Mergers and Acquisitions:

Understanding the Essentials

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The Braff Group

BRAFF

Part 1:

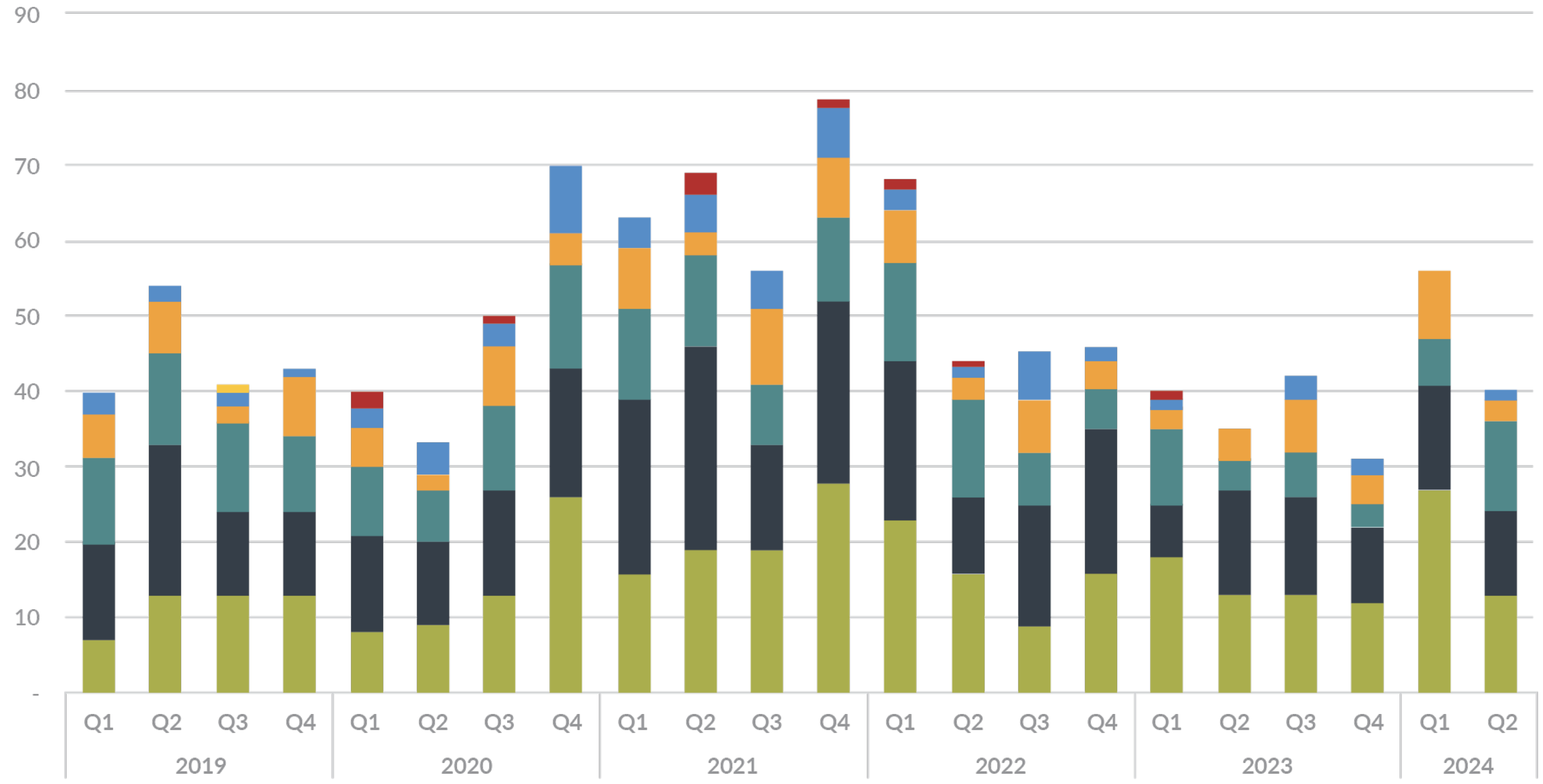
Deal Trends

Deal Trends

Behavioral Health Deal Trends

- Mental Health
- Substance Use Disorder
- Autism Services
- Intellectual and Developmental Disabilities
- At Risk Youth
- Acquired Brain Injury
- Other

