



# American Addiction Centers



## COMPANY PRESENTATION

DESERT HOPE ALUMNI

JUNE 6, 2017

# IMPORTANT PRESENTATION INFORMATION

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## **Notice to Investors**

We use market data and industry forecasts and projections throughout this presentation, including data from publicly available information and industry publications. These sources generally state that the information they provide has been obtained from sources believed to be reliable, but that the accuracy and completeness of the information are not guaranteed. The forecasts and projections are based on industry surveys and the preparers' experience in the industry, and there can be no assurance that any of the forecasts or projections will be achieved. We believe that the surveys and market research others have performed are reliable, but we have not independently investigated or verified this information. Forecasts and other forward-looking information obtained from these sources are subject to the same qualifications and uncertainties as the other forward-looking statements contained in this presentation.

## **Forward-Looking Statements**

Some of the statements made in this presentation constitute forward-looking statements within the meaning of federal securities laws. Forward-looking statements reflect our current views with respect to future events and performance. In some cases you can identify forward-looking statements by terminology such as "may," "might," "will," "should," "could" or the negative thereof. Generally, the words "anticipate," "believe," "continues," "expect," "intend," "estimate," "project," "plan" and similar expressions identify forward-looking statements. In particular, statements about our pipeline, industry growth opportunities, disclosure of key performance indicators, business growth strategy and financial guidance in this presentation are forward-looking statements.

We have based these forward-looking statements on our current expectations, assumptions, estimates and projections. While we believe these expectations, assumptions, estimates and projections are reasonable, such forward-looking statements are only predictions and involve known and unknown risks, uncertainties and other factors, many of which are outside of our control, which could cause our actual results, performance or achievements to differ materially from any results, performance or achievements expressed or implied by such forward-looking statements. For additional discussion of risks, uncertainties and other factors, see the section titled "Risk Factors" in our Annual Report on Form 10-K and other filings with the Securities and Exchange Commission (the "SEC").

Risks, uncertainties and other factors include, without limitation: (i) our inability to operate our facilities; (ii) our reliance on our sales and marketing program to continuously attract and enroll clients; (iii) a reduction in reimbursement rates by certain third-party payors for inpatient and outpatient services and point of care and definitive lab testing; (iv) our failure to successfully achieve growth through acquisitions and de novo expansions; (v) uncertainties regarding the timing of the closing of acquisitions; (vi) our failure to achieve anticipated financial results from prior acquisitions; (vii) the possibility that a governmental entity may prohibit, delay or refuse to grant approval for the consummation of the acquisitions; (viii) a disruption in our ability to perform definitive drug testing services; (ix) maintaining compliance with applicable regulatory authorities, licensure and permits to operate our facilities and lab; (x) a disruption in our business and reputation and potential economic consequences with the civil securities claims brought by shareholders; (xi) our inability to agree on conversion and other terms for the balance of convertible debt; (xii) our inability to meet our covenants in our loan documents; (xiii) our inability to obtain senior lender consent to exceed the current \$50 million limit in unsecured subordinated debt; (xiv) our inability to integrate newly acquired facilities; and (xv) general economic conditions, as well as other risks discussed in the "Risk Factors" section of the Company's Annual Report on Form 10-K and other filings with the SEC.

Given these risks and uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. These risks and uncertainties may cause our actual future results to be materially different than those expressed in our forward-looking statements. These forward-looking statements are made only as of the date of this presentation. We do not undertake and specifically decline any obligation to update any such statements or to publicly announce the results of any revisions to any such statements to reflect future events or developments.

# PRESENTERS

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**Michael T. Cartwright**  
*Chairman*  
*Chief Executive Officer*

- Founder and CEO of **Foundations Recovery Network**
- At Foundations, opened notable treatment facilities including **the Canyon** in Malibu, **La Paloma** in Memphis and **Michael's House** in Palm Springs
- Started **Moments of Change & Lifestyle Intervention**, two of the leading national industry conferences
- Author of ***Believable Hope***
- **20+ years industry experience**



**Kirk R. Manz**  
*Chief Financial Officer*

- Founder and Managing Member of **Private Capital Securities**, a boutique investment banking firm
- Former Vice President at **Piper Jaffray** and Fixed Income Specialist with **Stephens Inc.**
- Co-founder and CEO of four communications companies including **Igaea**, an international VoIP Company
- **23+ years management experience**



**Andrew W. McWilliams**  
*Chief Accounting Officer*

- Former auditor with **Ernst & Young LLP**, a national public accounting firm
- Served multiple large for profit healthcare clients in Nashville, TN and Atlanta, GA including Fortune 100
- Experience across a variety of corporate transactions, including public offerings of securities and mergers and acquisitions
- **17+ years industry experience**





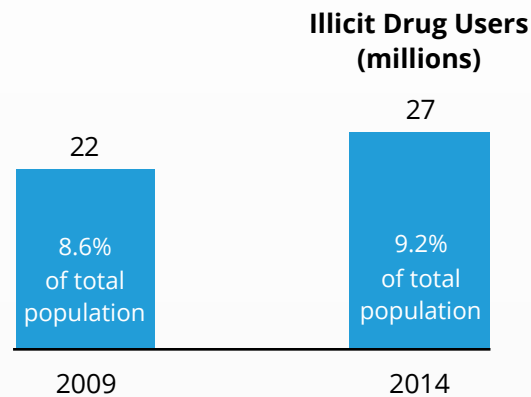
# American Addiction Centers



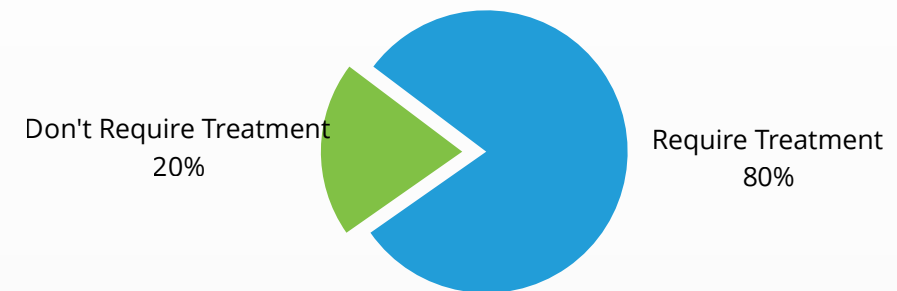
## INDUSTRY PRIMER

# SIGNIFICANT UNMET NEED

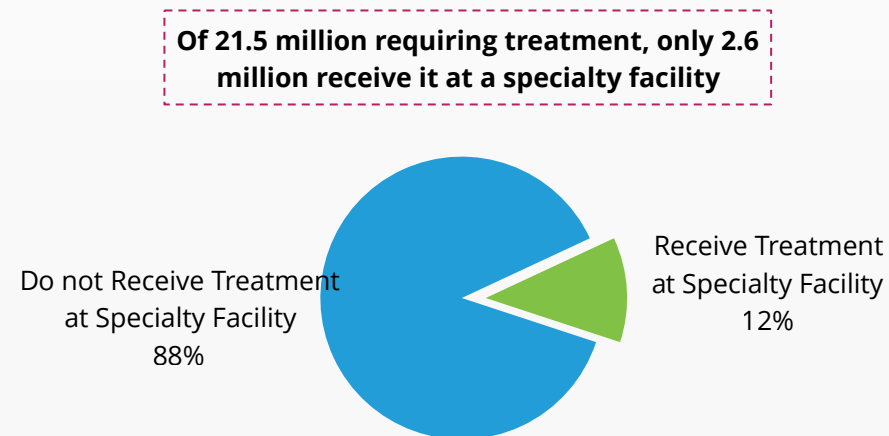
27 million Americans are illicit drug users... <sup>(1)</sup>



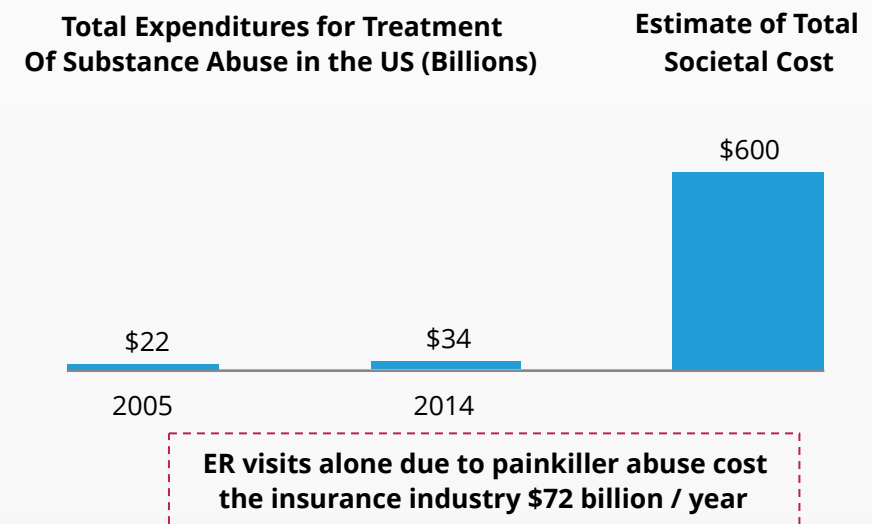
...and ~21.5 million of them require treatment <sup>(1)</sup>



Substantial unmet need for treatment... <sup>(1)</sup>



...creating significant cost to society <sup>(1)</sup>



<sup>(1)</sup> Sources: 2014 National Survey on Drug Use and Health, US Dept. of Health and Human Science, CDC, National Institute on Drug Abuse, National Comorbidity Survey.

**105 PEOPLE DIE AND ANOTHER 6,748 ARE TREATED IN EMERGENCY DEPARTMENTS EVERY DAY AS A RESULT OF DRUG OVERDOSE OR FOR THE MISUSE OR ABUSE OF DRUGS <sup>(1)</sup>**

# CURRENT ADDICTION HEADLINES



Nov 17, 2016

**Surgeon general: 1 in 7 in USA will face substance addiction**



Aug 29, 2016

**'This is unprecedented': 174 heroin overdoses in 6 days in Cincinnati**



Feb 2, 2017

**Amid Opioid Overdoses, Ohio Coroner's Office Runs Out of Room for Bodies**



Feb 17, 2017

**Nearly 2,000 died from opioid overdoses in Mass. last year**



Aug 9, 2016

**Heroin Fuels Surge in New York City Overdoses**



American Addiction Centers

# TYPES OF TREATMENT SERVICES

## Residential Inpatient Treatment



Hospital



Residential Treatment Center

## Outpatient Treatment



Sober Living  
(Supportive Housing for Outpatient)



Outpatient Center

High Acuity

Low Acuity

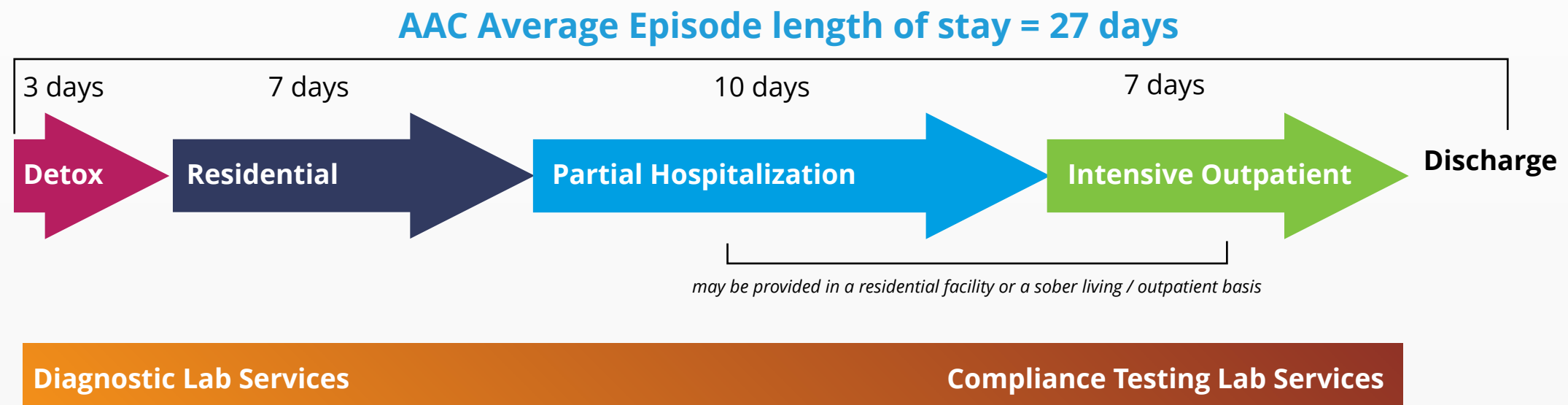
## Diagnostic Services



Laboratory

# LEVELS OF CARE OVERVIEW

- A typical client will have an average episode length of stay of 27 days
- During the 27 day treatment period, a client will “step down” from higher acuity levels of care (e.g. detox) to lower levels of care (e.g. intensive outpatient); medical, clinical and programming services will vary depending on level of care
- Clients in lower levels of care (e.g. PHP and IOP) may be housed in sober living with services provided at a nearby outpatient center





# FAVORABLE LEGISLATIVE TAILWINDS

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## Mental Health and Addiction Equity Act of 2008 ("Parity Act")

- Constructed to eliminate discriminatory insurance practices by addressing treatment and financial limits, levels of care, scope of service, non-quantitative treatment levels, etc.
    - All required to be covered at parity with general medicine coverage
  - Strengthened mental health / substance abuse coverage to additional 30.4mm through new mandates for service
- 

## Affordable Care Act of 2010 ("ACA")

- Coverage expansion to currently uninsured
    - Addresses significant portion of "treatment gap" resulting from lack of coverage for individuals in need of treatment
  - Expanded Parity Act to also apply to individual health insurance coverage
  - Indirectly further expands Parity Act to apply to small group coverage
  - Allowed dependents to stay on their parents plans until the age of 26 years
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## 21st Century Cures Act ("Cures Act")

