Provident Perspectives:
Investment & Consolidation in the Opioid/Medication-Assisted Treatment Industry

The Opioid/Medication-Assisted Treatment sector has experienced significant investment activity as rising demand and significant fragmentation within the sector continue to create a ripe environment for consolidation.

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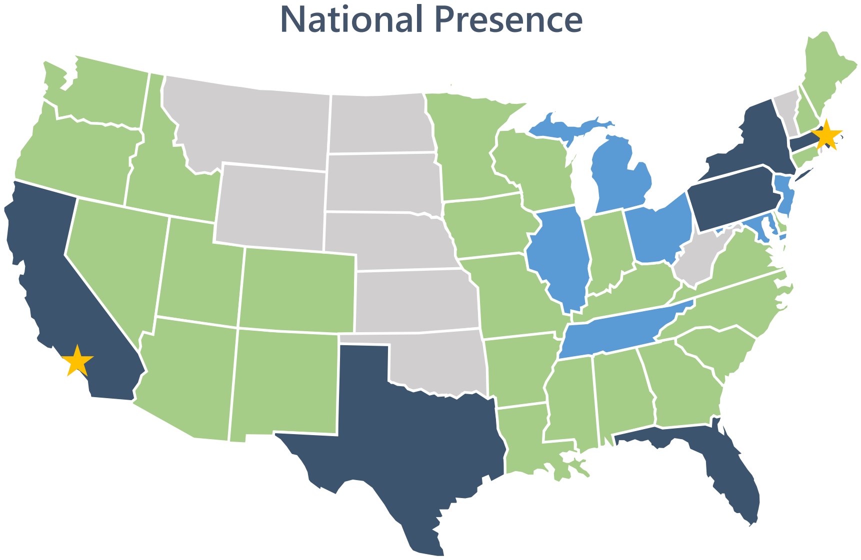
Provident Healthcare Partners' investment banking team works with privately owned healthcare companies to provide advisory services related to mergers and acquisitions. Prior to formal engagement, Provident works with companies to provide the upfront education to shareholders necessary to understand the economics, structure, and motivation of a transaction. Following the education process, if formally engaged, Provident leverages their extensive knowledge of the buyer universe to find the most compatible partner and drive valuations for a company's previously illiquid stock. Driving the entire transaction process, Provident facilitates and assists with deal structuring, negotiations, exit planning/processing, counseling amongst shareholders, and due diligence.

National Presence



1-3 Transactions

4-6 Transactions

7+ Transactions

★ Provident Office

21+	Years of Healthcare Investment Banking
130+	Healthcare Deals Closed
12-15	Landmark Deals Per Year
25	Banking Professionals

Note: The above map represents states where Provident clients were headquartered. Provident has successfully closed transactions with clients operating in 45 states and Puerto Rico.

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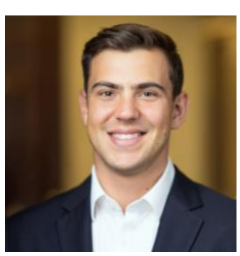

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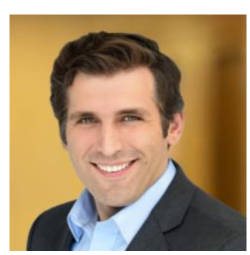

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Introduction

Given the strong demand for services and highly fragmented market, the medication-assisted treatment (MAT) industry has continued to be a prime target for industry consolidation for outside capital investors, particularly private equity investors, over the past decade. The industry saw a record amount of deal activity in 2018 largely driven by Clearview Capital's platform acquisition of Community Medical Services followed by bolt-on acquisitions of Premier Care and Maintenance and Recovery Services later in the year.

For much of 2019 and the start of 2020, investors saw a return to average market activity which also included additional transactions by Clearview Capital with the acquisitions of Freedom Detox and Restorative Health and Recovery, respectively. Other active acquirers included Linden Capital Partners' Pinnacle Treatment Centers which acquired Addiction Medicine Care and Aegis Treatment Centers in May 2019 and January 2020, respectively. Provident expects that due to the COVID-19 pandemic additional investments in the industry that would have occurred in early 2020 will be delayed to the latter half of 2020 and early 2021. As the industry continues to grow and evolve Provident expects to see increased deal activity in the next 6 to 18 months due to the following key trends that have emerged:

- ***A historical lack of accessibility and affordability has contributed to understated demand***

- ***Increased funding for SAMHSA directly translates to funding for industry operators that participate in SAMHSA block programs. Federal funding for SAMHSA is expected to increase during 2020, presenting a potential opportunity for the industry. Thus far in 2020, CCBHC Expansion Grants include $200 million in annually appropriated funding and $250 million in emergency COVID-19 funding***

- ***Large numbers of individuals with private insurance will further bolster and contribute to demand***

- ***Paired with the passage of the Mental Health Parity and Addiction Equity Act of 2008, new government mandates and increased federal spending have significantly increased demand by facilitating a greater use of services by a larger population than ever before***

