

Company ABC

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# Confidential Information Memorandum Summary

xxxx 20xx

Sponsoring Firm:

Company XYZ

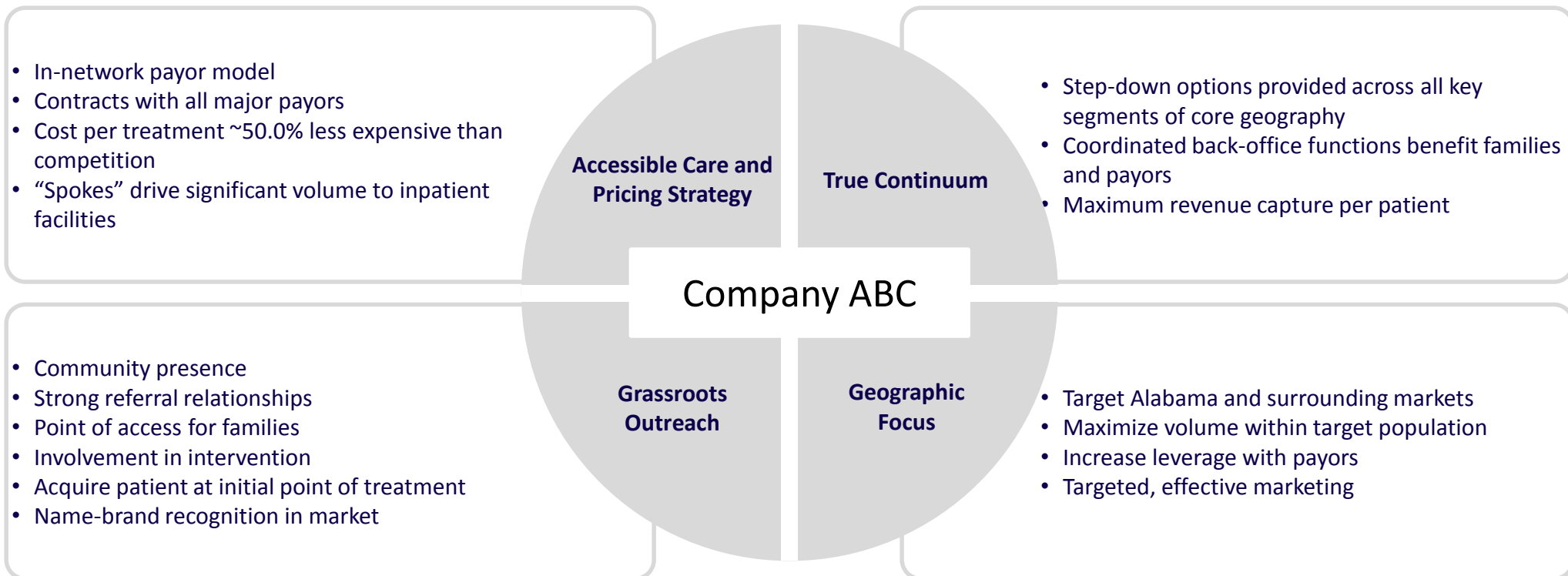
## Company Overview

- Provider of substance abuse treatment, has served ~150,000 patients during its ~40-year operating history
- The facilities provide ABC's patients with a fully integrated treatment continuum to support successful substance abuse recovery, including medical detoxification, primary care, residential extended care, transitional living, intensive outpatient care, and continuing care programs
- Manages 29 individual clinical facilities
  - 23 outpatient facilities
    - Treats ~400 patients each programming day
    - Generates ~80,000 outpatient billable sessions that translates into an average daily outpatient census <sup>(1)</sup> of approximately 392
  - 2 inpatient facilities with multiple treatment settings
    - Operates 272 beds and generated an average daily census of 233 in and an occupancy rate of 86.0%
    - Treated ~5,100 individuals in 20xx
  - 1 transitional living facility
  - 3 substance abuse treatment units managed by ABC under contracts with acute-care hospitals
- In 20xx, primary residential care services generated an average daily census of 177, representing an occupancy rate of 85.0%, and extended primary residential care services generated an ADC of 56, representing an occupancy rate of 88.0%
- **Specialty Treatment Tracks**
  - Provided to individuals in the medical, legal, law enforcement, military, and athletic professions
  - Provided in the extended care setting, specifically designed for patients suffering from addiction, who have been unable to maintain sobriety for an extended period of time, and requires protocols before being reinstated into the workforce, such as relicensing and processes that require patient advocacy
  - Most utilized specialty treatment track is the medical professional track, comprising approximately 60.0% of patients in specialty treatment
- **Patient Profile and Demographics:**
  - ~59.0% of patients are from Alabama, 28.0% are from Tennessee, and the remaining are primarily from other surrounding states in the Southeast
  - 60.0% percent of ABC's patients are male and 40% are female
  - 37.0% of the patients are between the ages of 18 and 29, 25.0% are between the ages of 30 and 39, with less than 5.0% patients younger than 18 years
  - The most prevalent drug category abused within the ABC patient population is heroin and other opiates and another large portion of patients abuse both alcohol and drugs or multiple drug classes

