

## Investment & Consolidation in Autism

*Autism Services has seen significant investment activity recently as rising demand and significant fragmentation within the sector have created an environment ripe for consolidation.*



# INTRODUCTION

Autism Services has quickly become one of the most highly sought-after subsectors of healthcare services in recent years as favorable macro-level tailwinds coupled with a fragmented competitive landscape have caused private equity dollars to flow into the sector.

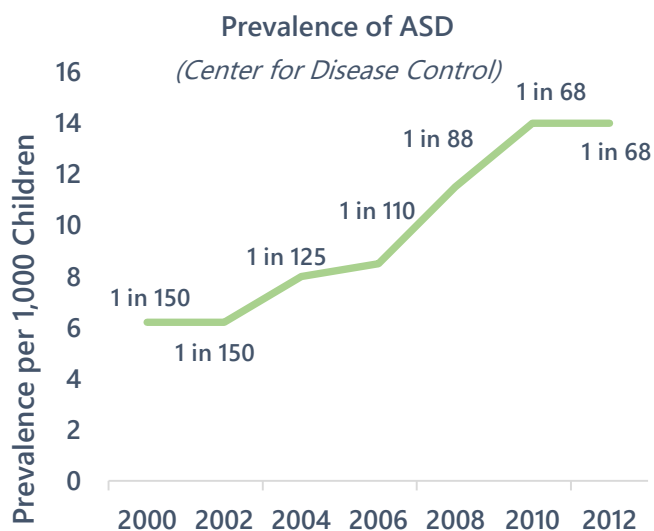
There has been a significant increase in demand for Autism Services as medical providers have steadily diagnosed more children with autism in the past 15+ years. In 2001, one in every 150 children was diagnosed with Autism Spectrum Disorder (“ASD”) with Indiana as the only state at the time having passed legislation to increase commercial coverage for individuals diagnosed with ASD. Today, the CDC currently estimates one in every 68 American children have autism, but a recent government study found that number could be as high as 1 in every 48 children. With more than 2% of children in the United States living with Autism, care and coverage for children living with ASD has been a prime focus for many local and federal legislators. As of 2018, 46 states and Washington DC have been prompted to pass legislation to reform commercial coverage. This swelling demand for Autism Services due to increased incidence and

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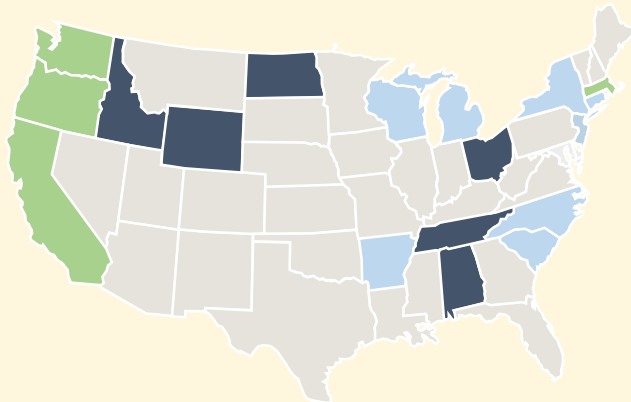
The current landscape of Autism service providers is comprised of a fragmented universe of regional and local providers. Although the Autism market is valued at over \$1.8 billion in revenue, there are less than five “national” providers of Autism Services in the United States. At the time of this report’s publication, there are thirteen Autism Services companies that have taken on investment from private equity funds to obtain resources to address market demand and consolidate a fragmented sector.

Although private equity interest in Autism Services dates back to 2004, the market remains highly fragmented, creating an attractive investment environment. As many in healthcare services experience downward reimbursement pressures and legislative uncertainty, consolidators and private equity funds are seeking refuge in the stability of ASD Services. This white paper will look to explore and describe the current private equity market within Autism Services.



