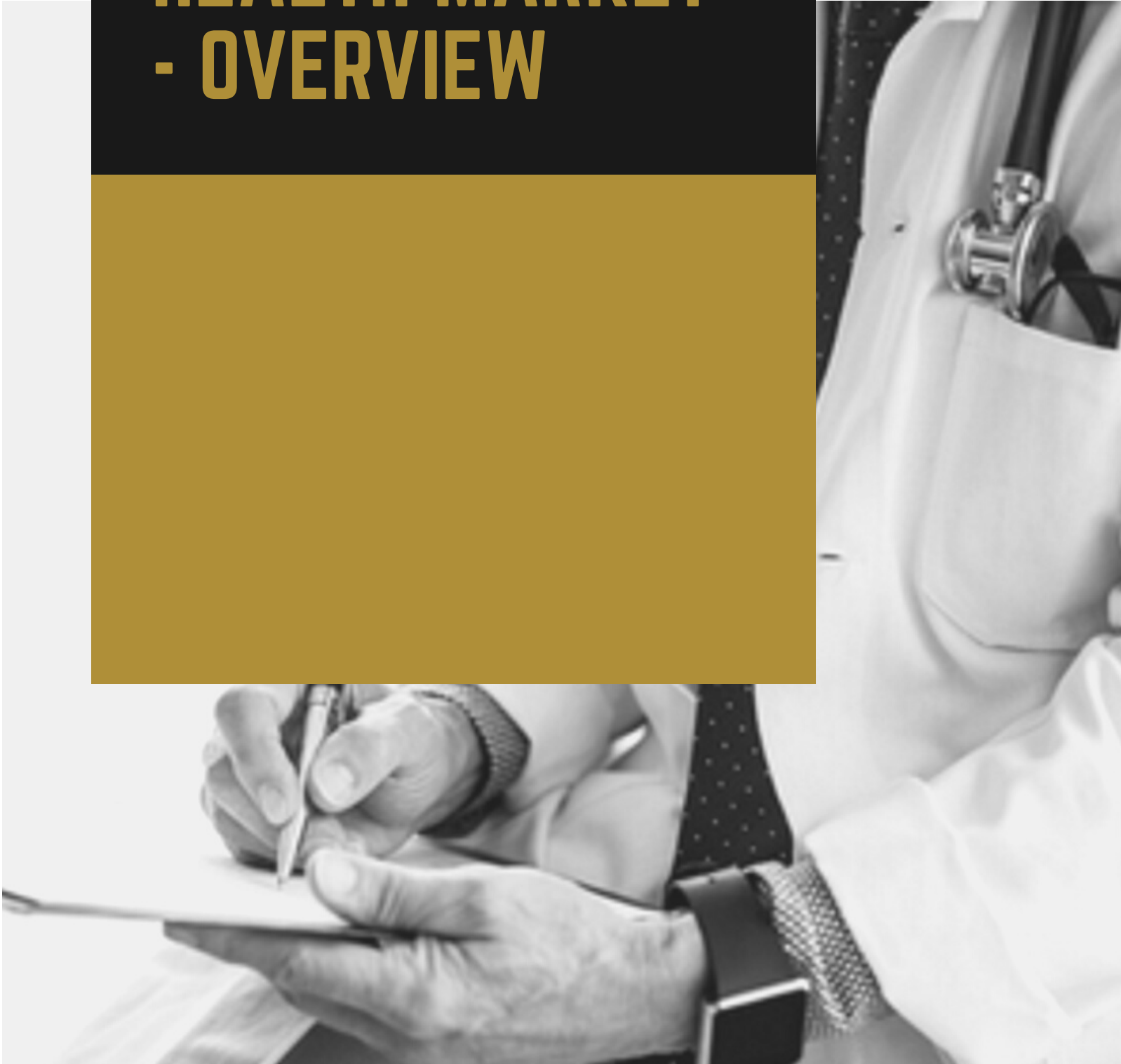


BEHAVIORAL HEALTH MARKET - OVERVIEW

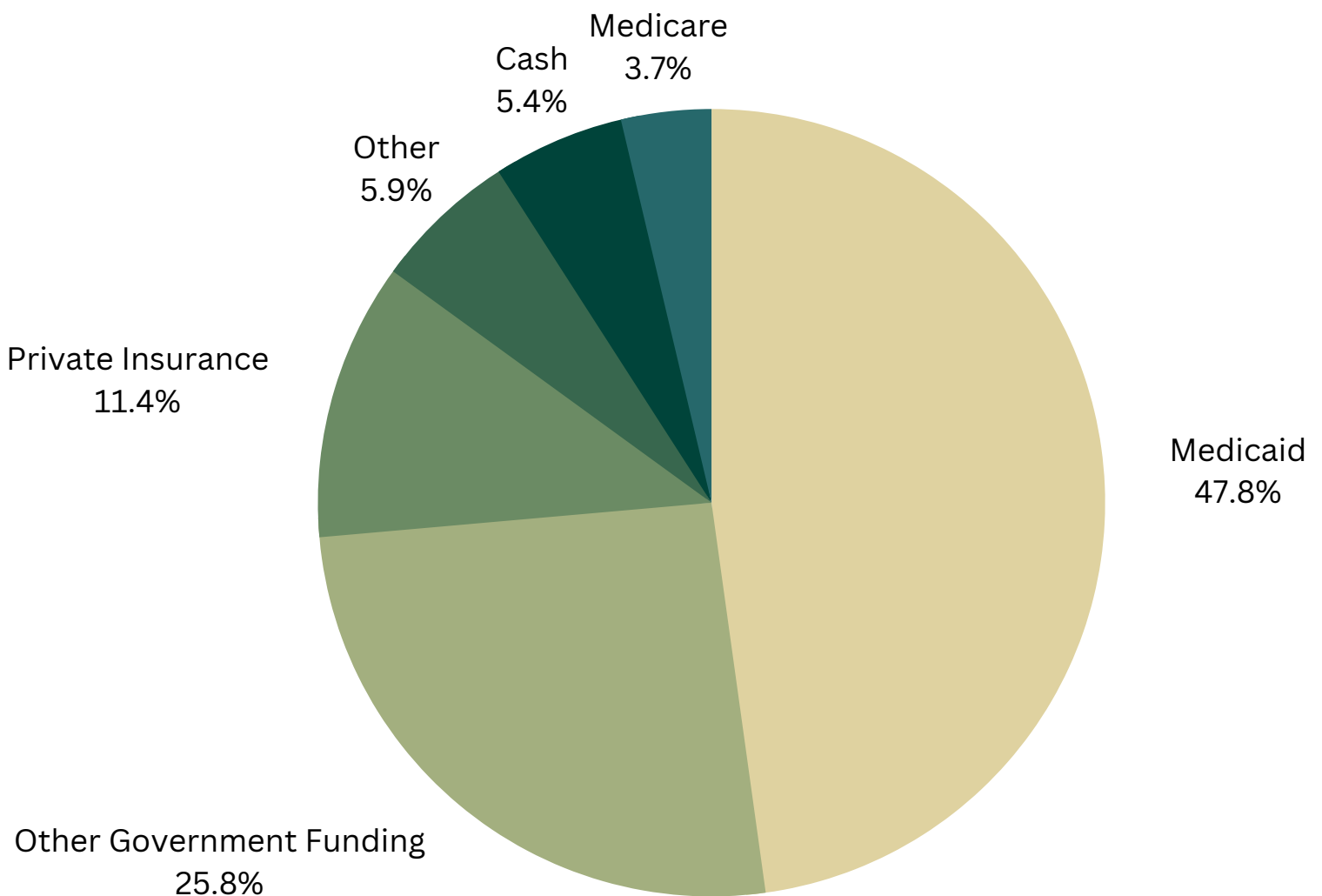


MENTAL HEALTH AND SUBSTANCE ABUSE FACILITIES - INDUSTRY OVERVIEW

In 2021, the industry recorded an estimated \$1.2 billion in net profit, which represents an approximate 5.9% net profit margin. The industry profit margin is expected to increase at an average rate of 1.1% throughout the next five years. Societal shifts are expected to increase mental health awareness, leading to an increase in demand for industry services. Moreover, expansion of Medicare and Medicaid programs, barring any legislative changes, will enable more individuals with mental health disorders to access the care they need at a more affordable rate.

