Meltdown: The Opioid Crisis' Far-Reaching Armageddon

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Imagine this: You're in the grocery store, when suddenly, the ambient stimuli become too strong for your senses to bear. The combination of bright lights, the racket of nearby chatter, and the itchy sweater on your back overwhelms you, making you feel vulnerable. Adrenaline courses through you. You feel as if you are locked in a prison, and you would give anything to escape.

This is an autistic child's experience in the midst of a meltdown. In the wake of overpowering stimulation, autistic children need immediate expert training and a great deal of attention to their needs. Yet today, treatment facilities are barreling down the dangerous path of patient neglect. If staff members remain preoccupied with financial problems and personal obligations, the impact will be acutely felt by these children. Organizational cultural disturbances, and contagious fear, can naturally pass down through the staff, and directly to the patient.

The same could be said for children *separated from their families* due to disorders only worsening in the growing opioid epidemic. This is the first crack at a story about how Wall Street (once again) lusted for money and exploited Main Street. While aloof to the fact that they are exploiting vulnerable families in crisis, endangering disabled children, and leveraging opioid reliance for profit, enterprises have made unethical gains off of people seeking a listening ear and lifesaving care. This is the story of what appears to be the "next Lehman Brothers" or " Enron, but with people," – a seemingly unconscionable enterprise masked as a service for the greater good.

The Fuel: A Potent Legislative Cocktail

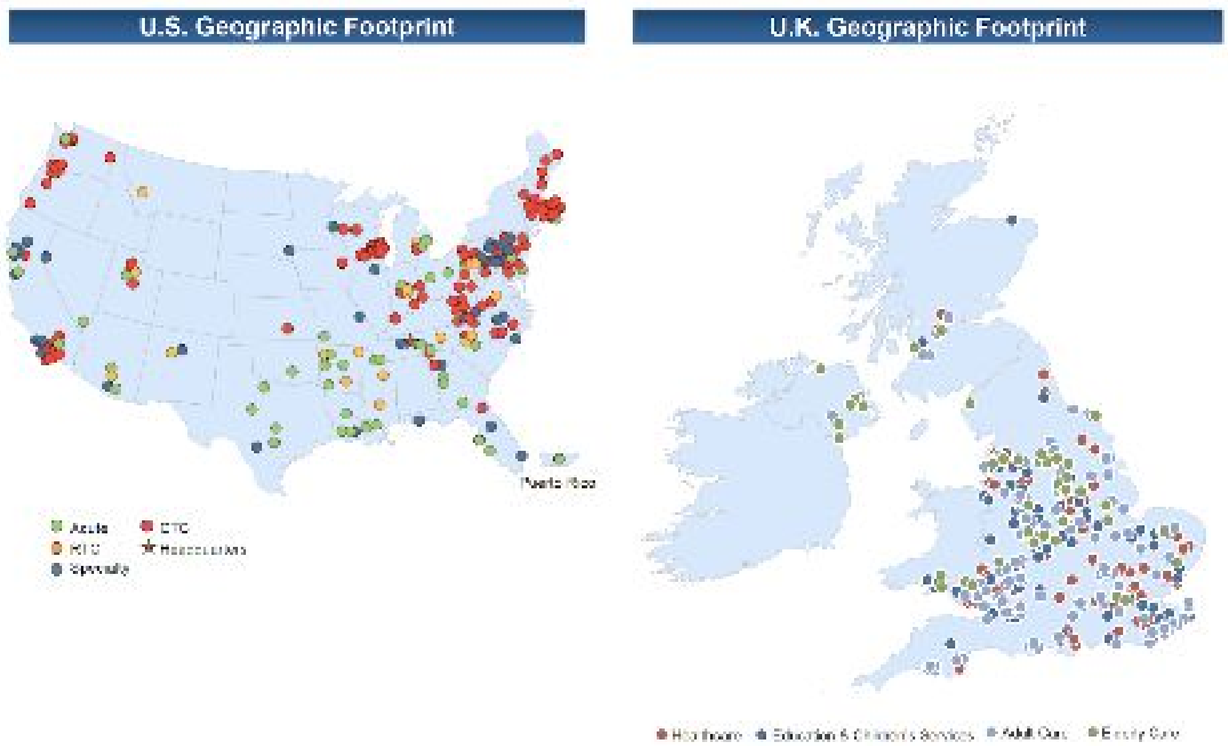
In 2008, the United States passed the Mental Health Parity and Addiction Equity Act as part of the Troubled Asset Relief Program. The Act was a mandate on a $3 trillion health insurance industry to place benefits for treatment of mental health and substance abuse disorders on par with those of a physical and surgical nature. It granted a directive to provide "out-of-network" benefits, and it equated to easy money in an irrelevant industry – one in which compliance with the law was the less expensive option for commercial insurers and the federal government's entitlement programs.

Then, two years later, nearly every American gained access to insurance coverage. This created a ripe environment for investment into easy-money operations. On December 15, 2011, in a Wall Street Journal Economic Forum, then-Congressman and now-House Speaker Paul Ryan, R-Wis., said, "To me, what matters most is economic freedom… and that these entitlement programs are under control."

Nonetheless, on the very same day, Wall Street welcomed to the public markets the first signs of what now could be an economic trap. These entitlements have been lusted after by investors since 2011, with virtually no end in sight. However, the principle entitlement, the Affordable

Care Act (Obamacare), now bears the revenue-killing burdens of the President's [cancelled subsidies](), and Congress' [reduction of head counts]() with tax reform's extraction of the individual mandate.

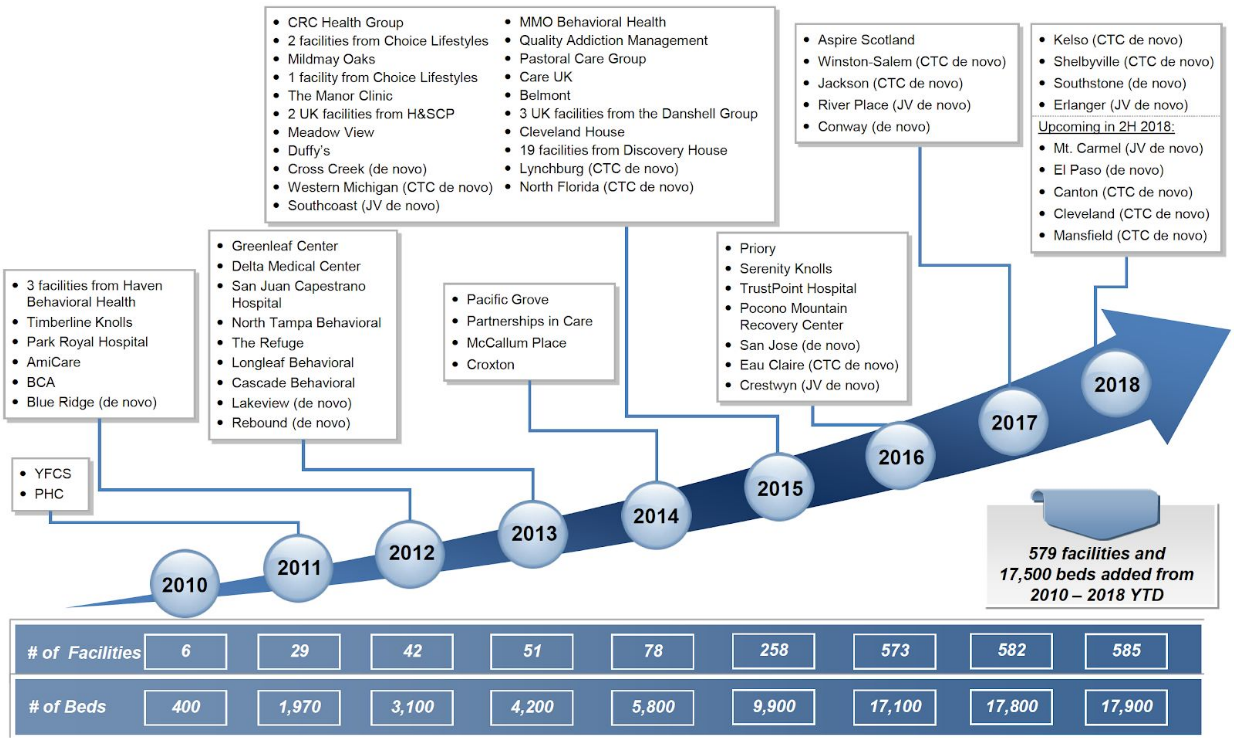
That same date, December 15, 2011, would serve as the public birth of the relationship between a relatively tiny $3.6 billion Nashville-based healthcare provider and a $2.3 trillion bank. In the fight against the nation's opioid epidemic, [Acadia Healthcare Corp. (Nasdaq: ACHC)]() provides behavioral healthcare (e.g, autism, eating disorder, and substance abuse treatment) services through its network of 585 facilities throughout the U.S., UK, and Puerto Rico. They are the



