A overall, but a closer look at the data reveals a somewhat more positive evaluation.

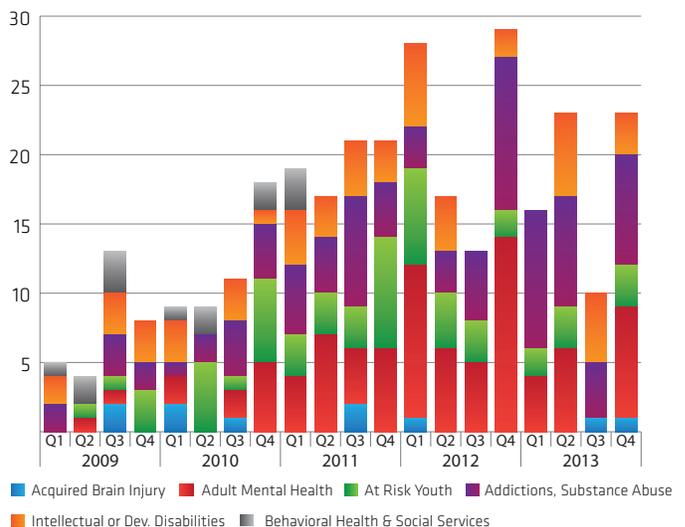
**2012 results were artificially inflated.** As we have stated repeatedly throughout the year, 2012 results were inflated as prospective sellers, who otherwise would have waited to complete a transaction in 2013, accelerated their deals to capture more favorable capital gains tax treatment that expired December 31, 2012. With many “2013” deals completed in 2012, we would expect activity to fall off in 2013.

**Fourth quarter numbers were excellent.** In aggregate, deal volume in the health care service sectors we cover surged 63% in the fourth quarter, with behavioral health and social services recording gains of 130% during the period. To provide even greater context, the 23 deals completed in Q4 tied the third highest quarterly output since we began covering the space in 2006.

BH/SS Annual Deal Trends



BH/SS Quarterly Deal Trends



Source: The Braff Group

**Private equity investment in behavioral health bucked the macro trends.**

While private equity investment activity was down in health care services and all industries overall, PE notched its fourth consecutive year of record breaking activity in behavioral health and social services, posting new highs in both market-entry platform as well as follow-on investments. The record tally of nine new platform investments is particularly impressive – and telling – as they not only vividly illustrate Wall Street’s go-forward confidence in behavioral health, but they signal a sustained period of follow-on M&A activity as these PE sponsored providers further consolidate their positions in the market and expand both their service line capacity and geographic footprint.

**Interest in addictions and substance abuse treatment providers continues to grow.**

Stimulated in large part by private equity, transaction volume for addictions and substance abuse providers rose 30% in 2013, closing out the year at 30 transactions, the fourth consecutive year of record breaking activity. Based on in-bound calls we are receiving from private equity firms looking for initial platform investments and PE sponsored providers seeking follow-on deals, we anticipate another vibrant year in this segment.

**Recently issued parity guidelines have set the table for the next 12-36 months.**

With CMS recently issuing long awaited parity guidelines, behavioral health providers may finally be in the position to realize the promise of increased coverage and utilization attributable to the Mental Health Parity and Equity Addiction Act of 2008 and the Affordable Care Act. And, with the need for greater access to mental health services increasingly becoming a part of the “national dialogue,” the fundamentals are in-place to support sustained growth and funding.

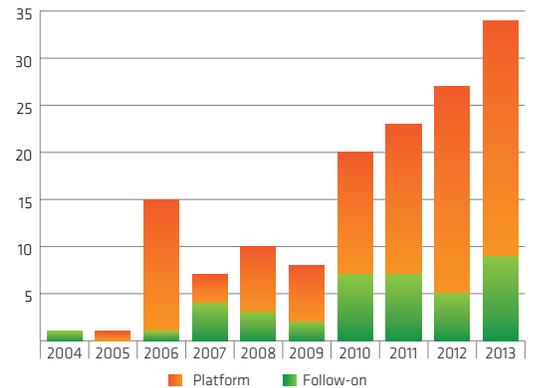
All things considered then, as we enter 2014, we remain extremely bullish on the merger and acquisition prospects for behavioral health and social services – in all behavioral health segments. While interest in addictions and substance abuse treatment providers has increased the segment’s share of behavioral health M&A activity to 42% of BH/SS deals closed in 2013 (vs. 26% in 2012), as the chart on the right indicates, we are still seeing substantial activity in other areas including providers focused on mental health, at risk youth, and intellectual and developmental disabilities.

Accordingly, rather than reaching a peak, we’re inclined to say that M&A activity in behavioral health and social services is riding the crest of a butte (look it up).

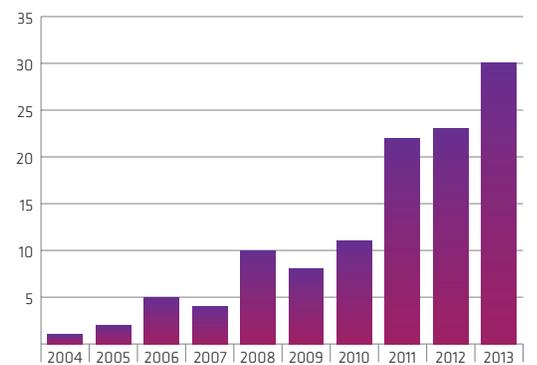
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Private Equity Investment in BH/SS



Addictions & Substance Abuse Deal Trends



2013 BH/SS Deals by Segment