Source: The Braff Group



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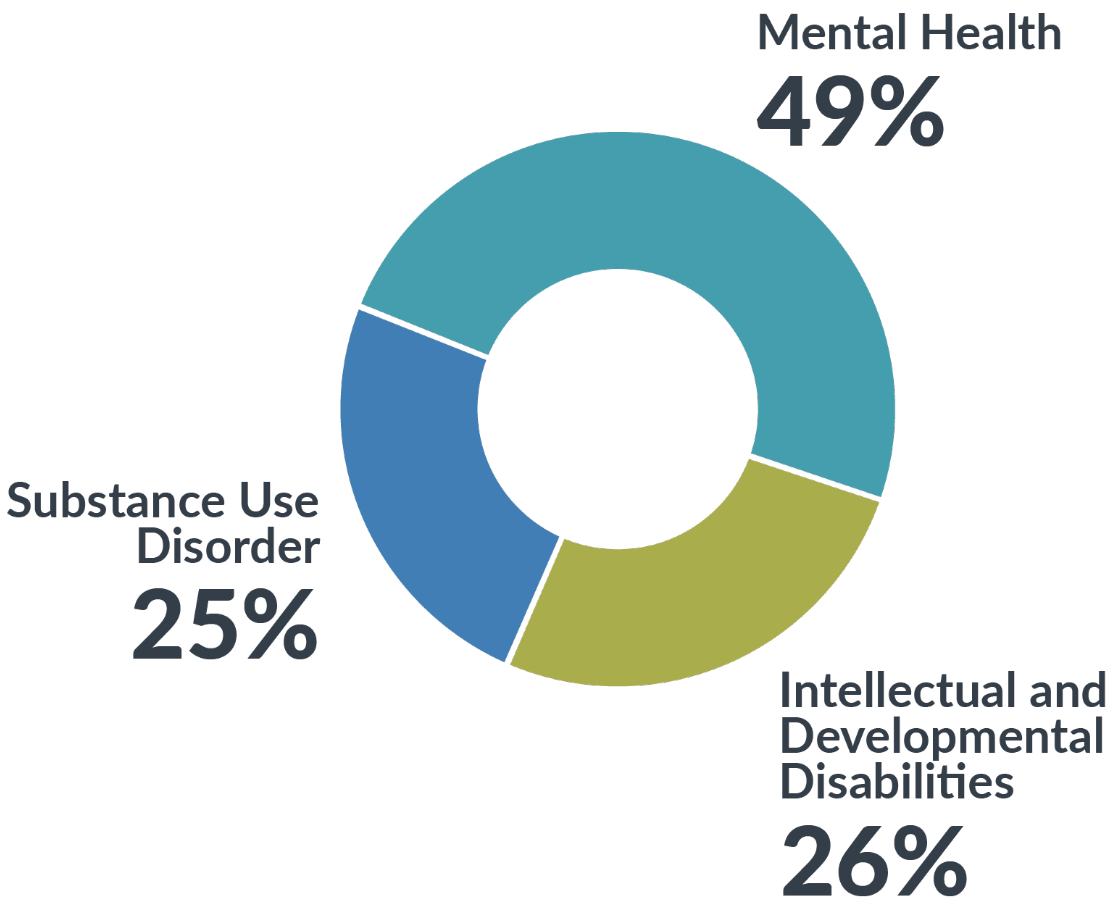
Deal Trends

