



Global Healthcare Advisors, LLC

Building Leading Healthcare Companies

Opportunities in Addiction Treatment

Vertical: Behavioral Health, March 2015

MIAMI OFFICE

333 SE 2nd Avenue
Suite 2000
Miami, FL 33131

PROFESSIONAL TEAM

Lawrence S. Carter
Senior Managing Director
lcarter@ghadvisors.net

Jason Laurent, CFA
Managing Director
jlaurent@ghadvisors.net

Nathalie A. Rouzier
Vice President, Research
nrouzier@ghadvisors.net

Josh Weber
Vice President
jweber@ghadvisors.net

Julian Astrove
Analyst
jastrove@ghadvisors.net

Inna Pillipenko
Executive Assistant
ipillipenko@ghadvisors.net

ADVISORY BOARD

Frank Blair
Stanley B. Blaylock
Joel B. Braunstein
Brad Buxton
Martin Z. Craig
Timothy Dickman
Angus Duthie
Greg Guckes
Steven C. Straus

Executive Summary

Market Analysis: Addiction treatment center market poised for growth. In 2007, Congress passed the “Recognizing Addiction as a Disease Act”. In addition, the implementation of the Affordable Care Act is a catalyst to drive millions of patients into treatment. Existing demand for treatment outstrips capacity by a ratio of 10 to 1.

Flagship Strategic Framework Identifies Opportunities: GHA is launching its “Strategic Positioning Framework”. This 2-part framework identifies critical success factors. The framework is designed to rank a management team’s ability to deliver across vectors of our Framework. Management teams best positioned on the framework are likely to drive growth, profitability and favorable investment returns.

Strategic Positioning Framework: Focus on Marketing in the near term, Profitability in the long term. Strong marketing, awareness and local presences will increase occupancy rates. Long term, companies that maximize benefit plan payouts by providing value-added treatments will achieve above-average center profitability.

Acquisition Environment: The Acquisition Environment Could Become Rich for Treatment Centers. We see an opportunity for the creation of large regional or nationwide players as uncertainty in the past and key provisions of the Affordable Care Act are just being implemented now.

Financial Model: Economics Per Bed Show Strong EBITDA Margins. Our model shows that the best managed addiction treatment centers can generate EBITDA margins in the 20% range or above per bed.

Valuation: Targeting an Underserved Market, Strong Market Growth, and Increasing Profitability Equals Potential Appreciation. Based on estimates up to \$4K in EBITDA profit per bed per month, we estimate valuations multiples of forward EBITDA estimates in the high single digits for stand-alone addiction treatment centers.

Risks: 1) Proper staffing to execute on complex billing and collection process, 2) Change in Legislation / Regulation and 3) Litigation.