1. Average daily census is the average number of patients per day in a hospital over a given period of time

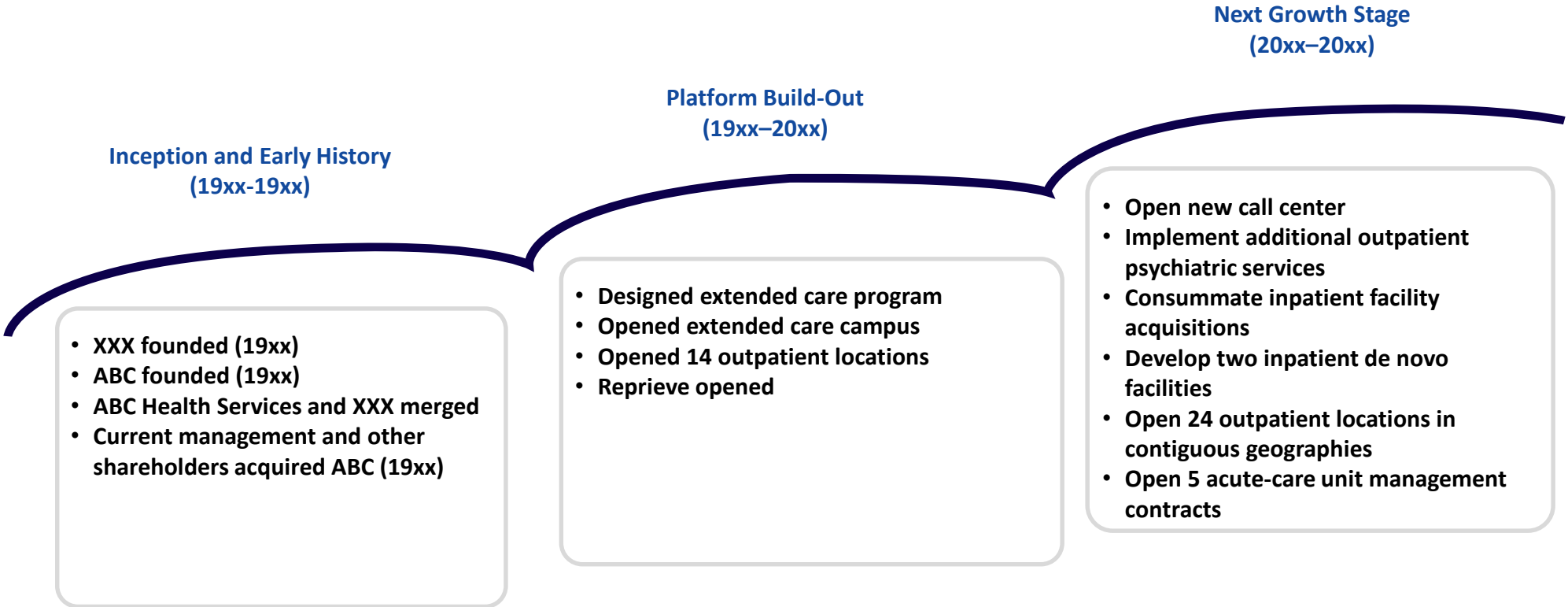
## Hub and Spoke Business Model

- ABC's hub and spoke model primarily focus on two methods
  - A payor and pricing strategy that facilitates treatment access and affordability
  - A facility abuse treatment providers
  - ABC maintains in-netwostrategy and treatment offering that drives the necessary volume scale to make the low-cost model economically feasible
- ABC eliminates economic barriers through an in-network<sup>(1)</sup> payor strategy and a pricing model that puts ABC at a 57.0% discount to the average price of other inpatient substance rk contracts with all major payors in its markets, and 96.0% of its revenue is derived from in-network collections