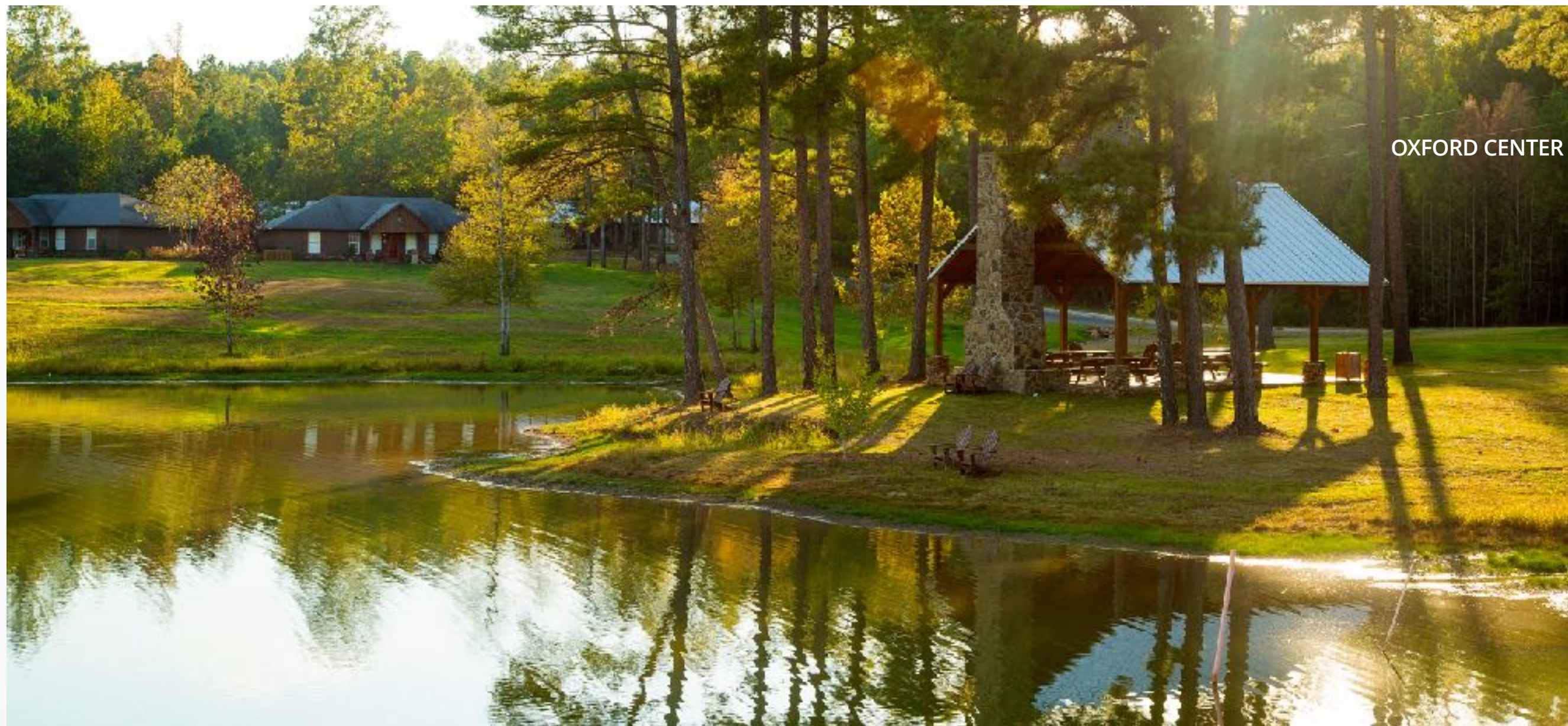
- Strengthens mental health parity regulation
  - Creates new Assistant Secretary for Mental Health and Substance Use
  - \$1 billion in grants to states to supplement opioid abuse prevention and treatment activities
  - \$485 million in grant funding to all 50 states
- 

**STRONG BI-PARTISAN SUPPORT FOR EXPANDED PAYOR COVERAGE AND  
GOVERNMENT FUNDING FOR ADDICTION TREATMENT**





# American Addiction Centers



## COMPANY SNAPSHOT



# AAC: AT A GLANCE

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> **AAC Holdings, Inc. ("AAC") is the parent of American Addiction Centers, Inc.**

- Operates 12 residential alcohol and drug addiction treatment facilities in California, Florida, Louisiana, Mississippi, Nevada, New Jersey and Texas
- Operates 18 standalone outpatient centers in Nevada, Louisiana, Mississippi, New Jersey, Rhode Island and Texas
- Over 1,300 detoxification, residential and sober living beds
- 2016 revenue of approximately \$280 million up 32% from \$212 million revenue in 2015
- Approximately 90% of reimbursements from commercial payors
- Approximately 2,000 employees as of 3/31/17
- Owns and operates 2 industry-leading laboratories providing toxicology, clinical diagnostic and genomics services
- Invested management and Board, which own majority of outstanding stock
- Headquartered in Brentwood, Tennessee

**AAC IS A LEADING PROVIDER OF INPATIENT DRUG AND ALCOHOL ADDICTION TREATMENT SERVICES  
IN THE BEHAVIORAL HEALTH SECTOR**

# MARKET: TYPES OF TREATMENT PROVIDERS

- > Highly fragmented market consisting of small providers (approximately 20,000 operators) with limited access to capital and little focus on outcomes and clinical quality
- > Similar to the hotel industry, there are different types of treatment facilities that cater to specific funding streams and price points

Facility Type	AAC Current Target Market				
	★	★★	★★★	★★★★	★★★★★
Typical Payor	Public Funding	Medicaid	HMO	PPO	Cash Pay
Estimated ADR	\$100 - \$200	\$200 - \$400	\$400 - \$600	\$600 - \$800	\$800 - \$1,200
Amenities	None	None	Minimal	Moderate	Extensive
Facility Gross Margins	10-20%	20-30%	30-40%	40-50%	50-60%
Marketing Focus	Local	Statewide	Regional	National	Global
Typical Marketing Cost	0%	0-5%	5-10%	15-20%	20-25%
Fully Burdened Margins	Breakeven	10-15%	15-20%	20-25%	25-30%

# AAC DIFFERENTIATION

> AAC offers fully accredited and licensed programs to treat essentially all drug and alcohol addiction disorders as well as co-occurring disorders regardless of stage of treatment required

## EFFECTIVE PROGRAM

- Research-based
- Structured curriculum
- Tailored treatment



## EXPERIENCED STAFF

- Medical
- Clinical
- Utilization review



## PREMIUM FACILITIES

- Beautiful buildings
- Amenities
- Desirable locations



## EXCEPTIONAL SERVICE

- Delicious, healthy food
- Meticulous housekeeping
- Courteous interaction



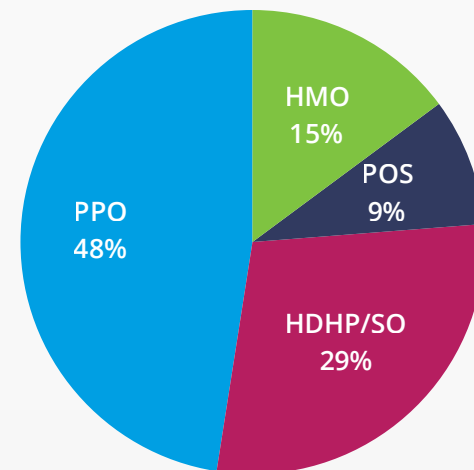
**CUSTOMER MISSION: COMBINE EXCEPTIONAL CLINICAL CARE WITH PREMIUM FACILITIES TO PROVIDE EFFECTIVE TREATMENT SOLUTIONS FOR THOSE SUFFERING FROM ADDICTION AND CO-OCCURRING MENTAL HEALTH DISORDERS**



# COMMERCIAL INSURANCE OVERVIEW

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- > PPO policies continue to be the most common plan type in 2016, enrolling 48% of covered workers<sup>(1)</sup>
- > PPO subscribers typically pay more in premiums and out-of-pocket expenses for more control over healthcare provider choices
- > HMO subscribers typically pay less in premiums and out-of-pocket expenses for less control over health care provider choices
- > AAC targets PPO subscribers nationwide for our “premium” facilities and targets HMO subscribers regionally for our “standard” facilities



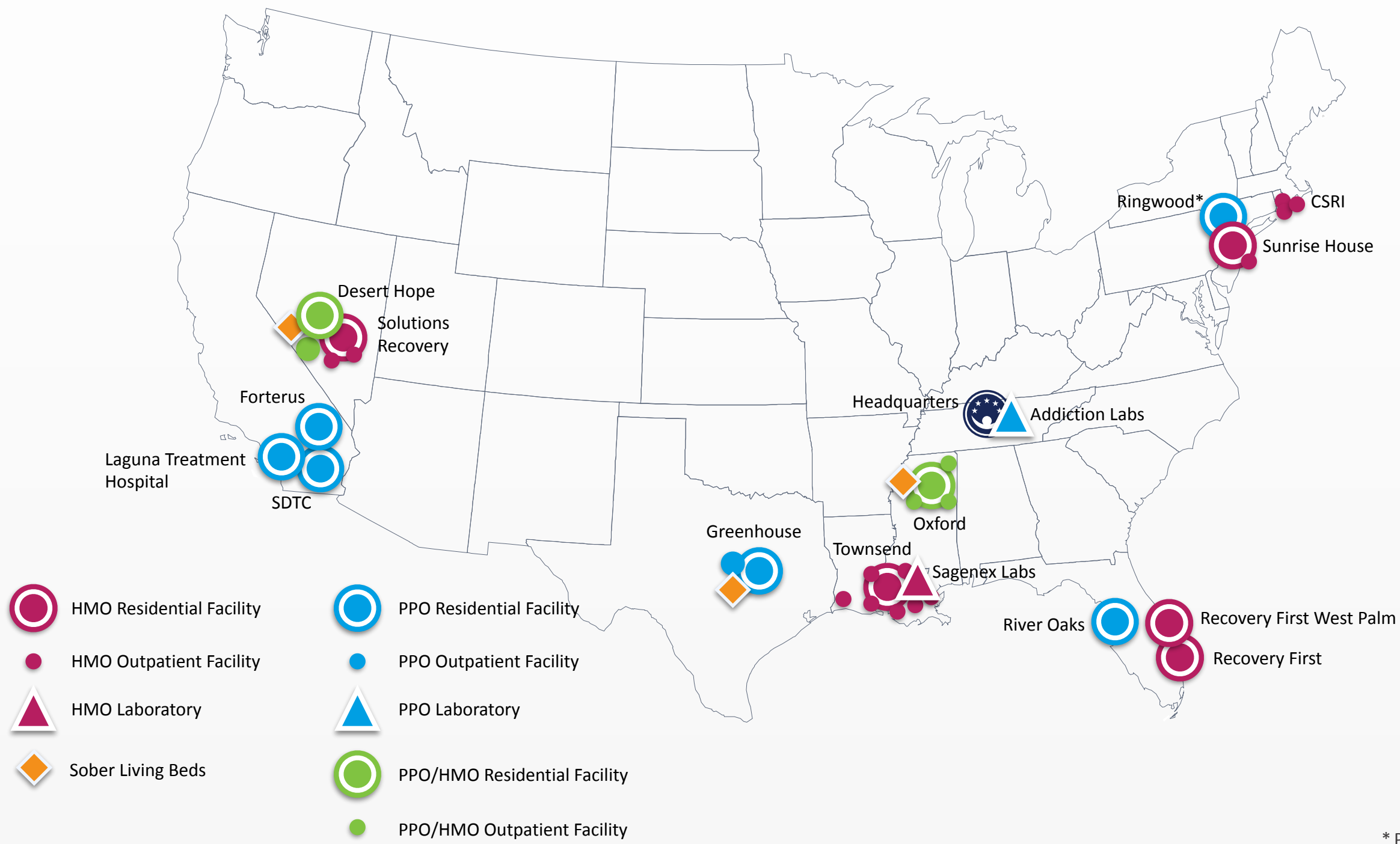
2016 Workers Plan Enrollment<sup>(1)</sup>

<sup>(1)</sup> Source: Kaiser Family Foundation/Health Research & Educational Trust, Employer Health Benefits Survey (2016)

# AAC TARGETED OFFERINGS FOR PPO / HMO PLANS

	  <i>"In-Network"</i>	  <i>"Out-of-Network"</i>
Facility Rating	★★★★	★★★★★
Example Sites	Recovery First, Sunrise, Solutions	Greenhouse, Desert Hope, River Oaks
Clinical / Medical	Lower Staff to Client Ratio	Higher Staff to Client Ratio
Amenities	Standard	Premium
ADR	Lower	Higher
Revenue Recognition	Known	Estimated based on prior collections
Reimbursed	Fixed contracted rate	% of Charges
Length of Stay	Shorter	Longer
DSO's	50 - 60 days	80 - 90 days
Fully Burdened Margins	15 - 20%	20 - 25%

# GEOGRAPHIC FOOTPRINT





# DE NOVO FACILITY: GREENHOUSE, TEXAS



**130 LICENSED BEDS**  
**OPERATIONAL SINCE 2012**  
**COST BASIS \$19.6 MILLION**



American Addiction Centers



# DE NOVO FACILITY: DESERT HOPE, NEVADA



**148 LICENSED BEDS**  
**OPERATIONAL SINCE 2013**  
**COST BASIS \$14.8 MILLION**



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# ACQUIRED FACILITY: OXFORD CENTER, MISSISSIPPI



**76 BEDS ON 100+ PARK LIKE ACRES; 48 BED EXPANSION COMPLETED Q1 '17  
ACQUIRED 2015  
COST BASIS \$17.7 MILLION**



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# DE NOVO FACILITY: RIVER OAKS, TAMPA



**162 BEDS ON 26 ACRE CAMPUS**  
**OPERATIONAL SINCE 2015**  
**COST BASIS \$20 MILLION**



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# DE NOVO FACILITY: LAGUNA TREATMENT HOSPITAL



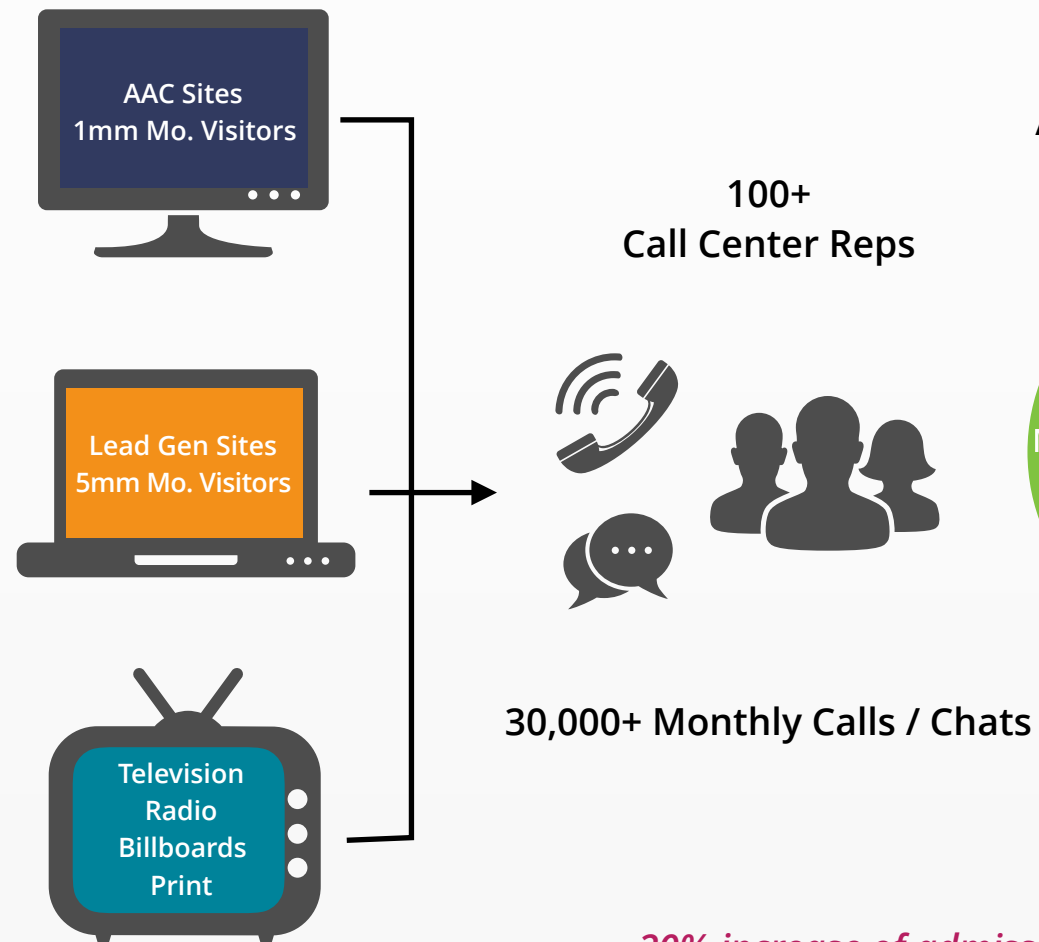
**93 BEDS**  
**OPERATIONAL SINCE 2016**  
**COST BASIS \$20.8 MILLION**



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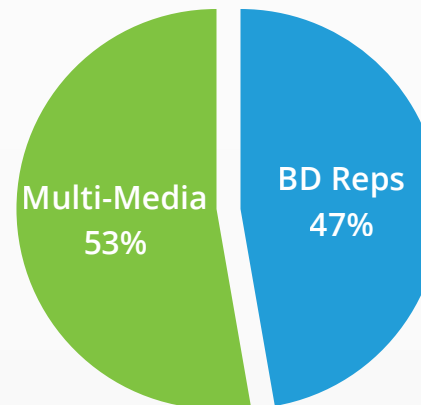
# BEST-IN-CLASS SALES AND MARKETING ENGINE

## “AIR” GAME



## “GROUND” GAME

1,000+  
Admissions / Mo.