# AUTISM SERVICES INDUSTRY

## Reimbursement Environment for Autism Services



Autism Treatment Friendly States, Based on Policy

- Most Friendly
- Moderately Friendly
- Somewhat Friendly
- Least Friendly

Despite Federal Mental Health Parity regulations and effects from the Affordable Care Act, the regulatory environment making autism treatment easily available and affordable for families varies dramatically from state to state. Based on current laws, Provident has graded all 50 States based on favorability in regards to age limits, annual treatment dollar limits, lifetime treatment dollar limits, and weekly therapy hour limits. The four “most friendly” states highlighted to the left impose no dollar limits, age limits, or treatment hour limits. The “least friendly” states have either not enacted any autism mandates or have gone through very weak reforms. Ohio and Alabama were the 45<sup>th</sup> and 46<sup>th</sup> states respectively to sign Autism insurance reform bills requiring certain health benefit plans to cover medically necessary treatment for Autism. These bills have increased autism coverage to thousands of families across those two states.

Market data estimates that nearly 1.5 million children in the United States are currently diagnosed with Autism and another 700,000 adults are living with the disorder. The total cost of treatment for those with ASD is estimated between \$11.5 billion and \$70 billion annually.

This increased prevalence of children born with ASD has had a burdening effect on the economy. For households affected, recent studies have shown that individuals diagnosed with ASD are estimated to cost, on average, between \$1.4 million to \$2.4 million over their lifetimes. This increased incidence and burgeoning cost has

prompted mainstream awareness and legislative action. Since 2001, 46 states and Washington DC have implemented mandates requiring commercial health plans to cover the cost of children with ASD.

Autism Services are most commonly provided in two types of businesses: school-based and community-based providers. Both of these provider types offer services in centers and in the home. School based providers offer services in the classroom alongside teachers or in stand alone centers. Therapists work directly with students in the classroom to give support and provide

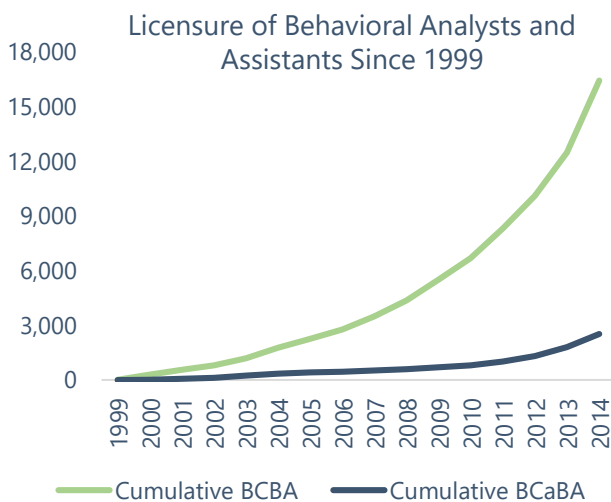
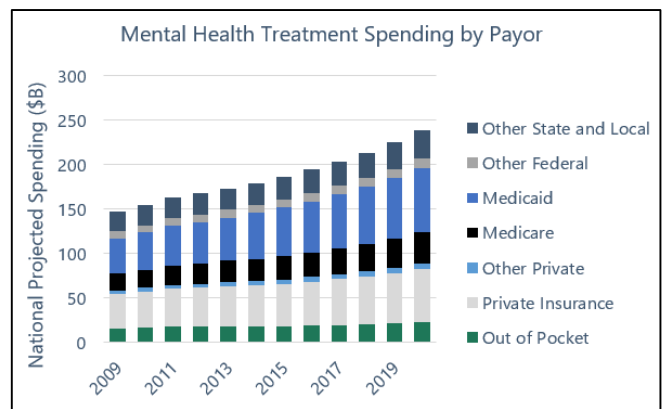
# AUTISM SERVICES INDUSTRY

services that fall in line with the standard school curriculum. Similar services are often offered in outpatient facilities where patients can seek supplemental services to what they receive in their normal school curriculum. Typically school-based autism services are paid by local school system funding.

Community-based therapists deliver treatment in both a brick and mortar setting, as well as the patient’s home. In addition to many of the same techniques used by school-based providers, community-based groups look to engage parents and family in treatment and are done in more comfortable settings. Contrary to school-based providers, commercial insurance companies are the primary payors to community-based providers.

With greater incidence and more covered patients comes a greater need for quality providers. Recent years have seen a drastic increase in the number of ABA’s, BCBA’s, and BCaBA’s. Professionals in related fields are becoming certified behavioral analysts at historic rates.

