



ABA Therapy Industry Overview

Executive Summary

ABA Therapy market is a highly attractive area to invest considering its favorable growth outlook, supply/demand imbalances, and industry structure.

Tailwinds in the industry, including the increasing incidence of autism in the US, have created a largely underserved market that is growing very rapidly.

Excess demand for ABA therapy has continued to grow, as ABA has demonstrated the highest levels of efficacy while current supply of clinicians are still insufficient.

Industry is very fragmented with only a few larger players. Continues to be opportunity to drive consolidation and create regional leaders through M&A and de novo expansion.

However, given increased consolidation in the industry and rising valuations, finding an appropriate starting platform investment is challenging.

Overview of ABA Therapy industry

Applied Behavioral Analysis (ABA) Therapy utilizes basic behavioral practices (positive reinforcement, discrete trial teaching, programming for a natural environment, and outcome-based decision-making) to treat Autism Spectrum Disorder (ASD) and aid the development of positive life skills.

Who is providing services?

- **School-based providers:**
 - Offer services in the classroom alongside teachers or in stand alone centers, as well as in outpatient facilities where patients can seek supplemental services
 - Typically paid by local school system funding
- **Community-based providers:**
 - Deliver treatment in brick and mortar setting and patient's homes
 - Commercial insurance companies are the primary payors







What services are included?

- **Consultation and Assessment:**
 - Understand child's strengths, abilities, and challenges
 - Observe behavior, communication, and skills
- **Plan Development and Execution:**
 - Create formal plan for therapy with concrete treatment goals
 - Monitor progress and analyze which strategies are working vs. require different treatment tactics

What is the end goal?

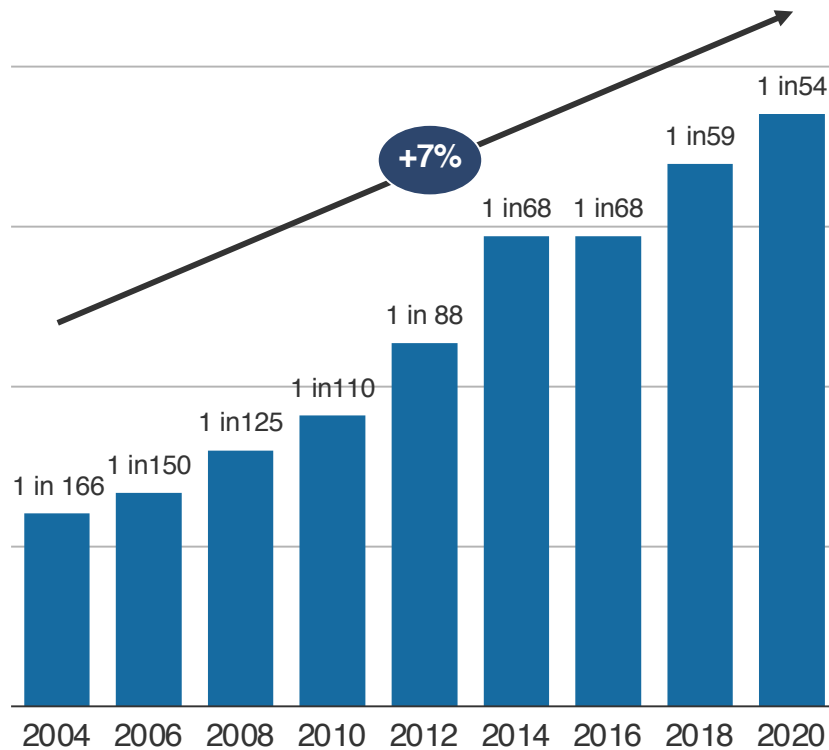
- **Improvement in skill deficits:**
 - More effective communication with others
 - Increased focus in school
 - Demonstrating more interest in people around them
 - Learning to ask for things they desire clearly and specifically
- **Reduction in problem behavior:**
 - Less likelihood of aggression or sudden unexpected outbursts
 - Reduced self-injurious behavior