70+  
Business Development Reps



6-8 Admissions / Month / Rep

Hospitals  
Therapists  
Doctors  
Employers  
DUI Attorneys  
EAPs/LAPs  
Unions  
First Responders  
Veterans

*20% increase of admissions = 6,000 more calls + 15 additional BD reps*

**WE BELIEVE THAT AAC'S MARKETING KNOWLEDGE AND INFRASTRUCTURE CANNOT BE REPLICATED WITHOUT SUBSTANTIAL CAPITAL AND TIME; SIGNIFICANT COMPETITIVE ADVANTAGE**

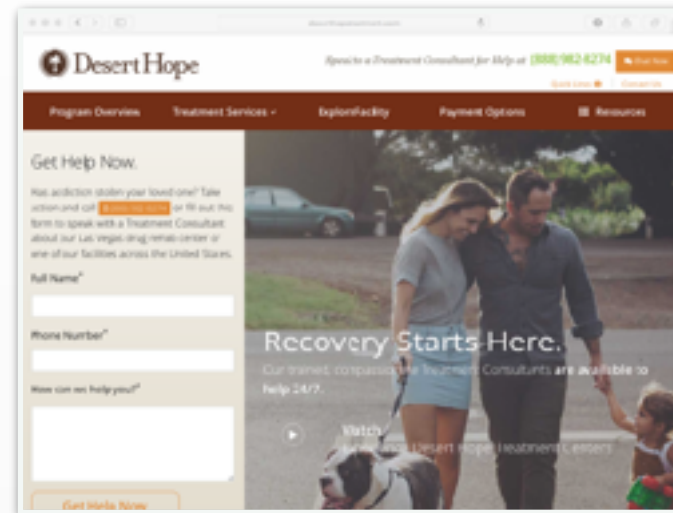


# BEST-IN-CLASS SALES AND MARKETING ENGINE

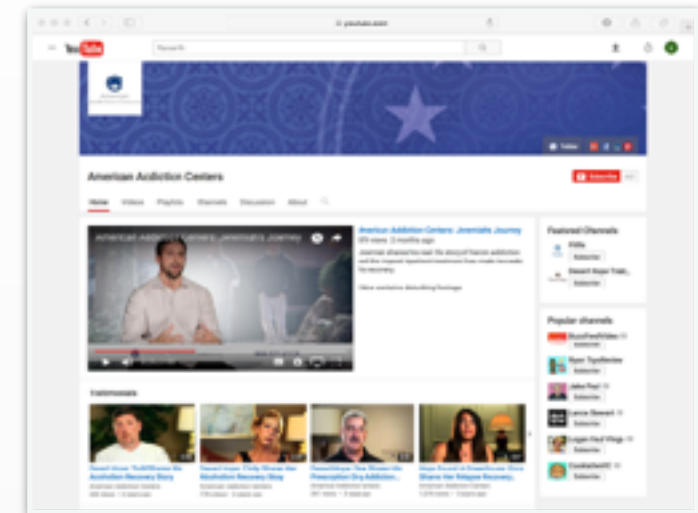
## AAC Branded Sites - 1+ million site visits per month



AAC Corporate Sites



Facility Branded Sites



Youtube Video Channels

## AAC Owned Lead Generation Sites - 5+ million site visitors per month



rehabs.com



recovery.org



addictionblog.org



# ON BOARDING PROCESS

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processed at our 24/7 call center

- 1 CALLER RESPONDS TO MARKETING AND CONTACTS CALL CENTER
- 2 CASE ASSESSED BY TREATMENT CONSULTANT
- 3 BENEFITS VERIFIED BY INSURANCE SPECIALIST
- 4 APPROPRIATE TREATMENT CENTER DETERMINED BY ADMISSIONS TEAM
- 5 CLIENT RESPONSIBILITY PORTION DETERMINED; DEPOSIT COLLECTED
- 6 TRAVEL ARRANGEMENTS COORDINATED
- 7 CLIENT GREETED AT AIRPORT AND DRIVEN TO THE FACILITY
- 8 FACILITY INTAKE COMPLETED, CLIENT BEGINS TREATMENT

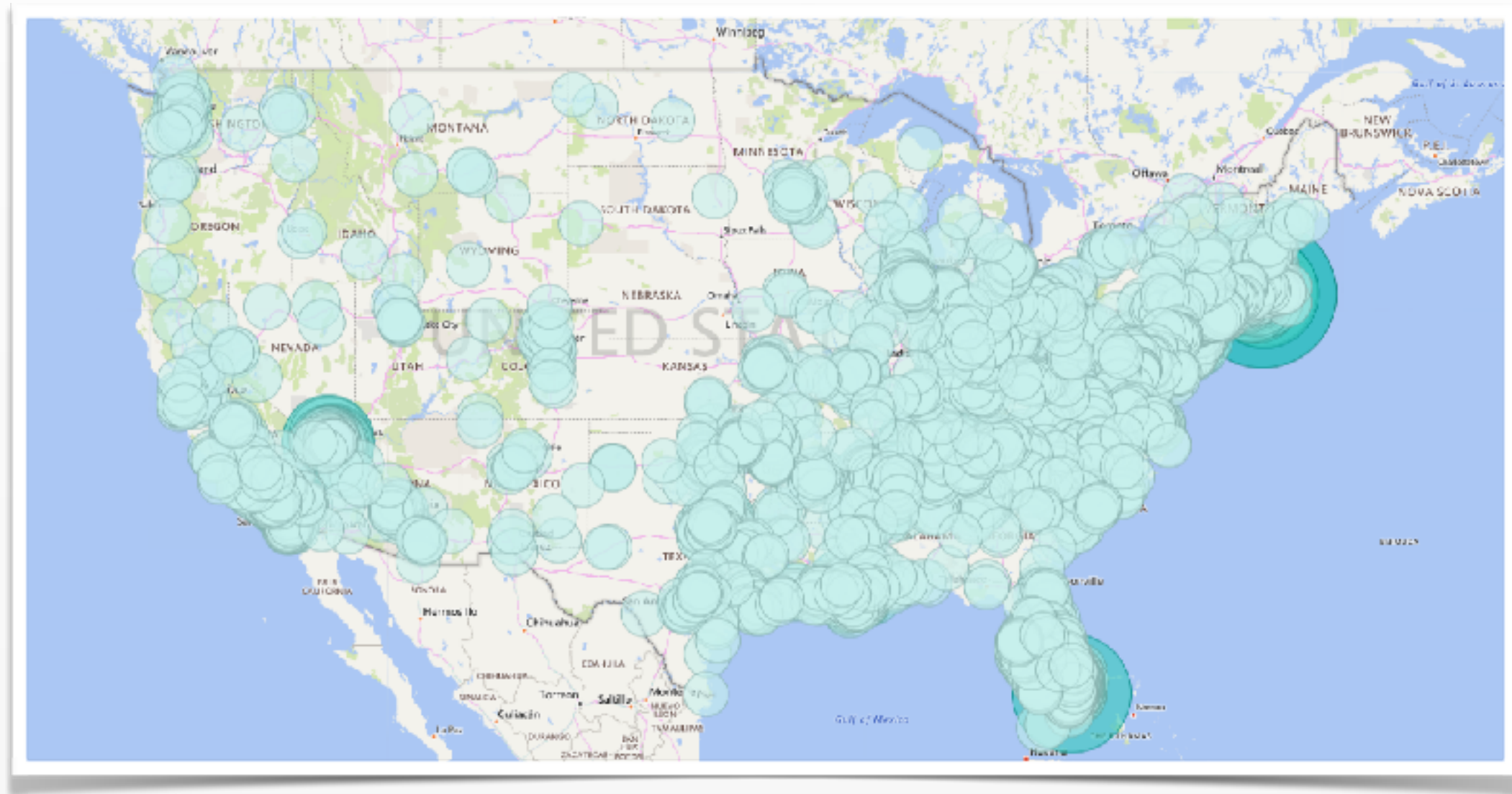


**AVERAGE TIME FROM FIRST CONTACT TO ADMISSION IS 72 - 96 HOURS**

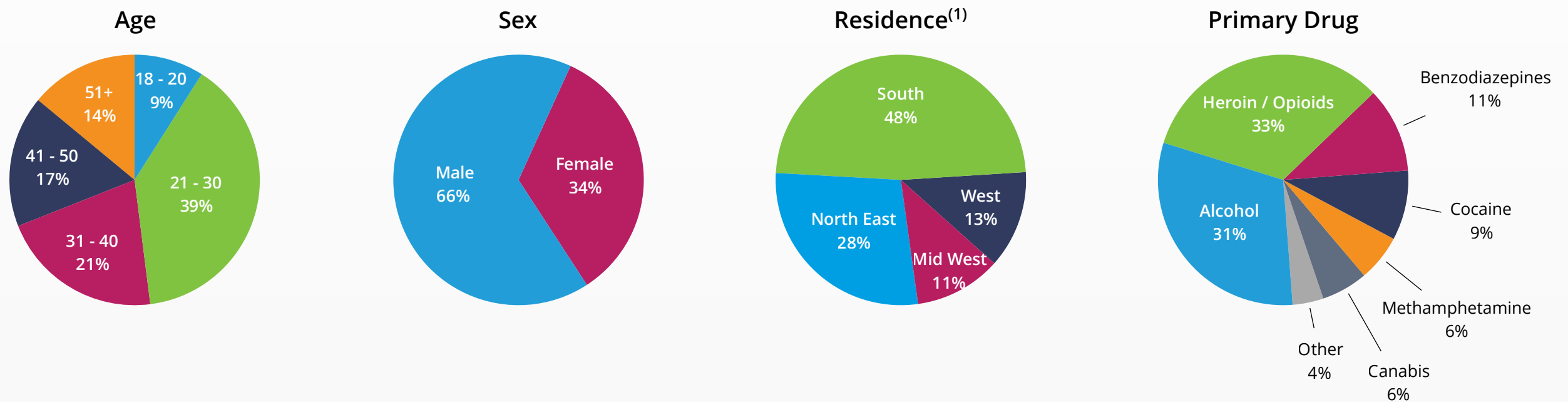
# STRONG, NATIONAL DEMAND FOR SERVICES

- The majority of AAC patients travel to an AAC facility via airplane
- No single state generates more than 10% of patient admissions
- Unique national service offering offers strong insulation against traditional local healthcare market risks

**Map of over 30,000 AAC alumni**



# DEMOGRAPHICS - 2016 ADMISSIONS



<sup>(1)</sup> Regions as defined by the U.S. Census Bureau

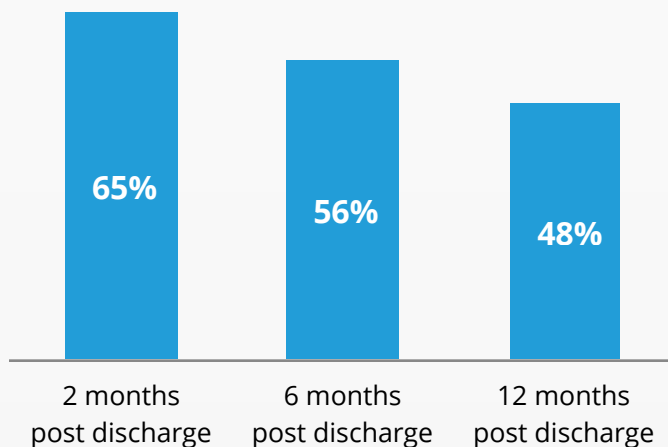
**AAC'S BROAD NATIONAL MARKETING STRATEGY RESULTS IN A DIVERSE CLIENT BASE**

# PROVEN IMPROVEMENT IN PATIENT OUTCOMES

- Few providers track outcomes; industry lacks consistent quality metrics and related data
- Similar to diabetes, addiction is a chronic disease that can be managed but not cured
- Abstinence is the preferred outcome, but relapse management is a critical component to treatment

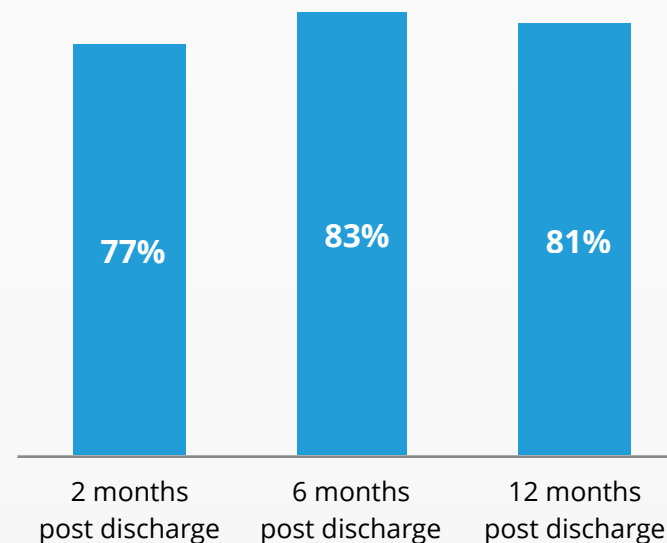
## Abstinence rate after AAC treatment

(% abstinence rate)



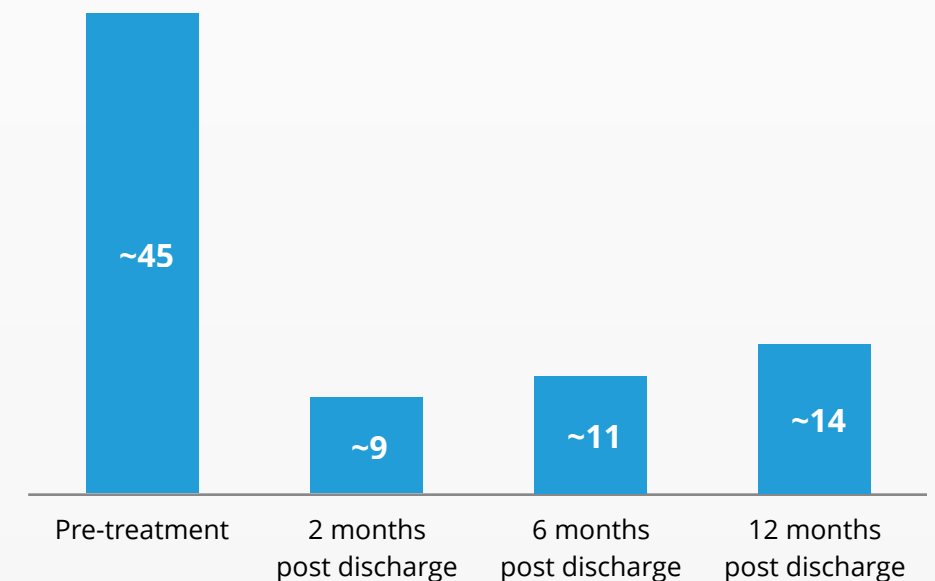
## Alumni who used, used less frequently...