As of 2021, the largest component of revenue within the Mental Health and Substance Abuse Facilities sector was derived from Medicaid (47.8%):

Industry Revenue Breakdown (By Payer)



MENTAL HEALTH AND SUBSTANCE ABUSE FACILITIES - INDUSTRY OVERVIEW

The Mental Health and Substance Abuse Facility sector includes facilities that primarily provide residential care and treatment for patients with mental illnesses, drug addiction and alcoholism. Services include lodging, supervision, evaluation, and counseling. Medical services available include counseling, mental rehabilitation, and support services.

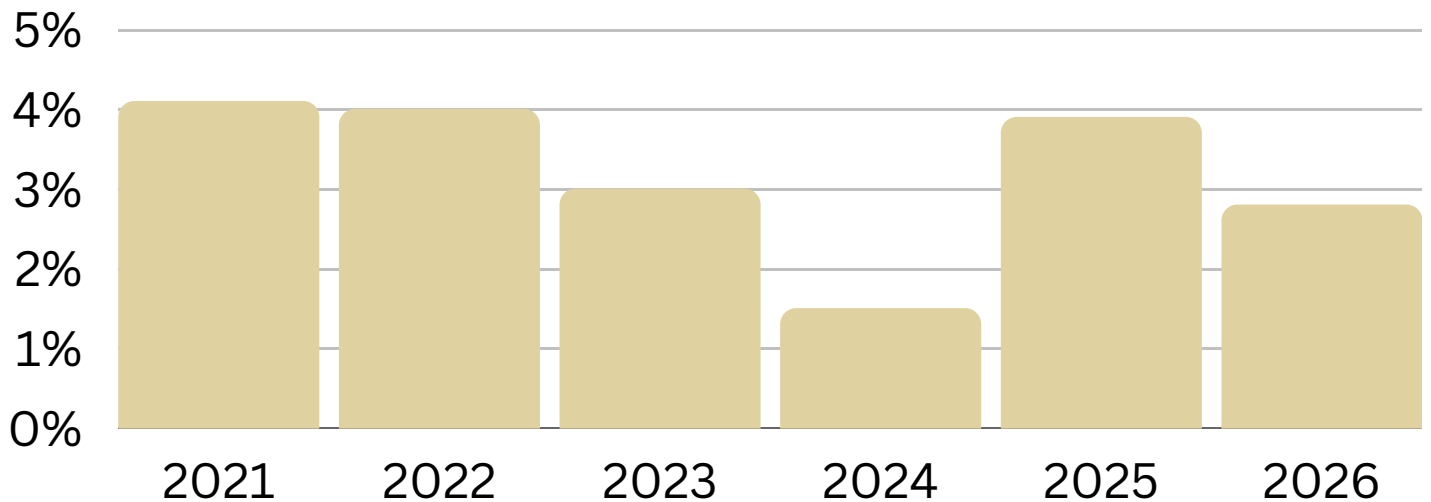
The primary activities of this industry are:

- Providing residential alcoholism rehabilitation
- Providing residential drug addiction rehabilitation
- Providing treatment at convalescent homes or hospitals for psychiatric patients
- Providing outpatient mental health services
- Providing treatment at halfway houses for patients with mental health illnesses and substance abuse problems
- Providing treatment at homes and hospitals for emotionally disturbed or psychiatric convalescent adults or children

The primary products and services in this industry are:

