

Behavioral Health Composite – January

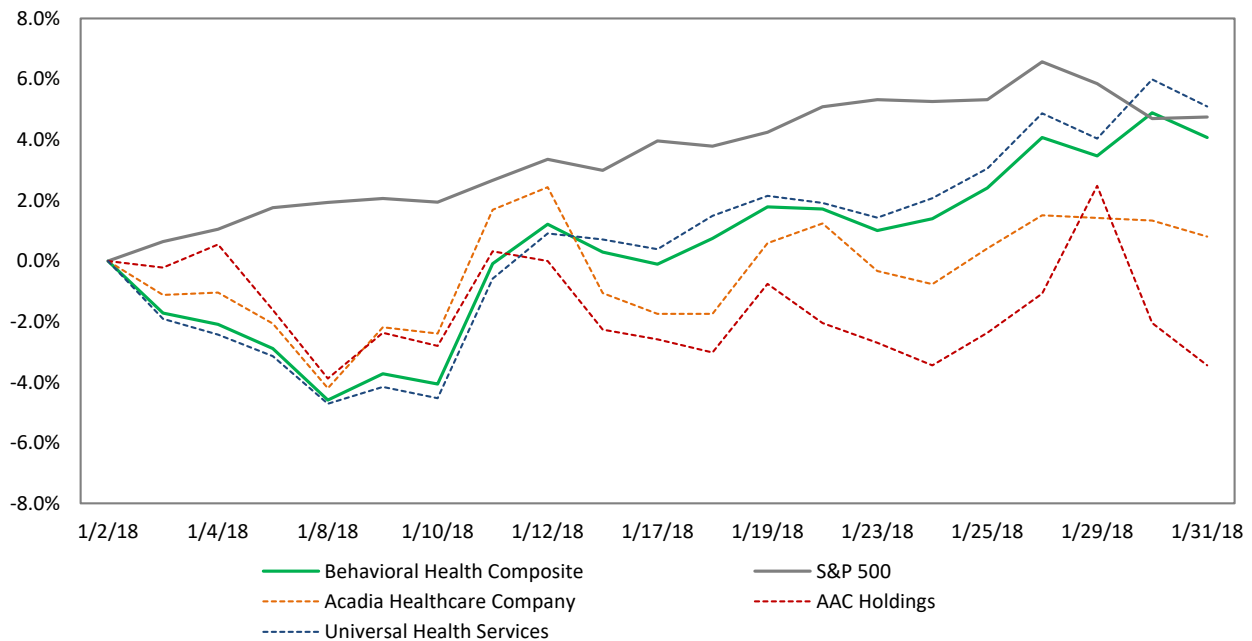
Behavioral Health Care Stocks Up Again – 4.1% in January.

The Behavioral Health Composite, which consists of American Addiction Centers (AAC), Universal Health Services (UHS) and Acadia (ACHC), rallied again, up 4.1% in January, posting its third straight month of across-the-board gains, after a 5.9% increase in December. This is in line with the S&P, which also rose 4% in January.

UHS led the way. The company saw its shares continue to rally 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 that management is bullish on their business. In addition, ACHC was up by 4.4%, more than offsetting AAC, which was slightly down 0.6%.

Since January, ACHC and AAC benefitted from strong earnings releases, both beating last year and analyst expectations for Q4'17. "All three companies got a boost from and will see the benefits of tax reform for the upcoming year. This has been somewhat offset by the wide volatility in the markets," said Mertz Taggart Managing Partner Cory Mertz.

