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# Why Now?

## A Look at Recent Trends in Behavioral Health



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### KEY TAKEAWAYS

- Understanding of the social and economic impact of mental and behavioral health issues has grown as COVID led to an increase in cases of anxiety, isolation and depression
- Record levels of investment by Adams Street are targeted toward companies with the potential to improve clinical outcomes for a wider number of patients and at a lower overall cost
- We believe long-term growth is likely to continue as technological advances provide opportunities for further innovative treatments that improve the standard of care

The stigma long associated with mental and behavioral health problems diminished significantly over the past decade, while understanding of the seriousness of such illnesses increased still further as the physical and social isolation created by the COVID-19 pandemic led to a surge in cases.

In January 2021, more than 40% of adults in the US said they had experienced symptoms of anxiety and/or depressive disorder, which rose to nearly 60% of 18-24 year olds.<sup>1</sup> In the US, one in five people will experience a mental illness in a given year,<sup>2</sup> while more than 50% will be diagnosed with a mental illness or disorder at some point in their lifetime.<sup>3</sup>

### Heightened Awareness

Employers and lawmakers are taking notice as the stark social and economic costs of mental and behavioral health issues become more apparent, with one study estimating the direct and indirect costs of behavioral illness at as much as 4% of global GDP.<sup>4</sup>

Heightened awareness has led to policy changes, with the landmark 2008 Mental Health Parity and Addiction Equity Act (“MHPAEA”) putting mental and behavioral health benefits essentially on par with medical benefits. Eight years later, the 21st Century Cures Act allocated additional resources to address the opioid epidemic and to improve the enforcement of the MHPAEA.

## Need for Innovation

But to further widen access to care and create still better outcomes with lower overall costs, key constituencies such as payors, providers, lawmakers, and employers must innovate further.

As payors and providers have evolved care models and reimbursement has improved, investment in what is generally viewed as a still nascent and fragmented space is increasingly focused on the professionalization and scaling of the behavioral health sector, which includes treatments for issues such as intellectual and developmental disabilities, substance use disorders, eating disorders, psychiatric conditions, and more.

Given the high costs placed on the healthcare system, large and growing unmet clinical needs of patients, and the current standard of care, Adams Street believes the mental and behavioral health space has become ripe for investment, especially as technological advances have increased the ability of providers to reach larger populations more quickly and more efficiently.

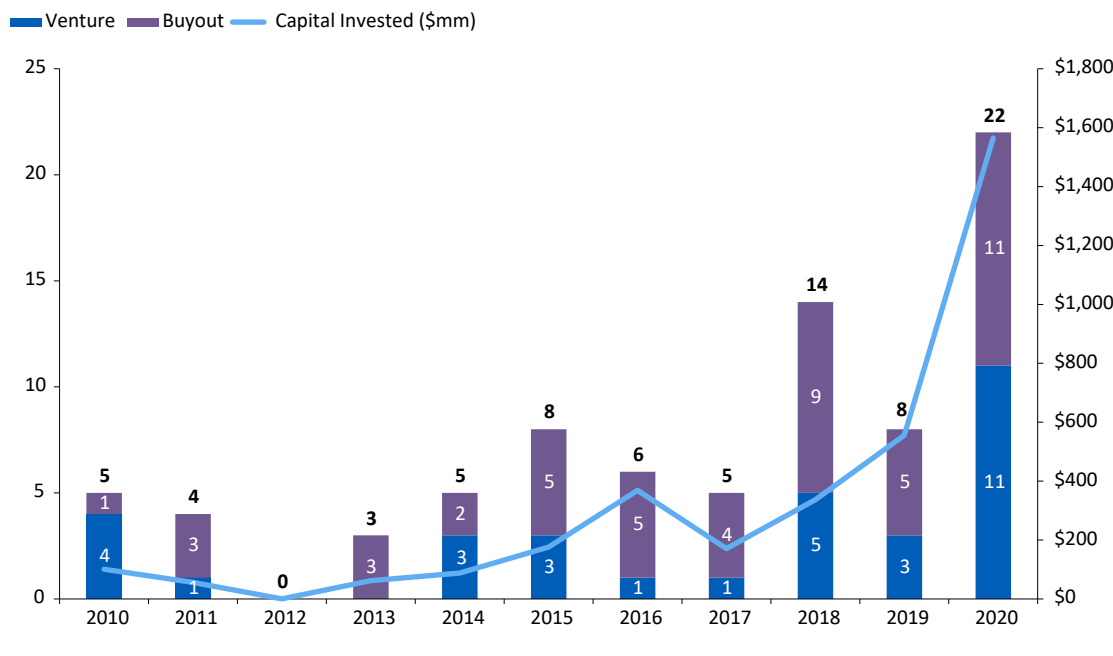
Frazier Healthcare Partners,<sup>5</sup> a sponsor of private funds into which Adams Street has invested, noted “we believe the increasing needs for and elevated awareness of behavioral health will persist for a long time, even when the global pandemic wanes. The genie will not find its way back into the bottle. Similarly, there is no quick fix for the large unmet demand in these areas. There is a lot of runway ahead for sustained strong growth.”