- Residential treatment programs (mental illnesses)
- Residential treatment programs (detoxification & substance abuse)
- Intensive Outpatient Programs (IOP)/Partial Hospitalization Programs (PHP)
- Independent living services
- Residential treatment with counseling services

As of the end of 2021, the Mental Health & Substance Abuse Facilities sector recorded an estimated \$20 billion in revenue. Since 2016, the industry has been growing at an average rate of 4.0% per year and is expected to remain in-line with historical trends between a range of **1.5%-4.0% throughout the next five years:**

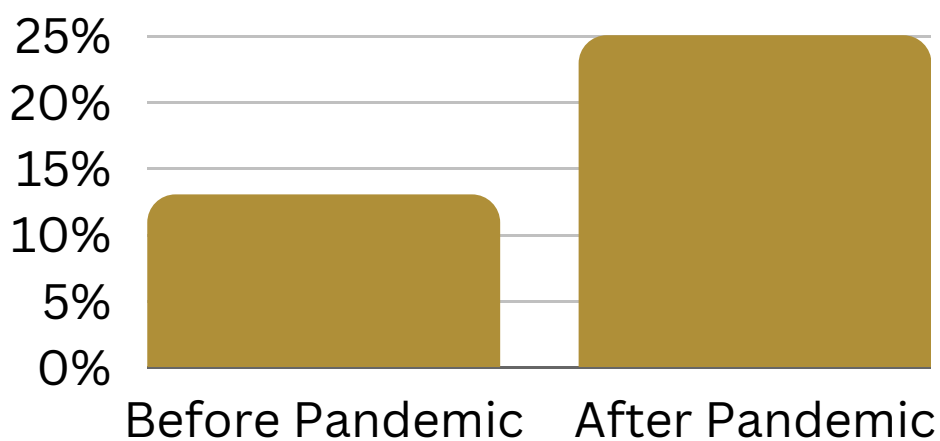


COVID-19 IMPACT

The coronavirus disease (COVID-19) outbreak of 2019 has remarkably influenced the dynamics of the global healthcare sector. Although demand for behavioral health services has been experiencing growth prior to the global health pandemic, the demand impact of COVID-19 on the overall behavioral health market has been both unprecedented and staggering. The pandemic has led to a drastic increase in the use of “telehealth” services for treatment related to behavioral health, including mental disorders, substance abuse, trauma/PTSD, and others. According to a recent McKinsey report, the COVID-19 pandemic has led to an almost 50% increase in the prevalence of behavioral health conditions. We expect the positive demand created during the pandemic to continue to affect the industry growth in a positive manner for the next 5-10 years.

Below is an update on how the Behavioral Health market has been impacted by COVID, along with how the industry is shaping up to be in a post-COVID environment:

- Given the “stay at home” orders, government mandated shutdowns experienced in early 2020, there has been a shift in the trend of adoption of more “telehealth” based treatments – this has spurred more growth within the industry as more patients are able access to different types of services
- The COVID-19 pandemic has brought on additional stressors and anxiety onto society, specifically young adults. A recent poll conducted by “Precedence Research” shows that approximately 25% of young adults stated that they began or escalated substance abuse during the pandemic (compared to 13% of all adults) with no signs of slowing down.



