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September 24, 2025

Acadia Healthcare Company Inc.
6100 Tower Circle, Suite 1000
Franklin, TN 37067
Attention: Board of Directors

Dear Members of the Board:

Engine Capital LP (together with its affiliates, "Engine" or "we") is a meaningful shareholder of Acadia Healthcare Company Inc. ("Acadia" or the "Company") with ownership of approximately 3% of the Company. We invested in Acadia because of its leading position in the fragmented behavioral health market, the opportunity to meaningfully improve operations and capital allocation, and our belief that the shares are deeply undervalued.

As part of our due diligence, we spoke with management, competitors, and more than a dozen former employees. It is clear from our research that the need for behavioral health services across the country is acute and will continue to grow. Many of Acadia's facilities play a critical role in their communities. Acadia has thousands of hard-working employees who deeply care about the needs of their patients. The Company owns most of its real estate and generates tremendous free cash flow before capital expenditures. Despite these inherent strengths, the Company has failed to live up to its potential. As shown below, Acadia has generated losses for shareholders and has underperformed relevant indexes as well as other healthcare facility operators across all relevant periods.[1] Today, the stock trades at a deep discount to its intrinsic value at an EV to 2026 EBITDA of less than 6.0x and a 2026 maintenance free cash flow yield of more than 17%.[2]

Total shareholder returns

	Total Shareholder Return (YTD)	Total Shareholder Return (1-Year)	Total Shareholder Return (since Mr. Hunter becomes CEO in April 2022)	Total Shareholder Return (5-Year)	Total Shareholder Return (10-Year)
ACHC	(44.3%)	(71.7%)	(70.1%)	(25.0%)	(70.8%)
Company Proxy Peers (Average)	11.5%	(5.3%)	9.9%	69.8%	149.6%
Company Proxy Peers (Median)	13.8%	(14.1%)	3.3%	45.9%	72.2%
S&P Health Care Services Index	10.7%	2.0%	2.9%	32.9%	67.4%
Russell 2000	11.7%	13.2%	30.5%	70.5%	141.8%
ACHC vs. Company Proxy Peer (Average)	***(55.8%)***	***(66.4%)***	***(80.0%)***	***(94.8%)***	***(220.4%)***
ACHC vs. Company Proxy Peer (Median)	***(58.2%)***	***(57.6%)***	***(73.4%)***	***(70.9%)***	***(143.0%)***
ACHC vs. S&P Health Care Services Index	***(55.0%)***	***(73.7%)***	***(73.0%)***	***(58.0%)***	***(138.2%)***
ACHC vs. Russell 2000	***(56.0%)***	***(84.8%)***	***(100.6%)***	***(95.5%)***	***(212.6%)***

[1] Total shareholder return calculated as of the close on September 18, 2025. Company Proxy Peers include AMN Healthcare Services, Inc., Brookdale Senior Living Inc., Chemed Corporation, Encompass Health Corporation, The Ensign Group, Inc., Option Care Health, Inc., Pediatrix Medical Group, Inc., Select Medical Holdings Corporation, Surgery Partners, Inc., and Universal Health Services, Inc. Company Proxy Peers exclude Amedisys, Inc. since it was acquired.

[2] 2026 Consensus EBITDA. 2026 maintenance free cash flow yield represents cash flow from operations less maintenance capex divided by the Company's current market capitalization.

We believe the Company's undervaluation and sustained negative returns are due to ineffective execution, a bloated corporate structure, poor decision-making, a revolving management team under CEO Christopher Hunter, a lack of behavioral health experience among executives and directors, a poorly designed compensation framework, and a culture that has emphasized "growth at any cost." Fortunately, we see clear opportunities to turn around the business and significantly increase shareholder value. The remainder of this letter explores the issues facing Acadia today, along with our suggestions for how a reconstituted Board of Directors (the "Board") and properly incentivized management team can address the Company's valuation gap and drive returns for shareholders.