Groups such as “Autism Speaks” have proven to be extremely effective in raising public awareness which has spurred legislative reforms across the United States. As public sentiment has grown more accepting of patients with mental health and developmental disabilities, the push for wide spread coverage has become even greater. The Individuals with Disabilities Act (IDEA) and the Rehabilitation Act of 1973 have paved the way to ensure care for disabled youth in the United States. While many in healthcare services are battling significant industry headwinds, Autism remains one of the most protected groups in the sector. Every year total spending on mental health treatment continues to rise to historic levels.



As payors continue to focus on preventative care across the entire spectrum of healthcare, Autism Services’ has not only been recognized as an important aspect in quality of life for those suffering from ASD, but has been shown to drastically reduce the long-term financial burden to the individual, family, and ultimately both public and private healthcare payors. When therapy is able to provide and promote independence, there can be significant direct and indirect savings for family members and payors.

# PRIVATE EQUITY EXPLAINED

## What is Private Equity?

Private equity refers to investors and funds that seek to make direct equity investments in privately-owned companies. Limited Partners, including institutional investors, pension funds and endowment plans, are passive investors that commit capital to private equity funds expecting a sizable return on their investment. General Partners invest the fund's capital in businesses that align with their investment theses, seeking to exit their investments in the future (3-7 years) for substantial returns.

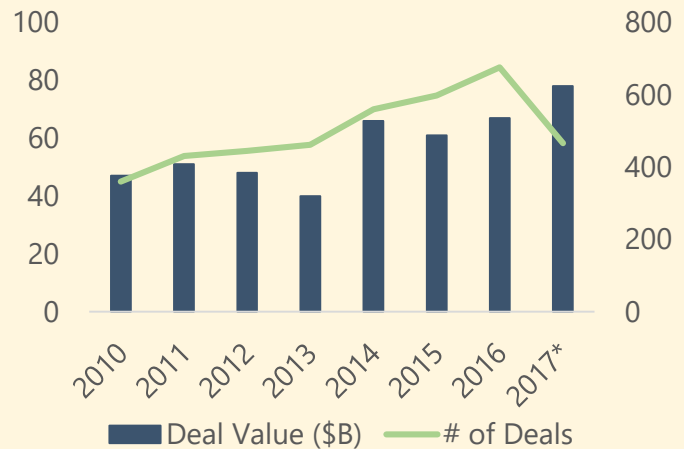
Upon investment, or a "recapitalization", a private equity firm will acquire a stake in a private business, providing the shareholders with significant liquidity in the form of cash proceeds as well as retained equity in the newly recapitalized company.

Post-transaction, private equity firms provide access to capital and expertise as they seek to improve their investments financially and operationally, building out infrastructure (clinical technology, back-office improvements, etc.) to provide a foundation for future growth.

General Partners commonly focus on helping their portfolio companies grow through board-level strategy, leaving the day to day operations of the business to the current management team.

The type of growth initiative varies from model to

Healthcare Private Equity Deal Flow in North America



model; In most cases private equity firms will infuse their companies with capital to increase geographic density organically through de novo locations and inorganically by way of executing an acquisition strategy to enter into new geographies and increase market share.

The ultimate goal for private equity is to sell their ownership stake to another firm or strategic acquirer at a considerable profit, giving current shareholders the opportunity to participate in additional liquidity events. With the capital and strategic resources of a private equity fund, managers can grow their business at an accelerated rate and earn substantial returns at each liquidity event.

