



Capstone Headwaters

SPECIAL EDUCATION SERVICES

Q2 2018

SCHOOL-BASED THERAPY AND AUTISM SPOTLIGHT

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MERGER & ACQUISITION OVERVIEW

Merger and acquisition (M&A) volume in the industry has been precisely on pace with last spring, with 23 deals announced or closed year-to-date in both 2018 and 2017. A closer look at the numbers reveals that two verticals in particular, school-based therapy and autism treatment, are seeing intensifying M&A activity. Through Q2 2018 10 deals have been announced or closed in these verticals compared to six deals through the same period in 2017.

Quality companies in these verticals are securing robust valuations based on attractive organic and inorganic growth dynamics, excellent revenue visibility and certainty (school-based therapy), and scarcity of assets achieving scale (autism treatment). This year started with a flurry of deals, including Five Arrows Capital Partners' acquisition of The Stepping Stones Group, The Halifax Group's investment in ChanceLight Behavioral Health, Therapy & Education, and Blackstone's acquisition of the Center for Autism and Related Disorders.

Mounting recognition of the benefits of early intervention and intensive therapy to improve educational outcomes and reduce costs has spurred improved and earlier diagnosis of autism and learning disabilities, as well as mandatory insurance coverage for autism treatment in 47 states. Consequently, 13.0% of public school students receive special education services and today one in 59 children are diagnosed with Autism Spectrum Disorder, double the prevalence rate in 2008. Private equity (PE) firms are keenly aware of these trends and are aggressively pursuing companies serving children with special needs. Detailed below is a sampling of PE backed firms active in the sector.

TOP PRIVATE EQUITY BACKED PLAYERS

CENTER FOR AUTISM AND RELATED DISORDERS	THE STEPPING STONES GROUP	INVO FAMILY OF COMPANIES	AUTISM LEARNING PARTNERS	LEARN IT SYSTEMS	SEQUEL YOUTH AND FAMILY SERVICES
Blackstone	Five Arrows Capital Partners	The Wicks Group / The Jordan Company / Post Capital Partners	FFL Partners	LLR Partners	Altamont Capital Partners

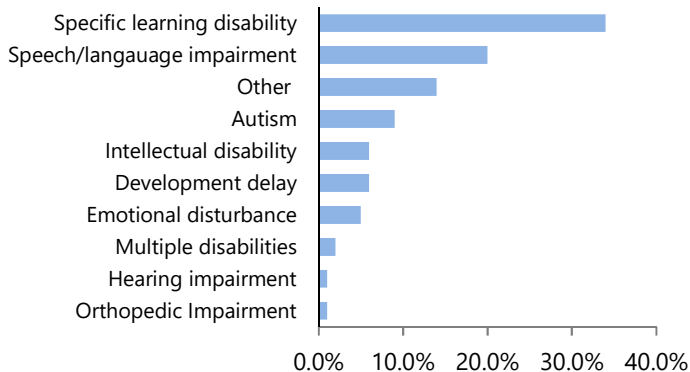


KEY TRENDS & DRIVERS

\$12.0B IN 2019 FEDERAL FUNDING FOR CHILDREN WITH SPECIAL NEEDS

Children and youth in public schools who received special education services increased from 4.7 million in the early 1990s to 6.7 million in 2016, according to the National Center for Education Statistics.¹ This constituted approximately 13.0% of total public school enrollment. To help aid these students, the government offers state grants under the Individuals with Disabilities Education Act (IDEA). In the President's 2019 budget, funding set for this program increased to \$12.0 billion.²

**Percent of Children and Youth* under IDEA
(by Disability Type, 2015-2016)**



*US children and youth aged 3-21

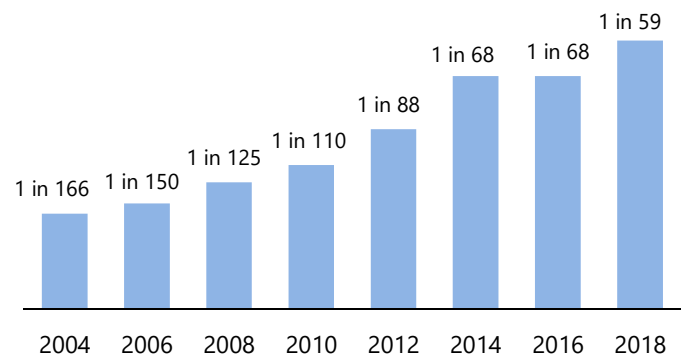
Source: National Center for Education Statistics

Transactions such as Five Arrows' acquisition of the Stepping Stones Group, The Halifax Group's investment in Chancelight Behavioral Health, Therapy and Education (both detailed on the following page), and Sequel Youth and Family Services purchase of special education schools Aaron and Rebecca (January 2018) showcase the demand for special needs educational service providers. Webster Capital also acquired Behavior Development Group (BDG) in May, a provider of Applied Behavior Analysis to children with autism spectrum disorder (ASD) in Florida, Massachusetts, and Wisconsin.