ABA Therapy has several positive industry catalysts

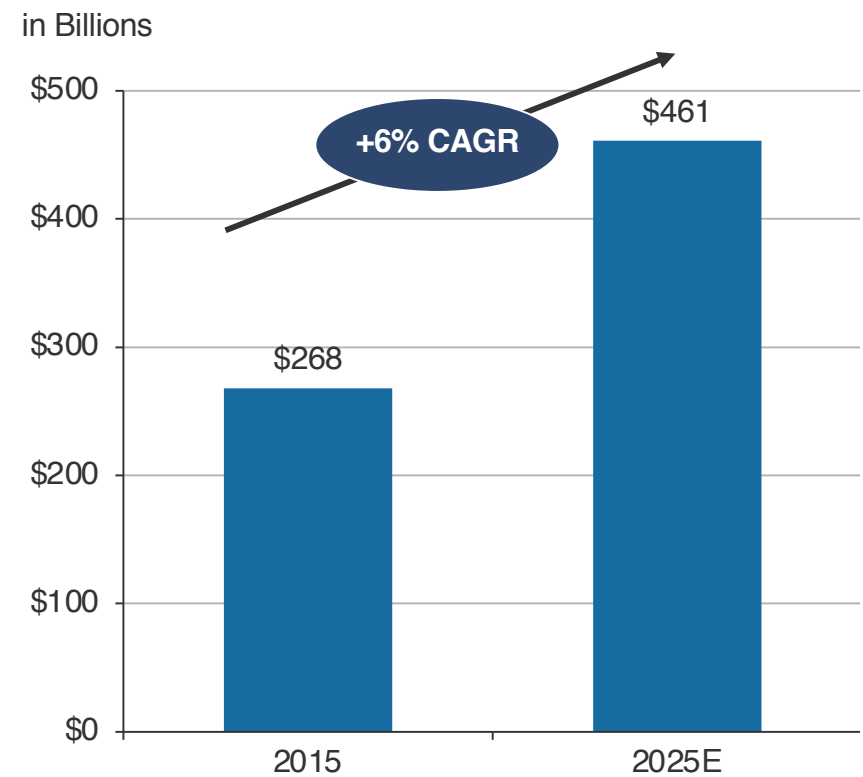
Positive Catalysts		Description
1	Increased Incidence of Autism	 <ul style="list-style-type: none">Children with autism has been steadily increasing in the past 2 decades<ul style="list-style-type: none">1 in 150 in 2000 to 1 in 54 currently, an increase of 178%Annual increase of 7% per year
2	Mounting recognition of importance of treatment	 <ul style="list-style-type: none">Increased recognition of benefits of early intervention and intensive therapy on autistic children per scientific research
3	Increased mandatory insurance coverage requirements	 <ul style="list-style-type: none">All 50 states in the U.S. now require mandatory insurance coverage for autism, increasing from 38 in 2014
4	Proven effectiveness and popularity of ABA therapy programs	 <ul style="list-style-type: none">Proven outcomes and effectiveness of ABA therapy programs, leading to increased demand that outpaces current supply of cliniciansCurrently, >15% of individuals with ASD seeking ABA therapy are on waitlists
5	Highly fragmented industry	 <ul style="list-style-type: none">Top 9 players only account for 27% of revenueRemaining portion of the market is largely fragmented across smaller players
6	Stability relative to traditional healthcare services	 <ul style="list-style-type: none">Traditional healthcare services have encountered downward reimbursement pressures and legislative uncertaintyABA market is relatively more stable with less stringent regulatory headwind

Improved monitoring has led to increased diagnosis of autism among Americans and recognition of the economic burden it creates

Prevalence of Children Diagnosed with Autism



Economic Burden of ASD in the U.S.

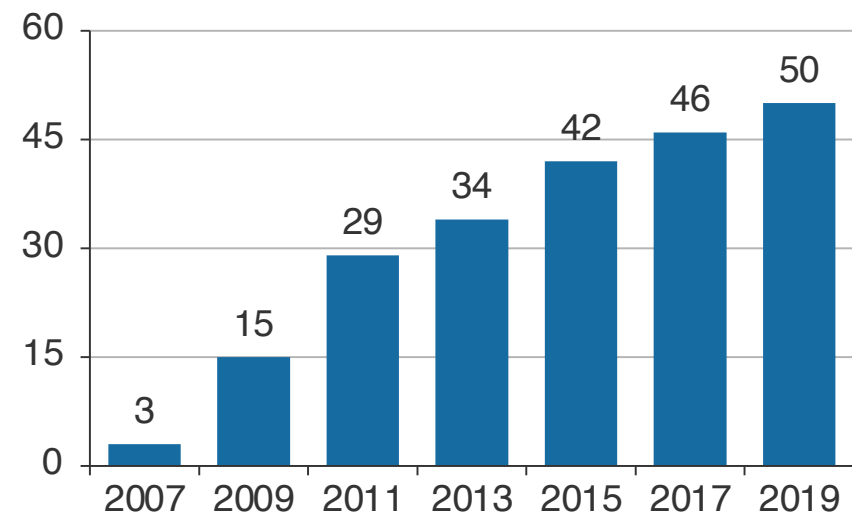


□ Mounting recognition and advocacy on the importance of treatment have led to increased insurance coverage