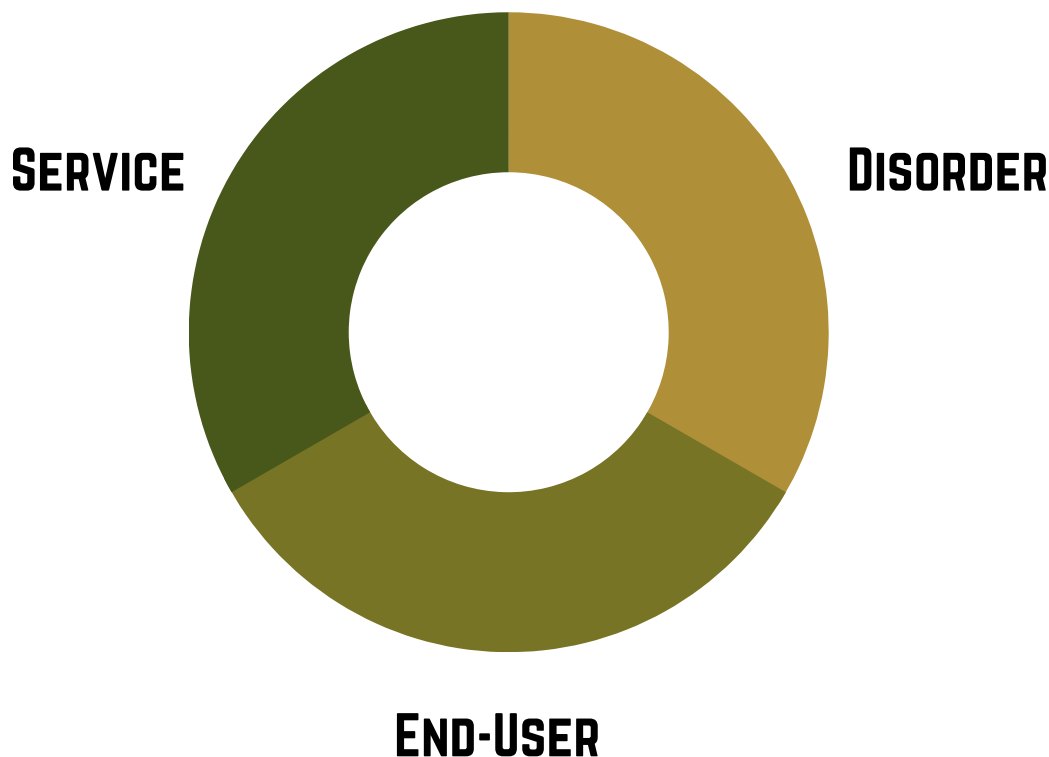
Poor economic conditions, social distancing measures, and other pandemic-related effects have exacerbated preexisting mental health conditions. As external factors, such as the economy, health, and uncertainty, continue to increase, we expect these factors to positively affect the demand curve for behavioral health services across the board

- The impact that COVID-19 has had on various economic indicators has been varied across the board. These external conditions have brought on a dislocation within the labor market – specifically, shortages of high-quality labor. Labor shortages at medical facilities has placed an upward pressure on wages. As a result, the average industry profit margin has declined. We expect the upward pressure on wages to be transitory, as the US labor market seeks to find a stable equilibrium on the price of wages

MARKET SEGMENTATION

During 2020, the U.S. behavioral health market reached an estimated size of \$87.75 billion and is expected to reach \$132.4 billion by 2027, **which accounts for an annual growth rate of approximately 5.3%**. To keep things in perspective, the U.S. market represents approximately 54.7% of the global behavioral health market, which is estimated to grow at 5.02%. **As expected, the behavioral health market grew by 11.3% during 2020.**

The Behavioral Health market can be classified as very complex, with many different drivers and factors affecting growth in many different areas. In this section, we will look at the different segments of the behavioral health market, how they should be characterized, and provide an overview of the different factors affecting each:



Service

By looking at the different types of services offered within the Behavioral Health market, we can classify the different services as the following:

- **Inpatient Hospital Treatment:** This type of service involves an overnight or longer stay in a psychiatric hospital or psychiatric unit of a general hospital. The facility can be privately owned or public (government-operated). Inpatient hospitals provide treatment to more severely ill mental health patients, usually for less than 30 days. A person admitted to an inpatient setting might be in the acute phase of a mental illness and need help around the clock. Typically, a person who requires long-term care would be transferred to another facility or a different setting within a psychiatric hospital after 30 days of inpatient treatment.
- **Outpatient Counseling:** While there is wide variety in the types of outpatient settings, they all involve office visits with no overnight stay. Some are based in community mental health centers; others are in general hospitals where individuals visit an outpatient clinic for an appointment. In addition, many

KEY TRENDS AND DRIVING FACTORS

In the following section, we will look into the driving factors, industry restraints, and potential opportunities within the behavioral health market.