1 IN 59 CHILDREN ARE DIAGNOSED WITH AUTISM SPECTRUM DISORDER

The prevalence of children born with ASD in the US is rapidly increasing. In 2018, the CDC estimated that one in 59 children (1.7%) have been diagnosed with ASD by the age of eight, more than double that of 2008, when the CDC reported a prevalence of one in 125 children.³ The US Autism Treatment market is projected to grow at annualized rate of 3.9% between 2016 and 2022, to \$2.2 billion, according to Market Research.⁴

**Prevalence of Children* Diagnosed with Autism
(2004 - 2018)**



*US children diagnosed by age eight

Source: Autism Speaks, Center for Disease Control and Prevention

In addition, 47 states thus far have enacted laws requiring private insurance carriers to provide coverage for the treatment of ASD, an increase from just 38 states in 2014, which will significantly change the payor mix moving forward. With a continued rise in the number of students diagnosed with disabilities, strong federal funding levels, and additional coverage from private insurers, providers of behavioral health and therapy services to children with learning and physical disabilities, autism, special learning needs, and behavioral issues will continue to remain in high demand, resulting in attractive valuations.

“ There is a tremendous opportunity to expand access to these critical services for the severely underserved population of children with ASD, and we look forward to helping BDG close that gap. ”

-John Garbarino, Webster Capital
Press Release, May 16, 2018⁵





NOTABLE TRANSACTIONS

Several notable transactions have already been announced or completed in the industry in 2018. Select transactions are outlined below, followed by a more comprehensive list on the following page.

The Halifax Group invests in ChanceLight Behavioral Health, Therapy & Education (May 2018, Undisclosed)



Invests in



The Halifax Group has invested in ChanceLight Behavioral Health, Therapy & Education, a provider of behavioral health and education solutions for children and young adults.

ChanceLight reaches approximately 19,000 clients and individuals annually across more than 20 states. Founded in Nashville, Tennessee in 1999, ChanceLight serves children and young adults with autism, behavioral disorders, pediatric developmental delays, and physical challenges. ChanceLight also partners with schools to offer programs to at-risk and special needs students.

"We have a deep commitment to support companies in both the education and behavioral health sectors, and we value the unique intersection of these focus areas found in ChanceLight," said Scott Plumridge, Partner at Halifax.⁶ "We were drawn to Mark and the ChanceLight team because of their dedication to the Company's mission of providing the highest quality solutions in a variety of formats across the country. We are thrilled to partner with them to help bring ChanceLight's services to more children and families."

Five Arrows Acquires Stepping Stones Group (January 2018, Undisclosed)



Acquires



Five Arrows Capital Partners, an investment arm of Rothschild Merchant Banking, has acquired The Stepping Stones Group (SSG), a provider of therapy and education solutions to children with special needs and autism, from Shore Capital Partners. Shore Capital, a Chicago-based private equity firm, will maintain a minority stake in the company.

Since being founded in Lafayette, Colorado in 2014, SSG has expanded to provide services to more than 300 school districts in more than 20 states. The company has pursued inorganic growth opportunities and has acquired both Staffing Options and Solutions, a contract staffing service for speech language pathologists, and occupational therapists (July 2017), and AlphaVista Services, a provider of home-based early intervention and therapy services (July 2016).

"Five Arrows is an ideal partner for the next phase of our growth," Anthony Rintala, SSG CEO, noted in a press release.⁷ "The Five Arrows team has significant experience scaling behavioral health companies and leveraging technology solutions. The Stepping Stones team is excited to continue building on the strong foundation that was put in place under Shore Capital's ownership."

Ryan Kelley, a founding Partner of Shore Capital, added, "The Stepping Stones Group has developed a differentiated technology-led model which provides critical services to students at hundreds of school districts across the country."

After the deal closed in January, SSG acquired Cobb Pediatric Therapy Services in February, a Georgia-based job placement provider for speech language pathologists and therapists.