(% of users reporting lower frequency usage)



## ...and for fewer days on average

(Average number of days of use)



# EXPERIENCED MANAGEMENT TEAM

Name	Position	Background / prior affiliations
<b>Michael Cartwright</b>	<i>Chairman and Chief Executive Officer</i>	<ul style="list-style-type: none"> <li>● Chairman of the Board since 2011 and CEO since 2013</li> <li>● Over 20 years of experience in the addiction treatment industry</li> <li>● Founded Performance Revolution, LLC in 2009</li> <li>● In 1999, founded Foundations Recovery Network, LLC, a national alcohol and drug treatment company, and served on its Board and as President and CEO until 2009; acquired by UHS in 2015</li> <li>● Served on the US Senate Help Subcommittee on Substance Abuse and Mental Health Services from 2003 to 2004</li> <li>● Serves on the Board of the National Association of Psychiatric Health Systems</li> </ul>
<b>Kirk Manz</b>	<i>Chief Financial Officer</i>	<ul style="list-style-type: none"> <li>● CFO since 2011</li> <li>● Served as CEO of GMD Holdings, a digital media company, from 2008 through 2010</li> <li>● From 2006 to 2008, served as Managing Member of Private Capital Securities, a boutique investment banking firm</li> <li>● Vice President of Investments for Piper Jaffray &amp; Co from 2004 to 2006</li> <li>● From 2002 through 2004, worked as a Fixed Income Specialist for Stephens</li> <li>● From 1988 through 2002, co-founder or CEO of four communications companies</li> </ul>
<b>Thomas Doub</b>	<i>Chief Clinical Officer and Chief Compliance Officer</i>	<ul style="list-style-type: none"> <li>● From 2003 through 2016, served in various executive roles with Centerstone of America, a not-for-profit provider of community-based behavioral health care</li> <li>● 150+ studies examining behavioral healthcare or number of clients served at Centerstone</li> <li>● Served as an Assistant Clinical Professor of Psychiatry at Vanderbilt University</li> </ul>
<b>Andrew McWilliams</b>	<i>Chief Accounting Officer</i>	<ul style="list-style-type: none"> <li>● Auditor with Ernst &amp; Young from 1998 to 2014</li> <li>● Served multiple healthcare clients, has experience across a variety of corporate transactions, including public offerings of securities and mergers and acquisitions</li> </ul>
<b>Kathryn Phillips</b>	<i>Chief Legal Officer, General Counsel and Secretary</i>	<ul style="list-style-type: none"> <li>● From 2009 to 2013, served as Managing Partner of Sevier Phillips &amp; Associates, a legal, compliance and political consulting practice focused primarily on healthcare clients</li> <li>● From 2004 to 2008, served as General Counsel and Secretary of National Renal Alliance</li> </ul>



# KEY CREDIT STRENGTHS

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- 1 Growing market with significant unmet need and high cost to society
- 2 Significant near-term embedded growth from completed investments
- 3 Best-in-class sales and marketing engine driving national brand recognition
- 4 High growth platform with significant operating leverage
- 5 Proven treatment outcomes
- 6 Strong free cash flow generation
- 7 Highly attractive real estate and significant collateral
- 8 Experienced and successful management team with proven track record



# American Addiction Centers



## BUSINESS OVERVIEW

# THE AAC DIFFERENCE

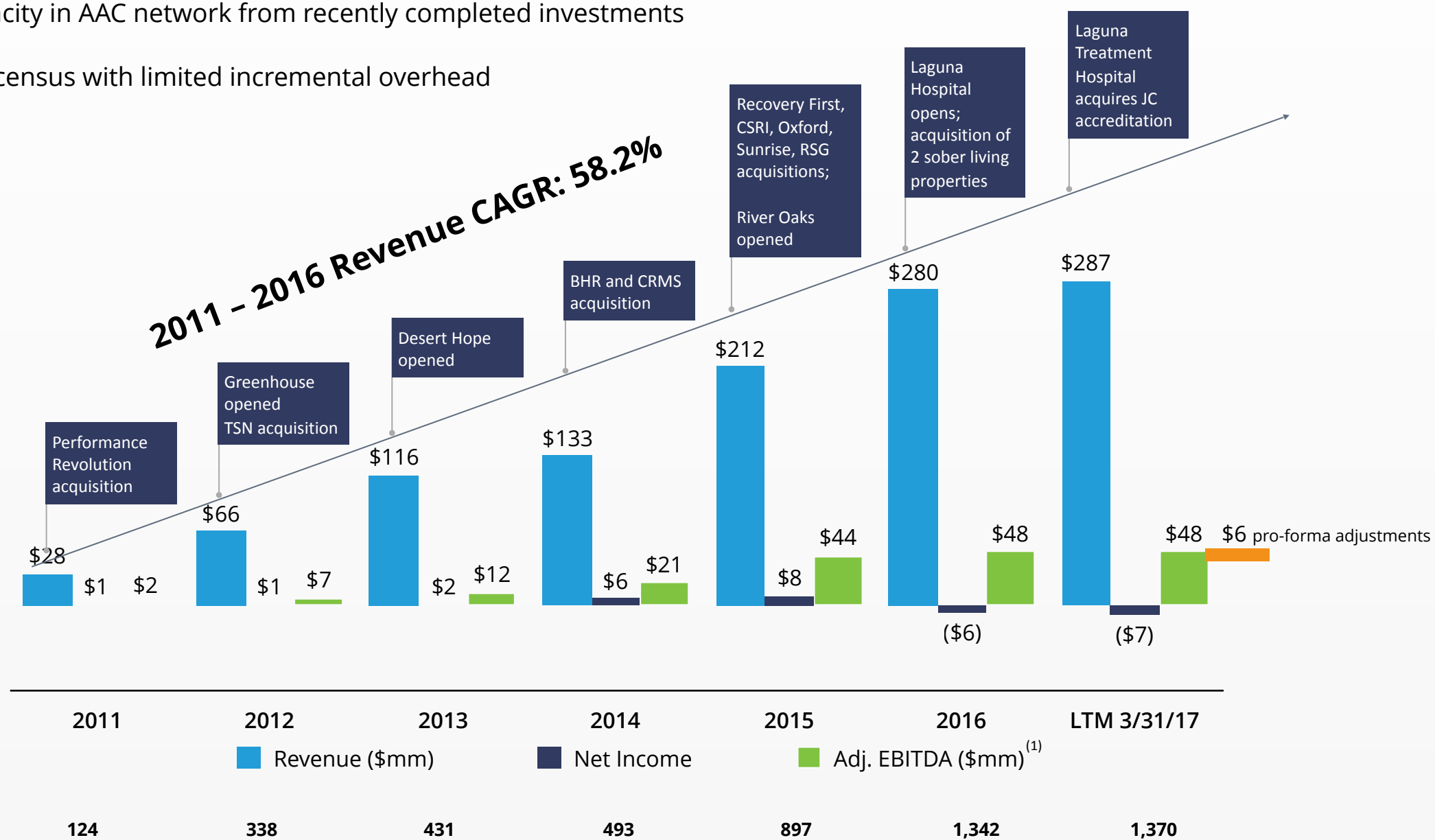
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**AAC'S COMPREHENSIVE PLATFORM LEADS THE INDUSTRY**

# TIMELINE OF AAC'S SUCCESS

- AAC's strong organic track record and disciplined approach to de novos and acquisitions have driven exceptional growth
- Significant capacity in AAC network from recently completed investments
- Ability to scale census with limited incremental overhead



(1) Adjusted EBITDA represents a non-GAAP financial measure. For the reconciliation to net income (loss), the corresponding GAAP financial measure, see the Appendix.



# DE NOVO ANALYSIS: RIVER OAKS, FIRST FULL YEAR

Total Investment	\$22.0MM
Total Beds	162
Cost Per Bed	\$130K
Revenue @ 73% occupancy (2016 actual)	\$32mm
Contribution margin @ 56%	\$18mm
Net AEBITDA (after corp overhead 2016 actual)	\$5mm
Net AEBITDA (after corp overhead target)	\$7mm
Comparable acquisition multiple	4.3x (2016) 3.1x (target)

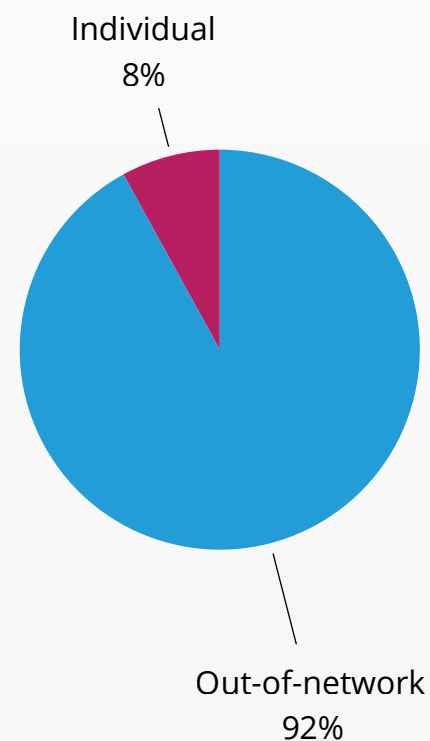


**RIVER OAKS REPRESENTS THE THIRD SUCCESSFUL DE NOVO LAUNCH BY AAC IN THE PAST FOUR YEARS**

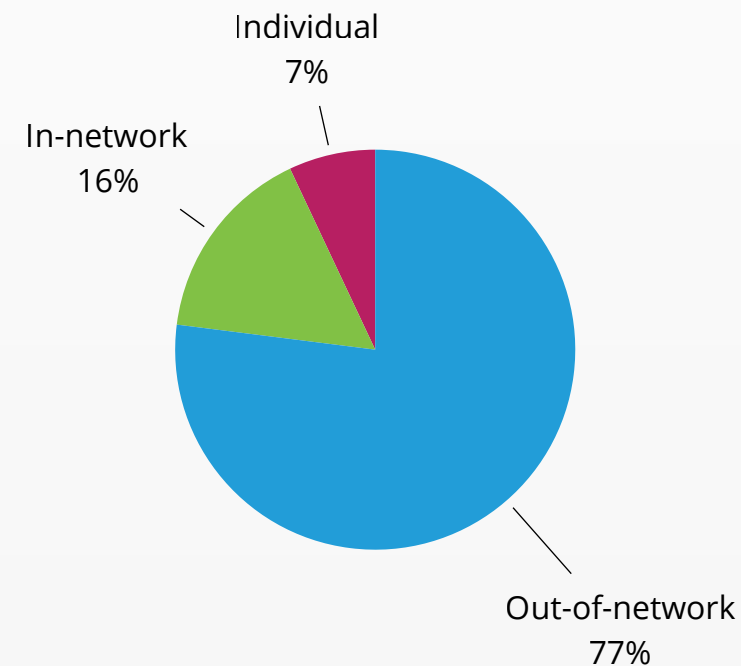
# DIVERSIFIED PAYOR BASE

- When AAC went public (10/2/14), reimbursements were almost entirely Out-of-Network commercial reimbursements
  - In two years, AAC has diversified its payor mix as of December 31, 2016 to 77% Out-of-Network, 16% In-Network, 7% individuals
- Objective is to further diversify payor mix
  - Evaluating Medicare at hospital sites (Laguna, Townsend) and Medicaid at its in-network outpatient sites where government rates are comparable to existing commercial rates
- For FY2016, no single payor accounted for more than 11% of revenue reimbursements

Payor mix at IPO (10/2/14)



Payor mix on 12/31/16



# LABORATORY AND DIAGNOSTICS CAPABILITIES

## > Competitive advantages

- Faster turn around
- One laboratory for all clinical needs:
  - Toxicology
  - General Clinical Testing
    - hematology, chemistry, infectious disease, hormone, urinalysis
  - Pharmacogenetics
- Addiction only focus
- Superior test reporting and EMR integration



- 2 lab locations: Nashville, New Orleans
- 16 liquid chromatography mass spectrometry machines (LC-MS) - toxicology  
3 enzymatic immunoassay machines (EIA) - toxicology, general clinical testing  
1 polymerase chain reaction machine (PCR) - DNA

## > 3rd party sales now online; a primary focus of management team

## > 2017 standalone diagnostic revenue estimated \$50MM\*

## > Shift away from low complexity, point-of-care testing; focus on laboratory-based, high-complexity testing

\* Includes 3rd Party

# EMPLOYEES AND OPERATIONS

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- AAC employs approximately 2,000 people, including 490 corporate employees
- The typical facility is staffed with broad range of employees, including administrative, clinical, operational and housekeeping

Example Staffing: 130 bed facility (1.5X staff to client ratio)	
Behavioral Health Technician	30
Licensed Vocational Nurses	30
Therapists	15
Registered Nurses / Nurse Liaisons	14
Facility CEO	1
Medical Director	1
Clinical Director	1
Director of Nursing	1
Director of Operations	1
Other	60
<b>TOTAL FTEs</b>	<b>154</b>

- While employees at Sunrise House voted to join a labor union<sup>(1)</sup> in 2016, no other AAC facility currently has union representation or is covered by a collective bargaining agreement
  - On May 25, 2017 employees at Sunrise House initiated a labor strike
    - In response, AAC has stopped admitting clients to Sunrise and has redirected clients to other locations

<sup>(1)</sup> Union labor contract still pending.



# COMPLIANCE PROGRAM

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- > **AAC's compliance program reviews regulatory compliance procedures and policies across its facilities**
  - Executive management is responsible for oversight and operation of the compliance program
  - Periodic and comprehensive training programs to all personnel
- > **All AAC treatment facilities are licensed under applicable state laws and accredited by the primary accrediting bodies in the industry**
  - All treatment facilities have obtained or in process of obtaining accreditation from CARF and/or The Joint Commission
  - Both labs hold CLIA certificates of accreditation, certifying them for complex testing, are accredited by COLA and participate in the CAP proficiency program
- > **Sentinel events unfortunately occur in the substance abuse treatment industry**
  - AAC's sentinel event rate is approximately 10% of the industry average <sup>(1)</sup>

<sup>(1)</sup> According to SAMHSA, during 2010 and 2011, deaths occurred while in treatment at a rate of one death for every 422 client discharges. AAC experienced 1 death per 4,252 client discharges from 2011 - 2015.