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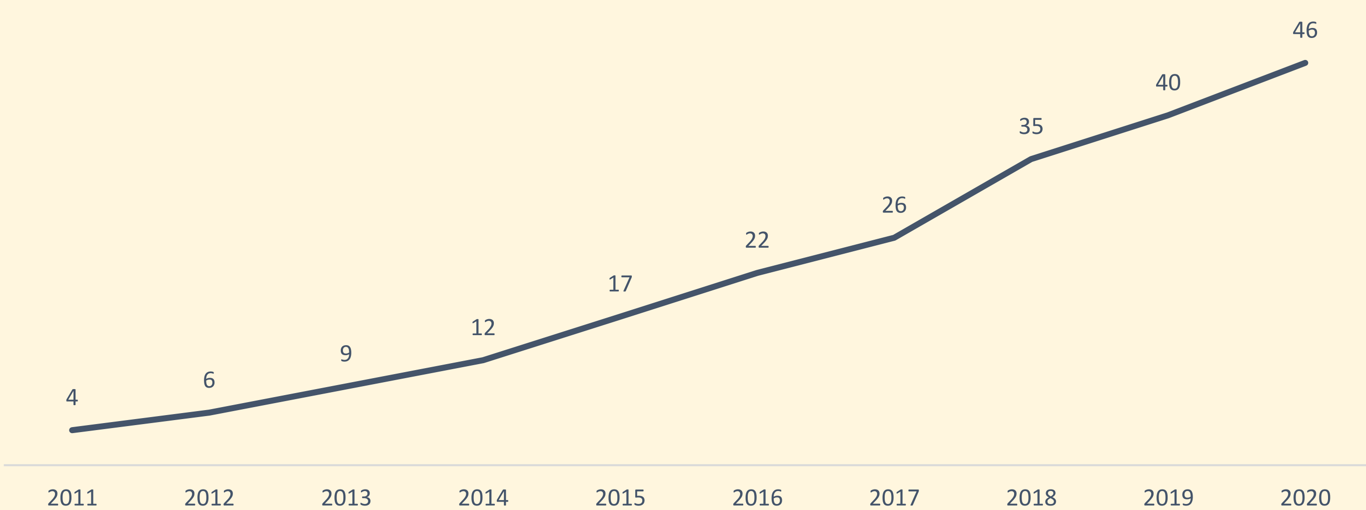
Figure 1: U.S. Private Equity Deal Volume (Cumulative) - Opioid / Medication-Assisted Treatment Industry



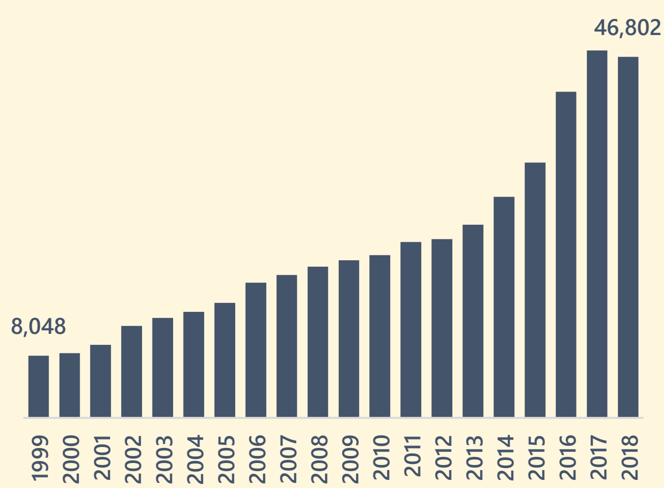
Source: U.S. Department of Health and Human Services, IBISWorld.

Increased Accessibility Exposes Strong Demand

Historical lack of reporting contributed to underreported need for services

Provident has identified several trends that are expected to drive growth in the opioid/MAT industry. There continues to be a large market for medication-assisted treatment and related services due to the prevalence of mental illnesses, substance abuse and other co-occurring disorders. Until recently however, most cases were never reported due to unaffordability of services, which has led to large pent up demand. In fact, "90% of Americans struggling with addiction are not currently getting treatment," according to an April 2017 press release by Secretary Thomas E. Price M.D. of the U.S. Department of Health and Human Services (HHS). The Centers for Disease Control and Prevention (CDC) have noted that over 700,000 Americans have died from drug overdoses alone since the new millennium and, as shown in Figure 2 below, more than 450,000 of those overdoses involved opioids. On average, that translates to over 130 Americans dying every day from an opioid overdose. More daunting estimates however, show that over 30.5 million Americans currently illicit drug users, representing 11.2% of people aged 12 and older. These numbers are growing, up from 21.8 million Americans (8.7% of aged 12 and older population) in 2009.

Figure 2: National Drug Overdose Deaths Involving Any Opioid, 1999-2018



In recognition of this epidemic, the (HHS) declared a public health emergency and announced a strategy to combat the Opioid Crisis, committing $485 million in grants for evidence-based prevention and treatment activities in 2017 to be distributed through the Substance Abuse and Mental Health Services Administration (SAMHSA). With a significant share of funding directly supporting operators in the space, SAMHSA has continued to increase funding at an annualized rate of 10.3% from 2014 to 2019. At the same time, the federal expansion of Medicare and Medicaid as part of the Patient Protection and Affordable Care Act (PPACA) has provided for a significant increase in the number of individuals with health insurance coverage. With 31% of industry revenue coming from Medicare and Medicaid reimbursements, it is expected that this increase in federal funding will further fuel demand as individuals will have greater accessibility to services. Despite the repeal of the individual mandate in 2017, the number of people with private health insurance continues to grow at approximately 1.3% annually and supports 21% of industry revenue.

