



BAILEYSOUTHWELL&CO

AUTISM SPECTRUM DISORDER

A BSC Healthcare Services Sector Report

The autism treatment services sector for people 21 and under is worth approximately \$15b and is rapidly growing due to accelerating demand, increased prevalence and diagnosis, and expanded insurance coverage. Furthermore, significant market fragmentation and high valuations related to this growth has attracted increased investment from private equity groups. Investors are building treatment services platforms to address the need for increased provider capacity and services. Overall, the autism treatment sector will increasingly evolve in the coming years, particularly as regulatory requirements and reimbursement adapt to the needs, and companies move to achieve scale to meet market demand.

Autism Treatment Services

Autism Spectrum Disorder (“ASD”) is a developmental disorder that affects communication and behavior. ASD is known as a “spectrum” disorder, because there is wide variation of types and severity of symptoms. In contrast to earlier classifications, ASD now includes previously separate conditions including Autistic Disorder, Asperger’s Syndrome, and Pervasive Developmental Disorder - Not Otherwise Specified.

ASD Industry Overview

4%

No company constitutes more than 4% of the market

- The Autism services industry is highly fragmented, with most provider groups having less than \$5m in revenue
- Employers and the general public have become more aware of ASD through advertising campaigns, education, lobbying efforts by non-profits and support groups, and general enhanced media exposure
- Autism can be diagnosed as early as three years of age. Generally, early diagnosis is critical for successful interventions



Applied Behavioral Analysis (“ABA”)

- ABA is the highest treatment standard for ASD. ABA focuses on a wide range of developmental disorders, and utilizes positive enforcement to improve basic skills. The skills include listening, imitating, reading, and talking
- In June 2016, United Healthcare became the first commercial provider to include ABA coverage in its standard benefits package



ASD Costs and Figures

~ 90m people in US ages <21

1.68% ASD Prevalence Rate

~\$15b ABA Therapy Market Ages 21 & Under

~80% Diagnosis Rate

~300,000 children undergoing therapy for ASD

\$1.4m - \$2.4m
The lifetime cost for an individual with ASD

4.1x - 6.2x
The average medical expenditures for individuals are 4.1x-6.2x higher than individuals without ASD

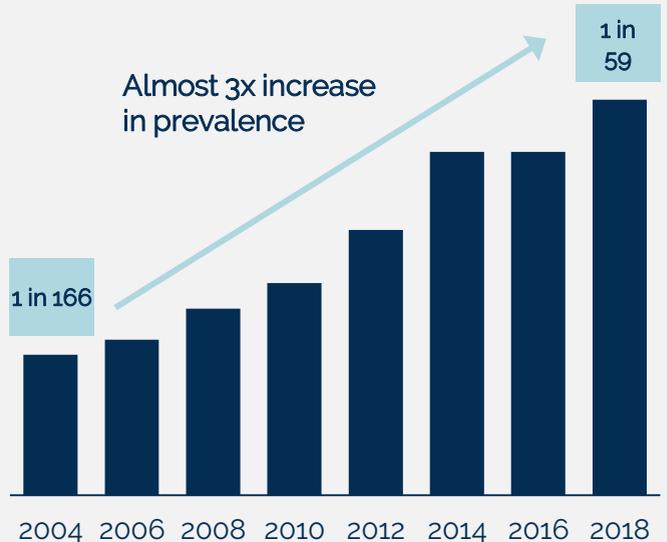
Sources: 2018 CDC Report & Industry Sources

ASD Growth Drivers

Since 2004, children under the age of eight have seen an exponential increase in the prevalence of autism, as well as other special needs. Increased diagnosis of ASD is driving growing demand for treatment plans and causing legislators and insurance regulators to respond with laws and regulations that have increased funding by federal, state, and commercial payers.

ASD Industry Overview

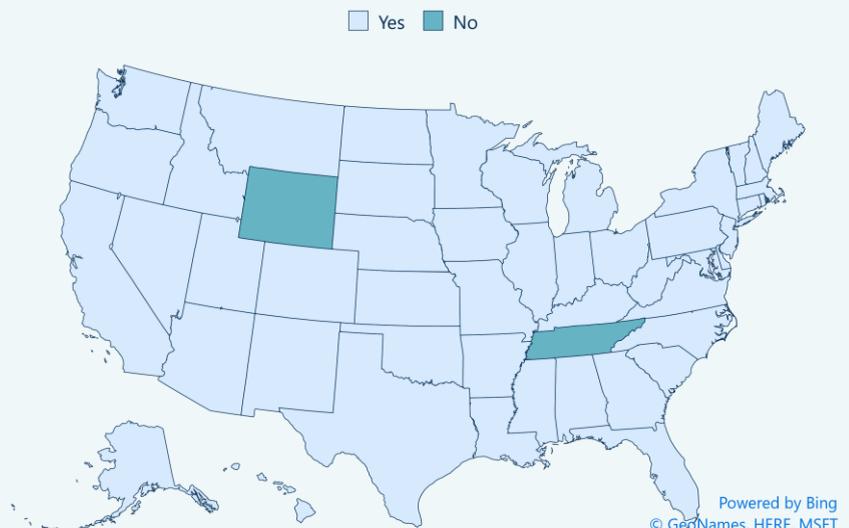
- Incidence of children born with autism has increased from 1 in 166 in 2004 to 1 in 59 in 2018
- Children and youth in public schools who received special education services increased from 4.7 million in the early 1990s to 6.7 million in 2016
- Increasing prevalence of autism in children will continue to drive demand for community and school-based treatment programs



