



# KPMG Corporate Finance LLC

Substance abuse treatment  
facilities M&A update

February 2023

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# U.S. substance abuse treatment market at a glance

The substance use disorder market is highly fragmented and is comprised of over 16,000 specialized drug treatment facilities

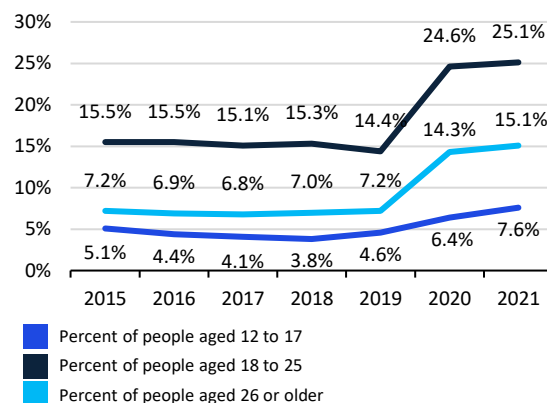
- Over 100,000 drug overdose deaths occurred in the U.S. in 2021, 16.2 percent higher than 2020.<sup>(1)</sup>
  - Most of the deaths were due to opioids, fueled by the powerful drug fentanyl, which is often added to illegal drugs to enhance their potency.
- In 2021, an estimated 46.3 million people aged 12 or older had a substance use disorder. Of these only 4.1 million people received any SUD treatment.<sup>(2)</sup>

### Economic Cost of SUDs in the U.S.<sup>(3)</sup>

<b>\$501.3B</b>	+	<b>\$3,229.4B</b>	=	<b>\$3,730.7B</b>
Tangible (incl. health, fires, productivity loss, crime, etc.)		Intangible (incl. death, crime victims, quality of life, etc.)		Total estimated cost

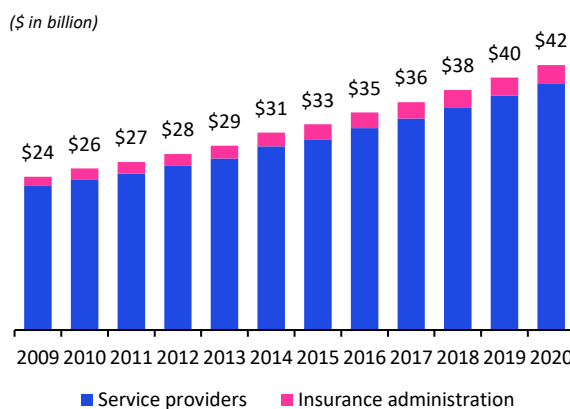
- The vast majority of substance abuse treatment facilities in the U.S. are privately operated, with for profit organizations operating approximately 41 percent of the total facilities.<sup>(4)</sup>
- The industry benefits from several favorable federal legislative and regulatory policies including The Mental Health Parity and Addiction Equity Act (MHPAEA), Affordable Care Act (ACA), The Comprehensive Addiction and Recovery Act (CARA), and Substance Use Disorder Prevention that Promotes Opioid Recovery and Treatment for Patients and Communities (SUPPORT) Act.
- Over the course of COVID-19 pandemic, overdose deaths skyrocketed, primarily due to increase in isolation, stress, and financial instability brought on by the pandemic.
  - Several lawmakers are pressing the CMS to expand Medicare's coverage of substance abuse disorder to address key gaps exacerbating the addiction crisis.
- Going forward, recession may increase the number of patients with SUD as individuals struggle to cope with the stressors of economic uncertainty.

### Percent of people in U.S. needing substance abuse treatment in the past year<sup>(2)</sup>

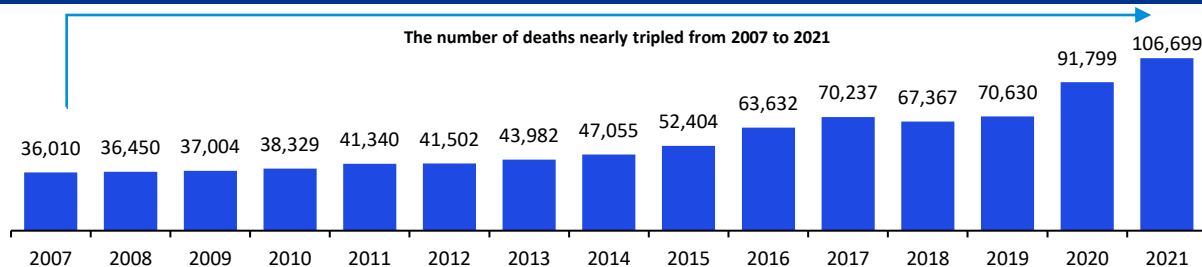


(People classified as needing substance abuse treatment if they had an SUD in the past year or if they received substance use treatment at a specialty facility in the past year)