largest de-facto weapon to combat the opioid epidemic. When they held their initial public offering on December 15, 2011, they only had a handful of centers (about 17). This company has used, what to the trained eye appear as easy debt, the UK's infrastructure, deceptive accounting, and the reckless endangerment of children to mask their seemingly insufficient revenue. Their management team came fully intact from Psychiatric Solutions, which was acquired in 2011 by [Universal Health Services (NYSE: UHS)](). While they may appear to be like Capone, psychological theory would label them as Fredo. It looks as if their largest creditor is the one pulling the strings: Bank of America Merrill Lynch.

This is the account of a nine month investigation that leads to the apparent reality that Bank of America Merrill Lynch (the administrator of the majority of ACHC debt), JP Morgan Chase (the sixth-largest shareholder of ACHC), and other banking entities have artificially inflated the market capitalization and perceived value of Acadia Healthcare in order to sustain excess profits and to reduce overall inflation on institutional balance sheets.

This hypothesis would be due in part to malicious purposes and use of the instrumentalities of interstate commerce. Moreover, these practices are to the substantial detriment of investors, financiers and their creditors, the public, and consumers. What resembles fraudulent activity would have a substantial impact. In that case, the payout is so heavily connected to its compensation structure that the inference of malice practically writes itself.



Above: This is a graphic taken from the September 2018 presentation by Acadia Healthcare at the 2018 Wells Fargo Healthcare Conference. This image shows the progress of the aggressive strategy over the last 8 years. Note that while Acadia has have added about 330 centers since 2015, their stock price has declined by as much as $55.00 per share in that time.

The Kerosene-Soaked Rag: A Deadly, Unregulated, Bubble Industry

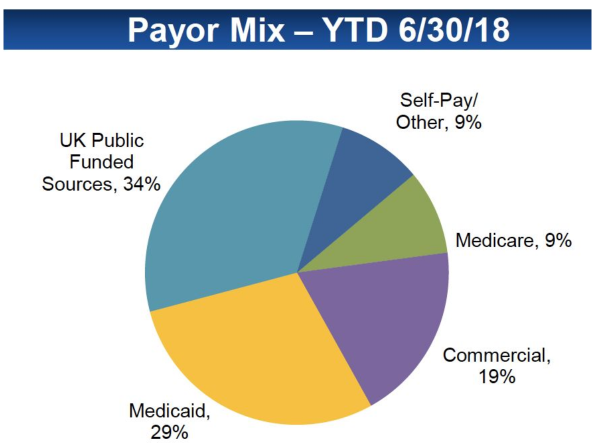
As I noted in my series on this industry in *Forbes*, ACHC is just one player in a healthcare industry overflowing with mergers and acquisitions that are easily deemed "risky." This year, the sector saw the highest price (inflation adjusted at 20.96x EBITDA) paid for assets since 1929, a time in which the sector engaged in similar "asset bubble"-buying practices. The field of mental health and addiction treatment allows for widespread fraudulent billing on even minor services; these include urine tests, known within the industry as "liquid gold," as they can *net* upwards of $5,000.00 per drop. Ana Maria Lopez, MD, MPH, FACP, President of the American College of Physicians, pointed out in a September 12, 2018, letter, "Regulation of these facilities is piecemeal; there is no federal oversight and states and municipalities have different levels of regulation, making public information about them difficult to gather."

In May, this rampant fraud and overtly compensated unproven care was the focus of a rant by John Oliver, host of Last Week Tonight. The *New York Times* also detailed these accounts last December, noting that the field is "covered by a patchwork of regulations that haven't kept pace with its growth. That has created room for opportunistic small operators to spring up, some with questionable track records." On October 3, 2018, USA Today told the story of Madison Cross, a 22-year-old Ohio woman who had pleaded for emergency medical care while being treated at Serenity Detox, a Phoenix, Arizona, acute detoxification facility. According to the article, Cross "was not sent to the full-service hospital less than a mile away. She collapsed in her room at Serenity and was soon pronounced dead."

The one-time *cash cow* is now lacking the *cash flow* necessary to support the costs of providing care. Unscrupulous and principled operators alike are squeezing every last bit of revenue they can to feed either their pocketbook or their reputation for quality.

The Match: Evidence of a 5-Year "Pump and Dump"

Pete Tedesco is a partner with Health Equity Partners, a New York private equity firm. Tedesco's career began in Chicago, where he attended Northwestern's MBA program and worked for Waud Capital Partners. Waud Capital Partners, a private equity firm in Chicago, founded Acadia in 2005. After swapping CEO Trey Carter with now 42-year industry veteran Joey Jacobs, Waud took Acadia public in 2011. According to Tedesco this past May, "Reeve's goal was to use the easy access to debt and strong relationships with lenders to IPO and do as many acquisitions as humanly possible, regardless of the price." This would explain the swift rise, peak and fall of ACHC's stock price since its IPO 7 years ago.



It appears the goal Tedesco attests to was achieved. Acadia's first trade on the New York Stock Exchange on December 15, 2011, was at a price per share of $8.62. On Wednesday, August 5, 2015, Acadia reached its lifetime peak price per share of $85.62 early in the day. Just under two weeks following the peak price, the directors and officers unloaded around $1 billion of stock. On November 15, 2017, three weeks after its Q3 2017 earnings release, Acadia bottomed out at its lowest point since 2013, at a price per share of $26.92. The trailing 12-month average for the stock on October 27, 2018, was $37.42 per share.

It's also a worthy thought process to opine that; ACHC went public, seemingly to hide from Medicaid and Medicare audits (US Govt. entitlements encompass 37% of the revenue stream at Acadia). The primary focus of this hypothesis is whether a "pump-and-dump" strategy was executed. It is a fair (but false) assumption that public scrutiny and auditors provide enough oversight to prevent the act of filing false claims. Acadia took part in a comparatively aggressive mergers and acquisitions strategy, consummating dozens of highly leveraged acquisitions of other healthcare providers with the purpose appearing to be to inflate the performance and value of the stock. In fact,Acadia has paid as high as 43x EBITDA for an acquisition of a roll-up.

Unfortunately, the visibly proven deficiency, the actual conduct of this company, and an inquiry into staff sentiment all indicate that operating capital gains have not contributed to safer and more accessible healthcare. Rather, an apparent disaster of epic proportions awaits the many individuals who rely on companies like Acadia when the leverage ultimately returns to eat these companies alive.