Key Trends & Driving Factors

- ***Increasing Prevalence of Physical and Mental Health-Related Disorders within the US Market***

According to the Substance Abuse and Mental Health Services Administration (SAMHSA), one in four Americans have a mental or substance use disorder. Additionally, the National Institute of Mental Health states that one in five American adults are suffering from some type of behavioral health issue. The increase in behavioral health disorders has led to an increase in facility visits for individuals demanding services and treatment. Since 2018, there has been an increase of over 30% in emergency visits related to behavioral disorders. An increase in disorder prevalence is contributing to the overall growth of the market.

- ***Improved Access to Behavioral Health Care***

Increased access to behavioral health care is anticipated to increase demand for behavioral health services across the US. Additionally, the expansion of insurance coverage for these services to a larger population will help people get better access to care. The COVID-19 pandemic has leveraged the promotion of “tele-health” solutions resulting in higher adoption levels by individuals seeking access to treatment services. For instance, Brightside, an app available for the treatment of anxiety and depression experienced a 50% increase in new users during the early pandemic period.

- ***Cultural and Behavioral Change – Societies Shift to Promote Mental Wellbeing***

We believe that stigma surrounding behavioral health will dramatically decrease, making it easier for people to confront and manage their mental health. A recent study by the Anxiety and Depression Association of America found that 60% of US adults aged 18–25 view seeing a behavioral health professional as a sign of strength, compared to only 35% of adults over 26. This view on mental health will help drive other factors, such as public policy and government mandates towards continued growth for the industry. Governments are helping to lower the stigma by increasing investment in behavioral health, which helps to emphasize that the challenges people face are real and deserve attention.

Some governments are enacting policies that integrate population-level behavioral health with collective economic growth, as in New Zealand, where the health budget explicitly supports behavioral health.

Employers are also playing a role in lowering cultural stigma by explicitly seeking to serve the behavioral health needs of employees and families. A survey of employers found 68% planned to increase emphasis on behavioral health offerings over the next two years.

KEY TRENDS AND DRIVING FACTORS

Challenges & Opportunities

- ***Recruitment and Retention of Highly Qualified Staff***

Given the need for highly skilled staff within a behavioral health facility, this remains a critical challenge within the market. As wages continue to grow, this will put additional pressure on behavioral health facilities seeking to attract and retain a highly specialized staff.

- ***Improvement of Data Analytics and Data Benchmarking***

One of the biggest challenges within the behavioral health market is the benchmarking of patient results and treatment programs. Currently, the focus is on assessing the facility's success rate once treatment has been completed. This poses industry-wide problems because it lacks a standardized approach to benchmarking certain specific measures. We believe that with time, technology and innovation will be necessary within the industry as state and local governments look to standardize different metrics to properly assess a facility's success rate.

- ***Diversification of Revenues and Services***

The needs of an individual patient can vary drastically depending on the severity of the patient's disorder. Adding additional services not only helps reduce a facility's financial risk by diversifying its revenue stream but also helps attract more patients who may require specialized treatment. We believe that this will continue to be a focus of opportunity for facilities within the space

- ***Complying with Regulations and Mitigating Risk***

Regulations at the federal, state, and local level will continue to be heavier and more complex as the industry continues to grow. Ensuring that your facility follows the requirements of all governing bodies, agencies, and associations is critical to the success of your facility. Compliance is not static, it requires constant monitoring and managing of new laws and regulations to reduce your risk of being non-compliant.

- ***Unequal Distribution of Services***

The difficulty in finding highly skilled labor within the behavioral health market has also fueled an unequal distribution of available services. Highly skilled labor will flow to the facilities willing to pay the highest wage. The facilities that can pay higher wages are typically found within higher density population areas rather than rural areas. This presents both a challenge and an opportunity for a facility who can overcome obstacles in maintaining and providing an adequate number of services within rural communities.