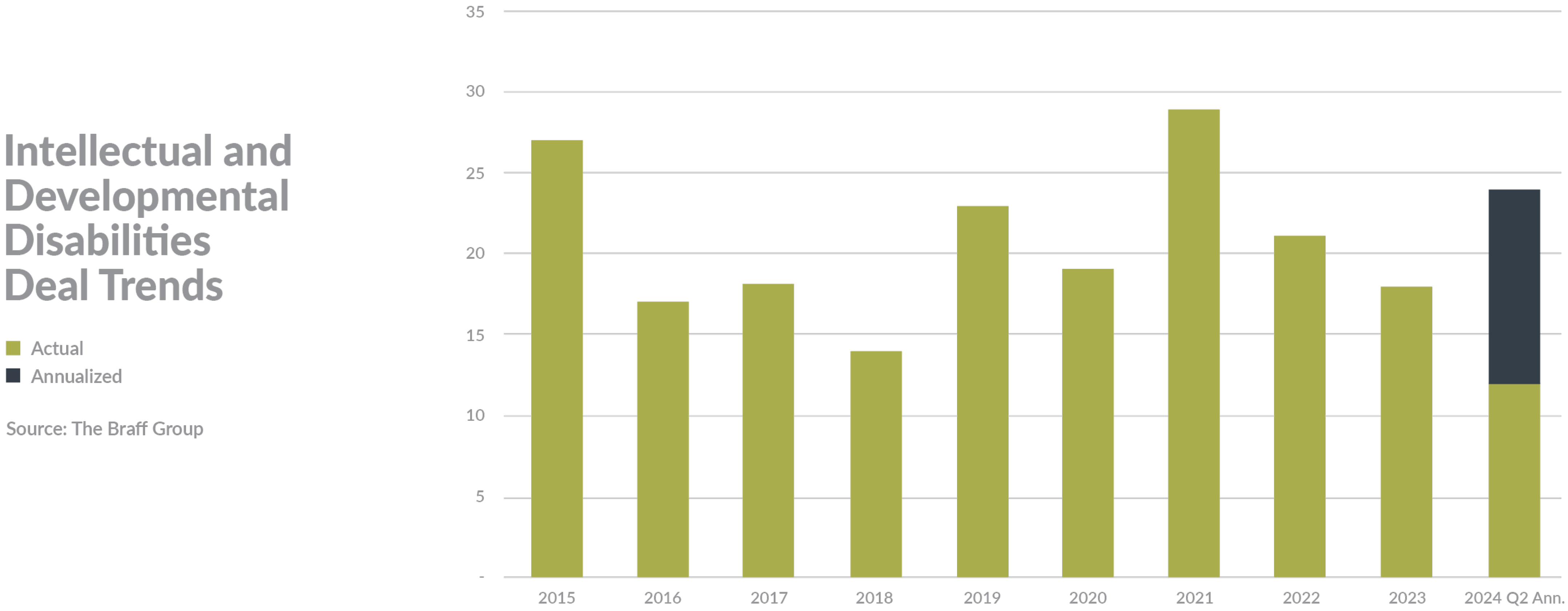
Mix of Behavioral Health Deals–2024

Source: The Braff Group



Deal Trends

Intellectual and Developmental Disabilities Deal Trends



Source: The Braff Group

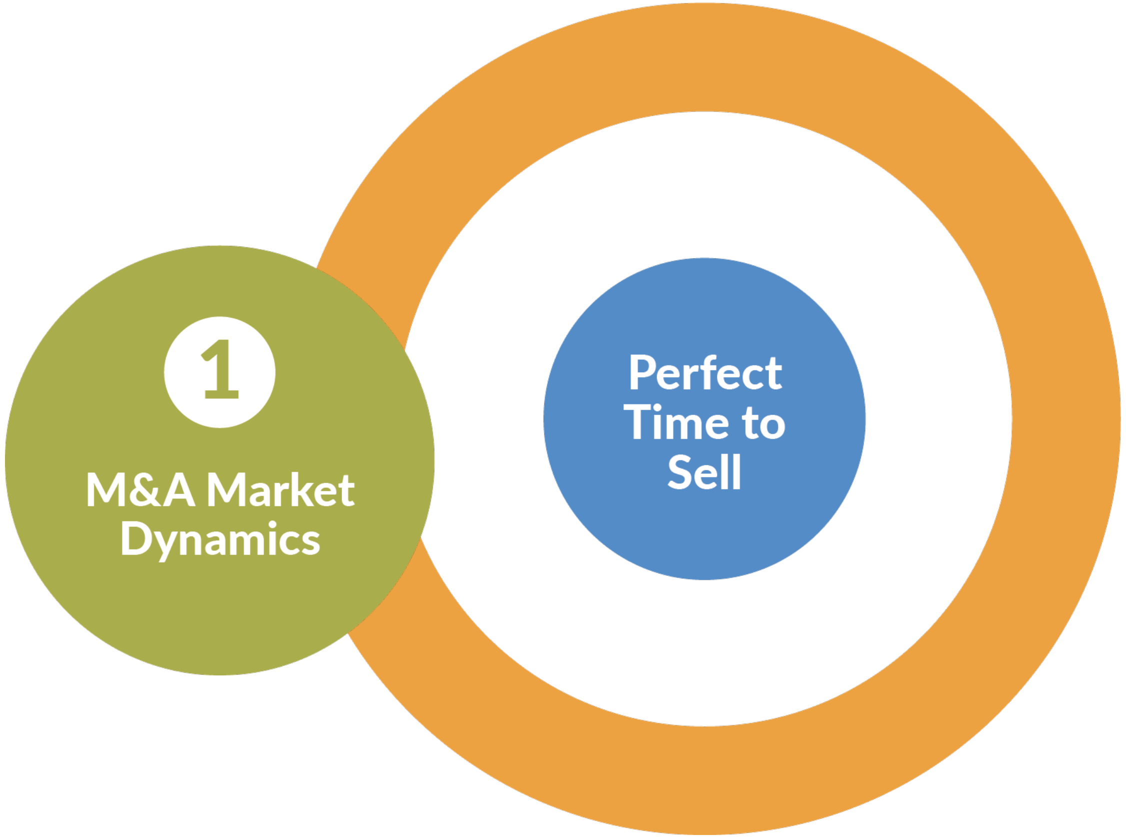
Part 2:

When is the Right Time to Sell

When Is the Right Time to Sell?

The Braff Group
Decision Construct

Decision Sphere 1:
M&A Market Dynamics



When Is the Right Time to Sell?

The Braff Group
Decision Construct

Decision Sphere 2:
Position on the
Growth Curve

When Is the Right Time to Sell?

The Braff Group Decision Construct

Decision Sphere 3:
Personal Goals and Objectives

Part 3:
How are Health Care Companies Valued

How Are Health Care Services Companies Valued?

Multiple of the Trailing Twelve Month Adjusted EBITDA

EBITDA

Earnings – the net income or profit the company generates

Before – indicates that certain items are being excluded

Interest – the cost of debt of financing

Taxes – the company's tax obligation

Depreciation – the reduction in value of tangible assets over time (e.g., equipment)

Amortization – the reduction in value of intangible assets over time (e.g., trademarks)

How Are Health Care Services Companies Valued?

Adjusted EBITDA

- Removes one-time, non-recurring, or personal expenses from the calculation to provide a clearer view of a company's ongoing operating performance
- Examples of adjustments include
  - Legal expenses
  - Acquisition costs
  - Personal expenses, such as vehicle costs

How Are Health Care Services Companies Valued?

Why use the Trailing Twelve Months (TTM) period?

- The TTM is the financial performance of a company over the most recent 12-month period
- Helps smooth out seasonal trends and provides an ongoing view of the company’s operational performance

How Are Health Care Services Companies Valued?

What determines the multiple?

- The buyer’s assessment of the risk involved with the business
- The buyer’s assessment of the growth opportunities
- How much competition is there for the business

Part 4:

Who Are the Buyers

Who Are the Buyers?

Private Equity Sponsor

- Capital for the acquisition comes from two sources:
  - Institutional funds
  - Individuals with high net worth
- Acquisitions are also funded by debt
- PE sponsors have a fiduciary responsibility to provide a return on the investment to their Limited Partners, so growing the business is a priority
- A PE sponsor will buy a majority, minority, or 100% of a mature company
- The typical hold time is between 3-7 years
- PE sponsors create value by:
  - Bringing new expertise to the company
  - Capital for growth, systems, technology
  - Restructuring plan

Who Are the Buyers?