Increased accessibility and affordability has led to a greater use of services by a larger population than ever before. In response, there has been a rapid influx of operators entering the industry with the number estimated to have increased 3.5% annually to 11,968 over the 5 years to 2019 and to 14,464 (+3.9%) by 2024. Given the strong demand and growth forces present in the industry, groups with the most resources will be best-positioned to take advantage of these trends as they progress. **Provident expects that these dynamics will continue to increase private equity interest in the industry.**

Source: U.S. Census Bureau, Centers for Disease Control and Prevention, U.S. Department of Health and Human Services, IBISWorld.

Outpatient Trends Bolstered by Reduced Supply

Supply in health professionals continues to wane

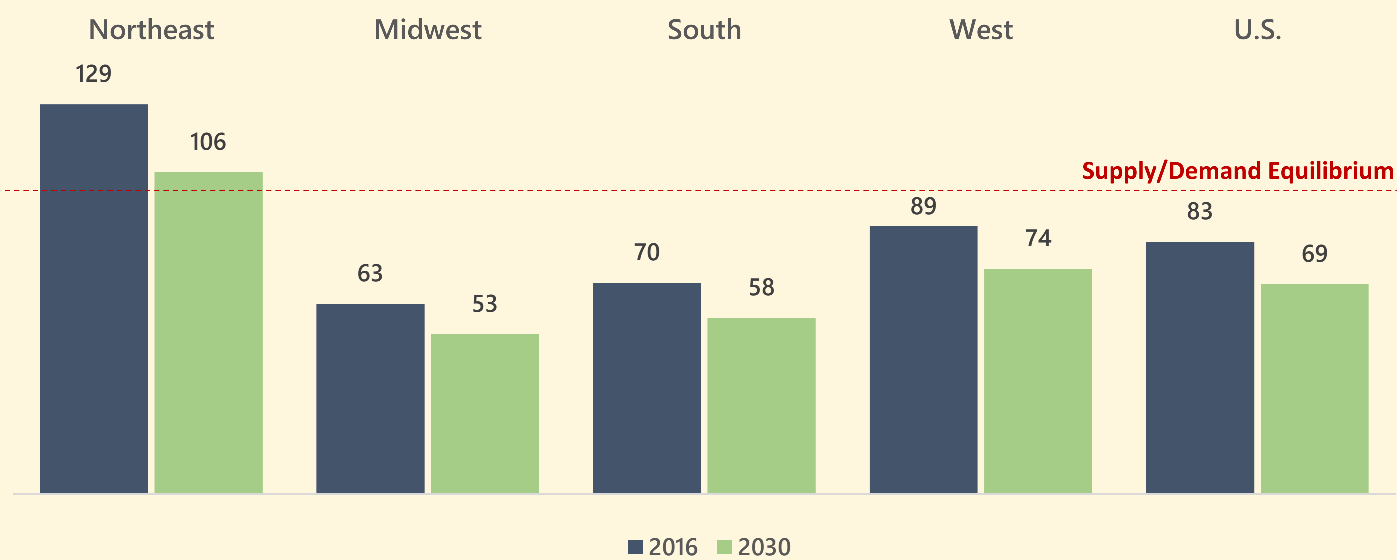
Despite the strong demand in the industry, the supply of psychiatric professionals continues to wane with nearly 60% of psychiatrists over the age of 55. Based on aforementioned growing demand, it is expected that as these professionals age and retire the shortage will grow, particularly in underserved rural and low-income areas. As shown in Figure 3, an incongruence exists between the number of psychiatric professionals available in most areas versus the number of individuals that need care, emphasizing the importance of recruiting for expanding organizations.

Although competition for new skilled employees has become more intense, wages have continued to fall slightly as a share of revenue from 47.5% in 2014 to 47% in 2019. Despite the absolute increase in wages, the relative growth in revenue significantly outpaced wage growth during the period, however it is not clear if this trend will persist. **As many psychiatrists leave the industry with less than full replacement, Provident expects that groups providing the best incentives to residents will be optimally positioned for the future and that industry prices will likely rise due to largely unmet demand.**

Alternative treatment strategies, including outpatient treatment may help serve excess demand

As demand grows and supply wanes, operators are focused on finding new solutions to provide care that are easily scalable. Particularly beneficial for this industry is the growing popularity of outpatient treatment programs. These programs are already ubiquitous due to their relative low-cost to inpatient solutions, but also have the added benefits of keeping patients in their home environment. This reduces relapse rates versus inpatient programs, which lack the same ability to provide patients with coping mechanisms for the challenges they experience in their daily life. Provident anticipates that this outpatient trend will continue as the industry comes under pressure from new entrants and as margins are reduced particularly in underserved rural areas where travel may be prohibitively expensive for some patients. It is likely that operators will need to find additional sources of capital to better position themselves for movement toward outpatient solutions.