Mandated Coverage for ASD

- Legislators are continuing to respond to increasing incidence of autism and special needs children through new funding initiatives
- Federal funding for children with special needs to increase to \$12b in 2019
- Commercial funding has similarly increased with 48 states passing legislation requiring coverage of ABA therapy

States With Mandated ASD Insurance Coverage



Sources: 2018 CDC Report

ASD Delivery Models

The primary ASD treatment settings are community-based (which includes home and clinic) and school-based. While both are serving individuals on the autism spectrum, each have key differentiations related to their operation, staffing and growth.

Treatment Settings	Community-Based	School-Based
	<p>Location / Program Design</p> <ul style="list-style-type: none"> Therapists provide services to the individual either in-home, clinical setting, or group home Maximizes comfort in domestic, family settings Accommodates provision of treatment services and early intervention at younger age <p>Payers</p> <ul style="list-style-type: none"> Commercial, Government, and Family 	<p>Location / Program Design</p> <ul style="list-style-type: none"> Services are provided in a classroom setting alongside teachers or in special needs classes Integrates with pre-existing school curriculum; maximizes educational experience Provides additional support for teachers <p>Payers</p> <ul style="list-style-type: none"> Local, state, and federal governments

Reimbursement Developments

- Reimbursement regulation for Autism services varies state-by-state. State-level insurance mandates have numerous variables, including any or all of age limits, annual treatment hour caps, and annual / lifetime treatment reimbursement caps. Additionally, the implementation of provider licensing requirements varies by state (several states yet to implement), adding to the regulatory complexity
- In 2019, CPT codes for ABA therapy were redefined and accepted by the AMA and regulatory bodies, thereby officially cementing ABA therapy as an accepted, standard-setting treatment. Additionally, the 2019 updates established various universal reimbursement codes, reducing administrative and billing complexity, and further clarifying billable v. nonbillable services, including defining when supervising clinicians and the direct care professionals that they are overseeing may both be reimbursed when providing concurrent services
- Despite these positive impacts, the 2019 reimbursement updates eliminated billable, non-client facing time for various practitioners, and have caused payers to revamp their payment / remittance systems. This has resulted in some reports of reimbursement disruption and inconsistent application of the new codes by payers. Supervision of direct care providers and treatment planning for clients are important components of ABA treatment. The 2019 codes define further how supervision and treatment planning are reimbursed, applying qualifications and restrictions on how these activities are billed
- Providers and payers are addressing reimbursement rates for newly-implemented 2019 CPT codes via contract negotiations

Provider & Investor Examples	Community-Based	School-Based
	<p>FFL PARTNERS</p> <p>SHORE Capital Partners</p> <p>KKR</p>	<p>AUTISM LEARNING PARTNERS</p> <p>Florida Autism Center <small>Start here. Go anywhere.</small></p> <p>BlueSprig</p>

* Also provide home & community-based treatment

M&A Trends

With capital entering the industry, providers are finding numerous opportunities to expand, offer additional services, and improve the companies' infrastructure, ultimately improving each treatment program.

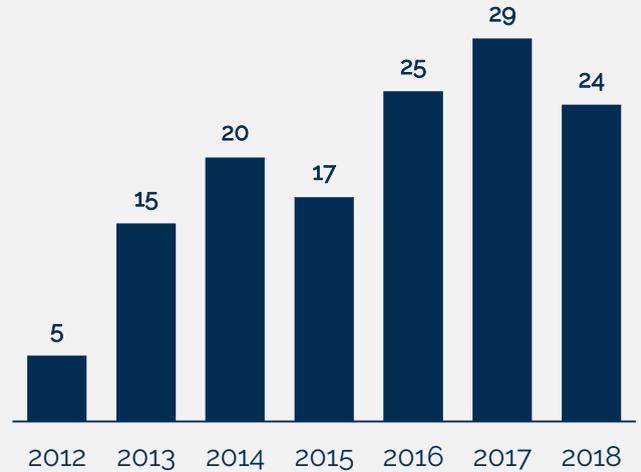
Interest – Well Established

Investment and interest in specialty services within behavioral health such as ABA provision and related services for pediatric and special-needs populations is accelerating

Demand - Prevalence & Reimbursement

- With ASD diagnoses increasing, additional treatment capacity is needed (see Slide 2). In response, 48 states have increased funding via insurance regulation & legislation
- There is significant market fragmentation among providers of ABA services