# RECENT DEVELOPMENTS AND COMPANY UPDATES

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## > Laguna Joint Commission accreditation on February 14th

- AAC benefitting from 50%+ increase in census in first 90 days

## > Oxford expansion of 48 residential and detox beds

- Represents \$7.5 million annual revenue and \$1.5 million AEBITDA opportunity (85% occupancy @ \$500 ADR and 20% net margin)

## > New Orleans East Hospital progress

- 36 leased hospital beds pending licensure

## > Pending consolidation of Southern Florida operations (Summer 2017)

- Consolidation of Recovery First West Palm and Recovery First will provide more efficient operations and stronger financial performance





# American Addiction Centers

RIVER OAKS



## KEY CREDIT STRENGTHS

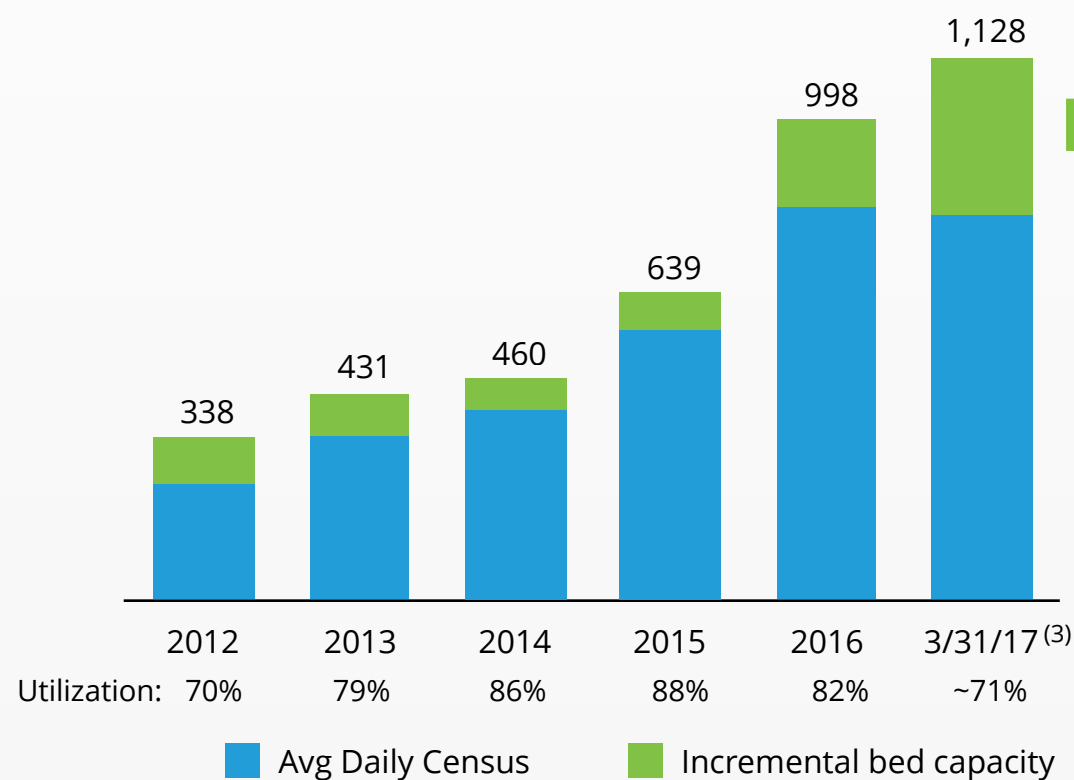


# EMBEDDED GROWTH FROM RECENT INVESTMENTS

- Invested over \$200mm since the beginning of 2015 to dramatically improve AAC's platform
- We anticipate that filling existing beds would lead to over \$50mm of incremental revenue
  - Does not factor in incremental benefits of operating leverage, margin improvement, and incremental sober living admissions or outpatient visits

## Significant growth in residential bed capacity

(average effective residential bed count during period)



## Revenue growth opportunity

Current Residential Capacity	1,128			
Utilization Rate	75%	80%	85%	90%
Census at Utilization Rate	846	902	959	1,015
Q1 2017 Census	802	802	802	802
Census Increase	44	100	157	213
Additional Mo. Revenue (MM) <sup>(1)</sup>	\$1.0	\$2.2	\$3.4	\$4.7
Additional Annual Revenue (MM)	\$11.6	\$26.5	\$41.4	\$56.3

(1) Analysis assumes \$22,000 in additional revenue per increase in average census.

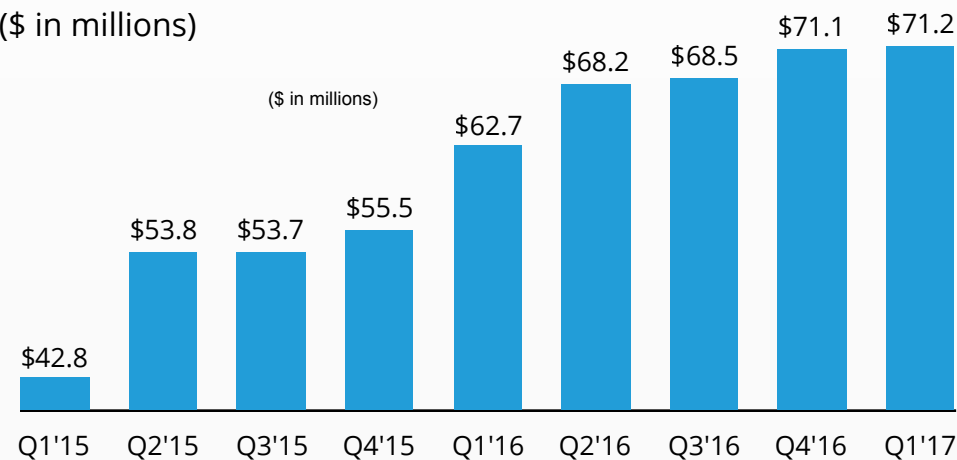
(2) Residential bed count as of 3/31/17 and average daily census for Q1 2017.



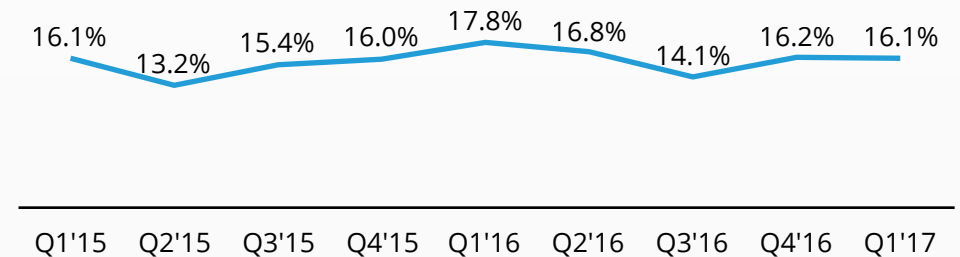
# HIGH GROWTH PLATFORM WITH OPERATING LEVERAGE

- Corporate overhead has remained relatively flat as a % of client revenue – *opportunity to improve margins by reducing expenses*
- Billing expenses have remained relatively flat at less than 2.5% – *expected to remain flat as % of revenue going forward*
- Customer acquisition costs have dramatically decreased – *potential for additional improvement with more placement options*

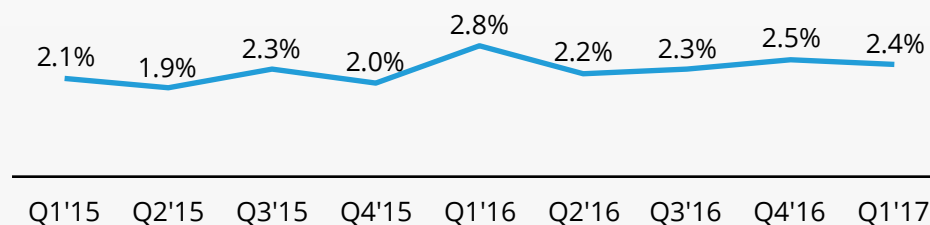
**Client Revenue**  
(\$ in millions)



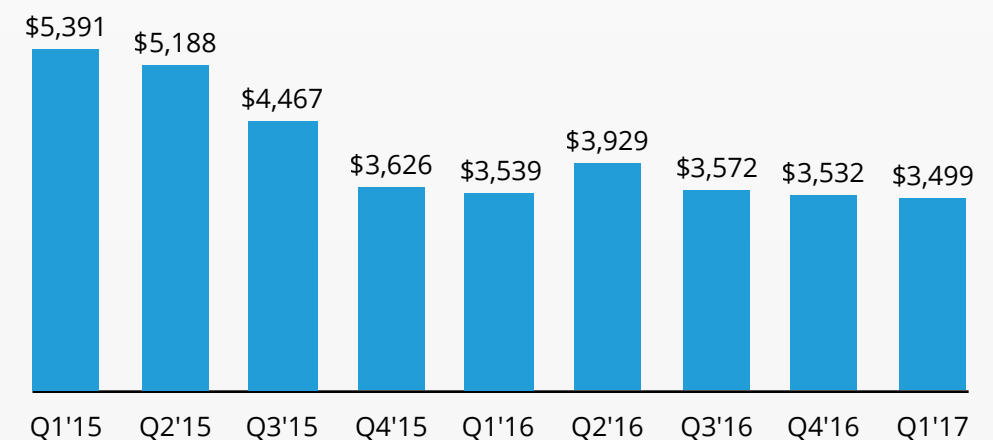
**Corporate Overhead as a % of Client Revenue**



**Billing Expenses as a % of Client Revenue**

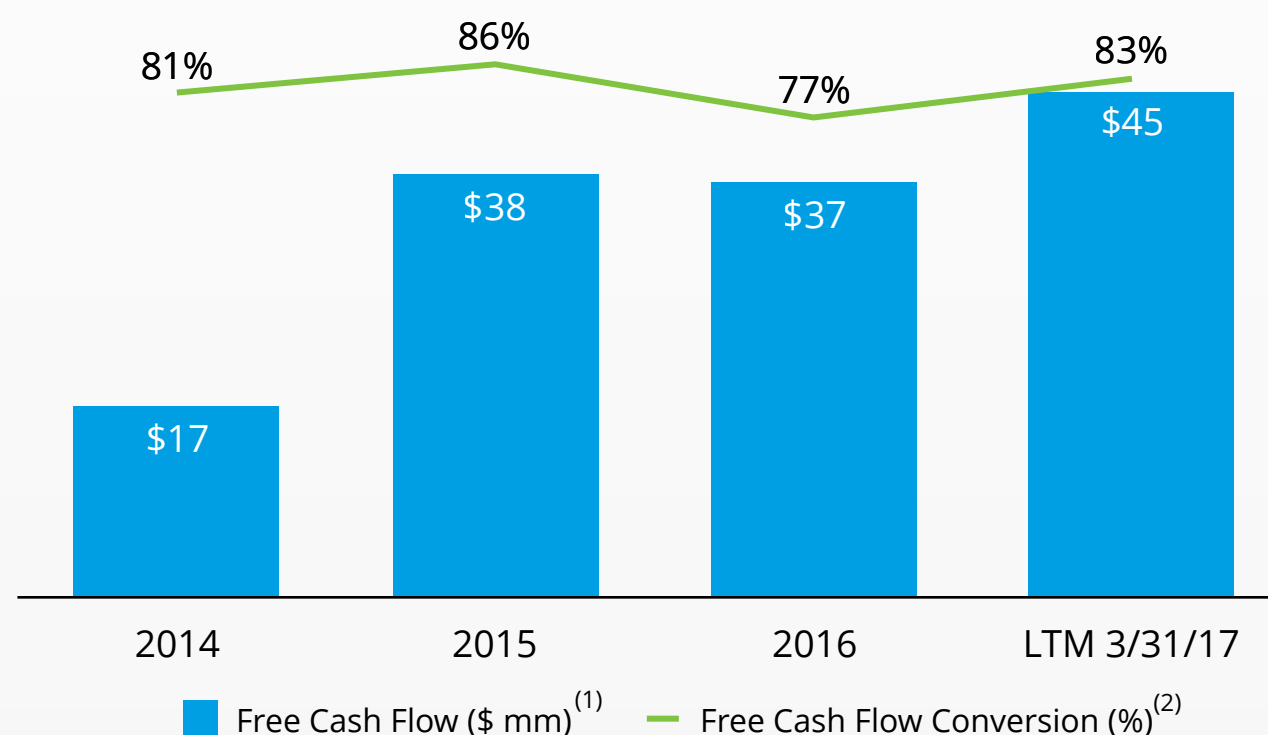


**Customer Acquisition Cost (\$)**



# STRONG FREE CASH FLOW GENERATION

- > High margin and low maintenance capital expenditure requirement produces strong free cash flow conversion
- > Investments made in recent years allows for substantial runway for growth with limited incremental capital expenditures



(1) Free Cash Flow defined as Pro Forma Adjusted EBITDA less Maintenance capital expenditures. For the reconciliation to net income (loss), the corresponding GAAP financial measure, see the Appendix.

(2) Free Cash Flow Conversion defined as Free Cash Flow divided by Pro Forma Adjusted EBITDA

# VALUABLE REAL ESTATE & SIGNIFICANT COLLATERAL

- Gross real estate cost basis of approximately \$115mm (pro forma for \$20mm planned sale/leasebacks)
- Accounts receivables, net of allowances, of \$94mm as of 3/31/17

Real Estate Cost Basis	Grand Total
Laguna	\$ 20.8
River Oaks	\$ 20.0
Greenhouse	\$ 19.6
Oxford	\$ 17.7
Desert Hope	\$ 14.8
Ringwood	\$ 12.0
Sunrise House	\$ 7.6
Recovery First	\$ 1.4
Total Real Estate Collateral Cost Basis	\$ 113.9
Accounts Receivables, Net of Allowances	\$ 94.0
Total Real Estate and Receivables Collateral	\$ 207.9