Importance of Early Intervention

- Improves social and communication skills during infancy, significantly helping to improve the child's later development
- Stops problematic behavior from becoming a habit
- Helps children become more apt to gain essential social skills and act better in social situations, enabling them to become more independent and require fewer services as they age
- Reduces long-term financial burden to the individual, family, and healthcare payors

Number of US States Mandating Insurance Coverage for Autism Treatment



Notes:

- Insurance coverage refers to all individual, small, and large group insurance plans and not self-funded plans (90 million Americans)
- Most states only mandate coverage for children with autism, with cutoffs at age 18 or 21



ABA therapy is consistently recognized in the scientific community as the most effective method for treating autism

According to a scientific experiment conducted by Dr. Ivar Lovaas, 90% of children made substantial gains through ABA therapy and 47% of the children studied during his research were “indistinguishable from their peers” after receiving intensive ABA therapy.

Why is ABA Treatment Effective?

- Program is individualized and tailored according to the unique needs of each client using a variety of behavioral strategies
- Treatment methodology helps break down larger skills into small manageable steps
- By using power of reinforcement, the child masters each step
- During the therapy process, data is collected and the continuous monitoring of progress allows therapy team to see what approaches are succeeding vs. which ones aren't, prompting them to make changes to ensure continued success

Expert Opinion

“Thirty years of research demonstrated the efficacy of applied behavioral methods (ABA) in reducing inappropriate behavior and in increasing communication, learning and appropriate social behavior.”

– United States Surgeon General

“Because ABA currently has substantially more scientific support than any other behavioral or educational intervention for children with ASD, ASAT recommends that families and professionals strongly consider implementing ABA and be cautious about other approaches. ASAT further recommends that professionals describe other behavioral and educational interventions as untested and encourage families who are considering these interventions to evaluate them carefully.”

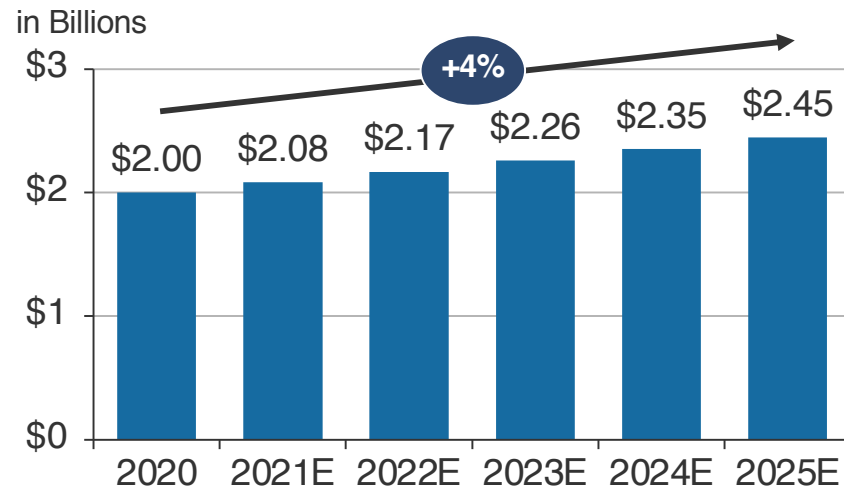
– Association for Science in Autism (ASAT)



Current supply of clinicians is insufficient to meet growing demand for ABA therapy services

An estimated 100,000 Board Certified Behavior Analysts (BCBAs) are needed to serve the ~1 million autistic children in the U.S., but only 30,000 BCBAs are available, thereby creating a massive vacuum of unmet needs.