If it is in-fact a "pump-and-dump," then more evidence would support that it *is one* because the strategy has apparently gone wrong. In a pump-and-dump, the plan is to increase the stock price to an excessively high level by infusing many factors in which an illusion of value is created. In this case it would be debt, capital, and the assets those debts acquire.

Mr. Reeve Waud, founding and managing partner of Waud Capital Partners, is now $638 million richer solely from the sales of individually owned stock. If this is in fact the pump-and-dump it resembles, Waud was taking institutional money, such as pension or endowment funds, and converting it into cash once the target inflation point was met. Some of Waud's revenue was converted into a new house, widely known as Maine's "largest mansion." Pete Tedesco also noted that, "[Reeve Waud] constantly boasts that his firm has made over a billion dollars on [Acadia]." Waud was also the nominee of Governor Bruce Rauner, R-Ill., to chair the Illinois State Police Merit Board, which provides oversight, the approval of promotions, and other major decisions for the state's highest law enforcement body.

Acadia CEO Joey Jacobs has extracted about $78 million from the company thus far (not including his compensation and bonus package).He recently converted some of his cash into an ownership stake in the Nashville Predators, according to *The Tennessean*. An educated guess would be that he's also playing hockey with the UK mental health system's infrastructure, buying the Priory Group at an excessive multiple, then selling off individual centers within that group to meet revenue estimates set by analysts. They consummated a transaction towards the end of 2016, executing the sale of 22 subsidiaries of the Priory Group. Due to the laws in the UK and the U.S., this transaction was not reported until the Q4 2017 reporting cycle (February 2018). The stock price rebounded from the previous earnings release. They reported a revenue boost of $0.05 earnings-per-share (EPS), while in actuality, a $40 million loss was noted in the 2017 GAAP-adjusted annual financial statements (10K).

Due to syndication, there's virtually no competition in commercial lending anymore (or healthcare, for that matter, as it is protected by licensure). Considering the small-cap stock of American Addiction Centers (Nasdaq: AAC) and the fact that Universal Health Services (NYSE: UHS) provides acute mental healthcare, Acadia is the only available public model that derives the overwhelming majority of its revenue from substance dependence and behavioral health disorders.

The other companies that attract institutional leverage are private equity-owned leveraged buyouts or groups of these investments, known as "roll-ups." They base their valuations off of

Acadia, so they may access the debt at premium levels. As long as Acadia can *stay open* and *appear* valuable, there's a boatload of money to be made – all due to the lack of competition, unusually high valuations, and the ability to virtually print money on demand. This relationship between director/officer and market maker/trader would appear nearly as dangerous as a small company printing counterfeit currency at a rapid-fire rate. They will do everything in their power to retain control of the printing press.

The Smoking Gun: When One Controls All

Former Acadia CEO and current Summit Behavioral Healthcare CEO Norman King "Trey" Carter III and his right-hand partner, former Acadia President and current Summit Behavioral Healthcare President Karen Prince, are prime examples of how Bank of America Merrill Lynch's seemingly reckless actions can transform a clearly innocent operator into an alleged complicit fraudster. According to Carter, "We signed a coordinated stock sale agreement. I really didn't want to at first, but they gave me so much pushback, I ultimately said 'fine.'" This is an agreement where two years later, Bank of America Merrill Lynch would dump his stock for him, as was the case in 2014. This is two years after Mr. Carter left the company and it appears to be, like many other cases, used to manipulate valuation.

It appears that Merrill Lynch is the firm handling all the trading activity; interestingly (and likely not coincidentally), the Bank of America Merrill Lynch organization administers a large component of the credit, and virtually all of the domestic debt obligations. Moreover, the corporation owns 0.5% of the company itself. As for Carter, as he noted, "I don't really want to be drug into this whole mess, I just want to provide quality treatment." Summit Behavioral has developed a reputation for doing just that; the debt problems, however, seem to exist for them as well. Summit, acquired by a consortium including FFL Partners (San Francisco private equity firm) and Lee Equity Partners (New York Private equity firm) is apparently unable to cover their debt service as they had expected in the pro forma. According to Heather Gartin, Vice President of FFL, "things are tightening up and our biggest problem is finding ways to increase the revenue and make the case to insurers."

One viable theory is that manipulation activity could be the incentive Bank of America Merrill Lynch used to entice Reeve Waud and his band of merry and aloof officers and directors to remain completely intact as a management team. The apparent agreement may speak to why the overall holdings by Acadia insiders has dropped from 30% on August 5, 2015, to just above 1% today. Average industry peer-levels for insider holdings hovers at just above 14% today, according to Bloomberg.

There's reason to believe that several SEC Form 4 documents filed with the SEC on or about March 18, 2018 provide substantial evidence of share trading among parties at rates that are facially improper, given the real value of the filing entity – Acadia Healthcare Company, Inc. This Form 4 indicates a change in beneficial ownership of certain classes of shares being moved between related entities for no purpose other than to manipulate market prices and/or to trade on inappropriately acquired information. Such manipulation occurs because the compensation structures of certain related investment managers are tied to the performance of the public market value of shares in companies like Acadia. Essentially, if this is the case, they get to exit for a premium, and Merrill Lynch uses an illegal activity that implicates *the very people* they're incentivizing. According to the SEC, just days ahead of the most recent Q2 2018 earnings call, Waud dumped stock at an inflated price right before earnings were released; the stock missed analyst estimates by $0.03 per share, and slid downward. On November 1st, 2018, just a few days shy of the November 5th, 2018 earnings call, Waud dumped more stock. This, on the very same day that the NY Post reported that Kohlberg Kravis Roberts and Co. Inc. (NYSE: KKR) was looking to acquire this pile of debt.

According to a confidential source within Bank of America-Merrill Lynch, "Joey Jacobs' accounts are controlled in a 'blind trust' by Chief Operating Officer and 35-year industry veteran, Ron Fincher. Waud's account information is in an airtight lockdown, which only higher-ups see." The source at BAML elaborated that, "...the entire board has boatloads of money at Merrill Lynch, somewhere around $1.6 billion in relatively liquid assets." So if Merrill is being shady, it can appear as though others down the line are also being shady, regardless of the fact it appears most have *no earthly idea*. In many cases, they, among other healthcare investors and operators, have grown accustomed to being rewarded through debt-settling buyouts, such as this management team's last company, Psychiatric Solutions, acquired by UHS in 2011. Rewards exist for what clearly, to experts versed in psychology, healthcare, and finance, is like taking candy from a baby.

When Fraud Becomes a Violent Crime

According to the SEC, Trey Carter and Karen Prince crystallized $6.24 million and $3.3 million in proceeds from Acadia stock sales, respectively. Now, did they click the mouse on E-Trade? No. It seems they relinquished control to the bank that needed to use their equity to perpetrate this overwhelmingly obvious fraud. The following year, the industry reimbursements peaked just four days after American Addiction Centers was indicted for the murder of a patient in late July 2015. Then, on August 4, 2015, the story was exposed by Christopher Drose, a Furman University senior, who ran a blog called Bleecker Street Research.