### U.S. spending on SUDs<sup>(5)</sup>



### Number of drug overdose deaths in the U.S.<sup>(1)</sup>



#### Sources:

- <sup>(1)</sup> National Center on Health Statistics, CDC WONDER - Drug Overdose Deaths in the United States (December 2022)
- <sup>(2)</sup> Substance Abuse and Mental Health Services Administration - 2021 NSDUH Annual National Report (December 2022)
- <sup>(3)</sup> Marwood Group - Economic Cost of Substance Abuse Disorder in the United States, 2019 (April 2020)
- <sup>(4)</sup> Substance Abuse and Mental Health Services Administration, Department Of Health and Human Services (2020)
- <sup>(5)</sup> Substance Abuse and Mental Health Services Administration - Behavioral Health Spending & Use Accounts (2010 - 2020)



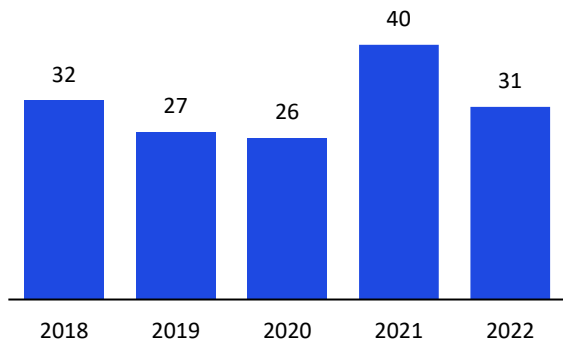
# Substance abuse treatment facilities M&A activity overview

## Several factors are driving consolidation of addiction/substance abuse treatment facilities by both private equity funds and strategic healthcare organizations

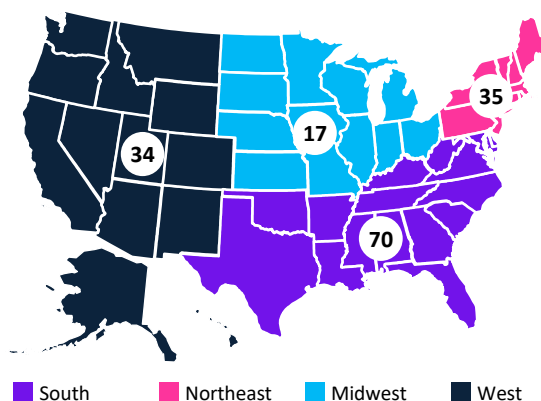
- The addiction/substance abuse treatment market in the U.S. is highly fragmented and is ripe for merger and acquisition activity, investments and partnerships.
- Historically, deals for substance use disorder treatment facilities have accounted for more than 40% of the total behavioral healthcare sector deals.<sup>(1)</sup>
  - The ACA’s mandate for health plans to cover substance abuse services has put health insurance coverage within reach of many more affected individuals, which is increasing deal activity in the sector.
- Going forward, a healthy amount of activity is expected to continue within the sector and a number of small independent programs are likely to be acquired by larger, better capitalized, and more managerially sophisticated enterprises.
  - Private equity’s interest in behavioral and drug and alcohol rehabilitation facilities comes in response to a growing need for recovery services.
  - Consolidation is expected to be driven by opportunities to leverage new regulations that increase access to care and to introduce economies of scale and scope into a highly fragmented industry.

### Substance abuse treatment facilities transaction activity<sup>(1)</sup>

#### Deal activity since 2018



#### Deal activity by geography since 2018



### Key factors driving consolidation activity in the substance abuse treatment sector



#### Highly fragmented market with low concentration

The market is highly fragmented with most enterprises operating on a local or regional basis.



#### Macro trends

The number of substance users has increased to 164.8 million in 2018 which presents an opportunity for treatment facilities to grow.<sup>(2)</sup>



#### Potential for economies of scale

Size advantages present an opportunity for investors to create value through improved profit margins and return on growth investments.



#### Favorable regulatory environment

Expanded healthcare coverage under the Mental Health Parity and Addiction Equity Act of 2008 and the Affordable Care Act of 2010.