# American Addiction Centers

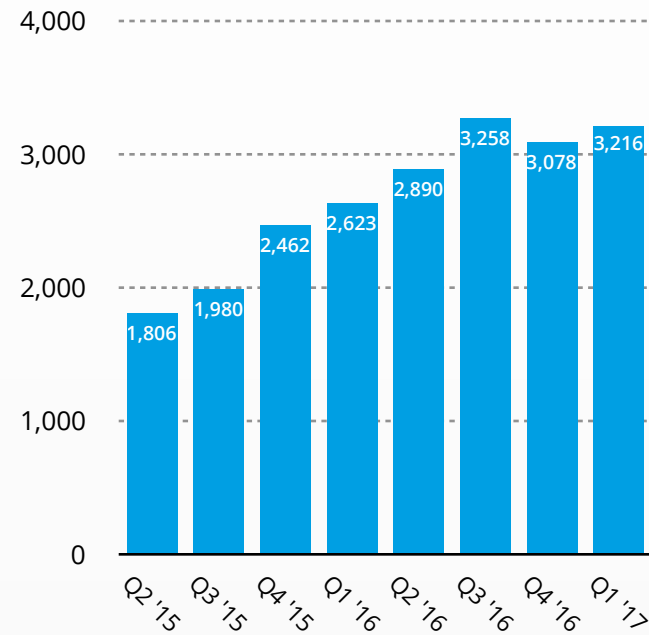


## HISTORICAL FINANCIALS

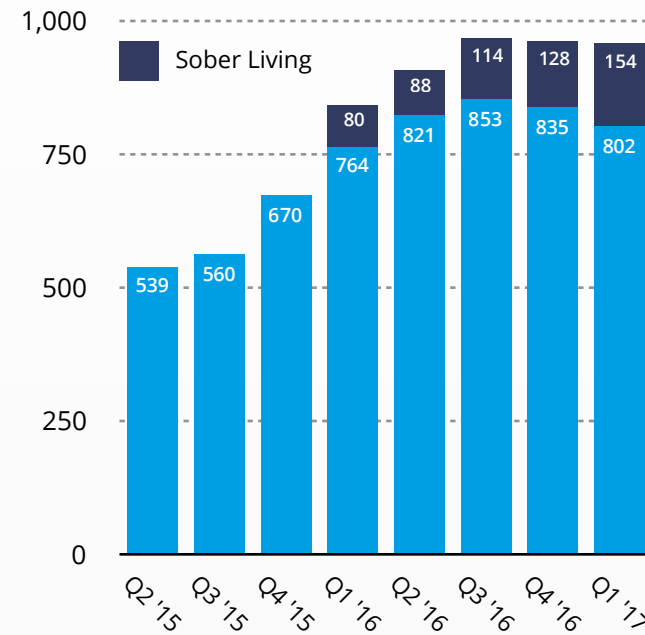
# OPERATING METRICS

## RESIDENTIAL

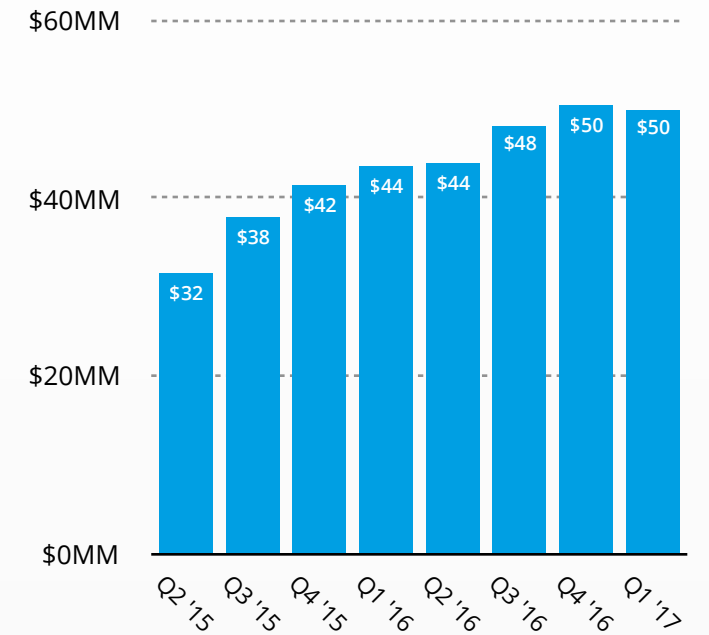
### ADMISSIONS



### AVG. DAILY CENSUS

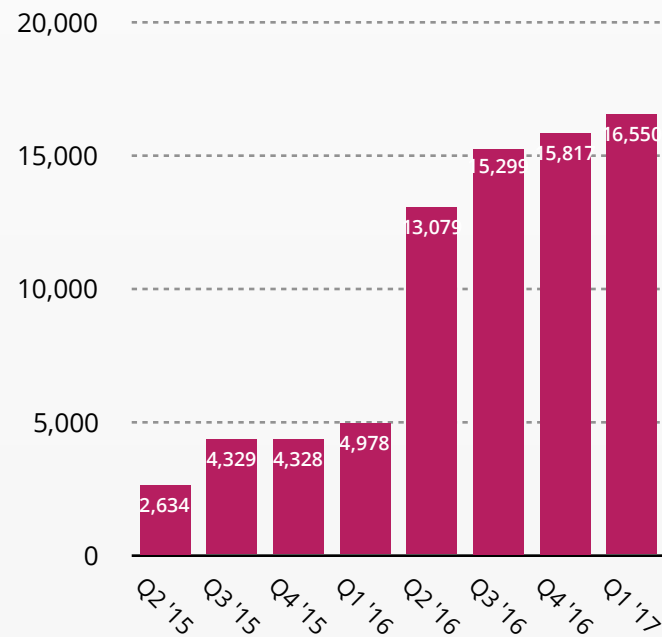


### REVENUE

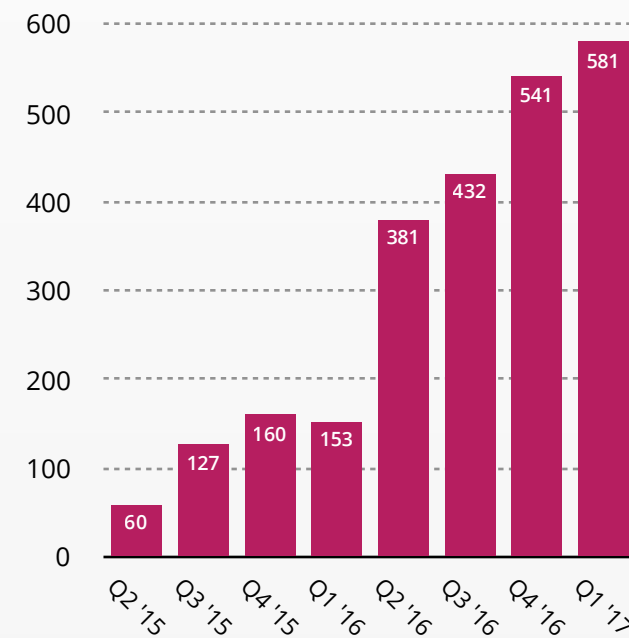


## OUTPATIENT

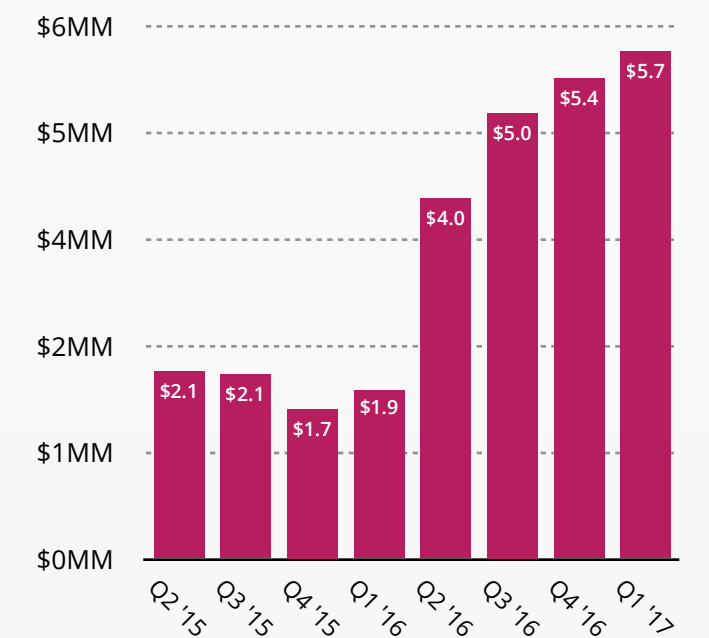
### VISITS



### AVG. DAILY CENSUS



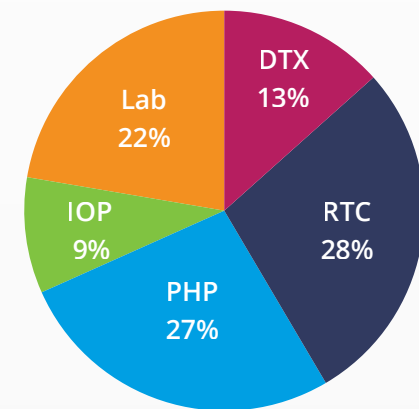
### REVENUE



# RESIDENTIAL CLIENT ECONOMICS

Level of Care	"DTX"	"RTC"	"PHP"	"IOP"	Total
AAC Avg. Days Authorized	3	7	10	7	27
AAC Avg. Reimbursement	\$1,000	\$900	\$600	\$300	\$17,400
	Diagnostic / Compliance Lab Services				\$5,000
	AAC Avg. Revenue Per Client				\$22,000+

Service % of Revenue



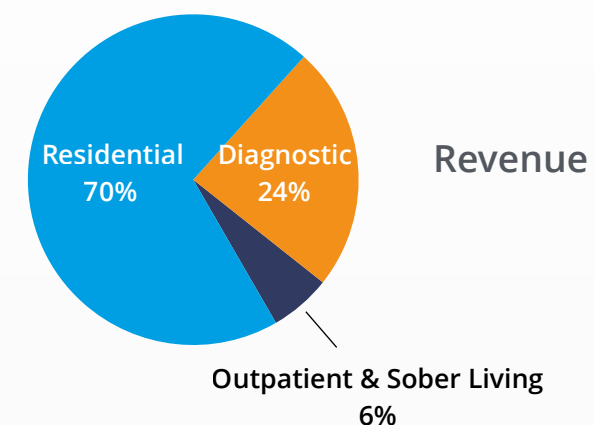


# EBITDA CONTRIBUTION BY SERVICE LINE

**2016**

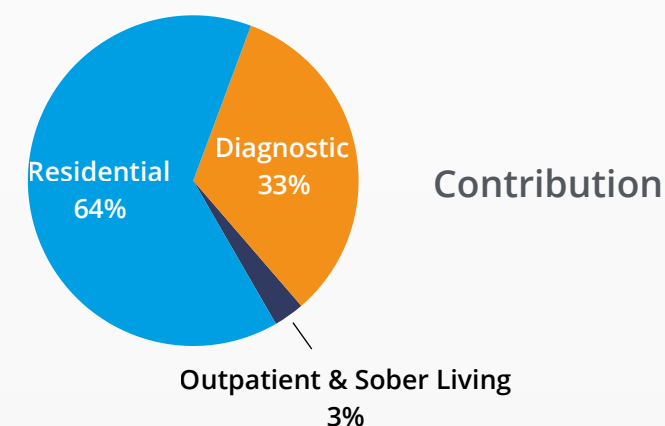
## Revenue:

Residential	\$	187,074,351
Outpatient & Sober Living	\$	16,655,923
Diagnostic Services	\$	65,092,355
<b>Total Facility Revenue</b>	<b>\$</b>	<b>268,822,629</b>



## Service Line Contribution to EBITDA (prior to corporate overhead)

Residential	\$	92,085,377
Outpatient & Sober Living	\$	4,701,620
Diagnostic Services	\$	47,083,522
<b>Total Service Line EBITDA Contribution</b>	<b>\$</b>	<b>143,870,519</b>



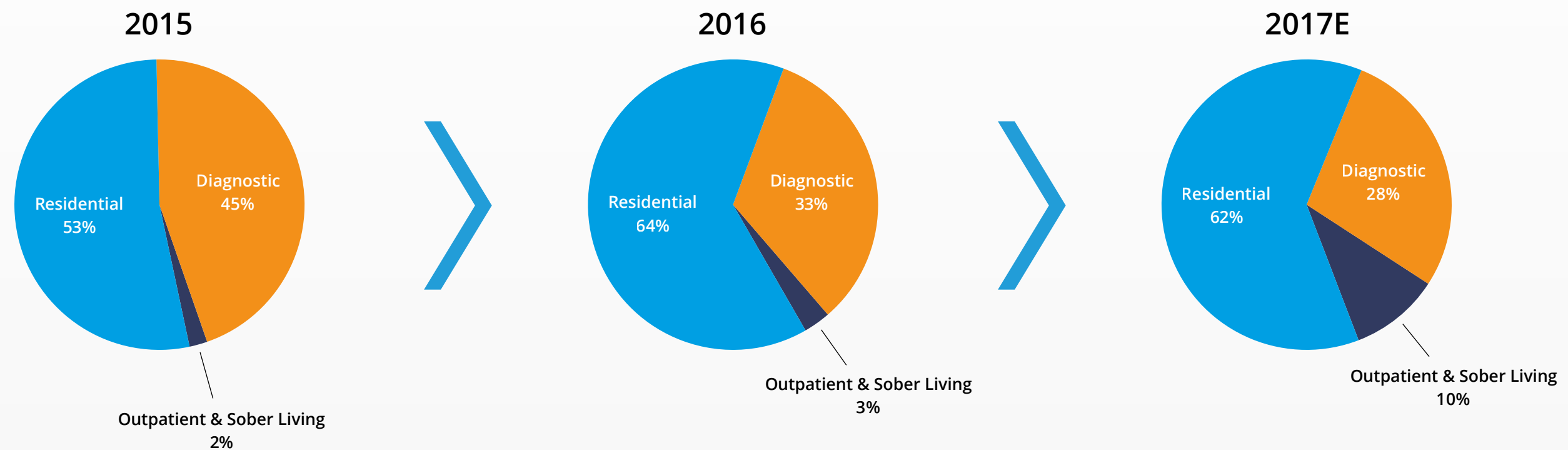
<b>Corporate Overhead<sup>(1)</sup></b>	<b>\$</b>	<b>(96,072,828)</b>
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<b>Adj. EBITDA</b>	<b>\$</b>	<b>47,797,691</b>
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<sup>(1)</sup>Excludes recent expense reduction initiatives