Acadia's Underperformance Stems from a Flawed Reorganization, Ballooning Costs, Poor Capital Allocation, and a Lack of Board Oversight

Issue #1: Poor Execution

We believe the deterioration in Acadia's operating performance is tied to the reorganization that took place in 2022, several months after the arrival of Mr. Hunter as CEO. Prior to this reorganization, the Company's reporting structure was geographical – operators would manage different types of facilities (Acute and Specialty) in a geography and report to a West Group President, East Group President, and a Central Group President. The reorganization shifted the reporting structure from geographies to service lines: operators running facilities across the U.S. report to either a national Acute President or a national Specialty President, instead of to regional presidents who used to manage different types of facilities with deep knowledge of their local market.

Healthcare is an inherently local business, where each region has different regulatory considerations, insurance players, provider networks, and pricing dynamics. It is also logistically much harder to supervise and visit facilities across the nation instead of within a region. As a result of this shift, geographical market knowledge has been lost, individual sites are not getting enough attention from experienced leaders, and operational execution has deteriorated across the board.

Issue #2: Lack of Cross-Selling Between Different Service Lines

In regions where Acadia has strong facility density across Acute, Residential, Specialty, and Comprehensive Treatment Centers ("CTC") service lines, it should be able to enhance the continuum of care through cross-facility collaboration and internal referrals. Despite management discussing this opportunity for years, there is currently minimal cross-selling within Acadia's ecosystem. The Company's new organizational structure – which incentivizes leaders based on the P&L of their individual service lines rather than on regional performance across different types of facilities – undermines cross-referrals and inter-facility coordination in the same market, thus preventing Acadia's ability to increase volume and reduce customer acquisition costs. Without restructuring its organization and establishing the right incentives to encourage collaboration across the full continuum of care, it is unlikely that the Company will achieve meaningful progress on this important initiative.

Issue #3: Centralization of Power and Increase in Overhead

Current leadership has overemphasized corporate functions, creating operating inefficiencies and driving up overhead. The corporate structure has become bloated and overly hierarchical, marked by significant headcount growth. Numerous corporate departments (e.g., strategy, marketing, admissions) have expanded

with new layers of management, while the Presidents of the Acute and Specialty groups now oversee middle-management tiers that did not exist when the business was organized under East, Central, and West Group Presidents. Overhead has increased significantly over the last few years as a result of those changes.

For example, the former CEO of a facility told us that increased bureaucracy – such as monthly calls or meetings with a division quality director, a chief quality officer, a vice president of quality, and a quality coordinator, along with the requirement to complete quality scorecards – left him and his peers with less time to run their operations and focus on providing quality care. In another unfortunate development, admission staff who had previously worked within each facility – where they understood the local market and knew how to promote their specific facility – were consolidated into a corporate function to reduce staffing and save costs. However, performance has suffered with a higher percentage of abandoned calls and lower conversion rates as the new staff doesn't know the facilities as well.

We believe the Company would be better served by reducing overhead and reinvesting in facilities to raise their quality of care and service levels.

Issue #4: Poor Capital Allocation and a "Growth at Any Cost" Mindset

Former employees describe a culture that emphasizes growth at the expense of financial discipline. We heard stories of investing in new beds at facilities that had reached ~85% utilization rates, simply because new beds could be justified, instead of strategically prioritizing new bed additions in other locations that had higher IRR profiles or that could increase geographic density.

The combination of this lack of financial discipline, a constant pressure to grow, poor execution, and insufficient oversight is best illustrated at the Azure Acres facility in California, where roughly 14 new beds were added only ~18 months ago, only to be completely shut down next month. Former employees mentioned that this facility was previously under the supervision of a division president who had overseen the facility for 10 years, knew the intricacies of the market, and was on the ground each month. This president was replaced by a new division president who oversaw facilities across the U.S., didn't know the local market, and visited the site about once every three months. The situation worsened rapidly: Azure Acres has had three CEOs over the last 18 months and experienced a significant increase in staff turnover, leading to worsening service levels, and eventually its closure. This is not an isolated event and again highlights the damaging consequences of moving away from the regional reporting structure.

