

Behavioral Health Composite – January

Behavioral Health stocks rallied again, up 5.9% in December, posting their second straight month of across-the-board gains, after an 8% increase in November. UHS led the way. The company saw its shares rally in both months following its announcement in mid-November that its board authorized a \$400 million increase in its stock repurchase program and a \$0.10 cash dividend, both signs of management bullishness.

A Brief History

The Behavioral Health Composite, which consists of American Addiction Centers (AAC), Universal Health Services (UHS) and Acadia (ACHC), has undergone a rollercoaster ride of ups and downs since the IPO of AAC in October 2014. The Composite has been affected by a history of acquisitions, lawsuits, Brexit and government regulation. Below is a timeline highlighting the major events affecting the composite:

October 2014 – June 2015 – Growth in the Behavioral Health Composite driven by the IPO of AAC, whose shares rose 70% as the company aggressively expanded its bed count through acquisitions and de novo openings. Investor response was exuberant, driving AAC’s EV/EBITDA (think “the multiple”), to a high of **54x**, ACHC followed suit at a healthy 32x, while UHS, the larger, more diverse company, was more in line with the overall market at 12x.

July 2015 – Drag in the Behavioral Health Composite on news that AAC’s President, co-founder and second largest shareholder was indicted by a California Grand Jury on 2nd degree murder charges. In addition, AAC was accused of excessively charging payors for unnecessary drug tests, thereby overstating the company’s profits.

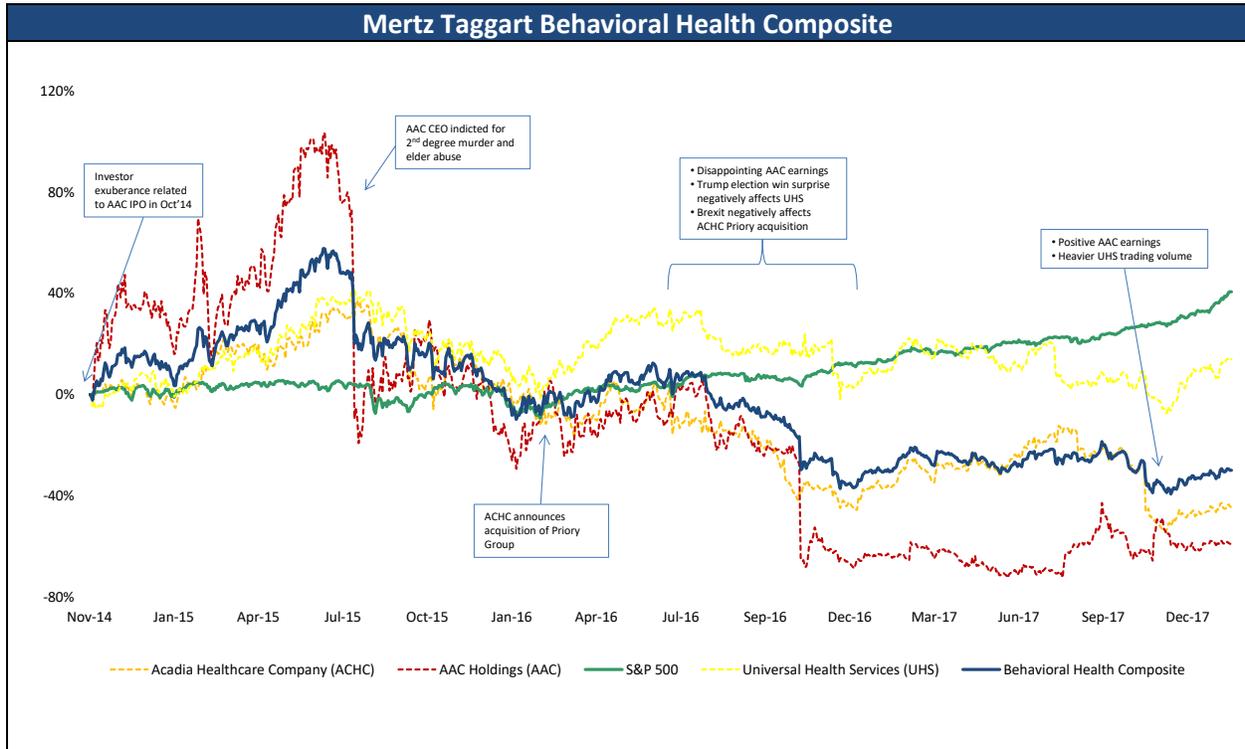
January 2016 – Steady rebound of the Behavioral Health Composite on news of ACHC’s announcement of the acquisition of Priory Group (“Priory”), a behavioral healthcare company in the United Kingdom, which contributed approximately 7,200 beds across 300 facilities. The purchase price was approximately \$1.9 billion and Priory contributed 2015 revenue and Adjusted EBITDA of \$865 million and \$196 million, respectively

May 2016 – December 2016 – Further drag in the Behavioral Health Composite due partially to a 50%+ decrease in AAC’s stock due to falling profits as revenue shifted away from the higher-margin drug testing business and compression of out of network reimbursement. In addition, the Composite was further dragged down by a drop in UHS’s stock on news of Trump’s surprise presidential victory and concerns of ACA repeal (UHS’ stock dropped 14% the day after the election). Lastly, the Composite was negatively affected by a drop in ACHC’s stock on news of Brexit due to its new British exposure with the Priory acquisition.

November 2017 – Boost of the Behavioral Health Composite led by a positive earnings announcement from AAC (November 1) and UHS’ (UHS) heavier trading volume after it bottomed out on November 15.

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Valuation

Public Comps

Below are the Enterprise Value / EBITDA and Enterprise Value / Revenue ratios for AAC, ACHC and UHS. The valuations provide somewhat of a barometer for what smaller companies can sell their businesses for. Given the higher relative risk of smaller companies (e.g., less liquidity, smaller revenue base), we typically (though not always) see multiples come inside of those of the public companies.

Company	Stock Price	Enterprise Value/ EBITDA	Enterprise Value/ Revenue
AAC	\$ 8.95	11.55x	1.52x
ACHC	33.55	10.73x	2.19x
UHS	117.99	8.98x	1.49x

As of January 24, 2018

M&A News

December 18, 2017 – BayMark Health Services announced the acquisition of its second opioid treatment program in Columbus, Georgia. Since 2014, Private Clinic has been providing medication assisted treatment services to the Columbus market under the MedMark Treatment Centers brand.

December 19, 2017 – Universal Health Services (UHS) and Memorial Hospital at Gulfport announced the sale of Memorial Behavioral Health, a 109-bed behavioral health facility for adults, adolescents and children, along with two outpatient clinics in Gulfport, Mississippi.

December 20, 2017 – FFL Partners announced its acquisition of Autism Learning Partners from the consortium of Jefferson River Capital, Scopia Capital Management, and Great Point Partners. The highly anticipated auction commanded an enterprise value north of \$270 million (on \$16 million in adjusted EBITDA, for a multiple of 16.9x).