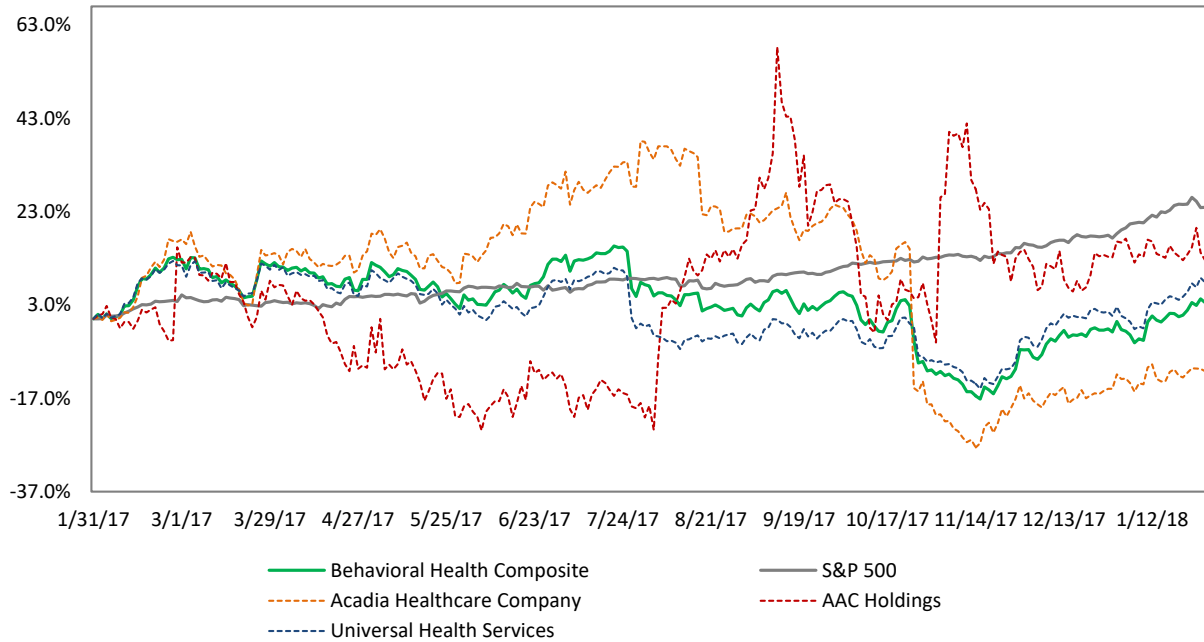
Behavioral Health Composite vs. S&P 500 - January



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HEALTHCARE MERGERS & ACQUISITIONS

Behavioral Health Composite vs. S&P 500 - LTM



Notable Quote:

“If we want to do an acquisition – if someone was to say, Joey, you can make one acquisition, what would you buy? I would probably buy an acquisition that would help on the opiate treatment. We have about 115 facilities that do that. I would make an acquisition right there, because of all the money the federal government is giving for the demand for these services.” – Joey Jacobs, CEO, Acadia

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 (1/31/18)	Enterprise Value/ EBITDA			Enterprise Value/ Revenue		
		1/31/16	1/31/17	1/31/18	1/31/16	1/31/17	1/31/18
AAC	\$ 8.95	15.66x	13.54x	11.55x	2.90x	1.45x	1.52x
ACHC	34.08	20.98x	12.88x	10.81x	4.50x	2.69x	2.20x
UHS	121.50	8.74x	8.57x	9.18x	1.65x	1.52x	1.52x

M&A News

January 8, 2018 – Baymark Health Services announced it combined with Health Care Resource Centers (HCRC). HCRC adds to Baymark’s portfolio 15 MAT treatment centers in 3 New England states, along with the management of a 16th center in Connecticut. Baymark was formed in 2015 with the merger of BAART Programs and MedMark Treatment Centers.

January 23, 2018 – The Southern California-based non-profits Matrix Institute on Addictions and CLARE Foundation announced a merger. CLARE Foundation was established in 1970 and provides treatment for substance abuse and behavioral health services to over 10,000 individuals per year. Founded in 1984, the Matrix Institute has operated under the “Matrix Model” of substance abuse treatment, since acknowledged by NIDA as a scientifically-based outpatient approach, and SAMHSA in its National Registry of Evidence-Based Programs and Practices.

January 24, 2018 – Family Treatment Network, a Pharos Capital Group platform company, acquired Behavior Care Specialists, a provider outpatient treatment provider of autism spectrum disorder services based on the principles of Applied Behavior Analysis. Headquartered in Sioux Falls, SD, Behavior Care Specialists serves 140 children across four states.

January 30, 2018 – Seaside Healthcare acquired Turning Point Family Services, with four locations in North Carolina. Turning Point provides community-based mental health services including outpatient programs, intensive in-home services, residential services, medication management, individual and family counseling, among others. Seaside was founded in 2009 and acquired by Pharos Capital Group in 2014.