



Q3-2011 BEHAVIORAL HEALTHCARE INDUSTRY UPDATE

MARKET OVERVIEW

In March, 2010 the Health Care and Education Reconciliation Act of 2010 and the Patient Protection and Affordable Care Act were enacted into law by the US Congress, drastically altering the federal Medicare, and state Medicaid programs, as well as the health insurance coverage guidelines for U.S. citizens. Although the effects of the legislative and budgetary tug-of-war continue to keep operators unsettled within the behavioral health sector, deal flow is alive, diverse, and robust. Activity has been primarily driven by a hungry strategic and financial buyer universe looking to build on pre-existing platforms, as well as diversify geographic sensitivities, minimize reimbursement exposure, and reduce operational risk. As has been proven historically, the most accretive and efficient means by which these larger organizations can accomplish the aforementioned goals and continue responsible, accretive growth is through acquisitions. By leveraging the local strengths of well-established regional operators, larger national services providers can not only fill in holes within their existing services matrix, but also benefit from baked-in synergies and spend a minimal amount of time integrating. As a result, these groups can afford to be more aggressive when it comes to upfront valuations. Additionally, financial buyers continue to strain under the weight of a quickly expiring \$300+ billion capital overhang and with the investment landscape continuing to be aggressively pursued, the only means by which they have to attract potential investment opportunities is through operational flexibility, deal creativity, and heightened valuation thresholds. All this being considered, transaction negotiation and completion remains an incredibly rigorous and intensive process – now more than ever acquirers and investors want to make sure they have the *right* target. As detailed below, the deal landscape over the past quarter covers a variety of service areas including but not limited to substance abuse treatment, rehabilitation, occupational healthcare, and psychiatric care. It is our position that the behavioral health sector will remain active moving well into 2012.

SELECT TRANSACTIONS

| Month | Acquirer | Company Acquired | Details |
|----------------|-----------------------------------|--|---|
| September 2011 | Webster Capital | Discovery Practice Management | Webster Capital has acquired an undisclosed stake in Discovery Practice Management, also known as the Center for Discovery. Through its nine residential treatment facilities in California and Washington, Discovery specializes in the treatment of eating disorders and substance abuse/emotional disorder rehabilitation. As a result of Webster's partial purchase, Discovery will now have the capital resources needed to grow and expand its business. |
| August 2011 | Pacific Child & Family Associates | Autism Services North | Pacific Child & Family Associates, a portfolio company of Great Point Partners, has purchased Autism Services North for an undisclosed amount. Autism Services North connects families and individuals with local Applied Behavioral Analysis Therapy providers. This deal marks the first strategic acquisition outside of California for Pacific Child. |
| August 2011 | Ensign Group | Oceanview Healthcare and Rehabilitation Center | The Ensign Group has completed an all-cash acquisition of Oceanview Healthcare and Rehabilitation Center, a 134-bed skilled nursing facility located in Texas City, Texas. A subsidiary of Keystone Care, Inc., which itself is a subsidiary of The Ensign Group, will operate the facility. The acquisition will allow the Ensign portfolio of companies to expand geographically along the coastal retirement cities of Texas City and Galveston. Ensign expects the acquisition to be operationally accretive to earnings in 2011. |
| July 2011 | U.S. HealthWorks Medical Group | NorthWorks Occupational Health | U.S. Healthworks, a leading operator of occupational healthcare centers across America, has acquired Minnesota-based Northworks Occupational Health. Operating out of three clinics in the Twin Cities metro area, Northworks focuses on preplacement screening, workplace ergonomics, and caring for work site injuries. The acquisition allows for the network expansion of U.S. Healthworks into the Minnesota market, an area in which they were not previously positioned. Financial terms of the transaction were not disclosed. |
| July 2011 | General Atlantic | Align Networks | General Atlantic has made a significant investment in Align Networks, which coordinates and manages physical medicine for workers' compensation patients. Align is unique in that it focuses on serving injured workers, therapy providers, and all workers' compensation constituents, insurance carriers, and third-party administrators. General Atlantic sees value in Align, as they reduce costs for payers, increase patient volumes for healthcare providers, and ensure patients receive high-quality care. Financial details were not disclosed. |
| July 2011 | PHC | MeadowWood Behavioral Health | PHC, Inc., has acquired MeadowWood Behavioral Health for \$21.5 million. With \$15 million in revenue for the 12 month period ended December 31, 2011, the deal was completed at approximately a 1.4x revenue multiple. MeadowWood is a licensed acute care psychiatric hospital that aids adults suffering with mental illness and substance abuse. The current management team will remain intact post-closing. The acquisition was made to fulfill part of the divestiture requirements imposed on Universal Health Services following its acquisition of Psychiatric Solutions. PHC is now offered entrance into a new market and an increase in national presence. |
| July 2011 | Clearview Capital | Pyramid Healthcare | Private equity group Clearview Capital has announced its acquisition of Pyramid Healthcare, a drug and mental health treatment specialist. Pyramid provides care and treatment to those dealing with alcohol/drug addiction, mental health disorders, and adolescent behavioral problems. The acquisition provides entry for Clearview Capital into the rehabilitation space, and was attractive to Clearview due to Pyramid's 12-year history of strong growth and exceptional care to its patients. |