Figure 3: Supply of Psychiatrists per 100 Demanded, 2016 vs. 2030



Source: IBIS World, Agency for Healthcare Research and Quality (AHRQ), The Wall Street Journal.

Technological Advancement Has Potential to Increase Quality of Care and Profits

Despite the growing challenges of medication-assisted treatment, the related technologies continue to advance, decreasing costs and providing more robust infrastructure for outpatient treatment settings. Telepsychiatry and other treatment options have seen numerous advances in recent years through the development of wireless apps.

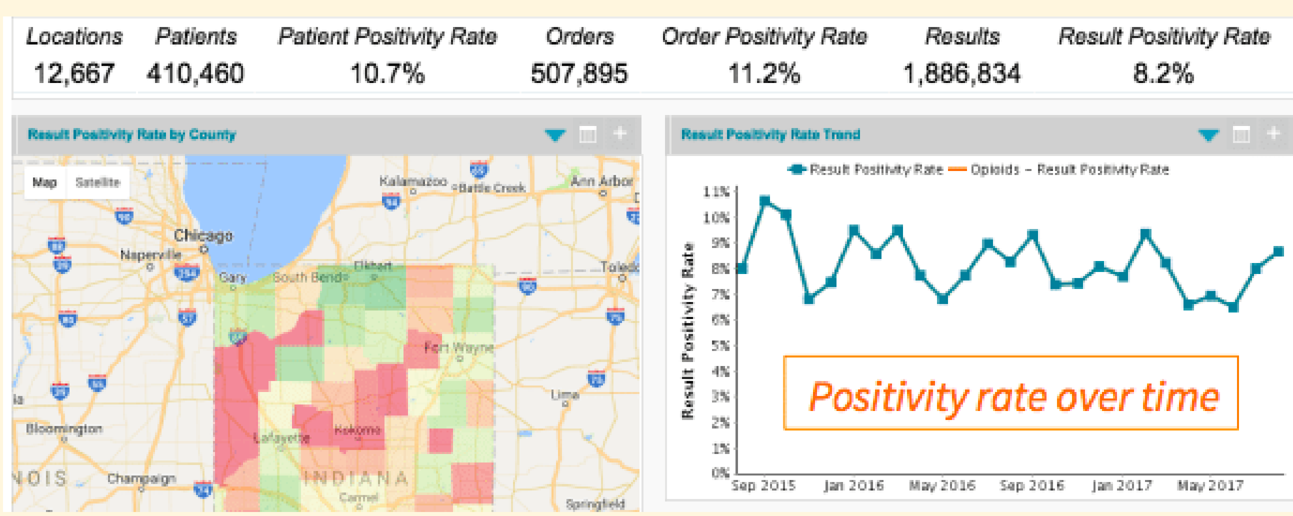
In particular, the SAMHSA has recently released its flagship app, MATx. The MATx app provides instant access to SAMHSA's locator tool for helping doctors and patients find the nearest qualified opioid use disorder treatment center. Other apps have recently been released as well, including Pear Therapeutics' reSET-O, which aims to increase patient retention for outpatient treatment program, and Johns Hopkins' emocha platform, which helps patients achieve stability during treatment by video recording them taking their dose and asking them to report side effects or symptoms.

More traditional technologies have also seen improvement, including those focused around telemedicine, which is a much-needed alternative for patients in rural and low-income areas, and imaging technology, which have made it possible to directly track changes in the brain and to potentially use such observations for specific targeting of treatments. Telepsychiatry continues to see improvement in video-based psychiatry treatment that meets patients' needs for convenient, affordable and readily available mental health services.

Even artificial intelligence has made its foray into the opioid/MAT industry, both improving efficiency in identifying patients' risk information based on "big data." Artificial intelligence has been helpful in developing appropriate risk analytics to anticipate patient needs for those who may be in danger of abusing opioids in the future, as well as determining trends and patterns for larger populations. Developing such analytics has been the focus of hc1.com and Triggr Health, a leading platform integrating machine learning with the stated goal of detecting abuse among individuals who use opioids.

Integration of wearable technology, such as that developed by IBM Watson, Behaivior, while still somewhat nascent has shown promise at detecting a pre-relapse craving state by combining metrics such as heart rate and galvanic skin response (which is related to stress levels). The device is similar to FitBit but helps patients "maintain sobriety by bringing them the right intervention, at the right time, in real time."

Figure 4: hc1.com Opioid Dashboard



Source: IBIS World, HHS, Emerj: AI Research and Advisory.

Diversity of Technology Investment Opportunities through Outside Capital

As the market continues to mature, Provident expects to see further advances in personalized MAT healthcare and increased use of technology as a cost-saving measure. Continued improvements in cloud technology and interfaces for data sharing, as well as the use of predictive analytics are expected to help psychiatric professionals detect relapse risks, ultimately reducing complications, healthcare costs, and patient mortalities. As new innovations come into the industry, operators will need to adapt and invest suitable capital as the industry moves forward.