AUGUST 2015

STOCK PRICES AND VOLUME FOR ACADIA HEALTHCARE (NYSE:ACHC)

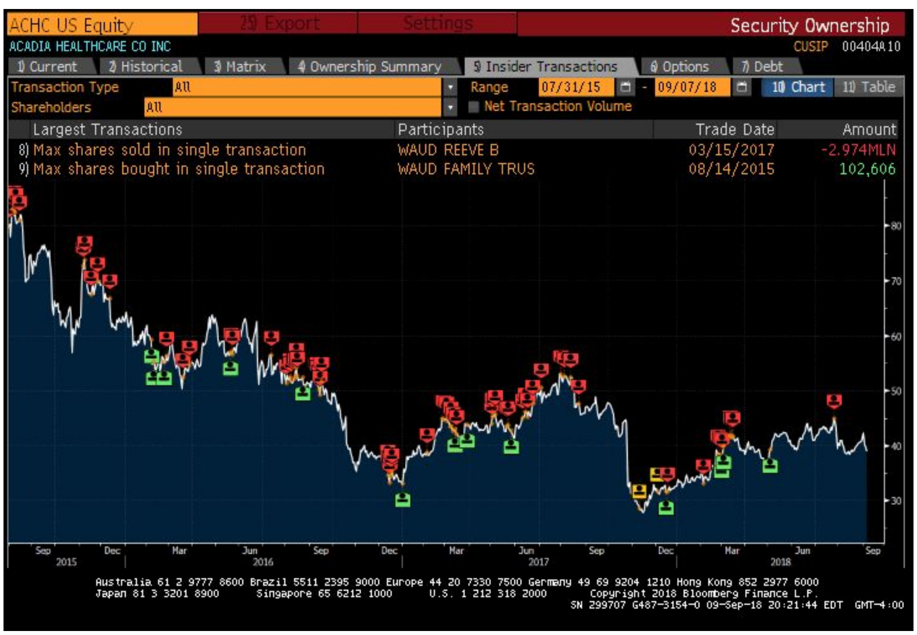
Date	Price Per Share	Volume	
Monday, August 31, 2015	$ 73.03	689,039	
Friday, August 28, 2015	$ 74.61	572,180	
Thursday, August 27, 2015	$ 74.30	1,230,466	
Wednesday, August 26, 2015	$ 70.41	1,150,334	INSTITUTIONAL BUYING
Tuesday, August 25, 2015	$ 70.15	1,260,801	
Monday, August 24, 2015	$ 69.71	1,823,367	
Friday, August 21, 2015	$ 73.69	1,433,550	INSIDER SELLING (APPROX $1B)
Thursday, August 20, 2015	$ 76.03	1,084,987	
Wednesday, August 19, 2015	$ 79.17	1,051,976	
Tuesday, August 18, 2015	$ 81.65	396,370	
Monday, August 17, 2015	$ 81.94	943,171	
Friday, August 14, 2015	$ 81.02	652,120	
Thursday, August 13, 2015	$ 80.68	753,716	
Wednesday, August 12, 2015	$ 80.38	568,869	
Tuesday, August 11, 2015	$ 80.28	846,857	
Monday, August 10, 2015	$ 82.45	469,982	
Friday, August 7, 2015	$ 81.78	484,581	
Thursday, August 6, 2015	$ 82.84	759,702	
Wednesday, August 5, 2015	$ 82.97	1,445,424	LIFETIME PEAK $85.62
Tuesday, August 4, 2015	$ 77.89	985,265	
Monday, August 3, 2015	$ 80.22	433,800	

Once exposed, it wasn't long before the digging uncovered an irrefutable truth: an overwhelming 30% of American Addiction Centers' 2015 revenue stream was nefariously framed over-billing for urine-based drug tests. The murder allegations were ultimately prosecuted by then-California Attorney General and now United States Senator, Kamala Harris, D-Cal., but did not result in a conviction for the second-degree murder charge.

Nonetheless, six days after Drose broke the story, the gargantuan exodus began, with a billion-dollar dump of stock by the directors and officers of Acadia Healthcare. At this time, insurance companies, the federal government, and other third-party financiers of personal healthcare costs began scrutinizing claims more appropriately. The 2015 indictments and Chris Drose's exposure of the allegations served as a warning sign to financial markets. When observed on a chart, the global public healthcare constituency appears to have been quite shaken that day. A confidential source who works as a Medicaid fraud investigator was asked if fraud has become a violent crime. He said, "You certainly see it in the realm of when doctors perform unnecessary procedures, I guess that's the best example, for instance there was a dentist down in Florida unnecessarily extracting teeth solely for reimbursements. Fraud and violent crimes together, to me, would constitute a racket or organized crime."

The Sell-Off and the Shakedown

When the first publicly traded company indicted for murder is a peer, it's a good idea to jump ship. It appears Merrill and the proverbial Capone (Waud) with his band of aloof Fredos (Acadia Management) saw the sign and began bolting, loaded dice in hand. This is the apparent moment in which the banks would step in front of the door so as to let the directors and officers money go, but not allow them to cease serving in their roles. Here's the catch: They need to stay around to keep the staff happy so the bank can spend the next three years struggling between needing to shed inflation and making insane profit margins.



In both 2016 and 2017, ACHC Q3 earnings served to filter out the large majority of the actively managed individual portfolios that were buying Acadia. The company showed the first warning signs that revenues were down, such as inpatient and residential stay reimbursements being slashed in half by some payers. This was due in part to insurance companies fighting fraud and abuse in the sector. Passive investors, direct care staff, and institutions are now in ownership of the sector. And, unfortunately, America's "average Joe" has sold off in a proverbial two-year shakedown of actively managed and non-institutional portfolios.

Today, every piece of evidence available is asserting that this resulted in nearly complete institutional control, in which after each shakedown (marked with stars), the institutions pump the stock back up to a target valuation of $40.00 per share. The total reduction of the company's market capitalization between August 4, 2015 and October 27, 2017 is roughly $4.3 billion; so, the apparent bad people are getting private investors to invest their pension funds into inflated healthcare companies; then, they are selling their own stock in the companies, reaping the rewards, while their oblivious staff accepts children into their corporate custody. Interested in what institutional money is behind this pump, spearheaded by the world's second-largest bank? The institutional investment breakdown can be seen in the credit and equity holdings below:

<u>Current Equity Holdings as of Sept 2018</u>

	Equity Investor	***% of Outstanding Shares Held***
1.	*T. Rowe Price Group, Inc.*	*15.34%*
2.	*BlackRock, Inc.*	*11.71%*
3.	*Wellington Management LLP*	*9.41%*
4.	*The Vanguard Group, Inc.*	*8.17%*
5.	*Aristotle Capital Management LLC*	*8.16%*
6.	*JP Morgan Chase & Co.*	*6.60%*
7.	*Dimensional Fund Advisors LP*	*5.84%*
8.	*Invesco Ltd.*	*3.38%*
9.	*Goldman Sachs Group, Inc.*	*2.67%*
10.	*P2 Capital Partners (hedge fund)*	*2.64%*
	*****Bank of America Corp.***	***0.50%***

In terms of credit, while Bank of America Merrill Lynch bears the status of administrator of the majority of the debt owed by Acadia, administrators are actually the ones making the bonuses and fees for refinancing and underwriting/organizing syndicated loans. The actual debt outstanding and institutional holdings of the yield are as follows:

Current Major Credit Facilities:*

Bonds			**$1,490,000,000.00**
	Co-Managers:	Bank of America Merrill Lynch, Fifth Third Bank, Jefferies & Co., Citigroup	
	Trustee:	US Bank	
Term Loan	**2/16/23**		**$377,350,000.00**
	Agent/Book Runner:	Bank of America Merrill Lynch	
Term Loan	**2/11/22**		**$921,087,500.00**
	Agent/Book Runner:	Bank of America Merrill Lynch	
Term Loan	**11/30/21**		**$380,000,000.00**
	Agent/Book Runner:	Bank of America Merrill Lynch	
Revolver	**11/30/21**		**$500,000,000.00**
	Agent/Book Runner:	Bank of America Merrill Lynch	

**not including municipal bonds*

Current Credit Benefit Ownership as of Sept 2018

Credit Investor	**Principal Outstanding Held**
1. Prudential Financial, Inc.	$101,989,080.00
2. BlackRock, Inc.	$82,052,997.00
3. New York Life Insurance Co., Inc.	$55,505,103.00
4. JP Morgan Chase & Co.	$53,739,322.00
5. Och-Ziff Capital Management Group LLC	$53,133,022.00
6. Aviva PLC	$46,116,000.00
7. Alliance Bernstein LP	$38,379,938.00
8. Federated Investors, Inc.	$37,625,000.00
9. Carlyle Global Market Strategies	$36,326,240.00
10. Lord & Abbett & Co. LLC	$36,099,583.00

It's evident that the pension money we trust these institutions with as our retirement "nest egg" may have just been used to buy a hockey team, perpetrate a fraud, and by simple extension, finance the trafficking and endangerment of children.