### The Five Stages of Private Equity Investment

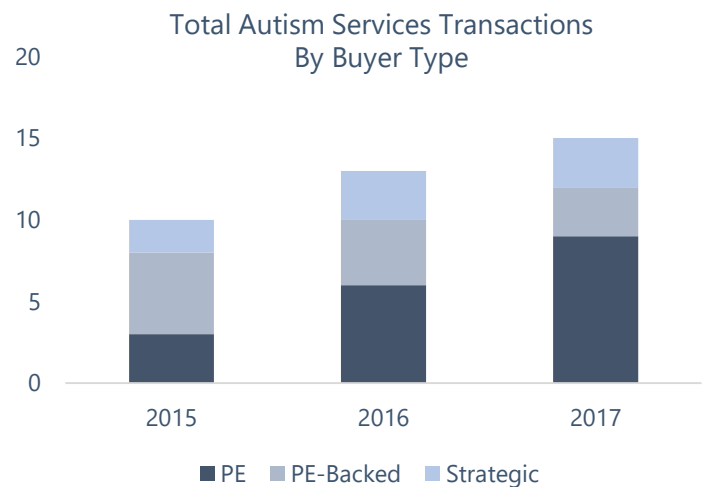


\*Data through Q3 2017

# PRIVATE EQUITY IN AUTISM

Although private equity investment in Autism Services dates back to 2004 when Trimaran Capital Partners acquired Education Services of America, the market has only recently experienced a significant increase in activity. While there were only 10 transactions taking place in the 10 years following Trimaran Capital's entrance into the space, since the beginning of 2015 there have been 40 transactions, with 16 taking place in 2017 alone. The recent rush into the space stems from major private equity funds looking to replicate the success of early platforms such as Trumpet, Sequel, Florida Autism Learning Centers, Learn It, and Invo Healthcare. Bain Capital and KKR (two of the largest private equity funds in the world) both entered the space in 2017 with their acquisitions of EpicHealth Services and Blue Spring

Pediatrics, respectively. With some of the largest and most reputable private equity firms entering the space, this would suggest that private equity interest in the industry is only beginning. Provident expects to see an ongoing list of new private equity firms entering the space throughout 2018 and beyond.



## Recent Autism Services Transactions

Year	Target	Buyer	Target Location
2018	Behavior Care Specialists	Pharos Capital	Sioux Falls, SD
2017	Autism Learning Partners	FFL Partners	Glendale, CA
2017	Hopebridge	Baird Capital	Indianapolis, IN
2017	Autism Home Support Services	Invo HealthCare Associates	Northbrook, IL
2017	Habilitative Services	Civitas Solutions	Lakefield, MN
2017	Hopebridge	White Oak Healthcare Finance	Indianapolis, IN
2017	Aspire Autism, LLC	Autism Learning Partners	Broomfield, CO
2017	Sequel Youth and Family Services	Altamont Capital Partners	Huntsville, AL
2017	Alternative Behavior Strategies	Petra Capital Partners, MMC Health Services	Salt Lake City, UT
2017	Autism Family Center, Inc.	Autism Spectrum Therapies, Inc.	Winnetka, IL
2017	Embracing Autism	Dungarvin	Columbus, OH
2017	Behavioral Innovations	Shore Capital Partners	Irving, TX
2017	Invo HealthCare Associates	The Jordan Company	Jamison, PA
2017	Trumpet Behavioral Health	WindRose Health Investors	Lakewood, CO

# PRIVATE EQUITY IN AUTISM

While each private equity group's approach to Autism Services will vary, typically the overarching investment thesis will be consistent. PE groups will look to make a "platform investment" into a business that has already established some level of size and scale. These businesses will likely have already invested in a management team and have begun to build out the "internal infrastructure" of the business. While size is a major determinant of what a platform company is, being positioned for growth is similarly important. Private equity groups will typically look to acquire a majority equity position in the business (most commonly 60% - 80% of the business).

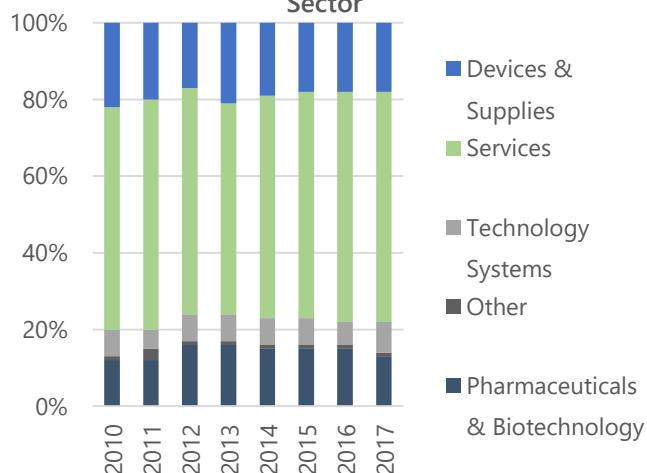
Private equity groups will value a platform as a multiple of the company's "Adjusted EBITDA" (Earning Before Interest, Tax, Depreciation, and Amortization). EBITDA is used as it is a proxy for the Company's true cashflows. The exact multiple is deal specific and determined based on a litany of factors: size, infrastructure, competition for deals, geography, etc. The market has recently experienced historically high valuations and many strong platform candidates are receiving double digit EBITDA Multiples.