#### Sources:

<sup>(1)</sup> Capital IQ, Company websites, and Press releases

<sup>(2)</sup> Substance Abuse and Mental Health Services Administration - 2018 NSDUH Annual National Report

# Select recent transactions (1/2)

Closed Date	Target Name	Target Location	Acquirer Name	Deal Value (\$ mm)
Dec-22	Shadow Mountain Recovery	NM	Integrative Life Network	NA
Dec-22	Medical Arts Sanitarium	NY	Aurora Healthcare Communications Limited	NA
Dec-22	MBA Wellness Centers	GA	Pinnacle Treatment Centers	NA
Dec-22	Nashville Recovery	TN	BayMark Health Services	NA
Nov-22	Harmony Recovery Group	NC	Thrive Healthcare	NA
Oct-22	Addiction & Mental Health Services	AL	Lee Equity Partners	NA
Oct-22	Fritz Clinic	AL	AppleGate Recovery	NA
Oct-22	John Brooks Recovery Center	NJ	AtlantiCare Health Services	NA
Oct-22	My Turning Point	KY	Spero Health	NA
Sep-22	Corebella Health and Wellness	AZ	BrightView	NA
Aug-22	Genesis House Recovery Residence	FL	United Recovery Project	NA
Aug-22	Brookdale Premier Addiction Recovery	PA	Discovery Behavioral Health	NA
Jul-22	Ruelas Management Services	TX	BayMark Health Services	NA
Jul-22	Sandstone Care Colorado	CO	The Vistria Group	NA
Jul-22	Grand Addiction Recovery Center	OK	Grand Lake Mental Health Center	NA
Jul-22	Central Naugatuck Valley HELP	CT	McCall Foundation	NA
Jun-22	Greenbriar Treatment Center	PA	Gateway Rehabilitation Center	NA
Jun-22	Stepping Stone of North Carolina	NC	Pinnacle Treatment Centers	NA
Jun-22	Boulder Care	OR	First Round Capital Management; Greycroft; Goodwater Capital	NA
Jun-22	Bicycle Health	MA	City Light Capital; Questa Capital Management	NA
May-22	The Hope House	AZ	Traverse Pointe Partners	NA
Apr-22	Southern Living Services	MS	Addiction & Mental Health Services	NA
Apr-22	Foundry Treatment Center Steamboat	CO	NRT Behavioral Health Holdings	NA
Mar-22	Lighthouse Behavioral Health Solutions	OH	Amulet Capital Partners	NA
Mar-22	Pathfinders Recovery Center	AZ	BayMark Health Services	NA
Mar-22	Emerald Isle Health And Recovery	AZ	BayMark Health Services	NA
Feb-22	Lucina Treatment Center	IN	BayMark Health Services	NA
Jan-22	New Leaf Center	NC	BrightView	NA
Jan-22	Center For Behavioral Health Idaho	ID	Behavioral Health Group	NA
Jan-22	Kaden Health	NY	BayMark Health Services	NA
Jan-22	Royal Life Centers	FL	Footprints to Recovery, Vogue Recovery Center, and South Coast Behavioral Health	NA
Dec-21	Riverwood Group	SC	BayMark Health Services	NA
Dec-21	Granite Recovery Centers	NH	BayMark Health Services	NA
Dec-21	Community Medical Services Holdings	AZ	FFL Partners; Two Sigma Impact	NA
Dec-21	Ophelia Health	NY	General Catalyst Group Management; Tiger Global; and others	NA

Sources: Capital IQ, Company websites, and Press releases.

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# Select recent transactions (2/2)





