So, as the institutions came in to buy, someone apparently induced the direct care staff to execute options seemingly in order to manipulate a commonly viewed metric known as "insider volume." Of course, the banks are urging investors to buy; however, visually speaking, the last three years are represented in the chart. As we said, stock price declines in direct correlation with the unloading of shares.

Earnings Calls or A Stage Production?

If they're seeking to artificially inflate the other three quarterly earnings reports, Acadia can dramatically overstate its financial results through the magic of "Adjusted EBITDA." This is a form of non-GAAP accounting that can obscure true costs and revenues, especially relating to acquisitions. While Acadia's earnings imply improvement, long-term debt is growing. It has now topped $3.2 billion, with only $57 million cash on hand.

When businesses become subject to a buyout (seen excessively in healthcare in recent years, particularly in this fragmented industry), they have their debts settled. This generally entails the target company settling lawsuits prior to consummating the transaction(s). It appears that with declining revenues, a bailout-buyout of this size would not be a feasible route to solving Acadia's problems; however, the apparent methods of deception have allowed what most arrows point to: the artificial inflation of the stock price for three years now. Normally, when banks see excessive asset inflation on the books, they seek to sell to foreign buyers to keep from being held liable for domestic inflation. Consequently, China is not buying into the U.S. healthcare conglomerates, in comparison to other industries.

Moreover, if the Federal Reserve hikes interest rates, as they're expected to one more time before Q1 due to global monetary tightening – it creates a scenario in which it will be virtually impossible for debt to be serviced on these massive loans.

Acadia religiously holds its earnings calls, but something stands out about those quarterly calls. They seemingly always take up the entire meeting duration, yet there's no discussion of any of the concerns surrounding their ballooning debt, likelihood of a buyout, exit strategy, or any of the putatively fraudulent actions described herein. However, you'll notice on the transcripts that the calls are filled to the brim with mostly bank analysts, which isn't standard for a mid cap company like Acadia Healthcare.

In the last year, both Brexit and the hurricane in Puerto Rico have been blamed for EPS estimates (set by bank analysts) not being met, such as during the "shakedown periods." To date, not one investment bank has ever issued a sell rating on Acadia Healthcare. Given the leverage outstanding is relying on its financial health, there is no incentive for a bank to do so. As it stands today, Acadia is listed as 123% institutionally owned. This makes no other sense, other than it's a completely rigged system that stretches far outside of ACHC's infrastructure. Also, remember those institutions can essentially make the price whatever they want it to be, not to mention make loans, get bonuses, and benefit in the private sector as well – all with their control of this company.

The Quantitative Link: Atomic Bomb

Finally, a simple review of the annual GAAP-aligned annual reports shows that Acadia must make up for the large amounts of billed revenue that is never realized. Not being able to receive what is billed out is commonplace in healthcare. Companies can bill a customer an amount, but generally, whether the amount paid is less is always in question. The rates are simply adjusted over time to the level in which the realized revenue is the needed compensation.

Chasing customers already paying skyrocketing premiums and out-of-pocket maxes is a lost cause these days; however, the Federal Government pays on time, as do *most* insurance companies. Unaudited M&A transactions make it very simple for Acadia, among others in the public markets, to cheat. They can realize the revenue in the income statements, and convert it to assets using "phantom equity" generated by transactions. Below is a short analysis of two key instances of this found in their balance sheets, income statements, and all other publicly available and purportedly audited information.

I. *The two notable examples are the CRC Health Group Acquisition and the Priory Group Acquisition. In regards to CRC, ACHC paid $1.4 billion for assets worth $0.35 billion and assumed liabilities of almost $1 billion. Goodwill created was more than $1 billion in one transaction! So, ACHC paid four times book value to assume almost $1 billion in debt! In a market where they have no expertise! What fundamental-value story would justify such a premium other than to create another smokescreen to produce future income?*[1][2]

II. *As far as The Priory Group is concerned the reported $2.9 billion in 2017 revenue, with $3 billion expected in 2018. By management's admission, true free cash flow is only $86 million (after capital expenditures. This is a cash margin of 2.97% on reported revenue (and probably much less if some of the revenue is not truly cash). That is just puny under the best of circumstances. Management cites more than $310 million in capital expenditures in 2017. A palpably evident educated guess would be it inflates the goodwill asset, and, may rightfully be seen as an expense and not a capitalized asset. It is also the exact definition in that case, of a Ponzi scheme driver to keep things inflated. To add to that point: Total capital expenditures for 2018 YTD are roughly in-line with 2017 run rates, although the number of facilities and beds are virtually identical. In other words, fundamental growth is slowing, so you would expect capital investment to slow—but it is not. There is no explanation that could be derived from attempting to understand how they pay back their debt and keep their capital expenditures at current levels. The upcoming rate hikes would deem this company as a clear $0.00 by February in that case. Also, through their own disclosures, ACHC's EBITDA per business channel (U.S. v UK; same store v overall) has stagnated and even declined slightly. If the goodwill mentioned above holds any water, we should be seeing dramatic improvements in margins due to synergies, etc. Yet, they are not there and there is no impairment.*[3]

To recap, they run a highly levered balance sheet. At the end of 2017, total assets were $6.4billion; debt was $3.8 billion; equity was $2.6 billion, and the debt to equity ratio was approximately 1.5x. Ordinarily, a 1.5x leverage ratio would not raise a lot of concern. However, Acadia carries goodwill of $2.7billion on the balance sheet. This means goodwill is greater than book equity; a red flag.

In addition to goodwill, Dr. Wayne Thomas, PhD, Professor and Chair of the Accounting Department at the University of Oklahoma's Michael F. Price College of Business, noted the following very complex, but easily explained observation of an inverse;

> *"ACHC currently has only approximately 10% accumulated depreciation on property and equipment. Consider Walmart, Target, LifePoint Health, and Tenet Healthcare. They each have depreciated PPE of over 40%. I have no idea what ACHC is doing with PPE, but if I wanted to boost earnings and assets, I'd slow down depreciation and ignore impairment testing. Why is ACHC at only 10%? Another 30% (similar*

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[1] SEC filings (10k; 10q):

[2] ACHC presentation Wells Fargo

[3] 2014-18 ACHC press release on 2Q18 earnings

to the four companies above) would be about $1 billion less in assets, and that doesn't include any additional impairment."

Simply put, in Acadia *and potentially other* publicly traded healthcare companies, currently sit in a situation in which a large portion of their assets, greater than 50%, appears to never have existed. Moreover, it never will exist, if these conclusions are exactly what they appear to be. However, they seem to be fully utilized as a borrowing-base.