## Record Investment

Across the Adams Street platform, 2020 was a record year in terms of total deal count and volume for investments in behavioral health, while investments in the sector from 2018 to 2020 surpassed levels during the prior 10 years combined.



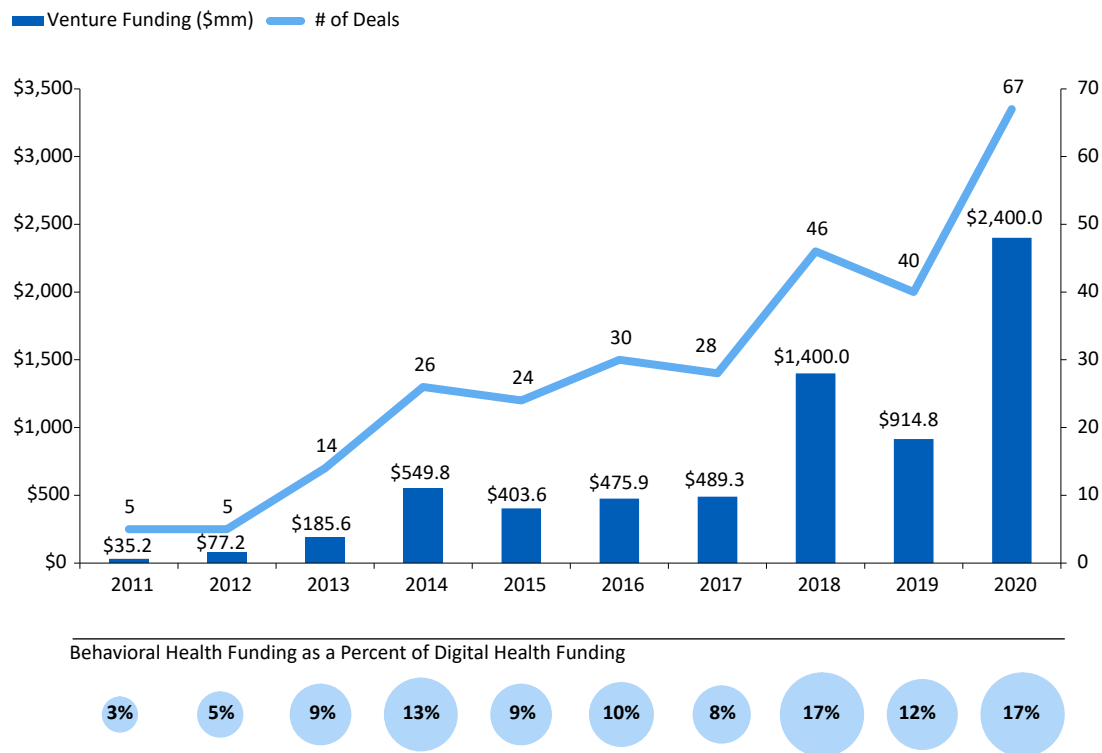
**Figure 1: Adams Street Behavioral Health Portfolio Companies (Since 2010)<sup>6</sup>**



**Across the Adams Street platform, 2020 was a record year for investments in behavioral health**

This isn't unique to Adams Street. A study by Rock Health, which aggregated US venture funding data across the digital behavioral health space, shows that the 2020 volume of deals greatly surpassed the volume of deals completed in each of the prior nine years.

**Figure 2: Digital Behavioral Health Funding and Deals<sup>7</sup>**



## ‘Early Innings’

As the observed favorable investment trends drive interest in the space, competition for behavioral health assets has also risen, prompting the question “is now the right time for Adams Street to invest?”