Closed Date	Target Name	Target Location	Acquirer Name	Deal Value (\$ mm)
Dec-21	Occupational Health Services	TN	Cedar Recovery of Middle Tennessee	NA
Dec-21	The Atlanta Addiction Recovery Center/Bluff Plantation	GA	Pyramid Healthcare	NA
Dec-21	Right Path Addiction Treatment Centers	VA	BrightView	NA
Dec-21	Polaris Renewal Services in Western Pennsylvania	PA	BayMark Health Services	NA
Nov-21	Summit Behavioral Healthcare	TN	Patient Square Capital	NA
Nov-21	East West Family Care	TN	BayMark Health Services	NA
Nov-21	CIVIQ Health	PA	Odyssey Behavioral Healthcare	NA
Nov-21	Four Valhalla Place Opioid Treatment Program Locations	MN	Behavioral Health Group	NA
Nov-21	Staunton Treatment Center	VA	Behavioral Health Group	NA
Sep-21	Port 45 Recovery	OH	Sunrise Treatment Center	NA
Sep-21	The Cornerstone of Recovery	TN	Addiction & Mental Health Services	NA
Aug-21	Prevention and Recovery Center	TX	Discovery Behavioral Health	NA
Aug-21	Helio Health	NY	Fulgent Genetics	NA
Jul-21	Aware Recovery Care	CT	Health Enterprise Partners	NA
Jul-21	Concerted Care Group	MD	Kolmac Outpatient Recovery Centers	NA
Jul-21	Nashville Recovery Center/NRC Clinical/Nashville Detox Center/Tennessee Recovery Clinic	TN	BRC Healthcare Corp.	NA
Jun-21	Positive Sobriety Institute	IL	Windrose Recovery	NA
Jun-21	New Day Recovery	LA	BayMark Health Services	NA
Jun-21	Aspire Treatment & Recovery Center of Virginia	VA	BrightView	NA
Jun-21	Bicycle Health	MA	City Light Capital; Signalfire; Questa Capital Management	NA
Jun-21	CARMAhealth	TX	MAP Health Management	NA
Jun-21	Valley Forge Medical Center and Hospital	PA	Avenues Recovery Center	NA
Jun-21	Ethema Health Corporation	FL	The EquiLux Group; Labrys Fund	NA
May-21	HOPE FOR TOMORROW	WV	BayMark Health Services	NA
May-21	IAC Associates	TN	Vertava Health	NA
May-21	Recover Together	MA	Deer Management Company; Oak HC/FT Partners; and others	NA
May-21	Life Spring Recovery	OH	BrightView	NA
Apr-21	Prescott Medical Executive Detox	AZ	Sopris Capital Associates	NA
Apr-21	Omega Recovery/Breakthrough Recovery Group/Alpine Recovery Services/Colonial Clinic	TX/WA	Recovery Ways	NA
Mar-21	Montgomery Addiction Clinic	TN	BayMark Health Services	NA
Mar-21	South Coast Behavioral Health	CA	Footprints to Recovery	NA
Mar-21	The Foundation for Contemporary Mental Health	DC	BayMark Health Services	NA
Feb-21	Redemption Recovery Center	TN	BayMark Health Services	NA
Jan-21	The Farley Center	VA	Summit Behavioral Healthcare	NA
Jan-21	Footprints to Recovery	IL	Vogue Recovery Center	NA
Jan-21	Renew Recovery	KY	BrightView	NA

Sources: Capital IQ, Company websites, and Press releases.











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# Select recent KPMG Corporate Finance LLC transactions

 <p><b>Project HBOT</b></p> <p><i>A provider of hyperbaric oxygen therapy</i></p> <p><b>Ongoing</b></p>	 <p><b>Project Meadow</b></p> <p><i>A provider of hospice care services</i></p> <p><b>Ongoing</b></p>	 <p><b>Project Green</b></p> <p><i>A psychiatry physician practice</i></p> <p><b>Ongoing</b></p>	 <p><b>Project Solar</b></p> <p><i>A provider of radiation oncology treatment services</i></p> <p><b>Ongoing</b></p>	 <p><b>Project King of Hearts</b></p> <p><i>A provider of cardiology services</i></p> <p><b>Ongoing</b></p>
  <p><i>Has been acquired by</i></p>  <p><b>Closed</b></p>	  <p><i>Has been acquired by</i></p>  <p><i>A portfolio company of</i></p>  <p><b>Closed</b></p>	  <p><i>Has been acquired by</i></p>  <p><i>A portfolio company of</i></p>  <p><b>Closed</b></p>	  <p><i>Raised acquisition financing for the purchase of</i></p>  <p><b>Closed</b></p>	  <p><i>The affiliated MSO for</i></p>  <p><i>Has been recapitalized by</i></p>  <p><b>Closed</b></p>