A Disconnect: The Direct Care Team & 'Money-Happy' Management

One manner in which Acadia apparently used the non-GAAP loophole to boost its EPS (earnings per share) in Q2 2018 earnings was through adjusting back-salaries cut from the balance sheet with recent layoffs. These layoffs, of course, weren't discussed in any of the recent post-earnings conference calls with analysts and investors. According to Glassdoor, Jacobs' CEO approval rating sits at an abysmal 54%; additionally (yet not shocking), it's difficult to find a positive word written about his leadership. Moreover, the consensus among most Glassdoor reviews of the Acadia management team is that they're aloof, they ignore staff needs, provide lackluster benefits, and place their focus on profit over patient well-being. Not surprisingly:

A. in a June 20, 2018, Glassdoor online review entitled *"Used to Be Better, Now It's Just About Acquiring as Much as Possible,"* one employee in the corporate office wrote the following:

   1. ***Pros:*** *People you work with; Corporate office is in a nice area.*

   2. ***Cons:*** *No time off; Little regard for employee's happiness/overall mental health (ironic); No flexibility; Extreme lack of communication company-wide; Unless promoted, raise is 2% max; Lack of ethics.*

   3. ***Advice to Management:*** *Treat employees better before every ounce of talent is gone and working for competitors. Little time off, no office time flexibility, constant "urgency," lack of communication (from corporate down to the facility level – ESPECIALLY at the facility level), and underpaying employees are the opposite of what this company was built on. SLOW DOWN. The company cannot continue to acquire and grow successfully when many departments are understaffed and employees are suffering/completely maxed out on what they can do. Fix the multitude of issues with the current facilities and get a solid foundation before trying to build higher.*

B. A member of the direct care team at Acadia's flagship facility, Sierra Tucson (located in Oro Valley, AZ), mentioned the following in another Glassdoor employment review entitled "Short staffed to the point that patients are put in danger".

   I have been working at Acadia Healthcare full-time (More than a year).

1. ***Pros:*** *Beautiful vistas. *Some* good colleagues.*

2. ***Cons:*** *Too few staff members to treat patients appropriately. As a result, Sierra Tucson has been charged with several wrongful deaths. Working here will land you with people's deaths on your conscience. The company rampantly and openly commits insurance fraud. Staff is asked to gaslight patients who complain and rely on their illnesses to disregard their complaints.*

3. ***Advice to Management:*** *SHUT THIS PLACE DOWN BEFORE ANYONE ELSE IS KILLED.*

Sierra Tucson had always maintained a reputation of quality care provision since its founding 35 years ago by investor and former cocaine addict, Bill O'Donnell, Jr. Since then, it has changed hands multiple times and was sold to Next Health, Inc. Merrill Lynch then financed the Bain Capital-owned CRC Health Group roll-up that ended up acquiring Sierra Tucson in 2007. Bain Capital sold the CRC Health Group assets to Acadia in late 2015, which served to add 100 or so methadone clinics in our most impoverished communities to Acadia's growing franken-network. As for the quality at Sierra Tucson and other facilities, it appears to have dropped significantly since the early days. Wrongful death lawsuits appears to be commonplace amongst providers more recently – and a simple web query would shock the average citizen. Simply put, revenues are harder to come by, and having to work to defraud people is more challenging when the payer is aware of the racket. So, naturally, patient care progressively worsens.

Long-time Sierra Tucson Marketing Director, Lisa Jane Vargas of Phoenix, AZ, was subjected to the very layoffs that Acadia executed in Q2 2018. When asked to comment about the layoffs, she declined, stating, "I've spent many good years at Sierra Tucson and I'm just ready to move on." Twelve other Acadia staff members were reached; however, all of them declined to comment on the layoffs, leaving reason to believe this could be a blatant attempt (likely through confidentiality agreements or non-disclosure clauses) to withhold key information from investors.

One thing that hasn't been brought to light either, is that some people, or institutional fund managers, are being affected and doing something about it. If anything this can serve as a voice for many trying to seek recourse for solely the financial impact on victims. However, the staff are clearly silenced, not to mention the patients, many with not a smidgen of credibility due to the symptoms of drug addiction. Other recent (2018) select lawsuits listing Acadia's management and board members (Waud included) as defendants include some of the following description found in a press release describing those complaints:

I. *"Acadia and certain of its executives are charged with failing to disclose material information during the Class Period, violating federal securities laws. On October 24, 2017, the Company disclosed negative financial results for 3Q 2017 including a reduction to its guidance for fiscal year 2017 and a significant cut to EBITDA relating to its U.K. facilities purportedly driven by "lower census and higher operating costs…….**Specifically, the complaint alleges**, among other things, that Acadia materially misled the investing public, which had the effect of inflating the stock price of Acadia. Beginning on February 23, 2017, Acadia represented in its public filings* *and press releases that it was "the leading independent provider of mental health services in the U.K." and that "favorable industry and legislative trends" gave the company a "competitive strength," which would drive future growth and profitability. Acadia further misrepresented the extent of the its actual and projected 2017 revenue, earnings before interest, taxes, depreciation and amortization ("EBITDA") and earnings per share ("EPS"). With Acadia's stock artificially inflated, its officers and directors sold over $143 million worth of Acadia stock through a continuous offering process. On October 24, 2017, Acadia issued a press release disclosing that its struggling U.K. facilities had missed the forecasts that defendants had stated to investors would be met throughout the year. The press release also reduced Acadia's recently reaffirmed fiscal year 2017 guidance. Acadia stock dropped significantly immediately following this announcement.*[4]

II. *An example of false statement(s) by executives, listed in an actual complaint filed on March 14, 2018 (unrelated the the first example) are as follows:*[5]

A. *"The third quarter financial results for our operations in the United Kingdom reflected a lower census and higher operating costs than anticipated. After experiencing expected seasonal softness in census for the month of August, the typical rebound in census in the month of September was significantly weaker than anticipated. In addition, due to further tightening in the labor market primarily for nurses and other clinical staff, we incurred higher agency labor expense than planned. . . . U.K. same facility EBITDA margin was 21.4% for the quarter compared with 22.6% for the third quarter last year. Total facility EBITDA margin in the U.K. declined 170 basis points to 19.3% for the third quarter of 2017."*

B. *"Our revenue growth primarily resulted from the acquisition of Priory Group on February 16, 2016, which added approximately 6,200 beds, net of the divestiture, to our operations in the United Kingdom. In the trailing 12 months ended March 31, 2017, we also acquired nearly 240 beds through three transactions and added 719 beds to existing facilities and de novo facilities, 82 of which were added to existing facilities in the first quarter of 2017.*

C. *"The favorable impact of the growth in our beds in operation during the first quarter was partially offset by a reduction of approximately six percentage points in our revenue growth rate due to the post-Brexit decline in the exchange rate of the British Pound*

[4] The Briscoe Law Firm, PRWeb (3/21/18)
[5] US Courts PACER System (3/14/18)

Sterling to the U.S. dollar, in addition to the impact of the first quarter of 2017 having one less day due to leap year in 2016.

D. *". . . Same facility revenues increased 2.6% for the U.K. facilities, with a 0.1% increase in patient days and a 2.4% increase in revenue per patient day. Total same facility EBITDA margin declined to 25.2% for the first quarter of 2017 from 25.6% for the first quarter of 2016. Acadia's consolidated adjusted EBITDA was $136.4 million for the first quarter of 2017, up 4.1% from $131.0 million for the first quarter of 2016."*

Clearly, the management's goal is being fettered by incomprehensible compensatory rewards for, what overwhelming evidence suggests is; simply fraud--overlooked.