Outside capital investment through a partnership presents an attractive alternative (and is often essential) for many MAT groups, especially as those groups feel capital constrained due to greater liability insurance and regulatory requirements. Regardless of the direction chosen to obtain capital, Provident expects MAT professionals will need to make steady investments in their practices' technologies to remain competitive in the future. Therefore, the trend towards private equity consolidation and partnership is expected to continue to accelerate.

Development of wireless apps

- ❑ MATx
- ❑ reSET-O
- ❑ Johns Hopkins' Emocha

Improvements in video-based telepsychiatry

- ❑ Quality and bandwidth
- ❑ Accessibility

Medication-Assisted Treatment Technology Advancements

New advancements in artificial intelligence

- ❑ H1c.com
- ❑ Triggr Health

Wearable technology innovations

- ❑ IBM Watson's Behaivior
- ❑ Automated event-based intervention technology

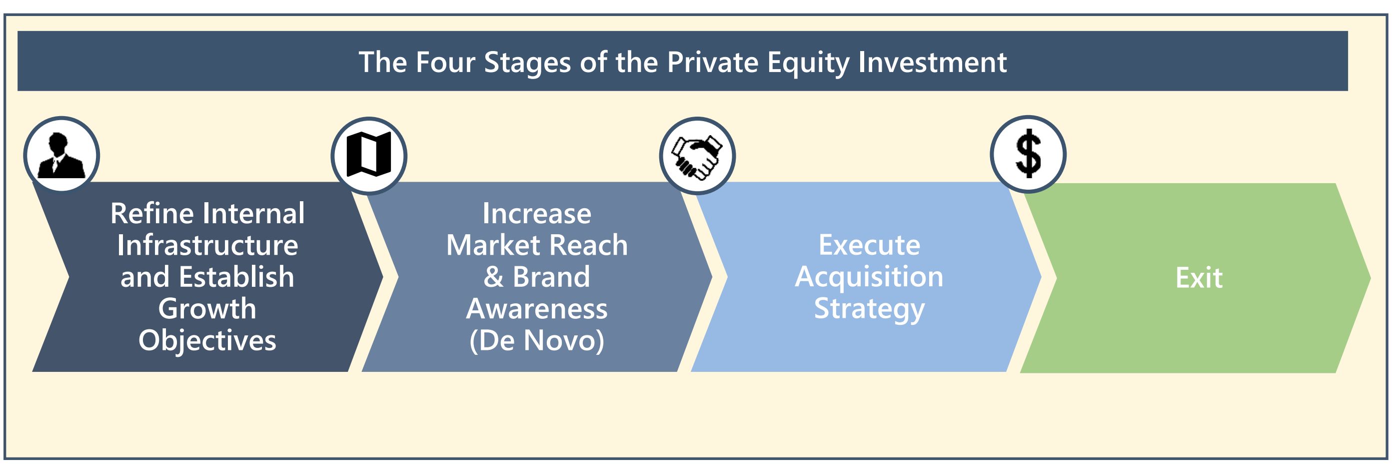
What Is Private Equity?

Although private equity has had a presence in this industry for some time, many operators are still unfamiliar with this form of outside capital and its benefits. Private equity investment refers to investors and funds of capital that seek to make direct equity investments in privately-owned businesses. General Partners (GP) invest the fund's capital in businesses that align with their investment theses, seeking to exit their investments typically within three to seven years for substantial returns. Upon investment, or a recapitalization, a private equity firm will acquire a stake in a private business, providing the shareholders with significant liquidity in the form of cash proceeds as well as retained equity in the newly recapitalized company. Post-transaction, private equity firms provide access to capital and expertise as they seek to improve their investments both financially and operationally by building out the infrastructure to provide a foundation for growth.

The type of growth initiative varies from model to model. In most cases private equity firms will infuse their portfolio companies with capital to increase geographic density organically through de novo initiatives and inorganically by executing add-on acquisitions to enter into new geographies and increase market share. By expanding through acquisition, these investors create platforms used to integrate practices under one common management company.

In past decades, private equity investors sought to buy out businesses entirely, directly accumulating all the profits created by the business. As the market evolved, general partners realized the value in keeping the original business owners involved in the business and have begun to provide more attractive partnership opportunities to owner/operators.

Today, when a clinic partners with a private equity group shareholders will have the opportunity, and in some cases be required, to rollover part of their ownership into the new company. This provides individuals with a large up front payment, taxed at lower capital gains rates, along with equity ownership in the new company. This new business model allows each operator to share in the profitability of the clinic as they expand through acquisition and de novo initiatives. After a three to seven year holding period, it is anticipated that the business will have grown meaningfully in size, prompting the business owners and private equity group to agree the timing is right to sell the platform to a larger private equity group. During this second transaction, operators have the ability to roll additional equity into the newly formed company, providing a second liquidity event, or lump-sum cash consideration.



How Does Private Equity Grow a Business?