# Select recent KPMG LLP Deal Advisory credentials

 <p><b>Strategic client</b></p> <p>KPMG Deal Advisory</p> <p>Provided financial diligence assistance on its potential acquisition of a multi location provider of IDD &amp; mental health services</p> <p><b>Closed</b></p>	 <p><b>Private equity client</b></p> <p>KPMG Deal Advisory</p> <p>Provided financial diligence assistance on its potential acquisition of a multi location provider of IDD, mental health and substance abuse services</p> <p><b>Closed</b></p>	 <p><b>Private equity client</b></p> <p>KPMG Deal Advisory</p> <p>Provided financial diligence assistance on its potential acquisition provider providing in home and clinical autism services with over 100 locations</p> <p><b>Closed</b></p>	 <p><b>Private equity client</b></p> <p>KPMG Deal Advisory</p> <p>Provided financial diligence assistance on its potential acquisition of in home and clinical autism services provider with over 100 locations</p> <p><b>Closed</b></p>	 <p><b>Private equity client</b></p> <p>KPMG Deal Advisory</p> <p>Provided financial and tax due diligence assistance on its potential acquisition of a provider specializing in behavioral health and special education programs</p> <p><b>Closed</b></p>
 <p><b>AdvoServ</b></p> <p>KPMG Deal Advisory</p> <p>Provided financial diligence sell side assistance on its sale to Wellspring Capital</p> <p><b>Closed</b></p>	 <p><b>Private equity client</b></p> <p>KPMG Deal Advisory</p> <p>Provided financial and tax sell-side due diligence assistance on a potential sale of a company providing inpatient services for the developmentally disabled</p> <p><b>Closed</b></p>	 <p><b>Eating Recovery Center LLC</b></p> <p>KPMG Deal Advisory</p> <p>Provided full buy-side transaction evaluation financial due diligence and M&amp;A tax assistance on the acquisition of Eating Disorder Center at San Antonio PLLC</p> <p><b>Closed</b></p>	 <p><b>Great Point Partners</b></p> <p>KPMG Deal Advisory</p> <p>Provided financial due diligence buy side assistance to Great Point Partners in its acquisition of Pacific Child and Family Associates</p> <p><b>Closed</b></p>	 <p><b>Strategic client</b></p> <p>KPMG Deal Advisory</p> <p>Provided financial due diligence assistance on the potential acquisition of an adult day health care facility in the west</p> <p><b>Closed</b></p>

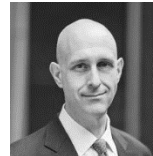
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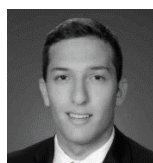
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2018-2022 global advisor ranking <sup>(1)</sup>		# of Deals
1.	PricewaterhouseCoopers	3,026
2.	<b>KPMG*</b>	<b>2,764</b>
3.	Deloitte	2,332
4.	Houlihan Lokey	2,030
5.	Ernst & Young LLP	1,635
6.	Rothschild & Co	1,564
7.	K3 Capital Group PLC	1,183
8.	BDO	1,050
9.	Oaklins	971
10.	IMAP	936

2017-2021 global advisor ranking <sup>(2)</sup>		# of Deals
1.	PricewaterhouseCoopers	3,128
2.	<b>KPMG*</b>	<b>2,854</b>
3.	Deloitte	2,425
4.	Houlihan Lokey	2,158
5.	Goldman Sachs & Co	1,984
6.	Rothschild & Co	1,876
7.	Ernst & Young LLP	1,725
8.	JP Morgan	1,684
9.	Morgan Stanley	1,509
10.	Lazard	1,205

## Global coverage. Industry knowledge. Middle-Market focus.

The global Corporate Finance practices of KPMG International's network of independent member firms was ranked #2 as the top M&A middle-market adviser globally by Refinitiv based on number of completed transactions, for 2018 to 2022.

KPMG Corporate Finance has recently won the Middle Market Investment Bank of the Year by M&A Atlas Awards. KPMG Corporate Finance LLC was previously named Transaction Advisory Firm of the Year by The Global M&A Network, and Investment Bank of the Year by the M&A Advisor. KPMG Corporate Finance LLC provides a broad range of investment banking and advisory services to its domestic and international clients. Our professionals have the experience and depth of knowledge to advise clients on global mergers and acquisitions, sales and divestitures, buyouts, financings, debt restructurings, equity recapitalizations, infrastructure project finance, capital advisory, portfolio solutions, fairness opinions, and other advisory needs.

### Note:

<sup>(1)</sup> League table includes completed deals which have value less than \$500 million and also where deal value is not disclosed, as of January 2023; <sup>(2)</sup> League table includes completed deals which have value less than \$1 billion and also where deal value is not disclosed, as of January 2023.

\*Represents the global Corporate Finance practice of KPMG International's network of independent member firms.



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