Once a private equity group has made their platform investment they will look to strategize with management and determine what investments need to be made in the infrastructure. In some instances this includes hiring a chief financial officer, chief marketing officer, director of business development, and other key management roles to help support a growing business and compliment the current management team. In other situations PE groups will help make investments in technology and systems to support the future growth of the business.

Through their partnership with management, private equity groups will look to grow the business in two primary ways: organically and through acquisitions.

Growing organically will typically follow a similar pattern to how the Company has historically grown. Recruiting additional providers, investing in additional brick-and-mortar centers, and growing local market share. While this can be an effective growth strategy, the primary growth tool in any private equity investment will be acquisitions.

HealthCare Private Equity Deal Volume by Sector



**"Through their partnership with management, private equity groups will look to grow the business in two primary ways: organically and through acquisitions."**



# PRIVATE EQUITY IN AUTISM

Private equity groups will look to brand the platform investment while bringing in like-minded and complimentary providers by way of “add-on acquisitions” throughout the local market, region, and on occasion nationally. The goal of any partnership will be targeting quality acquisitions over sheer volume. Typically, PE groups will look to roll these add-on acquisitions into the “branded platform” and create solidarity and increase integration. The Company will look to leverage its size and scale to negotiate better rates with payors, have a strong brand sense in the community, and help with recruiting additional providers.

Add-on acquisitions will typically be structured with a level of upfront liquidity for business owners. This will provide shareholders with cash proceeds for the hard work and personal wealth they have tied to the business. Transaction structures will often include some form of deferred payment to keep management engaged over the course of the partnership. Whether this is in the form of a bonus pool, earn outs, or incentives tied to future performance of the company, these strategies are meant to ensure management at the add-on acquisition level feel invested in the partnership and incentivized to help grow the platform.

The typical private equity investment in a platform lasts 3 – 7 years in total, though the exact length will vary based on the unique partnership dynamics. When the PE group and management decide jointly that it is time to exit the investment, the buyer will typically be a larger private equity group. Management will generally have the opportunity to sell or continue with the business.

## What Makes A “Platform”

Not all businesses are created equally. Below are common factors that not only separate a “platform company” from an “add-on company” but drive premium valuations in private equity transactions.

- ✓ Previously have invested in a strong, experienced management team that is comfortable pursuing aggressive growth strategies.
- ✓ Premium quality and integrity of Applied Behavioral Analysis services along with systemized intervention protocols.
- ✓ Investment in back-office infrastructure to help support increased patient volumes, increased complexity in the payor environment, and increased service offerings.
- ✓ Multi-location footprint that captures patient volume from a number of geographic locations.
- ✓ Sophisticated service offerings and delivery methodologies.
- ✓ Diversification of payor mix and patient mix.



# PRIVATE EQUITY IN AUTISM

## Autism Learning Partners Case Study

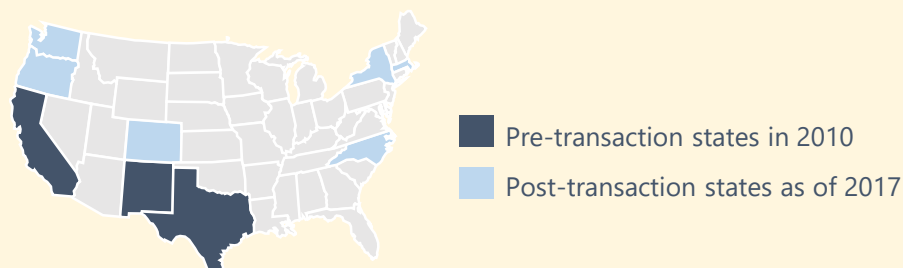
Great Point Partners (“GPP”), a private equity firm, originally invested in Autism Learning Partners in 2010. Autism Learning Partners was a leading provider of Applied Behavior Analysis services to children with autism and other related disorders in the western United States. The Company worked from within the broad spectrum of ABA techniques, employing empirically validated approaches as needed by the autistic child. At the time of the original transaction, Autism Learning had 300 employees and delivered care through both home-based and school-based services from their 11 offices in 3 different states.