"With Stepping Stones' reach and expertise, Cobb Pediatric will now be part of a larger platform to empower even more schools and more therapists to help children with special needs reach their potential and lead fulfilling lives," commented Cobb Pediatric CEO June Whitehead in a statement.⁸



SELECT TRANSACTIONS

Date	Target	Acquirer	Target Business Description
06/13/18	CCMC School	The Family Treatment Network	Provides comprehensive special education for students from ages five to 21.
05/21/18	Behavior Development Group	Webster Capital	Offers in-home and center-based Applied Behavior Analysis (ABA) for children with ASD.
05/15/18	ChanceLight	The Halifax Group	Provides behavioral health and education solutions for children and young adults.
04/13/18	Center for Autism and Related Disorders	Blackstone	Offers center, school, and home-based behavioral therapy nationwide to children diagnosed with autism.
03/19/18	The S.P.A.R.K.S. Group	Learn-It-Systems	Offers autism treatment services for children and young adults through age 21.
03/19/18	myON	Renaissance Learning	Develops a cloud-based literacy software program for the K-12 education market.
03/12/18	CoreMedical Group	Gen Cap America	Offers healthcare staffing solutions including physical and occupational therapists, speech pathologists, registered nurses, and other specialists.
02/22/18	Cobb Pediatric Speech Service	The Stepping Stones Group	Offers job placement services for speech language pathologists, occupational therapists, physical therapist, and school psychologists.
02/20/18	Endeavor Schools	Leeds Equity Partners; Leeds Equity Partners VI	Owns and operates private schools including preschools, K-5 private school, and Montessori schools.
01/24/18	Aaron School and Rebecca School	Sequel Youth and Family Services	Operates as special-education school dedicated to serving students with reading, writing, math, attention, sensory, and social challenges.
01/24/18	Behavior Care Specialists	The Family Treatment Network	Offers behavioral treatment utilizing the principles of ABA.
01/04/18	The Stepping Stones Group	Five Arrows Capital Partners	Provides therapeutic behavioral health services to public school districts and private learning centers.
12/21/17	Autism Learning Partners	FFL Partners	Offers health care services for children and their families with autism and other developmental disorders.
12/14/17	AOT	Theraplay	Provider of occupational and physical therapy services to children.
12/14/17	The Children's Therapy Center	Theraplay	Offers pediatric therapy to children and adolescents throughout VA.
10/26/17	Commonwealth Case Management	The Columbus Organization	A statewide provider of case management services to individuals with intellectual and developmental disabilities in KY.
10/16/17	Autism Home Services Support	Invo HealthCare Associates	A provider of at-home and center-based evidence-based therapy and counseling services for children with ASD and their families in IL, CO, and MI.
09/26/17	Aspire Autism	Autism Learning Partners	Provides behavioral therapy and supports services using ABA.
09/06/17	Alternative Behavior Strategies	Petra Capital Partners; MMC Health Services	Offers in-home and center-based ABA therapy, speech therapy, and occupational therapy services to children with ASD.
09/05/17	Sequel Youth and Family Services	Altamont Capital Partners	Develops and operates programs for people with behavioral, emotional, or physical challenges in the US.

Source: Capital IQ, Pitchbook, and Capstone Headwaters Research



FIRM TRACK RECORD





CITATIONS

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Eric serves as Managing Director and Head of the Atlantic Region for Capstone Headwaters, based out of Philadelphia. Prior to Capstone Headwaters, Eric was responsible for managing the Eastern region for Morgan Stanley Smith Barney's Capital Strategies Group and its predecessor, Citi Capital Strategies. Eric has more than 20 years of experience managing strategic sale assignments and leveraged recapitalizations for owners of privately held companies. He has successfully completed over 100 transactions in a wide range of industries including education and training, health care services, medical device, contract manufacturing, and pharmaceutical outsourcing. In 2016, he received the "USA Deal of the Year" at the M&A Atlas Awards for his work on the acquisition of Progressus Therapy, LLC and in 2014 was awarded both "M&A North American Middle Market Deal of the Year" at the M&A Atlas Awards and "Cross Border Deal of the Year" from the M&A Advisor for his work on the sale of T-DOC Company LLC. Eric has executed complex cross-border transactions with foreign buyers based in London, Germany, Sweden and Switzerland and has structured deals with leading private equity groups and strategic corporate buyers. He graduated cum laude from the University of California and is a Series 7 and 63 Registered Securities Representative as well as a Series 24 Registered Securities Principal.



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2018



US GAME CHANGER
OF THE YEAR

2017



BOUTIQUE RESTRUCTURING
INVESTMENT BANK OF
THE YEAR

2016



MIDDLE MARKET
INVESTMENT BANK OF
THE YEAR

2016



TOP 10 MOST REFERRED
INVESTMENT BANKS



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