Growth in ABA Market



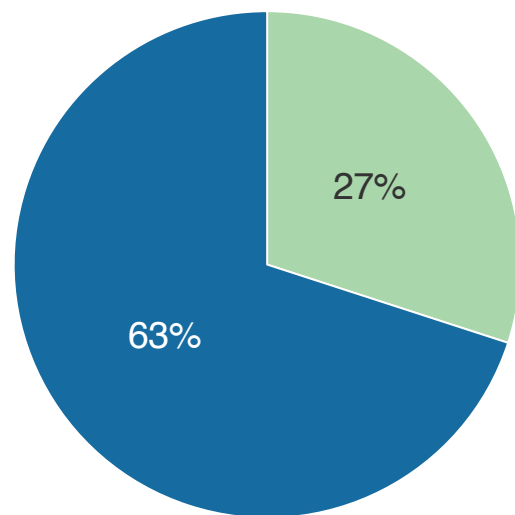
Addressing limitations in supply of qualified clinicians would unlock even more growth in the ABA market

Implications of Supply Shortage

- 70% of U.S. counties had no child psychiatrists between 2007 and 2016, according to results of a retrospective time-series analysis
- Shortage of child psychiatrists has resulted in more than 50% of children in the U.S. with a treatable mental health disorder not receiving treatment from a mental health professional

Market is fragmented with top 9 players accounting for <30% of industry revenue

Market Share by 2019 Revenue



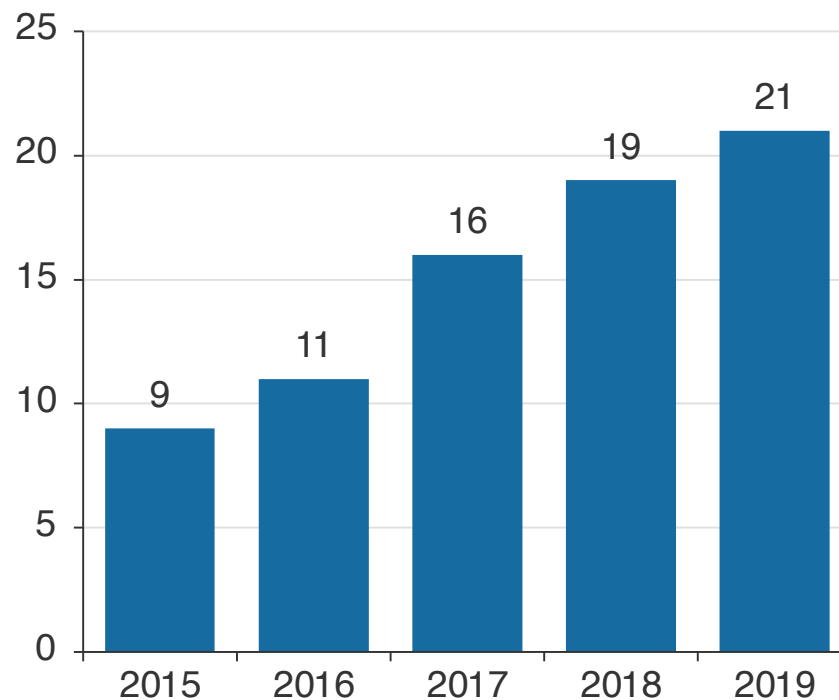
- Top 9 For-Profit Chains
- Other Players

Commentary

- 5,000 to 8,000 companies providing ABA services, most of which were started by clinicians or parents of kids with ASD with limited business background or experience
- Top 9 for-profit chains posted \$547 million in revenue in 2019
- Most providers generate \$5 million or less in annual revenue
- Most of the existing ABA businesses lack professional management teams, sales and marketing organizations, and technology infrastructure

□ The favorable market outlook on ABA therapy services has accelerated deal flow in the sector

Number of Deals in ABA Therapy Market (Includes Platform and Add-on)



Impact of PE Activity

- Allows providers to expand their scope of operations through partnerships and M&A with other providers
- Provides service operators sufficient capital to invest in technologies to improve clinical care and patient experience
- Enables growth by expanding trained clinicians to support service demand
- Increase in size enables better negotiated rates with payors and accelerated onboarding of additional insurance providers

PE-Backed Platforms (1/2)

Several PE-backed platforms have been created in the last 5 years

Platform	Investor	Date	# of Locations	Description of Services
Center for Social Dynamics	New MainStream Capital	December 2019	16	Leading applied behavioral analysis (“ABA”) services company specializing in home-based, personalized, evidence-based Autism Spectrum Disorder (“ASD”) treatment
Invo HealthCare Associates	Golden Gate Capital	September 2019	N/A	Provider of autism and childhood behavioral health services throughout the country in homes, schools, and community-based centers
Easy Speech Pathology	Carroll Capital	August 2019	1	Offers board-certified speech therapy, occupational therapy, physical therapy, applied behavior analysis therapy, and psychological services for both adults and children
RHA Health Services	Blue Wolf Capital Partners	August 2019	50	Leading provider of community-based health services focused on individuals with intellectual and developmental disabilities, behavioral health needs, and substance use challenges
Hopebridge	Arsenal Capital Partners	May 2019	48	Center-based provider of behavioral health services for children affected by autism spectrum disorder
Learn IT Systems	Gryphon Investors	March 2019	~50	Leading network of providers serving children with autism and other special needs
Kadian	TPG	February 2019	15+	Center, consultation, and school-based services, as well as behavioral observation, skill, and functional assessment
Behavioral Health Works	TA Associates	January 2019	N/A	Provider of school and community-based services in 11 states