On October 11, 2018, a New York City Short-Seller who preferred to be known by the name "Charles," published a new website owned by his firm, "Aurelius Research." Specifically, the new site (http://www.acadiaexposed.com) scrutinizes Acadia at the entity level. The website notated a multitude of alleged critically dangerous incidents occuring at specific facilities under the burgeoning Acadia umbrella. One of the facilities was Rolling Hills Hospital in the rural town of Ada, Oklahoma, population 17,280. It discusses an alleged cover-up attempt at the hospital by not reporting the deaths of patients to the facility's governing body. A lawsuit from one of the victims, Shannon Archer highlights the conditions of neglect. This patient was admitted for alcoholism but suffered permanent brain damage when, allegedly, a patient violently grabbed her from behind, grasping her hair and viciously slammed her head into the concrete floor. The other lawsuit, involving an unnamed minor, alleges denial of critical emergency medical care, as well as multiple sexual assaults against children. According to the Archer complaint, there was no supervision or security present at the time of the incident due to the understaffed personnel. It was also noted that the Oklahoma Department of Human Services apparently ordered the removal of all ODHS children from the facility.

An attempt was made to notify Tom Graber the Oklahoma Attorney General's office in July of 2018, hoping to implore them to investigate as well as to gather commentary for this account. No response was provided, or has been since. In terms of at the Federal level, FBI Special Agent Alan Carpenter did respond to an inquiry that mentioned Rolling Hills specifically, stating in a June 11, 2018 response email, "I have been looking for the appropriate office to look into the allegations you have made regarding the healthcare industry. I should know more later this week. I will advise when I have more information." Carpenter didn't respond further.

Some would opine that Bob Muller's Russia investigation may be taking priority. However, according to another friendly FBI source; Special Agent Tara Smith in Chicago, discussing the link between cost-cutting, potential fraud, and patient harm, "it's just not something we do, and it's a challenge to connect the two." Notwithstanding, investigations into Rolling Hills Hospital by health inspectors from the Centers for Medicare and Medicaid Services revealed over 50 pages of violations ranging from unqualified staff to infection control deficiencies, patient rights and maintenance issues. What appears most alarming is the instances of restraint and seclusion violations where adolescents were left unmonitored in seclusion rooms.

The sexual assault allegations are eerily similar to the lawsuits from the Jacobs et al era at Psychiatric Solutions that mirror many actions discussed in this account. The hospital, now owned by UHS, hasn't appeared to change much. Even this year, surfacing rape allegations at Houston's Kingwood Pines Hospital (previously a Psychiatric Solutions facility managed by Jacobs and this same management team) points to the sparse revenue potential for providers across-the-spectrum. While these occurrences are industry-wide, it's Acadia's mere size and potential for profit, that position it in similitude with a brewing disaster.

A Leadership Psychoanalysis

According to an unrelated provider's former CEO, healthcare industry veteran, Roy M. Serpa, who served from 2013 up until stepping down earlier this year as CEO of Lakeview Health (a portfolio company of the Riverside Company), "If you want to see a quality treatment experience for the patient, you must take care of your staff, especially those interacting with the patients. A happy staff means better patient outcomes." Serpa takes a different approach and focuses on servant leadership in the very service-oriented industry. Serpa, a turnaround artist, revamped a Lakeview Health program that was once very much like Acadia's facilities are today, when purchased by Trinity Hunt Partners (Dallas, TX-based PE firm). The key ingredient was rolling-up-the-sleeves and working alongside the direct-care staff to understand their needs. On the flipside, rolling-up-the-sleeves and working with the staff may not be safe for Jacobs and their team, as one would likely assume.

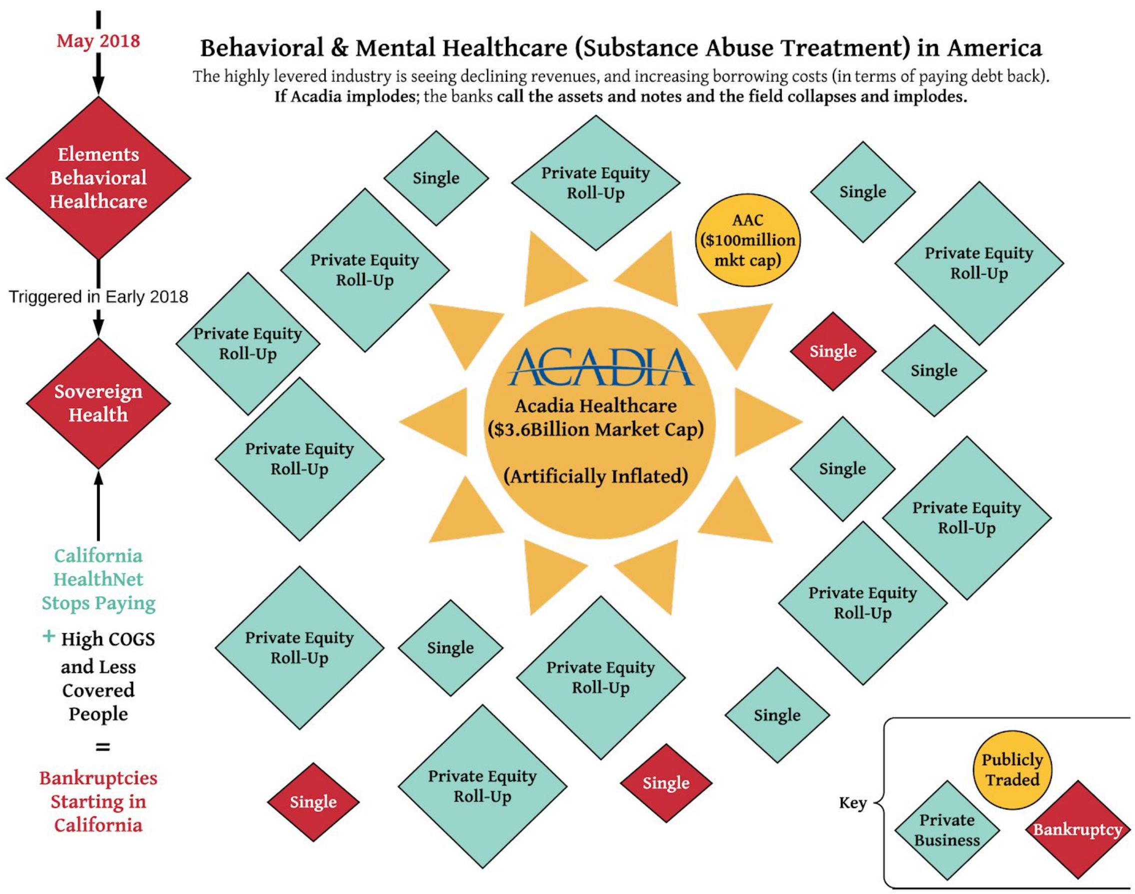
If Acadia staff members recognize they've been in an environment of fraud and abuse, Jacobs, who appears to be aloof to their needs, will *likely rebut* and *not understand* their concerns. After all, any sane and cognizant criminal wouldn't buy a hockey team with money earned through the perpetration of a fraud. However, as Ryan Gosling's character, Jared Vennett (based upon Greg Lipman of Deutsche Bank, discussing similarly framed corporate fraud in America during the 2008 housing crisis) said in the movie *The Big Short*, "Tell me the difference between stupid and illegal and I'll have my wife's brother arrested."

Regardless of if Jacobs knows, is aloof, is innocent, or is a brilliant mastermind of manipulation or deceit; he's the CEO, and is charged with having the information regarding all incidents or occurrences within his organization. Taking responsibility in the spotlight, isn't a human being's favorite pill to swallow, but more often than not, in the long run it's respected. *All relevant families* in distress deserve that, regardless of veracity of the the allegations.