Since 2022, Acadia has invested over $2 billion in total capital expenditures, roughly equal to the Company's current market capitalization. This includes more than $1.6 billion allocated to adding approximately 2,906 new beds.[3] Despite these investments, management has lowered its mid- to long-term growth and profit targets and has repeatedly underperformed expectations. Frustratingly, management has not provided cohort analysis to show actual returns, leaving investors without transparency as to the effectiveness of these capital investments. It is also worth noting that while management is spending billions to pursue its aggressive growth strategy, the Company has closed hundreds of beds since 2022. Considering these closures and the Company's ongoing operational challenges, we are surprised that the Board has not completely halted the Company's aggressive growth plans.

[3] Represents cumulative capital expenditures from 2022 through the estimated spend in 2025.

Issue #5: Significant Management Turnover, Loss of Institutional Knowledge, and Lack of Behavioral Health Experience

Our discussions with former employees revealed that a lack of stability among the Company's senior management team, a loss of institutional knowledge, and a lack of behavioral health experience among senior leadership have contributed to many of the operational issues facing the Company. Mr. Hunter is now operating with an entirely new executive team – and is on his third CFO – despite becoming CEO less than three and a half years ago. Concerningly, turnover has occurred in most of the senior executive roles, including the SVP of Business Transformation, the SVP of Strategic Affairs, the Chief Medical Officer, the EVP of Finance, the EVP of Operations, the Chief Human Resources Officer, the EVP of General Counsel & Secretary, the Chief Development Officer, the VP of Government Relations, and the Chief Compliance Officer. We heard that management turnover and the lack of behavioral health expertise have contributed to delays in bringing new facilities online and extending ramp-up periods. For example, Coachella Valley Behavioral Health was initially slated to open in late 2022 but did not open until December 2023. It then took until December 2024 to admit its first patient. These unexpected delays certainly didn't help with the IRR of that capital project.

A Disciplined Strategy Overhaul Is Needed to Generate Shareholder Value

At this juncture, we believe a reconstituted Board needs to fundamentally shift the Company's strategy to fix the business and restore investor confidence by immediately halting growth capital investments, focusing on the existing core business, cutting corporate overhead, selling assets to raise cash, and repurchasing its undervalued shares.

1. Strengthen the Board and Adhere to Best Corporate Governance Practices

We believe the Company needs a significant Board refresh that replaces several long-tenured directors with new directors who possess operational skills in behavioral health and capital allocation expertise. It is stunning that Acadia's Board does not have a single director with relevant operating experience in behavioral health.[4] The Board does not even have a director with experience running any type of healthcare facility. We also believe the Board would be strengthened with the appointment of a shareholder-designated director who has a public investing background and capital allocation expertise.

While we acknowledge that Chairman Reeve Waud played an important role in shaping the Company and remains invested in Acadia personally, his firm – Waud Capital Partners – has largely exited its investment in the Company. We also note that Mr. Waud, William Grieco, Wade Miquelon, E. Perot Bissell, and Vicky Gregg all have excessively long tenures that contradict best practices. Leading proxy advisors and institutional investors typically view director tenure beyond nine years as excessive.

While we recognize that the Company has taken steps to de-classify its Board in 2029, we question why it is not prioritizing the immediate de-classification of the Board – especially given the value destruction overseen by the current directors. Finally, aside from Mr. Waud, we could not find a single instance of insider buying by current directors, not even by Mr. Hunter. The fact that no other directors are willing to invest is disappointing and gives us concern regarding the culture of stock ownership at the Company.

[4] The closest to relevant behavioral health experience on the Board comes from Dr. Patrice Harris, an adjunct professor of Psychiatry and Behavioral Sciences – although she does not appear to have operational expertise.

2. Align Executive Compensation to Shareholder Value Creation

Another foundational responsibility that we believe the Board has failed on is incentivizing management correctly. The Company's short-term incentive ("STI") quantitative metrics are based on Adjusted EBITDA and Adjusted EPS while the long-term incentive ("LTI") metrics are based on Adjusted EBITDA and revenue. It is no wonder that management has been pursuing a "growth at any cost" strategy to reach these targets. Considering the tremendous amount of capital deployed over the last few years, it is shocking that management is not held accountable to and incentivized to reach certain return on capital metrics as part of its compensation framework.

