



Q1-2014 BEHAVIORAL HEALTHCARE INDUSTRY UPDATE

MARKET OVERVIEW

The first quarter of 2014 has remained consistent with previous deal-flow trends in the behavioral healthcare sector with a broad sampling of transactions having taken place throughout a number of services verticals. In addition to the regularly occurring regional inpatient psychiatric transactions, also represented in Q1 was corporate health and workplace-focused consolidation. These types of deals represent a shift in the orientation of care delivery from broad-based, un-elective, and reactive care to more specific and focused preventative health measures. In a recently published report from the American Psychiatric Association (APA), the importance of healthcare services integration and the underlying cost minimization incurred is directly correlated to behavioral healthcare services, which sit at the center of a more efficient healthcare system – “Throughout this recent period of change, the focus on behavioral health... has begun to shift from a compartmentalized provider approach to an integrated delivery system linking behavioral health and primary care services. This has led to a renewed awareness that mental health is critical to overall health and wellbeing.”

Although continued research and analysis is needed to add more meaningful justification to this premise, specifically pertaining to efficient communication and payment, it is clear the behavioral health sector will be the foundation for these discussions. As the healthcare industry continues to evolve, strategic consolidators and private equity sponsors will remain attracted to regional operators that are either specialty in nature and would compliment a larger model, or are well-positioned currently to service a wide variety of healthcare patient needs.

Month	Acquirer	Company Acquired	Transaction Details
March 2014	CI Capital Partners via: Interactive Health Solutions	Health Solutions	Interactive Health Solutions, a portfolio company of CI Capital Partners, has acquired Maryland-based Health Solutions for an undisclosed sum. Health Solutions services over 450 clients in 50 states and provides comprehensive corporate wellness programming as well as ancillary services such as screenings, assessments, wellness education, and other preventative healthcare services. The transaction forms one of the largest wellness solutions providers to the corporate market in the US, and the combined entity will aim to expand both domestically and in international markets.
March 2014	Universal Health Services (NYSE: UHS)	Palo Verde Behavioral Health	Universal Health Services has acquired Palo Verde Behavioral Health, a provider of adult inpatient psychiatric care, from Tucson Medical Center. The financial terms of the transaction were not disclosed. Palo Verde operates 48 beds in Tucson, AZ and will serve as a platform for UHS to continue its services growth in the greater-Tucson market. Initial growth plans have outlined an expansion of Palo Verde to include 84 beds, which would be coupled with another 100 inpatient psych bed de novo build-out. With such a widespread presence, UHS will be firmly positioned as a leading provider of behavioral health services in AZ, with an ability to serve children, adolescents, and adults alike through specialty psychiatric treatment programs.
January 2014	Pharos Capital Group	Seaside Healthcare	Pharos Capital Group has acquired Seaside Healthcare - financial terms of the transaction were not disclosed. Based in Shreveport, LA, Seaside is a provider of behavioral health services including inpatient psychiatric treatment, partial hospitalization programs and outpatient programs, with a focus on the adult population. Long term plans include the expansion of outpatient programs, the addition of 36 beds to an existing inpatient facility, and remaining aggressive in developing complementary facilities. Seaside's founder and Chief Executive Officer, Franklin Roemer, rolled significant equity in the transaction and will continue on with the business.
January 2014	Acadia Healthcare (NASDAQ: ACHC)	Riverside Center for Behavioral Medicine	Acadia Healthcare has announced the acquisition of Riverside Center for Behavioral Medicine for \$10.5 million in cash. Based in Riverside, CA – RCBM is a 68-bed acute inpatient psychiatric facility which will fit well into the strong inpatient treatment footprint that Acadia continues to develop across the country. After an active 2013, the transaction is the first of an expected busy 2014 for Acadia. The deal not only expands Acadia's in-state presence in CA, but exhibits the business's continued commitment to acquiring psychiatric facilities in the fragmented sector.
Announced Transactions			
March 2014	Quest Diagnostics (NYSE: DGX)	Summit Health, Inc.	Quest Diagnostics has announced it has entered into a definitive purchase agreement to acquire Summit Health, Inc., a leader in on-site wellness programs which include health screenings, immunizations, coaching, and educational seminars. Financial terms of the transaction have not been released. Naturally, Summit Health's services complement the health and wellness business of Quest Diagnostics and together, the two companies will be in a position to offer employers, health plans, and individuals greater access to a broad range of prevention and wellness services. Additionally, these services will use diagnostic insights to better enable early intervention and preventive care practices, ultimately reducing overall healthcare-related costs.