With the help of Great Point Partners, Autism Learning established a national presence, growing their footprint from 3 to 9 states and growing their employee base from 300 to 2,600 by way of organic and external growth initiatives. The platform closed on six add-on acquisitions and hired an industry renowned CEO to minimize turnover and enhance integration between clinics, ultimately driving the value of the company substantially higher over the firm’s holding period.

In December of 2017 Great Point Partners and Autism Learning Partners, given the market conditions, decided it was time to seek a secondary recapitalization. GPP with the assistance of management at Autism Learning looked to find the right private equity group that could help take the company to the next level. Ultimately, Great Point Partners exited their investment in Autism Learning Partners to FFL Partners for \$270 million, marking the first exit in the space.

### Autism Learning Partners Geographic Expansion



# TRANSACTION BUYERS UNIVERSE

Given the industry’s legislative tailwinds and favorable macro economic environment, there has never been a more expansive market of groups seeking to acquire or partner with Autism Service providers. The three major “buckets” of potential buyers for Autism Service businesses are private equity groups not yet invested in the space, PE-backed consolidators, and general behavioral health consolidators with Autism Service offerings.

Private equity groups not currently invested in behavioral health likely offer the best opportunities for “platform” ready businesses. Typically these groups will offer the greatest level of independence for current management as well as the highest valuations. There are hundreds of private equity groups that offer both the capital necessary to complete a transaction and the expertise in healthcare to be an asset to business owners.

For groups that don’t quite fit the profile of a “platform”, due to lack of size, scale or infrastructure, there is an alternative option. Partnering with private equity backed consolidators offers many of the same strategic benefits that a traditional private equity partner offers. Groups that fit the profile of an “add-on” currently have 13 prospective PE-backed partners that are engaged in aggressive acquisition strategies. These transactions provide liquidity at close and greater levels of

autonomy to the traditional industry consolidator.

The final group of potential buyers are the industry behemoths – groups that are either publicly-traded or privately owned. These groups operate in a broad array of behavioral health sub-sectors and offer a strong exit opportunity to businesses looking for more stability and sophistication.

## Private Equity Groups With No Current Investment in Behavioral Health



## Private Equity Backed Platform Consolidators



Florida Autism Center  
Start here. Go anywhere.



## General Behavioral Health Industry Consolidators



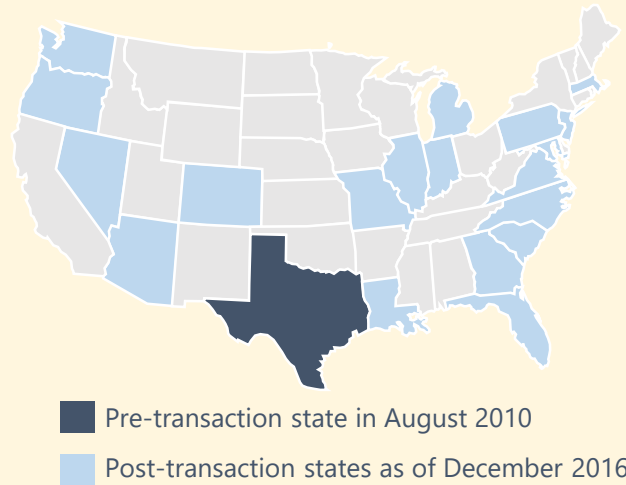
# PRIVATE EQUITY ACTIVITY

## Epic Health Services Case Study

Epic Health Services, a former client of Provident, is an example of one such company entering Autism Services through acquisitions and serves as a relevant case study for the private equity growth model as well. In 2010, Provident represented Epic through their recapitalization with private equity firm Webster Capital. Following the recapitalization, Epic quickly bolstered their back-office, developed a more comprehensive internal reporting system, and recruited a stronger clinical staff creating a dominant industry player.

Through the partnership with Webster, Epic was able to expedite its expansion into new territories, states and service lines, acquiring 20+ companies during Webster’s six year holding period.