Healthcare providers across a wide range of specialties have found that the best way to stay competitive in the modern healthcare environment is to gain size and scale. Private equity has been a key driver of the consolidation occurring within healthcare through implementing a "buy and build" or "roll-up" investment strategy in fragmented sectors. The strategy starts by partnering with an established "platform" organization that possesses talented management, a strategic vision, and a base infrastructure to scale the business. Following further internal investment, organizations aligned with a private equity firm will then look to perform "add-on" acquisitions of smaller businesses at lower valuations than the platform investment received. The practice of increasing enterprise value through acquiring smaller organizations is known as "multiple arbitrage". As the platform organization grows, its value increases in tandem with each subsequent addition to the platform. A return is realized through a subsequent transaction, at which point the organization can see a higher exit multiple because of the premium that is typically paid for the larger entity upon exit. In addition, each add-on acquisition that was performed is subsequently exited as part of the platform organization at the higher valuation. The opportunity to implement this "buy and build" investment strategy as one of the first-movers in the fragmented medication-assisted treatment/opioid treatment market is what makes partnering with a private equity partner an attractive option for groups that possess the qualities of a platform organization.

Sample Overview of Multiple Arbitrage

Company	Valuation Range	Rationale	"Profitability" EBITDA	Multiple	EV
Private Equity Platform Investment	9x-11x	• Regional dominance • Established infrastructure	$10M	10.0x	$100M
Add-On Acquisition	4x-6x	• First-mover advantage ensures less competition	$2M	5.0x	$10M
Combined Organization	10x-12x +	• Value of add-on is enhanced as the organization benefits from premium demanded for the platform company • Combined organization leverages the infrastructure and regional dominance of platform • Synergies from centralizing back-office functions and increased leverage with payors enhance the EBITDA of the combined organization	$12M + $500K in synergies = $12.5M	11.0x	$137.5M

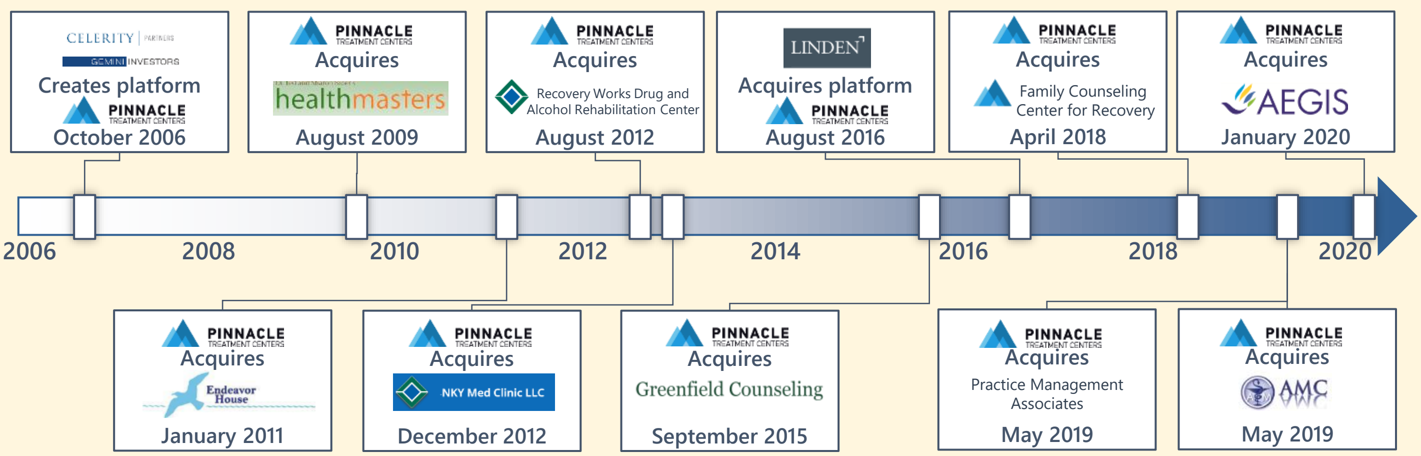
Source: Pitchbook.
Note: EBITDA ("Profitability): Earnings before interest, taxes, depreciation, and amortization. EBITDA is the fundamental metric that groups use to arrive at the valuation, or enterprise value of a group. Enterprise Value ("EV"): is most commonly calculated based on a multiple of EBITDA

Case Study: How Private Equity Utilizes Add-ons to Grow

Pinnacle Treatment Centers and BayMark Health Services serve as key examples of private equity following the strategy of establishing a platform, expanding geographically, expanding service lines, and acquiring add-ons at lower multiples to build a much more attractive and robust business before exiting.