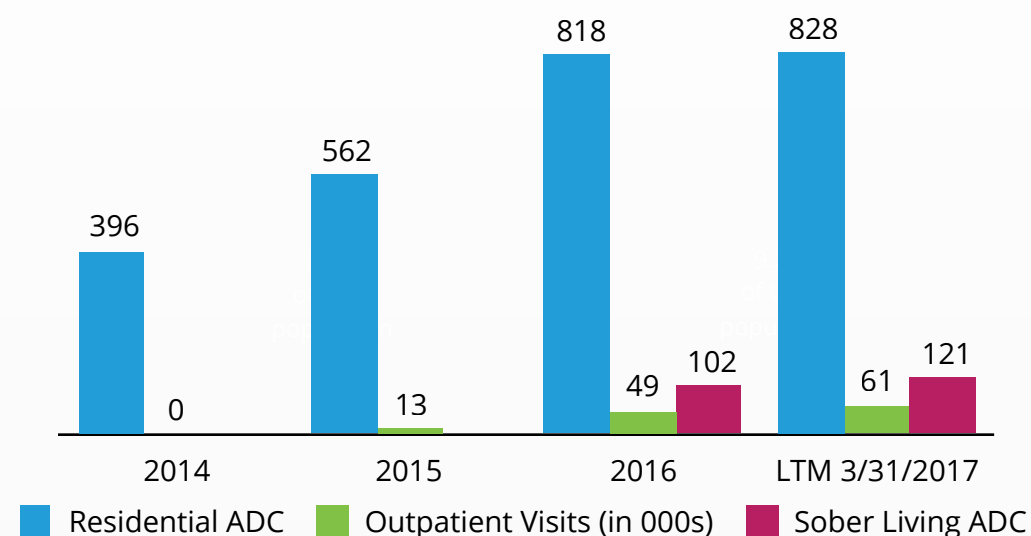
# DECREASING DIAGNOSTIC SERVICES CONTRIBUTION

## Service Line AEBITDA Contribution

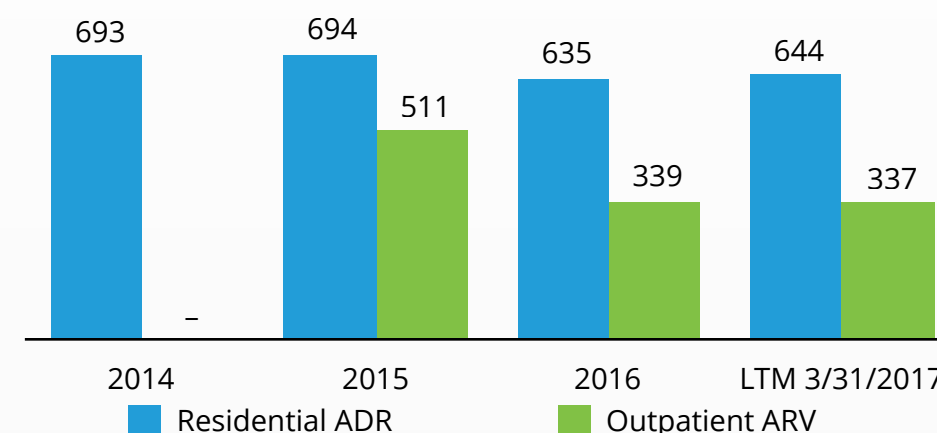


# HISTORICAL FINANCIAL PERFORMANCE

## Average Daily Census & Outpatient Visits

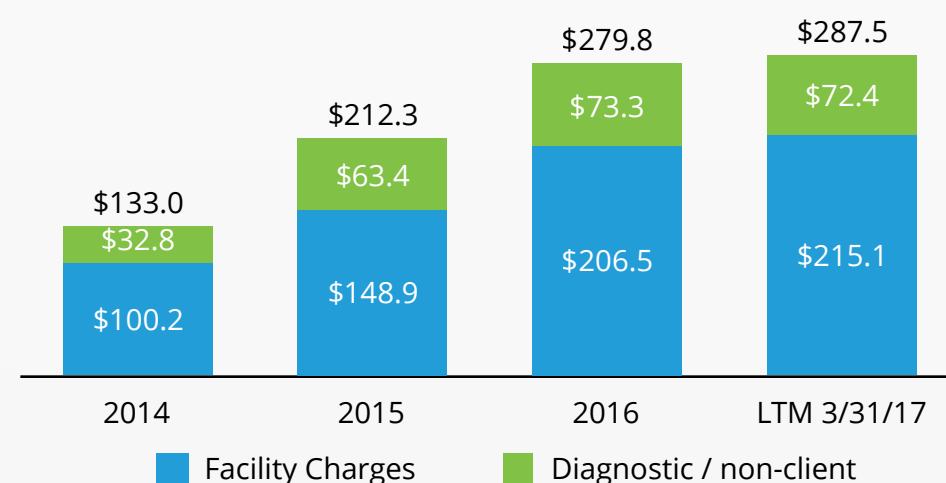


## Average Daily Revenue / Revenue per visit



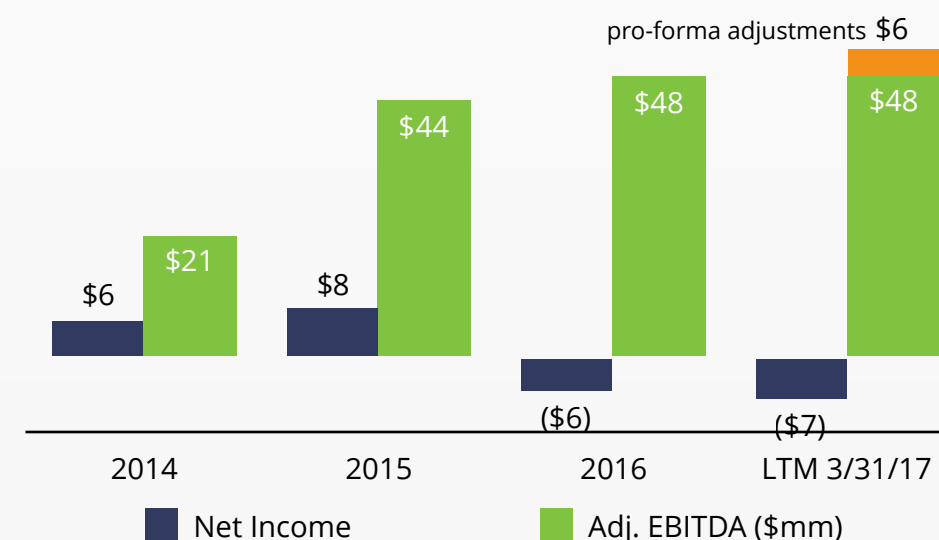
## Total Revenues

(\$ millions)



## Pro Forma Adjusted EBITDA<sup>(1)</sup>

(\$ millions)

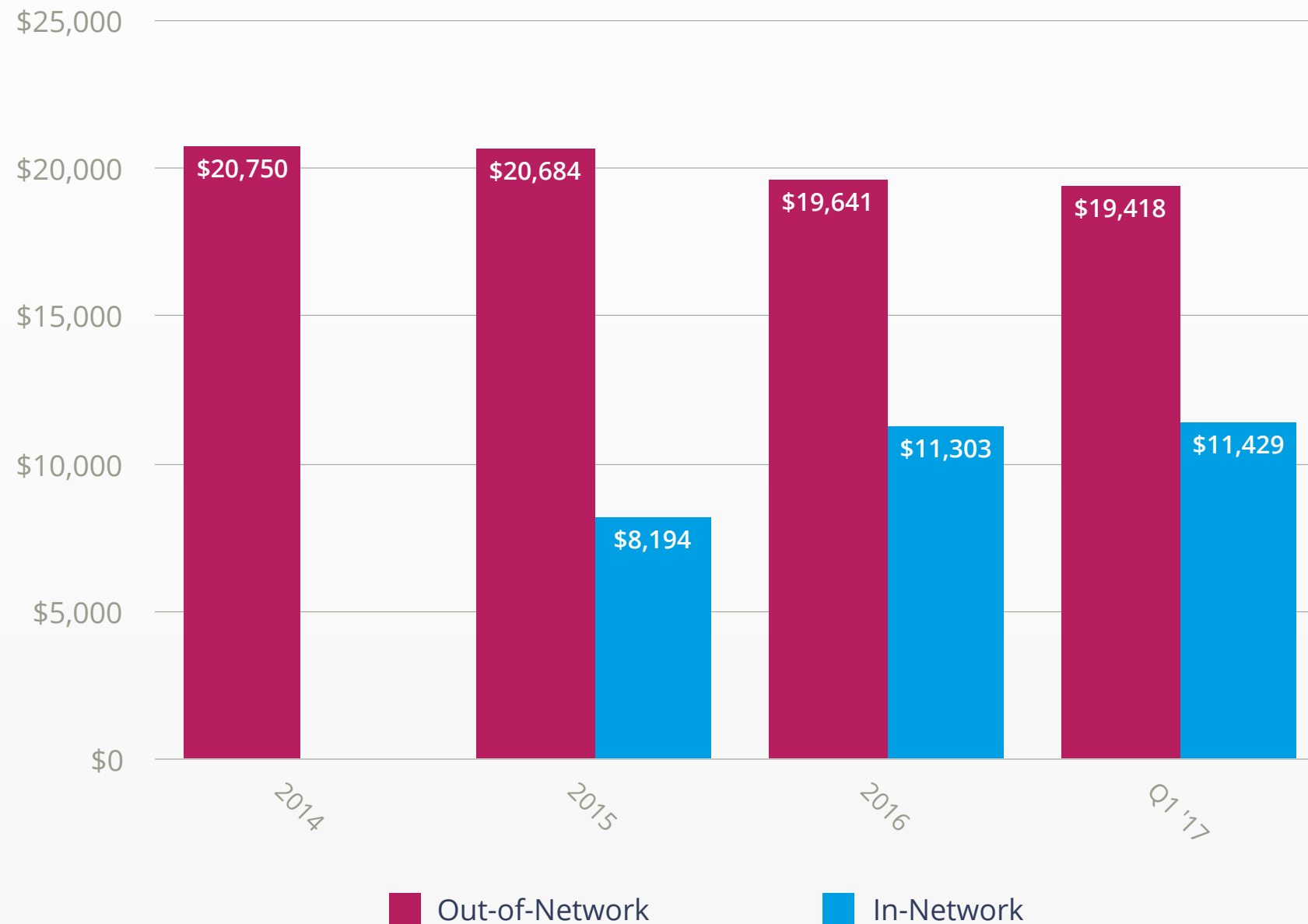


(1) Please refer to the Appendix for a reconciliation of Pro Forma Adjusted EBITDA.



# FACILITY REVENUE PER ADMISSION

Facility Revenue Per Admission by Payor Type *(excludes diagnostic services)*



# RECENT EXPENSE REDUCTION INITIATIVES

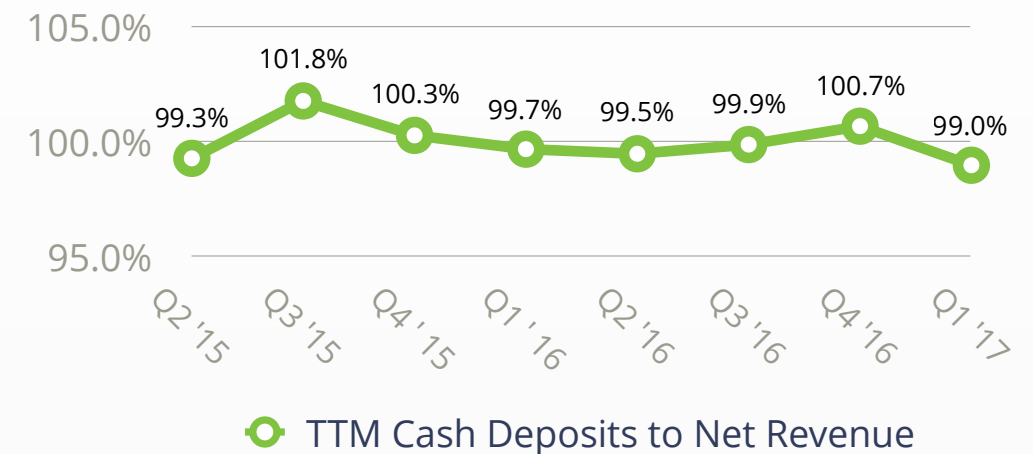
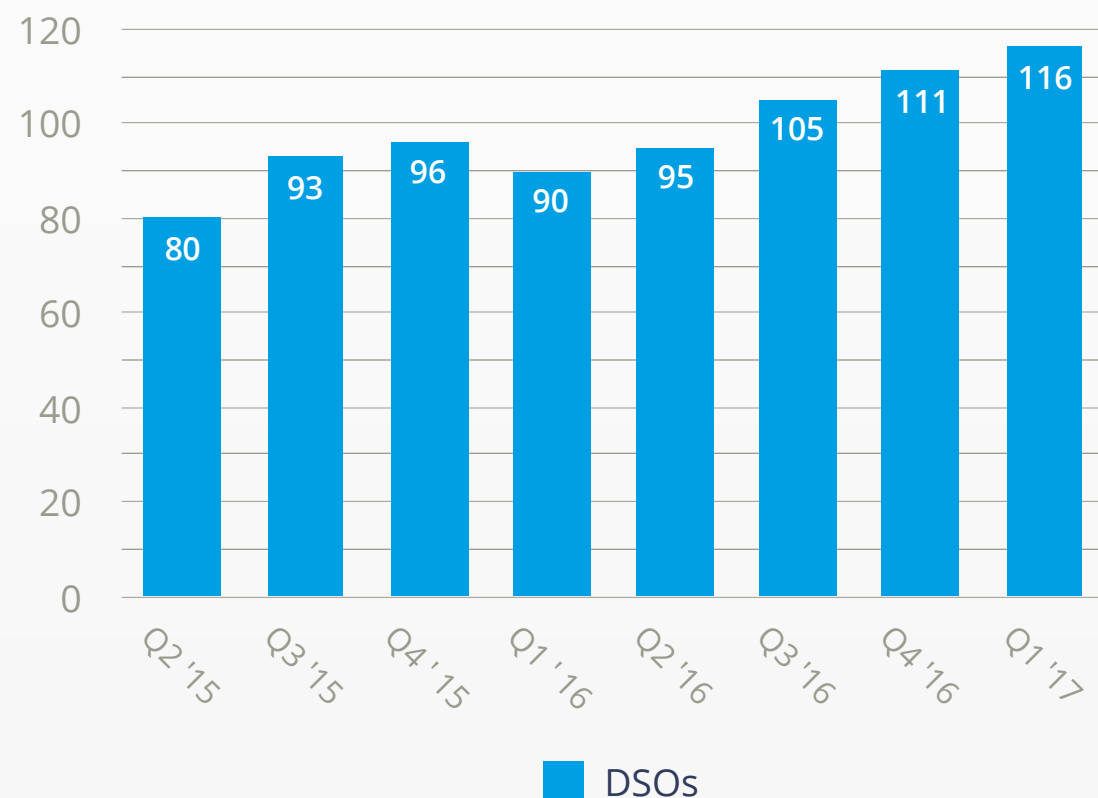
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## > **Work Force Reduction - approximately \$8.6MM in expected annualized savings**

- 5% work force reduction completed in February 2017
- 108 positions eliminated across the Company
- Expected \$8.6MM of annualized savings (\$8.2MM of the \$8.6MM will be recognized in fiscal year 2017)
- Positions eliminated included:
  - Non-essential positions at the corporate office
  - Achievement of synergies at recently acquired facilities (e.g., Solutions, Townsend, and Sunrise House)
  - Reductions to align staffing levels with occupancy

# DSO'S INCREASED, COLLECTIONS WERE STABLE

- > Payors are requesting more documentation before processing lab claims, significantly extending payment times
- > AAC plans to anticipate documentation requests and submit as much information with the initial claim
- > Increase in documentation requests prior to payment in out-of-network facilities (primary at Desert Hope and Green House)
- > AAC working to streamline submission of medical records
- > Majority of AAC's out-of-network residential facilities and lab also switched clearinghouses from Q3'16 to Q1'17, which had a temporary negative impact on DSOs

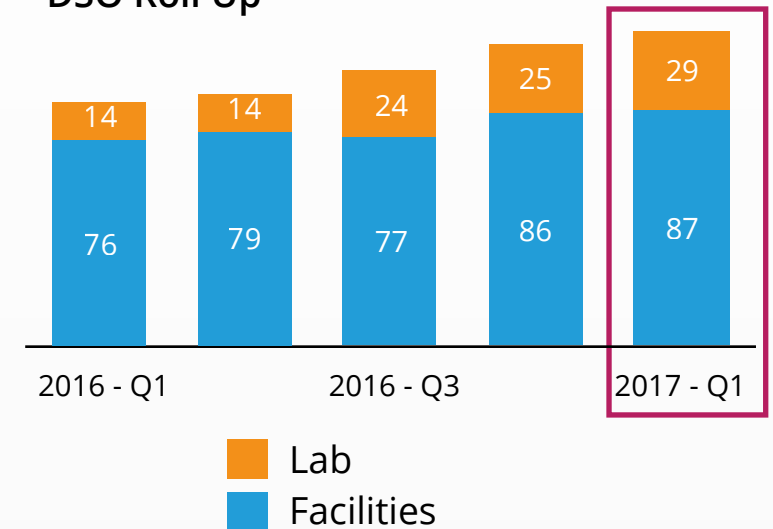




# 2017 DSO UPDATE

- > 1Q 2017 DSOs of 116 days represented a five day increase from 4Q 2016
- > Largely driven by one-time technical issues related to lab collections
  - Temporarily unable to bill for services for 20 days due to technical issues with clearing house
  - Internal conversion to new lab billing codes for 2017 caused another 23 day delay
- > These issues were resolved in March 2017
  - Collections in April have improved 6% compared to Q1 2017
  - Collections in May were the highest in AAC's history
- > Revenues from Client-related diagnostics services continued to decline in Q1 2017
  - 23% of revenues versus ~40% in Q2 2015
- > Management expects DSOs to trend down to ~100 days in 2018

DSO Roll Up



# FINANCIAL POLICY

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- > **Financial policy includes the following components:**
  - Maintain our discipline for sufficient liquidity and cash for operations
  - Maintain our disciplined approach to acquisitions
  - No anticipated dividends or stock buybacks
  - Maintain appropriate debt leverage
- > **Management is committed to reducing leverage by both EBITDA expansion and debt reduction**
- > **Intend to use available cash flow for attractive acquisitions, de novo expansions, and debt repayment**



# American Addiction Centers



DESERT HOPE LOBBY

## APPENDIX



# APPENDIX: NON-GAAP FINANCIAL MEASURES

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Adjusted EBITDA and Adjusted Pro Forma Adjusted EBITDA, (herein collectively referred to as "Non-GAAP Disclosures") are "non-GAAP financial measures" as defined under the rules and regulations promulgated by the U.S. Securities and Exchange Commission, which is defined below. Management believes the Non-GAAP Disclosures provide investors with additional meaningful financial information that should be considered when assessing our underlying business performance and trends. We believe the Non-GAAP Disclosures also enhance investors' ability to compare period-to-period financial results. The Non-GAAP Disclosures should not be considered as measures of financial performance under U.S. generally accepted accounting principles ("GAAP"). The items excluded from the Non-GAAP Disclosures are significant components in understanding and assessing our financial performance and should not be considered as an alternative to net income (loss) or other financial statement items presented in the condensed consolidated financial statements. Because the Non-GAAP Disclosures are not a measure determined in accordance with GAAP, the Non-GAAP Disclosures may not be comparable to other similarly titled measures of other companies.