PE-Backed Platforms (2/2)

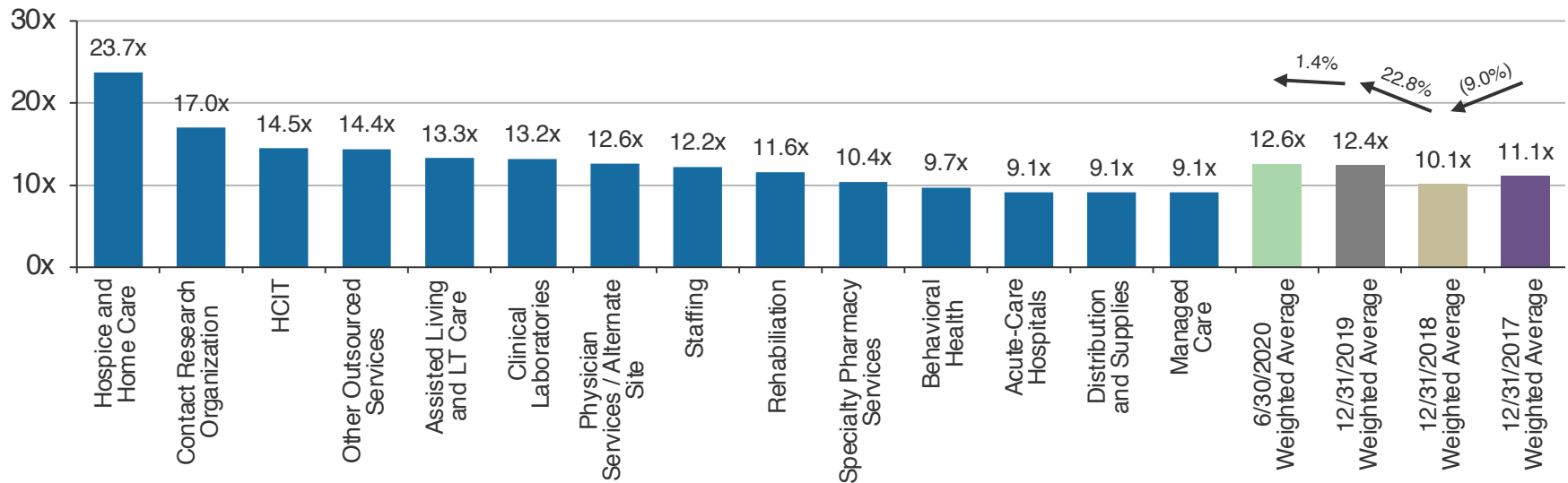
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Platform	Investor	Date	# of Locations	Description of Services
Acorn Health	MBF Healthcare Partners	October 2018	40	ABA services provider to children with ASD in Maryland, Pennsylvania, and Tennessee
ChanceLight Behavior	Halifax Group	May 2018	150+	Provider of physical, occupational and speech therapy services for children and young adults with autism spectrum and other behavioral disorders
Center for Autism and Related Disorders	Blackstone	April 2018	26	Center, school, and home-based behavioral therapy nationwide to children with autism
Stepping Stones Group	Five Arrows	January 2018	N/A	Provider of therapy and education solutions to children with special needs and autism
BlueSprig Pediatrics	KKR	January 2018	40+	Rapidly growing provider of high-quality ABA services to children with Autism Spectrum Disorder
Autism Learning Partners	FFL Partners	December 2017	149	Leader in providing ABA therapy services for children and young adults with ASD and developmental disabilities
Sequel Youth and Family Services	Altamont Capital Management	September 2017	49	Leading, national provider of diversified behavioral health programs across the U.S.
Epic Health Services	Bain Capital	March 2017	N/A	Provider of pediatric skilled nursing, therapy, developmental and enteral services

Valuation

The latest data points show that public companies in the behavioral health sector, a close comp to ABA therapy services, trade at ~10x EV/EBITDA.