Strategic Buyer

- A private, for-profit, or not-for-profit company looking to grow their business through acquisitions
- Strategic buyers look for synergies such as:
  - Cost savings
    - Redundant management and operations
    - Ability to cross-sell services
- The hold time is long-term as the buyer is focused on integrating the asset into the existing business
- A strategic buyer will almost always pay 100% cash at close or will include another form of payment, including a bank note or earn out

Who Are the Buyers?

PE sponsors buy the expected future earnings of the company as they are perceived to exist at the time of the acquisition

The **strategic buyer** buys the company in light of how it will enhance its existing operations. They are often willing to pay for readily realizable synergies

Part 5:
NFP and FP Transactions

NFP and FP Transactions

For-Profit Buying a Not-for-Profit Business

- Key considerations:

  Approval by board members

  Regulatory approval (usually state attorney general)

  Asset Restrictions

  - Charitable purposes in line with the mission

  IRS compliance

  - Distributions of deal proceeds

  Reorganization

  - Conversion to a for-profit

  Public backlash

NFP and FP Transactions

Not-for-Profit Buying a For-Profit Business

- Key considerations:

Mission Alignment

- The acquisition must serve a clear charitable purpose

Use of Revenue/Income

- Any revenue/income generated from the for-profit entity must support the non-profit's mission and not be distributed to any individual

Separate Entities

- Some not-for-profit buyers choose to keep the for-profit as a separate legal entity
- The entity must be operated separately from the not-for-profit, with different ' governance, accounting, and operational structures

IRS Scrutiny

- The acquisition must serve a clear charitable purpose

Part 6:
Transaction Process

Transaction Process

Preparation

- Prepare Confidential Information Memorandum (CIM) and Teaser
- Determine valuation and pricing strategy
- Develop a buyer list

Presentation

- Solicit buyers
- Obtain NDAs
- Schedule buyer calls and meetings

Letter of Intent

- Prepare analysis of offers
- Negotiate
- Determine back up buyers

Transaction Process

Pre-signing

- Set up and populate a virtual data room (VDR)
- Financial diligence (QoE) – confirmation of purchase price
- Operational due diligence
- Negotiate terms of purchase agreement
- Preparation of disclosure schedules

Signing

- Simultaneous Close – Purchase and ancillary agreements are signed and the deal is funded
- Sign then Close – Government approval or consent to assignments must be obtained before the deal can close

Transaction Process

Pre-Closing

- The seller and the buyer will prepare all closing deliverables and satisfy all closing conditions
    - Obtaining regulatory approvals
    - Third-party consents
    - Employment agreements

Closing

- Once closing conditions are satisfied, the deal is closed, and funds are exchanged