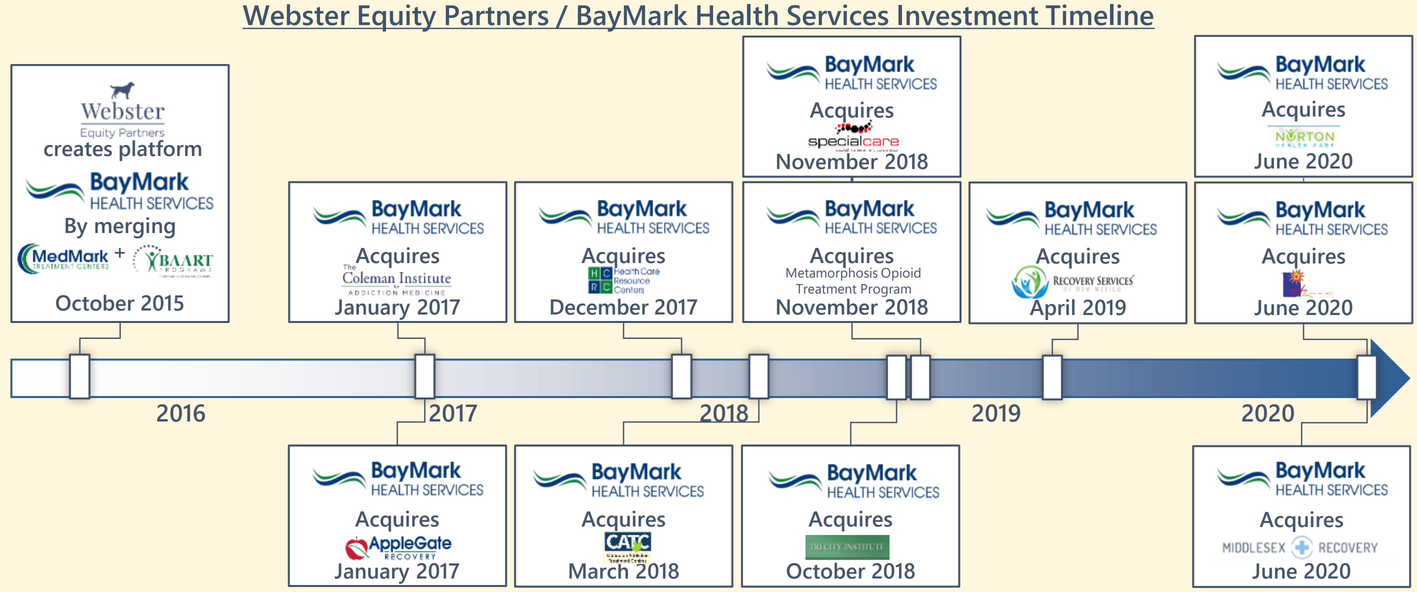
Pinnacle Treatment Centers was initially created as a platform by Gemini Investors, Celerity Partners and Dr. Ken Kessler on October 16, 2006. After establishing this initial platform, the group expanded rapidly by partnering with regional providers through an M&A strategy. They were later acquired by Linden Capital Partners and Prospect Capital and are continuing to ramp up their "buy-and-build" process.

<u>Linden Capital Partners / Pinnacle Treatment Centers Investment Timeline</u>



Similarly Webster Equity Partners' BayMark Health Services was created in 2015 by merging Bay Area Addiction Research & Treatment (BAART) with MedMark Services, two of Webster's existing portfolio companies. BayMark Health Services has continued to grow and quickly establish itself as a leading opioid treatment provider in North America with 11 completed transactions fully integrated into their service offerings.

<u>Webster Equity Partners / BayMark Health Services Investment Timeline</u>



Private equity firms appear to be actively implementing the "buy and build strategy." Investments have been either add-ons to existing platforms to build scale and diversify risk or platforms themselves in order to establish a position in the growing market. Provident expects this trend to continue into the foreseeable future.

Source: Pitchbook.

Private Equity Led Consolidation in Medication-Assisted Treatment

Due to the aforementioned trends of growing demand through greater accessibility and affordability, increased Medicare/Medicaid coverage due to recent legislation as well as strong industry technology developments, private equity investments in the opioid / medication-assisted treatment space have reached new heights with 20 transactions (across seven platforms) in the U.S. since 2018.

Provident believes there is a substantial opportunity to quickly gain market share given the low industry concentration to date, with the industry's four largest operators holding less than 10% of the market, collectively. In light of the market being valued at over $23.4 billion and most of the 11,968 active companies across the country operating only one or two locations on a local or regional basis, the medication-assisted treatment industry appears to be a ripe target for a "roll-up" strategy and greater investment. Finally, as the industry matures, there is a growing trend towards "for-profit" as opposed to "non-profit". According to Mark Parrino, who heads a clinic trade association in the U.S., the balance in the industry has shifted from around 60% of clinics being non-profits to nearly 60% being for-profit today, making it ever more attractive to the private equity investment community

Table 1: 2018-YTD 2020 Opioid / Medication-Assisted Treatment Private Equity Activity