The Domino Effect

In summation, with so much leverage riding on Acadia's success and with declining revenues, it's in the best interest of the banks constructing the loans to conspire to inflate this company's value. If it were to fail under these presumed parameters, others would too. It only makes sense that all the other *privately held asset loans* that rely on Acadia's purported financial health (loans are written by the very same banks) would also not just immediately lose value, but plummet into Chapter 11. Little did we know that private equity firms design leveraged-buyout transactions, so they quickly pull the proverbial rip chord, and jettison the asset in case of imminent bankruptcy. This means that if this small, $3.6 billion company is actually valued intrinsically, the price would be significantly lower (potentially $0), and the banks wouldn't have a way to justify the investment without mentioning the revenues being *too low* and *costs too high*. However, one would think that subsidies and individual mandate's should have provided a clue already.

Therefore, if Acadia has served to artificially inflate the industry, pulling the rug out from under it is undoubtedly catastrophic. The exodus would be rapid and would only appear insensitive – *after* it's occured. It even could have severe macroeconomic consequences due to the overleveraging of the United States' healthcare system, which holds 91% of the globe's healthcare investment. Moreover, if there is ever the potential for a "#metoo movement" for parent or families whom have placed a child or loved one in a care facility--it's approaching soon.



Take for instance, the aforementioned example of Lehman brothers, which was failing in 2008 due to over-exposure to subprime mortgage defaults. According to an interview with Wall Street Journal in September of 2018; when the Lehman leadership approached investor Warren Buffet in September 2008, according to Buffett, he didn't jump at the chance to leave his weekend vacation in Alberta. Although he knows, like any financier, that plummeting value isn't always a death signal; but, in fact, it "depends on people being willing to do business with them tomorrow...and take their word the next day." As Mr. Buffet also said, in congruence with a common understanding of the American public, "once they lose confidence, it's all over." If the world's largest "pure-play" (as Joey Jacobs calls it) provider of opioid treatment saw its own value crater to near-zero or zero, what could then ensue? Would Big Private Equity Kings like the Henry Kravis' and George Roberts' of the world or even Steven Schwarzman really want this on their hands, as was reported on October 18, 2018? From a high level, inelastic demand is always attractive. However, a lack of consumer confidence is abhorrent to any investor and as the Oracle of Omaha himself said, "fear is extraordinarily contagious." An Ironic sidenote is that Buffett is the top shareholder of Bank of America-Merrill Lynch.

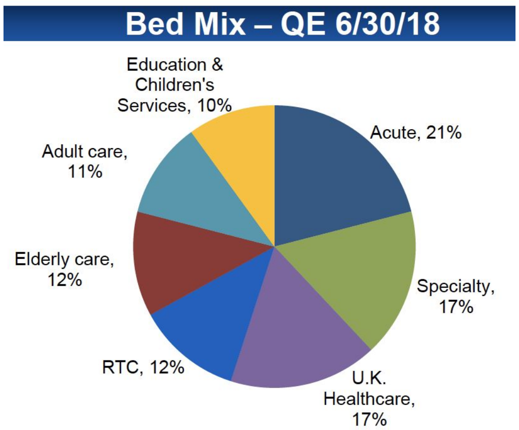
The Morbid Reality

The obvious and looming question is: is it too big to fail? Well, it would appear so, given that the death toll from the opioid crisis would spike by eight people, increasing from 115 to 123 deaths per day, if this one company were to completely shut down. With 115 people dying per day of opioid addiction alone, every day, this very crisis is killing the same amount of people as the Las Vegas shooting, the Sandy Hook Massacre, and the Virginia Tech tragedy combined, each and every time the earth makes a revolution on its axis. Then the private equity loan failures, would within six months, allow death tolls to easily reach approximately 168 per-day. Ironically, that is the very same number of people that perished just an hour away from the aforementioned Rolling Hills Hospital, in the Murrah Federal Building Bombing in Oklahoma City on April 19th, 1995. Just imagine, an Oklahoma City Bombing every day, with no faith in the solution.

The private equity-owned businesses operating in this sector rely on its publicly stated measures of industry health, all the while soaring valuations and obsession with incentives has led to undercollateralized loans. These elevated valuations are due to the private equity's conquest for carried interest. This is largely why we sought to kill the incentive in tax reform last winter; it negatively focuses the goal in an infrastructure that serves as our only weapon to combat against a national crisis. If the weapon were a gun, it's pointed in the wrong direction – at ourselves.We absolutely cannot combat an opioid crisis if our largest and most able entities that treat it are focused on making money off the addictive nature of opioids...and it's costly to treat. The saddening aspect is the notion that families in distress spend money when their loved ones are near death and we're hearing about people dying from it daily, with lessening degrees of separation.

A Call to Action

The only way to beat a an apparent, impending crisis such as this, is to *treat the disease of addiction.* By losing the infrastructure that treats the disease of opioid addiction, the overall economic detriment, in terms of costs, would skyrocket. Last December, the President's Council of Economic Advisors, led by Dr. Kevin Hassett, based upon 2015 data, pegged the cost of this scourge at a level around $504 billion annually. This creates the immediate hypo-shortage of quality care for opioid addiction treatment (not to mention treatment for the children with autism, patients with eating disorders, or those with other co-occurring mental illnesses). It's safe to say that the ability to preemptively recognize the problem is an opportunity in which the private sector can act in a timeframe that, based on historic precedent, the federal government cannot. The ballooning trade deficits cannot presently support a failure of this nature and the long-term investment opportunity within a capitalistic system should justify itself on merit alone. While it needs a bailout, the benefit of a private sector solution outweighs allowing a partisan concept to (once again) corrode the system responsible for our livelihood.



Unless this entire account is a massive observation of overwhelming coincidence, many would believe there is a large scale federal investigation happening. Despite written and oral communication with the Department of Justice, the Federal Bureau of Investigation, and the US Attorney's Office for the District of Tennessee, they have declined to provide any comment. Sadly, in terms of criminal behavior, regulators and investigative bodies shy away from prosecution of these highly complex white-collar crimes. In fact, they often refrain from charging for-profit entities at the federal level, let alone public ones. It's a justifiable argument that palpably evident market manipulation, insider trading, frauds, and other offenses pale in comparison to their apparent blatant exploitation and trafficking of America's young in sustaining a revenue stream. Specifically, 10% of Acadia's business is derived from caring for children, some of whom are incapable of any form of survival or self-care, we must be more cognizant of our investments, actions, and response to this account derived fully from public information. Under this overwhelmingly clear assumption; they're being exploited because of, and within the framework of, that financial fraud.

The only hope here is that former Senator and now-Attorney General, Jefferson B. Sessions (R-Alabama), will *not* recuse himself from this responsibility and will step up to do his job, regardless of the likelihood of conviction. Other politicians such as Senator Lamar Alexander (R-Tennessee), who chairs the Senate Committee on Health, Education, Labor, and Pensions, are busy passing *revenue-boosting* legislation. Oddly enough the long-time fundraising chair for Sen. Alexander is the Director of Government Relations for Acadia Healthcare. His name is Brian Kaegi.

If it's not an opportunity, it's a very realistic *national responsibility* to fix this problem. *We must* recognize that our easiest money and material needs are being fed at the cost of our own brethren. It's time we start working together to strengthen this infrastructure and find a proven, cost-effective solution. Whether it's the autistic child having a meltdown or a national economic fiasco, they should both be handled with care, consideration, and compassion.