### Epic Health Services’ Expansion



In December 2016, Webster exited their position as Epic completed a second recapitalization with Bain Capital in the amount of roughly \$1 billion. With Bain’s experience investing across the healthcare value chain, Epic plans on further extending its continuum of care into new service offerings and geographic regions.

Operating Metric	Initial Platform Investment – 2010	Portfolio Company at Exit – 2016
Company Name	Epic MedStaff Services	Epic Healthcare Services
Employees	85	1,500+
Patients Served	400	33,000
States	1	21
Revenue	\$66M	\$747M
Adjusted EBITDA	\$5.0M	\$80.0M
EBITDA Multiple	7.5x	~12.0x
Enterprise Value	\$37.5M	\$1B

## CONCLUDING THOUGHTS

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A scarcity of platform caliber groups, coupled with rising demand in the sector has created a supply and demand dynamic that is favorable for selling organizations; due to this imbalance, valuations remain among the highest within healthcare services. Private equity firms seeking an investment in to Autism Services pay premium valuations for platform caliber groups that are able to scale quickly to create a multi-regional player.

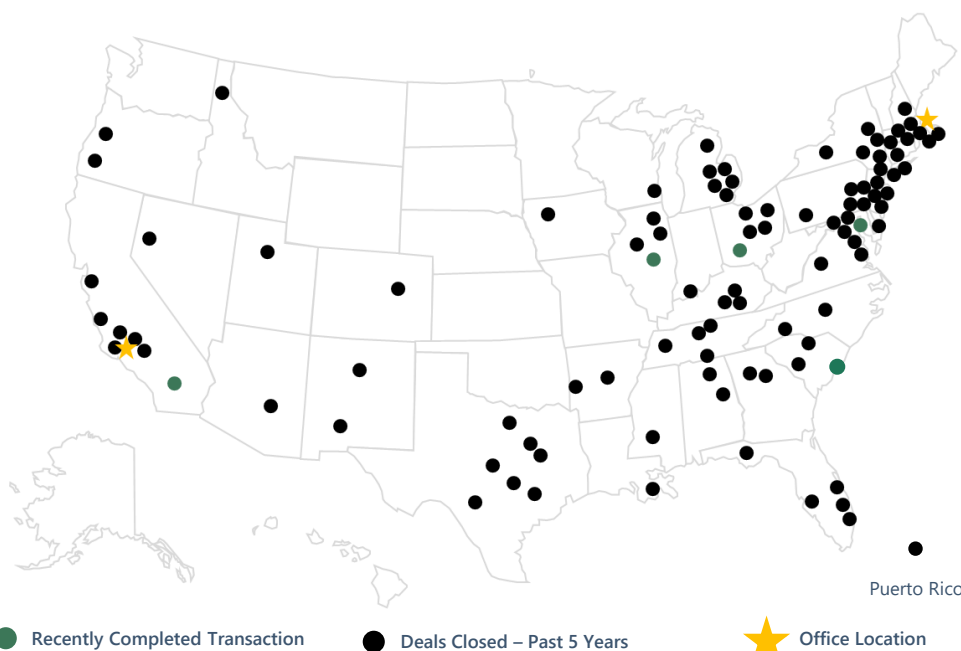
Foundational attributes for platform companies include clinical excellence, robust infrastructure, diverse payor mix and varied service lines among other qualities. Provident expects valuations to remain elevated and investment activity to gain steam in the coming months and years. Increased demand, expanded coverage, significant fragmentation and investment successes within the sector will continue to be driving forces behind consolidation.

# PROVIDENT HEALTHCARE PARTNERS

As the leading middle-market merger and acquisition advisory firm within healthcare services, Provident possesses unique insight into the current trends facing the healthcare services industry and how these trends will likely drive future consolidation activity. Provident also has a history of representing multi-site, provider based businesses through landmark transactions with private equity firms and strategic acquirers. Past examples of these transactions include: Riverside Medical Group with Optum; Women’s Health Care Group of PA with Audax Group; Children’s Dental Health Associates with DFW Capital Partners; and Epic Health Services with Webster Capital (recently sold to Bain Capital). Given the significant interest from the private equity community in Autism Services, Provident predicts an ongoing heightened level of consolidation in the space.



## National Presence



123	Deals Closed
\$13B+	Aggregate Transaction Value
15-20	Landmark Deals Per Year
22	Deal Professionals



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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