Post-Closing

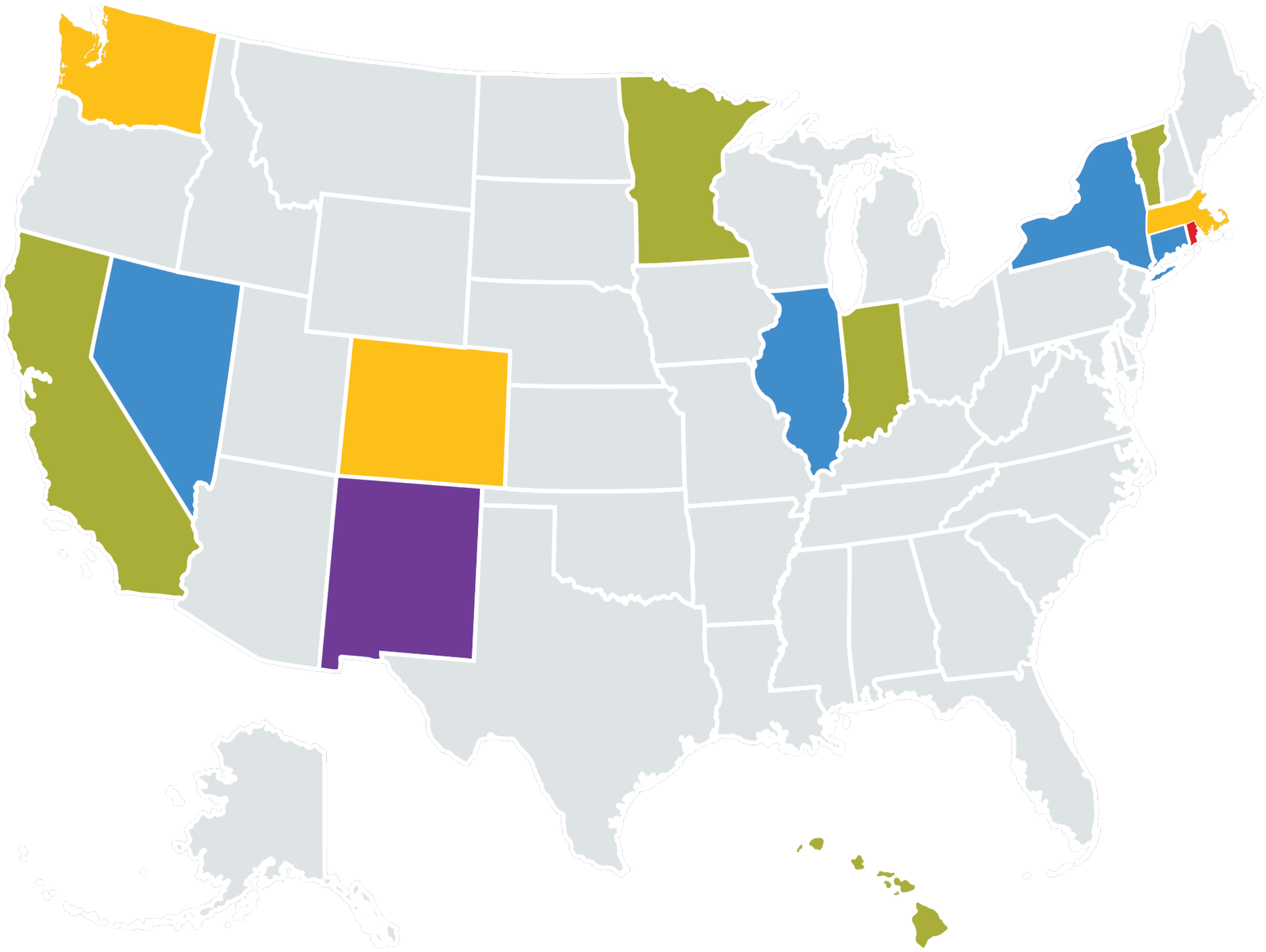
- Integration

Transaction Process

States with Healthcare Transaction Notice Requirements

How Many Days Prior to Closing is Notice Required?

- 30 Days
- 60 Days
- 90 Days
- 120 Days
- 180 Days



Note: Map does not reflect pending legislation or reviews or approvals required under state facility licensure, certificate of need, non-profit, or insurance laws. Current as of September 1, 2024.

Part 7:

How to Ensure a Smooth M&A Process

How to Ensure a Smooth M&A Process

Financial

- Depending on size, have your financials audited, reviewed, converted to accrual-based accounting, or recast

Compliance

- Hire third-party consultants to conduct regulatory and payor audits

Leadership

- Build a strong bench

Deal Team

- Investment Banker, Healthcare M&A Attorney, Tax Accountant, Trusted Employees

Part 8:
M&A Outlook

M&A Outlook

The Fed's rate cut will lower borrowing costs and ramp up deal activity

- Experts are predicting three more cuts before 2025

The gap in value expectations between buyers and sellers is narrowing

Private equity needs to get back in the game

- To have enough time to generate returns over their holding periods
- To deploy aging dry powder

Thank You