Autism Group Transaction Count



*Source: Pitchbook

Identifying Opportunities & Future Trends



Financial buyers seeking to invest capital in the sector have been the primary drivers of acquisitions, often taking advantage of the highly fragmented nature of the industry. There are very few multi-state providers of autism treatment services; most currently are clinician-owned practices serving limited geographic areas. Financial buyers see an opportunity to acquire practices, invest in their administrative/clinical support infrastructure, and then use a best practices model to either grow organically in the surrounding territory or make add-on acquisitions. We currently see four distinctive M&A dynamics in the space:

- The current transaction mix of new M&A activity is mostly (~75%) platform formation. Normally, more add-on acquisitions would be expected at this phase of development within a growing healthcare provider sector such as autism treatment. However, autism add-on acquisitions have been a smaller portion of completed transactions, as investor/owners consider: (i) acquisition integration issues, and (ii) in some cases higher ROI on opening new clinics or geographic coverage v. the ROI from add-on acquisitions, which are generally receiving high valuations;
- Some large PE groups are backing management teams that start with small acquisitions, then proceeding with operating infrastructure investments before embarking on "larger" (but still small) transactions in various targeted states;
- Another approach is to focus platform build-out primarily on organic strategies such as opening locations to support expanded home-based services and new clinics or site-based treatment locations and utilizing add-on acquisitions to fill under-served geographic areas;
- Other platforms focus solely on an organic growth strategy of site-based care via clinic location openings, each with a similar operating format, branding, and recruitment

26+
Platform Investments

*Source: Pitchbook

~\$563m
Invested by PE Firms
Since 2017

*Source: Pitchbook

~\$1.07b
2018 Estimated US
Revenues of ABA
Programs

*Source: Business Wire

Recent Transaction Highlights

Acquisition activity is being driven by financial buyers seeking to deploy capital in this growing healthcare sector by establishing new platforms. Following are a sample of some of the transactions completed in the last several months.

TA Associates & Behavioral Health Works

1

- TA Associates, a Boston-based PE firm, acquired Behavioral Health Works (“BHW”) in January 2019
- Headquartered in Anaheim, BHW provides School and Community-Based services in 11 states. BHW also has an “Innovation Lab” where staff members design new programs for market testing
- TA Associates is partnering with BHW to accelerate its growth strategy across the United States



Was recapitalized by



Frazier Healthcare Partners & Caravel Autism Health

2

- Frazier Healthcare Partners, a Seattle-based PE firm provided growth investment to Caravel Autism Health in August 2018
- Headquartered in Green Bay, Caravel provides community-based services in 10 locations across IL and WI. Caravel specializes in ASD early diagnosis and evaluation for children, and implements or designs a custom intervention plan that is tailored to each individual
- Frazier plans on expanding Caravel to include more locations, and the partnership is also expanding its investment in corporate infrastructure and technology initiatives to enhance operations and support growth



Was recapitalized by



The Halifax Group & Chancelight

3

- The Halifax Group, a Washington D.C.-based PE firm, acquired Chancelight Behavioral Health and Education in May 2018
- Headquartered in Nashville, Chancelight offers school-based and community-based services and treatment. In education, Chancelight caters to children, young adults, and at-risk-youth through in-the-classroom and supplementary programs. Their community-based services division delivers ABA therapy through home and clinic-based services in several states
- Chancelight aims to become a national provider by growing through both organic (clinic opening) and inorganic strategies



Was recapitalized by



Recent Transaction Highlights (Cont...)

Acquisition activity is being driven by financial buyers seeking to deploy capital in this growing healthcare sector by establishing new platforms. Following are a sample of some of the transactions completed in the last several months.

4 Shore Capital Partners & Behavioral Innovations

- Shore Capital Partners, a Chicago-based PE firm, purchased Behavioral Innovations ("BI") in June 2017
- Headquartered in Irving, TX, BI provides community-based services to children at dedicated facilities, with 19 locations across TX and OK. Furthermore, BI provides intervention services for adults at group homes, facilities, or an individual's residence
- BI seeks to expand its presence through additional center openings and add-on acquisitions



Was acquired by



5 TPG Capital and Lani Fritts Partnership in Kadiant Inc.

- TPG Capital has just announced its commitment of \$300 million of equity capital to support the launch of Kadiant, a new autism treatment services provider
- Kadiant will focus on building clinical teams and expanding access to services by acquiring and integrating existing high-quality providers and opening new locations as part of a strategy to build a leading autism services organization
- Lani Fritts, a co-founder of Trumpet Behavioral Health will serve as the Chief Executive Officer of the new company and is located in the Atlanta area



Invested in



BSC professionals have deep experience advising autism treatment services providers, including a track record of successfully completed M&A and capital raise transactions. Inquiries of our healthcare services team are welcomed:



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About Bailey Southwell & Co.

Founded in 2005 and headquartered in Nashville, TN, Bailey Southwell & Co. is a boutique investment bank providing customized mergers & acquisitions and capital raising services to leading healthcare and tech-enabled services businesses. More information about BSC can be found at www.baileysouthwell.com.