We also question the use of revenue as a metric, considering revenue is not necessarily a lever of value creation – management can increase revenue while destroying value and be rewarded for doing so. We also believe that free cash flow per share metrics should be introduced. Finally, we note that the Board has introduced a relative TSR metric, but it is only a multiplier that can increase or decrease by up to 25% the number of shares earned through the revenue and Adjusted EBITDA metrics at the end of the three-year period. In other words, Acadia's shares can underperform all its peers by a wide margin but management can still earn 75% of its LTI.

3. Immediately Halt All Growth Capital Investments

While we recognize the need for additional beds in the U.S. and Acadia's long-term growth opportunity, we believe the Company must temporarily halt new bed growth to refocus on its core operations. The Company needs to address its ongoing operational challenges before resuming growth at a more moderate pace.

We also believe it would be prudent to stop allocating growth capital while the dust settles on new regulations and reimbursement rates for the industry. Based on discussions with management, we believe the Company could eliminate the vast majority of its planned capex in 2027 and 2028 as well as reduce 2026 capex. By sharply reducing growth capex, the Company will quickly be able to demonstrate its strong free cash flow, return capital to shareholders, and begin to regain investors' confidence. At Acadia's current valuation, the market is not pricing in any profitable growth and is valuing the business at a significant discount to its replacement value, implying that growth is destroying value. This is unsurprising as investors are almost unanimously critical of the Board's capital allocation decisions.

4. Prioritize Improving Operations and Rationalize the Company's Cost Structure

- **Structure Leadership by Geography Instead of by Service Line:** The Company should be run regionally, similar to how it was structured before the changes introduced by Mr. Hunter. By organizing Group Presidents by geography, strategic decisions can be made by leaders with the local market knowledge necessary to drive performance at the facility level. This is also key to promoting cross-selling across the portfolio.

- **Incentivize Leaders to Drive Cross-Referrals Within Acadia's Network:** By giving Group Presidents responsibility for multiple service lines within a geography, management can improve the continuum of care and more effectively drive cross-referral initiatives across Acadia's network. To incentivize referrals across facilities, regional leaders' compensation packages also need to be

restructured accordingly. If done effectively, this can increase volume while reducing customer acquisition costs.

- **Streamline Costs by Reducing Management Layers:** Our conversations with former employees consistently pointed to too many management layers, redundant roles, and an outsized number of Vice Presidents earning more than $500K annually. Streamlining these layers would allow leadership to reinvest in individual facilities, improve service levels, improve quality of care, and enhance accountability – ultimately making Acadia a healthier, more profitable, and better-run organization.

- **Hire Executives with Behavioral Health Experience:** Former employees noted that decisions are made by individuals who have no prior operating experience in the behavioral health space, as many respected leaders with behavioral health backgrounds have departed in recent years.

Given the scale and urgency of the required changes, we recommend that the Company immediately engage an external consulting firm to review its organizational and cost structures with the goal of eliminating unnecessary bloat and streamlining the reporting structure. We would typically recommend that the Board form a small operating committee to seek periodic updates from the consultant and hold management accountable – however, we couldn't find a single current director who has experience running healthcare facilities, rendering such a committee quite ineffective.

5. Explore Asset Sales Across the Company's Portfolio

We believe the Board should create a Capital Allocation Committee to explore a range of asset sales to unlock value and raise cash that could be used to repurchase undervalued shares. Given the valuation of similar assets in the private markets, as seen in the appendix (~13x EBITDA on average), there is a large arbitrage opportunity between the private market value of Acadia's portfolio and the Company's current trading price. Examples of what the committee could explore include:

- **Strategic Alternatives for Part or All of the CTC Segment:** Our diligence suggests that CTC is run independently within Acadia's business and could be easily separated in a sale. With strong free cash flow generation, recurring revenue, and a capital-light model, we believe CTC is an attractive asset that would fetch a significant premium multiple to Acadia's current multiple. An alternative would be to sell a regional portfolio or individual sites in areas with poor network density.