1. Part of insurance company's payment network

## History



## Competitive Advantage

- ABC's pricing reduces the out-of-pocket financial burden placed on patients and families as cost barriers have proved to be leading historical causes for patients' not receiving substance abuse treatment
  - The Substance Abuse and Mental Health Services Administration (SAMHSA) estimates that ~38.0% of people in the United States who needed treatment were prohibited from receiving it because of cost
- ABC provides a vertically integrated treatment offering to its patients across various levels of care, including detoxification, primary care, extended care services, transitional living, intensive outpatient services, and other continuing care services
  - Allows ABC to collaboratively manage a patient through all stages of the treatment process, enabling efficient transitions and better outcomes
- ABC's payor and pricing strategy facilitates patient access to care through in-network payor contracting and a pricing strategy that does not put private treatment out of reach for families
  - Currently maintains in-network contracts with all major insurance payors in its geographic markets, and its in-network collections represented ~96.0% of 20xx revenue
  - Reduces out-of-pocket costs for families in an insurance coverage environment where patient responsibility for deductibles, coinsurance, and copayments increase in-network payor contracts, creates a predictable revenue stream and reduce days' sales outstanding and collection risk
- **Effective Marketing Strategy Combining Grassroots and Corporate Marketing Efforts:**
  - Regional outreach offices represent the grassroots component of marketing
    - Place ABC representatives in the community, where those representatives focus on building relationships with referral sources, maintaining a presence for the Company in the community, and assisting in intervention and crisis response services
  - In the process of installing a new call center, which will create additional efficiencies in its marketing efforts
  - ABC has 36 employees focused on regional marketing efforts and 12 employees focused on corporate marketing

## Growth Opportunities

- ABC is uniquely positioned to capitalize on attractive industry trends
  - SAMHSA estimates substance abuse treatment to be a \$35.0 billion industry, and The National Council on Alcoholism and Drug Dependence estimates that ~23 million people suffer from substance use disorders in the United States
  - The prevalence of this disease is quickly becoming an epidemic, with 23.0% of persons aged 12 or older reporting that they have engaged in binge drinking over the last 30 days
  - The rate of illicit drug use among persons aged 12 and older is 9.2%
  - A significant treatment gap exists, with only 10.0% to 20.0% of sufferers seeking treatment
  - Increased awareness of substance use disorders, is driving more patients to treatment providers
  - Recent legislative initiatives make it easier for patients to receive insurance coverage for behavioral health treatment
    - **Michelle's Law (20xx)** - Allows seriously ill or injured college students to take up to one year of medical leave without losing their health insurance
    - **Mental Health Parity and Addiction Equity Act (20xx)** - Mandates that health insurance providers offer coverage for treatment of mental illnesses that is equal to their coverage for treatment of physical illnesses
    - **Patient Protection and Affordable Care Act (20xx)** - Allows young adults – a population that are heavy users of behavioral health services – to remain on their parents' health insurance plan up to age 26 and establishes greater access to insurance in general
- Management intends to grow its inpatient operations by 4 facilities in the Southeast, representing an additional 256 beds
  - **De Novo Initiatives:**
    - Two planned inpatient facilities
    - Extensive build-out of intensive outpatient operations in new communities
    - Increase number of hospital management contracts
    - Additional transitional programs focusing on young adults
  - **Other Organic Initiatives:**
    - Enhance existing rates
    - Implement outpatient psychiatric services
    - Optimize marketing initiatives to reduce cost per admission
    - Develop new call center
  - **Acquisitions:**
    - Focus on inpatient acquisitions with accretive potential
    - Multiple acquisitions in the pipeline
    - Focus on contiguous markets and leverage hub-and-spoke

## Recent News

- IBISWorld estimates that the Mental Health and Substance Abuse Centers industry is in the mature stage of its life cycle
  - In the 10 years to 20xx, industry value added, a measure of the industry's contribution to the overall economy, is expected to grow at CAGR 3.3%
  - The US economy is anticipated to grow at a CAGR of 2.5% during the same period
  - Moderate consolidation is expected to continue, driven by opportunities to leverage new technologies, use new regulatory initiatives and introduce cost-management strategies<sup>(1)</sup>
- More than 15.0% of people between ages 18-64 in the mining and construction industries had alcohol abuse issues. The lowest rates of abuse occurred in educational services (4.7%) and health care and social assistance (4.4%)<sup>(2)</sup>
  - ~20.0% of adults in accommodations and food services took illicit drugs. The least illicit drug use was observed in public administration (4.3%), educational services (4.8%) and, mining (5.0%)
- There are now 14,000+ treatment facilities in USA and a total of 2.5 million persons received treatment, but many more need it and facilities are filled to capacity<sup>(2)</sup>
  - Insurance coverage for rehab is limited. As a result, most of the tab is paid by government/state agencies
  - High end niches have emerged for the rich and new niches are emerging in areas such as: sex addiction, problem gamblers, Internet addiction, and nicotine addiction
  - Facilities are also diversifying into treating people with anxiety disorders, eating disorders, and post-traumatic stress by veterans of the wars in Iraq and Afghanistan
- In 20xx, public payers accounted for the vast majority of spending (69.0%) at \$16.7 billion, while private payers (including private insurance, out-of-pocket spending, and other private spending) accounted for 31.0% (\$7.6 billion)<sup>(3)</sup>
  - NIDA estimates that addictions cost the U.S. more than \$600 billion each year in damages, health care, law enforcement, subsidized treatment, and prevention efforts
- Analysis of data gathered between 20xx and 20xx from more than 111,500 adults with full-time jobs revealed that 9.5% of them had an alcohol or illicit-drug disorder in the previous year<sup>(4)</sup>
- The annual survey of 70,000 people aged 12 and older across the United States revealed that between 20xx and 20xx, substance dependence or abuse problems among this age group also dropped from 8.9 % to 5.2%<sup>(5)</sup>
- Rates of drug abuse among young people between 12 and 17 years old dropped from almost 12.0% in 20xx to 9.5% in 20xx, the study from the U.S. Substance Abuse and Mental Health Services Administration (SAMHSA) found<sup>(6)</sup>
  - In 20xx, rates of illegal drug use among teens fell even further to just under 9.0%