Management defines Adjusted EBITDA as net income (loss) adjusted for interest expense, depreciation and amortization expense, income tax expense (benefit), stock-based compensation and related tax reimbursements, litigation settlement and California matter related expense, acquisition-related expense (which includes professional services for accounting, legal, valuation services and licensing expenses), de novo start-up and other expenses, facility closure operating losses and expense (associated with The Academy and FitRx), gain on contingent consideration associated with our acquisition of Townsend, and bargain purchase gain associated with our acquisition of Sunrise House in the fourth quarter of 2015.

Management defines Adjusted Pro Forma EBITDA as net income (loss) adjusted for interest expense, depreciation and amortization expense, income tax expense (benefit), stock-based compensation and related tax reimbursements, litigation settlement and California matter related expense, acquisition-related expense (which includes professional services for accounting, legal, valuation services and licensing expenses), de novo start-up and other expenses, facility closure operating losses and expense (associated with The Academy and FitRx), gain on contingent consideration associated with our acquisition of Townsend, bargain purchase gain associated with our acquisition of Sunrise House in the fourth quarter of 2015, increased rent expense based upon contemplated sale/leaseback, effect of Q1 2017 workforce reduction, and run rate adjustment for Solutions acquisition.

# RECONCILIATION OF AEBITDA & FREE CASH FLOW

<i>(\$ in thousands)</i>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>LTM 3/31/2017</b>
Net income (loss)	\$871	\$1,099	\$1,492	\$6,366	\$8,341	(\$5,741)	(\$7,116)
Add: Interest expense	337	980	1,390	1,872	3,607	8,175	9,207
Add: Income tax expense (benefit)	652	1,148	615	2,555	4,780	(1,220)	(1,765)
Add: Depreciation and amortization	195	1,288	3,003	4,662	7,837	17,686	19,240
Add: Stock-based compensation and related tax reimbursements	—	2,408	1,649	3,030	5,757	8,823	8,322
Add: Litigation settlement and California matter related expenses	—	—	2,588	487	5,446	8,690	6,524
Add: Reorganization expense	—	—	821	1,176	—	—	—
Add: Acquisition-related expenses	—	150	—	845	3,801	3,252	2,664
Add: De novo facility start-up and other expense	—	95	—	99	3,369	8,663	11,155
Add: Facility closure operating losses/expenses	—	—	—	—	3,114	771	771
Add: Employee severance expense	—	—	—	—	—	—	743
Less: Gain on contingent consideration	—	—	—	—	—	(1,350)	(1,350)
Less: Bargain purchase gain	—	—	—	—	(1,775)	—	—
<b>Adjusted EBITDA (as reported)</b>	<b>\$2,055</b>	<b>\$7,168</b>	<b>\$11,558</b>	<b>\$21,092</b>	<b>\$44,277</b>	<b>\$47,749</b>	<b>\$48,395</b>
Less: Additional rent from Sale and Leaseback transaction							(1,800)
Add: Pro forma effect of workforce adjustment (completed in February 2017)							6,965
Add: Pro forma run-rate adjustment for Solutions acquisition (completed in May 2016)							713
<b>Pro-forma Adjusted EBITDA</b>							<b>\$54,273</b>
Less: Maintenance capital expenditures				(4,398)	(6,127)	(11,119)	(9,104)
<b>Free Cash Flow</b>				<b>\$16,694</b>	<b>\$38,150</b>	<b>\$36,630</b>	<b>\$45,169</b>

# KEY TERMS

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- > **Addiction** - A chronic brain disease that is characterized by compulsive drug seeking and use, despite harmful consequences
- > **Dependency** - Needing a drug to function normally so that abruptly stopping or reducing the drug leads to withdrawal symptoms
- > **Rehabilitation** - The treatment of chemical or behavioral addictions, usually administered in a residential setting
- > **Rehab** - Addiction treatment rehabilitation centers usually operated by a public or private organization and is regulated by single state-level alcohol and drug authorities with licensing and program review authority



# INPATIENT VERSUS OUTPATIENT

Inpatient	Outpatient
Residential	Stay at home or sober living
24 hour supervision	Requires minimum daily and weekly attendance
Programs most commonly involve substance abuse counseling, relapse prevention, cognitive-behavioral therapy, 12-step facilitation, and motivational interviewing	Program involves individual and group counseling integrated with forms of behavioral treatments
Focus on individual treatment plan using multiple therapeutic approaches which are customized on a case-by-case basis	Focus on group work includes psycho-educational, skills development, support, and interpersonal process groups
Medical monitoring of detoxification offered	Medical monitoring of detoxification outsourced to hospitals or detox clinics
Recommended for people who lack sufficient motivation or social supports to stay abstinent on their own	Recommended for people who do not need full-time supervision and have some available supports but benefit from structure





# A TYPICAL DAY IN INPATIENT REHAB

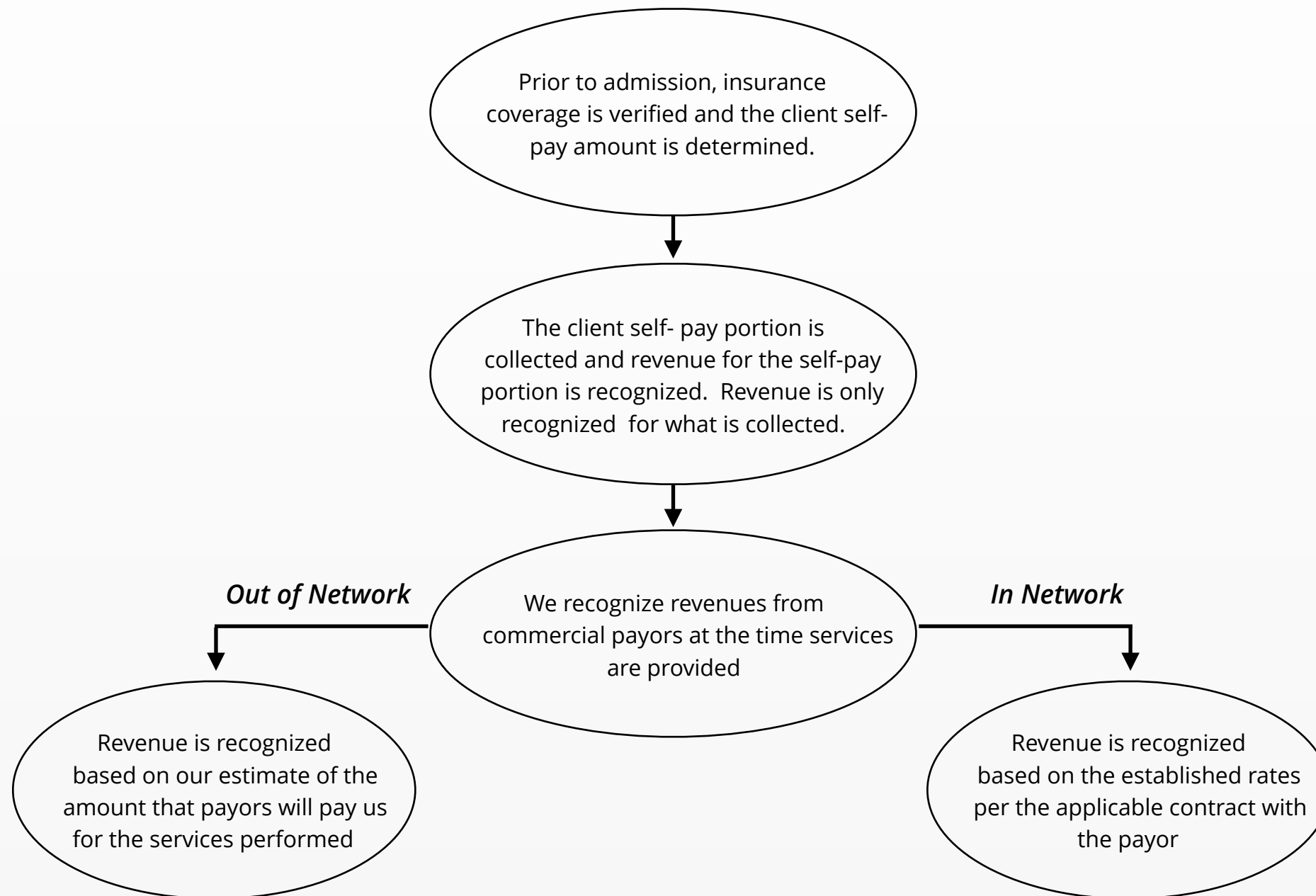
## Residential treatment represents a highly structured schedule

07:00	Wake-up, breakfast, and basic chores
08:00	Morning meditation
08:30	Nurse check and Rx medication distribution
09:00	Daily activities session 1 (education session)
09:45	Break
10:00	Daily activities session 2 (group therapy)
11:00	Daily activities session 3 (12 step facilitation)
11:45	Clean up and prepare for lunch
12:00	Lunch
13:00	Daily activities session 4 (individual counseling)
14:00	Group exercise and outdoor time
15:00	Daily activities session 5 (education session)
16:00	Nurse check and Rx medication distribution, drug screening
16:30	Rx medication management meeting
17:30	Daily chores and free time
18:30	Daily activities session 6 (family therapy)
19:30	Daily activities session 7 (group therapy)
20:30	Social time, phone calls, etc
21:15	Evening medication and nurse checks
22:00	Quiet time, reading, homework, etc
23:00	Lights out



# REVENUE RECOGNITION

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# BAD DEBT POLICY

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- The provision for doubtful accounts represents the expense associated with management's best estimate of accounts receivable that could become uncollectible in the future. We establish our provision for doubtful accounts based on the aging of the receivables, historical collection experience by facility, services provided, payor source and historical reimbursement rate, current economic trends and percentages applied to the accounts receivable aging categories. As of December 31, 2016, substantially all of accounts receivable aged greater than 360 days were fully reserved in our consolidated financial statements. In assessing the adequacy of the allowance for doubtful accounts, we rely on the results of detailed reviews of historical write-offs and recoveries on a twelve-month basis (the hindsight analysis) as a primary source of information to utilize in estimating the collectability of our accounts receivable. We supplement this hindsight analysis with other analytical tools, including, but not limited to, historical trends in cash collections compared to net revenues less bad debt and days sales outstanding.
- We establish our provision for doubtful accounts based on the aging of the receivables, historical collection experience by facility, services provided, payor source and historical reimbursement rate, current economic trends and percentages applied to the accounts receivable aging categories. As of December 31, 2016, substantially all of accounts receivable aged greater than 360 days were fully reserved in our consolidated financial statements.
- In assessing the adequacy of the allowance for doubtful accounts, we rely on the results of detailed reviews of historical write-offs and recoveries on a twelve-month basis (the hindsight analysis) as a primary source of information to utilize in estimating the collectability of our accounts receivable.
- We supplement this hindsight analysis with other analytical tools, including, but not limited to, historical trends in cash collections compared to net revenues less bad debt and days sales outstanding.

# AAC CURRENT RESIDENTIAL FACILITY OFFERINGS

<i>Facility</i>	<i>Type</i>		<i>Major Contracts</i>
River Oaks	Premium	★★★★★	Out-of-Network
Greenhouse	Premium	★★★★★	Out-of-Network
Laguna Treatment Hospital	Premium	★★★★★	Out-of-Network
Forterus	Premium	★★★★★	Out-of-Network
San Diego "SDTC"	Premium	★★★★★	Out-of-Network
Desert Hope	Premium	★★★★★	Sierra Health + Out-of-Network
Oxford Treatment Center	Premium	★★★★★	BCBS MS + Out-of-Network
Recovery First	Standard	★★★★	Aetna, BCBS FL, Cigna, Magellan, United, Value Options,
Recovery First - West Palm	Standard	★★★★	Aetna, BCBS FL, Cigna, Magellan, United, Value Options,
Sunrise House	Standard	★★★★	Aetna, BCBS Empire, BCBS Horizon, Cigna, Magellan, United
Townsend Treatment Center	Standard	★★★★	BCBS LA , Cigna, Humana, MHA, United
Solutions Treatment Center	Standard	★★★★	Aetna, BCBS Anthem, BHO, Optum, United



# CURRENT CAPACITY OVERVIEW

Facility	Beds		State	Levels of Care	Property	Type	Anticipated Availability
	4/30/17	Pending					
Desert Hope	148		NV	DTX, RTC, PHP, IOP	Owned	De novo	
Greenhouse	130		TX	DTX, RTC, PHP, IOP	Owned	De novo	
Forterus	100		CA	DTX, RTC, PHP, IOP	Leased	Original	
San Diego "SDTC"	36		CA	DTX, RTC, PHP, IOP	Leased	Original	
Recovery First	72		FL	DTX, RTC, PHP, IOP	Owned/Leased	Acquired	
Recovery First - West Palm Beach	65	-64	FL	PHP, IOP	Leased	Acquired	
Recovery First - Ft. Lauderdale East		84	FL	PHP, IOP	Leased	De Novo	Q3 '17
Oxford Treatment Center	124		MS	DTX, RTC, PHP, IOP	Owned	Acquired	
Sunrise House	110		NJ	DTX, RTC, PHP, IOP	Owned	Acquired	
River Oaks	162		FL	DTX, RTC, PHP, IOP	Owned	De Novo	
Laguna Treatment Hospital	93		CA	DTX, RTC, PHP, IOP	Owned	De Novo	
Ringwood		150	NJ	DTX, RTC, PHP, IOP	Owned	De Novo	2018
Townsend Treatment Center	32		LA	DTX, RTC, PHP, IOP	Leased	Acquired	
Townsend New Orleans		36	LA	DTX, RTC, PHP, IOP	Leased	De Novo	Q3 '17
Solutions Treatment Center	80		NV	DTX, RTC, PHP, IOP	Leased	Acquired	
Las Vegas Sober Living	138		NV	N/A	Pending Sale/Leaseback	Acquired	
Arlington Sober Living	80	75	TX	N/A	Pending Sale/Leaseback	Acquired	Q4 '17
Oxford Sober Living	24	48	MS	N/A	Owned/Leased	De Novo	Q3 '17
<b>Total</b>	<b>1,394</b>	<b>329</b>					