Enterprise Value / 2020P EBITDA



	Hospice and Home Care	Contact Research Organization	HCIT	Other Outsourced Services	Assisted Living and LT Care	Clinical Laboratories	Physician Services / Alternate Site	Staffing	Rehabilitation	Specialty Pharmacy Services	Behavioral Health	Acute-Care Hospitals	Distribution and Supplies	Managed Care
12/31/2019	22.8x	15.8x	14.2x	11.7x	16.8x	12.0x	11.4x	13.3x	12.6x	10.4x	10.3x	9.1x	8.8x	10.4x
6/30/2020	23.7x	17.0x	14.5x	14.4x	13.3x	13.2x	12.6x	12.2x	11.6x	10.4x	9.7x	9.1x	9.1x	9.1x
Change	4%	8%	2%	23%	(20%)	9%	11%	(8%)	(8%)	0%	(6%)	0%	3%	(13%)

Notes

- A sample of 93 companies in the Healthcare Services comp set traded at 10.9x EV/EBITDA as of June 2020
- In comparison, companies in the Behavioral Health comp set (Acadia and Universal Health Services) traded at 9.7x EV/EBITDA as of June 2020, down from 10.3x in December 2019

Case Study – Epic Health Services

Epic Health Services serves as a relevant case study for an ABA therapy services company that was successfully transformed by a PE firm, Webster Capital. Over the course of six years, Epic experienced 11x and 16x growth in revenue and adjusted EBITDA, respectively.

Platform	Initial Platform Investment – 2010	Portfolio Company at Exit – 2016	Growth Catalysts
Employees	85	1,500+	✓ Executed 15 acquisitions
Patients Served	400	33,000	✓ Expanded footprint to 21 states
States	1	21	✓ Broadened service beyond pediatric private duty nursing to include therapy, enteral nutrition, and autism services
Revenue	\$66M	\$747M	
Adjusted EBITDA	\$5.0M	\$80.0M	
EBITDA Multiple	7.5x	~12.0x	
Enterprise Value	\$37.5M	\$1B	



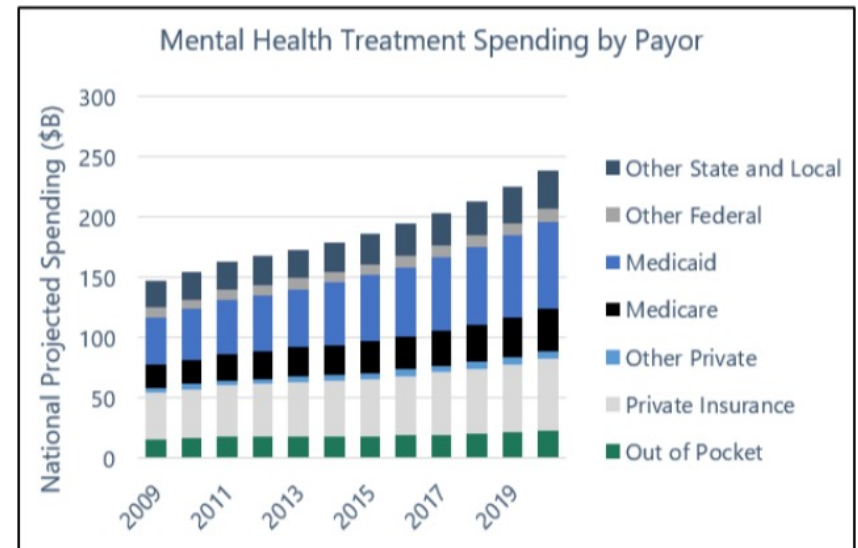
Appendix

☐ Spending and Reimbursement Trends

Increased incidence in autism and demand for ABA therapy has led to a gradual increase in spending within the sector, a significant portion of which can be attributed to improved insurance coverage across states.

ABA Therapy Cost and Coverage

- In general, ABA therapy costs ~\$120 for a 1-hour session
 - Fully funded insurance plans provide coverage, greatly reducing out-of-pocket expenses
 - Self-funded plans do not necessarily provide coverage as they are regulated by the federal government, as opposed to state governments
- Medicaid reimbursement rates range from \$30 to \$55 per hour across various states
- 45% of large companies, which have 500 employees or more, include coverage for ABA therapy



Notes

- Total spending on mental health treatment has been increasing year-over-year, reflecting increased incidence and need for treatment
- Largest increases are accounted for by Medicaid and private insurance, consistent with trend toward mandatory insurance coverage in all 50 states

COVID has caused significant disruptions in ABA services and remote/online services have yet to prove effective