Transaction Date	Acquirer	Target	Geography
June 2020	BayMark Health Services (Webster Equity Partners)	Norton Health Care	Norton, MA
June 2020	BayMark Health Services (Webster Equity Partners)	Narcotic Addiction Treatment Agency	Sun Valley, CA
June 2020	BayMark Health Services (Webster Equity Partners)	Middlesex Recovery	Woburn, MA
April 2020	Community Medical Services (Clearview Capital)	Restorative Health and Recovery	Kent, OH
February 2020	Cimarron Healthcare Capital, Monroe Capital, VSS	Ascent Behavioral Health Services	Meridian, ID
January 2020	Pinnacle Treatment Centers (Linden Capital Partners)	Aegis Treatment Centers	Los Angeles, CA
October 2019	Pyramid Healthcare (Clearview Capital)	Freedom Detox	Gastonia, NC
September 2019	California Public Employees Retirement System, MacKay Shields	BioDelivery Sciences (NAS: BDSI)	Raleigh, NC
May 2019	Pinnacle Treatment Centers (Linden Capital Partners)	Addiction Medicine Care	Reynoldsburg, OH
May 2019	Littlejohn & Co (Highbridge Capital Management)	Pernix Therapeutics	Morristown, NJ
April 2019	BayMark Health Services (Webster Equity Partners)	Recovery Services of New Mexico	Albuquerque, NM
December 2018	HCSC Ventures, The Cambria Group, The Vistria Group	Behavioral Health Group	Dallas, TX
November 2018	Crossroads Treatment Centers (Revelstoke Capital Partners)	EHC Medical Office	Harriman, TN
November 2018	Altaris Capital Partners	Community Pharmacy Partners	Dallas, TX
November 2018	Community Medical Services (Clearview Capital)	Maintenance and Recovery Services	Austin, TX
November 2018	Community Medical Services (Clearview Capital)	Premier Care (Medicare Agency)	Columbus, OH
August 2018	MedMark Treatment Centers (CHL Medical Partners)	Counseling Solutions Treatment Centers	Chatsworth, GA
July 2018	Periscope Equity	Inflexxion	Waltham, MA
May 2018	Revelstoke Capital Partners	Methodone Clinics of East Texas	Tyler, TX
March 2018	Clearview Capital	Community Medical Services	Scottsdale, AZ

Source: Pitchbook.

Case Study: Community Medical Services (Clearview Capital)

Clearview Capital recently created a platform when they acquired Community Medical Services Holdings, LLC ("CMS") in March 2018.

CMS has been a provider of medication-assisted treatment for patients suffering from substance use disorders since it was founded in Phoenix, AZ in 1983. The company provides suboxone, generic suboxone, buprenorphine, vivitrol, naltrexone treatments to the individual and group.

At the time of acquisition, CMS serviced more than 4,000 individuals from 14 comprehensive treatment centers across four states. CMS was also the developer and operator of the nation's first 24-hour Opioid Treatment On-Demand ("OTOD") center in Phoenix and also opened San Antonio's first opioid clinic.

Under the continued leadership of Clearview Capital, CMS has leveraged an aggressive acquisitive growth strategy to quickly establish itself as growing opioid treatment platform in North America and now boasts a geographical footprint across nine states and 40 locations, serving over 12,000 patients nationwide. Most recently, CMS has added locations in Columbus, OH and West Allis, WI.

CLEARVIEW CAPITAL

- Acquisition allowed inactive owners an opportunity for a liquidity event
- Investment aligned management team with an experienced partner to achieve the next phase of CMS' growth

Clearview Capital Acquires CMS (March 2018)

Community Medical Services

- Leading provider of medication-assisted treatment programs for patients suffering from opioid use disorder
- Headquartered in Scottsdale, AZ and operates treatment facilities in AZ, MT, ND, and AK.

Add-on | **Add-on** | **Add-on**

PremierCare

- Headquartered in Columbus, OH
- Provider of MAT services for patients in IN, OH, MI, and WI.

Maintenance And Recovery Services

- Headquartered in Austin, TX
- Provider of MAT services for patients in TX.

Restorative Health and Recovery

- Headquartered in Kent, OH
- Provider of office-based opioid treatment services for patients in OH.

Source: Clearview Capital corporate website.
Note: Clearview Capital also recently acquired Freedom Detox, an additional provider of substance abuse management. However, this add-on was not included here as it was through a different portfolio company, Pyramid Healthcare.

Concluding Thoughts

Given the strong demand forces at work due to increased accessibility and affordability through technology, expanded insurance coverage through federal legislation, and the highly fragmented nature of the market, Provident expects that private equity interest in the opioid / medication-assisted treatment space will continue to gain momentum going forward.

Due to the anticipated undersupply of psychiatric professionals, the market will likely become more competitive with regard to the recruitment of clinical professionals. This however, will likely balance out due to technological advancements allowing groups to service more patients effectively and efficiently, provided that operators have liquidity or can partner with a suitable private equity firm to make the necessary investments. If so, providers will be able to capture considerable patient volume throughout the continuum of care and will likely find that patient volume to be much more scalable than in the past, due to the proliferation of telemedicine, apps and other similar technologies.

For treatment programs that have invested in their operational infrastructure and have created an environment of clinical excellence, the opportunity to become a private equity platform or regional acquisition to a private equity-backed platform can further expand their programs and reach more patients in need.

Provident expects valuations to remain elevated and investment momentum to continue as escalating demand and industry fragmentation drive consolidation in this industry.

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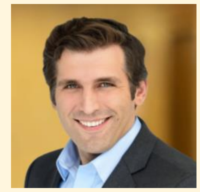

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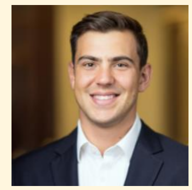

Provident is the leading investment banking firm specializing in merger and acquisition advisory, strategic planning, and capital formation for middle-market and emerging growth healthcare companies.

The firm has a vast network of senior industry relationships, a thorough knowledge of market sectors and specialties, and unsurpassed experience and insight into the investment banking process.

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