Frazier Healthcare Partners noted “even with the recent wave of investment in the space we still believe we’re in the early innings of the game . . . Competition is increasing as more institutional backing flows into these sectors, and we anticipate that trend will continue, but given the large white space opportunity there will be room for many winners who are able to scale responsibly and maintain strong clinical outcomes.”



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## Sectoral Tailwinds

Adams Street believes that the opportunity set will only expand in coming years, given the unmet clinical need, financial strain on the healthcare system, and the demand for improved standards of care. A key attribute shared by many of the companies we’ve seen currently obtaining funding is the provision of greater access to higher quality care for a lower cost; our goal is therefore to back companies, both indirectly through private equity and venture managers as well as through direct investments, that seek to solve current industry pain points.



One such pain point is rapidly scaling high-quality care without sacrificing clinical excellence. Lyra Health (Lyra),<sup>8</sup> one of Adams Street’s Growth Equity portfolio companies, is seeking to achieve this through careful vetting of its clinicians, a data-driven approach to foster best practices across its care team, and its unique Blended Care model. In Blended Care, Lyra supplements one-on-one video sessions with software-driven CBT (cognitive behavioral therapy) exercises to reinforce strategies for managing mental well-being. This unique model has yielded both excellent clinical outcomes<sup>9</sup> as well as greater capacity across Lyra’s Blended Care providers.

Lyra CEO David Ebersman emphasized this focus on clinical quality, saying “we pay great attention to the practices and the quality of providers and really aspire to a world where we would be comfortable sending a friend or family member to any provider in our network.”<sup>10</sup>

## Holistic Approach

Growing interest in mental and behavioral health-focused companies is augmented by the integration of holistic treatments into care plans by other providers, driven by the now widely accepted belief that mental and behavioral health is inextricably tied to broader health outcomes.

WelbeHealth, another Growth Equity portfolio company, cares for frail and vulnerable seniors through PACE (the Program for All-Inclusive Care for the Elderly) with strategies designed to alleviate depression and social isolation, which it sees as helping to manage their members’ well-being while reducing overall medical spend.

While many seniors in nursing homes have been isolated from friends and family during the COVID-19 pandemic, WelbeHealth’s care model allows nursing home-eligible seniors to keep living at home among loved ones while still providing the high level of care these individuals require.

According to WelbeHealth CEO Si France, during COVID “our care teams used [WelbeLink, 4G LTE tablets] to maintain regular video communications with seniors, making hundreds of calls per day to manage medical needs and complete social and behavioral check-ins”. Participants in PACE programs have been shown to have an 80% reduction in depression rates and a 50% increase in life expectancy.<sup>11</sup>

We think tailwinds in the behavioral health sector will likely continue to drive investable opportunities for Adams Street, providing the twin benefits of further improving care delivery and outcomes for patients, while allowing us to “do well by doing good.” ■

1. <https://www.kff.org/report-section/the-implications-of-covid-19-for-mental-health-and-substance-use-issue-brief/>
2. Key substance use and mental health indicators in the United States: Results from the 2015 National Survey on Drug Use and Health. Rockville, MD: Center for Behavioral Health Statistics and Quality. Substance Abuse and mental Health Services Administration. 2016.
3. Kessler RC, Angermeyer M, Anthony JC, et al. Lifetime prevalence and age-of-onset distributions of mental disorders in the World Health Organization's World Mental Health Survey Initiative. *World Psychiatry*. 2007;6(3):168-176.
4. Hewett and Moran, "Making mental health count."
5. For illustrative purposes only; does not represent a complete list of all Adams Street Partners investments in the behavioral health space.
6. Source: Adams Street's internal database.
7. Source: Rock Health Funding Database. NOTE: Only includes US deals >\$2 million; data through December 31, 2020. The digital behavioral health sector includes digitally-enabled startups in mental health, substance use disorders, and / or developmental disorders. The digital behavioral health markets also includes companies that exclusively serve behavioral health needs, and companies that serve behavioral health in addition to other clinical needs.
8. Lyra and WelbeHealth case studies are provided for illustrative purposes only; does not represent a complete list of all Adams Street Partners investments in the behavioral health space.
9. In a retrospective study of 385 Lyra patients, published in the *Journal of Medical Internet Research*, 83% saw an improvement in anxiety and depression over a 6-week period.
10. "Health Insurance for Mental Health is Terrible. This \$4.6B Startup is Shaking Up the Status Quo". *Forbes*, Katie Jennings.
11. National PACE Association.

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