1. <http://www.ibisworld.com/industry/default.aspx?indid=1597>

2. <http://www.chron.com/news/nation-world/article/These-industries-have-the-highest-rates-of-6241969.php>

3. <http://www.marketwatch.com/story/the-us-addiction-rehab-industry-20xx-08-04-52033057>

4. <https://www.openminds.com/downloads/u-s-addictions-treatment-market-22-2-million-addiction-issues-24-billion-annual-spending/>

5. <http://www.cbsnews.com/news/substance-abuse-a-problem-for-americas-workforce/>

6. <http://consumer.healthday.com/kids-health-information-23/kids-and-alcohol-health-news-11/fewer-u-s-teens-using-illegal-drugs-and-alcohol-report-finds-691764.html>

7. <http://www.chron.com/news/nation-world/article/These-industries-have-the-highest-rates-of-6241969.php>

## Financial Snapshot

<i>(\$ in millions)</i>	<u>FY 20xx</u>	<u>FY 20xx</u>	<u>FY 20xx</u>	<u>FY 20xx</u>	<u>FY 20xxE</u>	<u>FY 20xxE</u>	<u>FY 20xxE</u>	<u>FY 20xxE</u>	<u>FY 20xxE</u>
<b>Revenue</b>									
Inpatient - Primary Care	XX	XX	XX	XX	XX	XX	XX	XX	XX
Inpatient - Extended Care	XX	XX	XX	XX	XX	XX	XX	XX	XX
Outpatient	XX	XX	XX	XX	XX	XX	XX	XX	XX
Other Revenue	XX	XX	XX	XX	XX	XX	XX	XX	XX
<b>Total Net Revenue</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>
<i>Growth</i>		XX	XX	XX	XX	XX	XX	XX	XX
<b>Operating Expenses</b>									
Patient / Medical Expenses	XX	XX	XX	XX	XX	XX	XX	XX	XX
Other Variable Expenses	XX	XX	XX	XX	XX	XX	XX	XX	XX
Personnel Expenses	XX	XX	XX	XX	XX	XX	XX	XX	XX
Facility Expenses	XX	XX	XX	XX	XX	XX	XX	XX	XX
Sales and Marketing	XX	XX	XX	XX	XX	XX	XX	XX	XX
Professional Fees	XX	XX	XX	XX	XX	XX	XX	XX	XX
Other General and Administrative	XX	XX	XX	XX	XX	XX	XX	XX	XX
Bad Debt Expense	XX	XX	XX	XX	XX	XX	XX	XX	XX
<b>Total Operating Expenses</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>
<b>Facility-Level EBITDA</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>
<i>Margin</i>	XX	XX	XX	XX	XX	XX	XX	XX	XX
Regional Outreach Office Expenses	XX	XX	XX	XX	XX	XX	XX	XX	XX
<b>Corporate Overhead</b>									
Corporate Marketing	XX	XX	XX	XX	XX	XX	XX	XX	XX
Corporate Personnel	XX	XX	XX	XX	XX	XX	XX	XX	XX
Other Corporate Overhead	XX	XX	XX	XX	XX	XX	XX	XX	XX
<b>Total Corporate Overheads</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>
Start-Up Losses Addback	XX	XX	XX	XX	XX	XX	XX	XX	XX
<b>Adjusted EBITDA</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>
<i>Margin</i>	XX	XX	XX	XX	XX	XX	XX	XX	XX