- **A Sale of Geographically Isolated Assets:** With Acadia's operations spread across the country, there are multiple markets where delivering a true continuum of care and facilitating internal referrals within Acadia's network is simply not feasible. Certain facilities operate in isolation; these assets could realize greater strategic value under owners that have a stronger local presence in those markets.

- **A Sale of Select Underperforming Assets:** Given the scope and level of focus needed to address the Company's operational challenges, it may be worth exploring if certain underperforming facilities are worth more "dead than alive," considering their real estate value.

- **A Sale of Newer, Higher Quality Facilities:** We suspect some newer facilities could fetch high multiples. These proceeds could be recycled in accretive share repurchases.

- **A Sale and Leaseback of Select Assets:** Acadia owns a substantial amount of real estate that is not currently valued by the market. Therefore, we believe the Board should consider the sale and leaseback of select assets to raise capital. Based on our due diligence, we believe those sales would take place at healthy multiples.

We encourage the Board to act with urgency since there is north of $750 million worth of tax credits that could be used to offset capital gains from asset sales, with a portion beginning to expire next year.

6. Repurchase Undervalued Shares

Given the Company's embedded EBITDA growth from recent capex and the tremendous free cash flow that will be generated once Acadia reduces its capex, we believe the Company's current leverage will naturally come down over time as EBITDA grows. Therefore, the Company shouldn't focus on paying down its debt (beyond mandatory payments) – instead, it should prioritize taking advantage of its dislocated share price and arbitraging the gap between its trading multiple and the private market value of its assets. As discussed above, we believe the Company can sell assets in the private market at a significant premium to its current valuation and use the proceeds to repurchase shares at ~6.0x EBITDA, where the Company trades.

For illustrative purposes, if Acadia were to sell ~$500 million of assets over the next two years and then run the remaining business at 3.0x net leverage by the end of 2028, between proceeds from those asset sales and free cash flows, the Company would be able to repurchase ~$1.25 billion of shares or more than 60% of its current market capitalization in a little over three years.[5]

We firmly believe a tremendous amount of shareholder value can be unlocked if the Board acts with urgency to make necessary changes. We request a meeting with members of the Board at your earliest convenience to discuss the matters and initiatives we have set forth in this letter. On behalf of Engine, we look forward to working with you to increase long-term shareholder value.

Sincerely,

Arnaud Ajdler
Managing Partner

[5] Illustratively assumes that Acadia divests $50 million of EBITDA at a 10x multiple for $500 million in cash proceeds, assumes no tax leakage given the existing deferred tax assets. Assumes the Company adds 700 new beds in 2026, followed by 175 new beds annually in both 2027 and 2028, representing a 75% reduction in Acadia's new bed growth plans during those years. Additionally, Engine conservatively assumes the Company's EBITDA is reduced by $60 million starting in 2028 due to headwinds related to the One Big Beautiful Bill Act.

Appendix: Select & Relevant Behavioral Health Transactions

Date	Target	Acquirer	EV	EV/ EBITDA
Nov-24	Odyssey Behavioral Health	JLL Partners	NA	13.0x
Jun-23	Banyan Treatment Centers	TPG Capital	$396	14.0x
Feb-23	Embark Behavioral Health	Consonance Capital Partners	400	13.5x
Oct-22	Bradford Health Services	Lee Equity	NA	12.6x
Jul-22	Monte Nido	Revelstoke Capital Partners	725	12.0x
Jul-22	Eating Recovery Center	Apax Partners	1,400	15.4x
Jun-22	BrightView	Shore Capital Partners	NA	14.0x
Feb-22	Oceans Healthcare	Webster Equity	NA	12.0x
Jan-22	CenterPointe	Acadia Healthcare	139	12.0x
Dec-21	Crossroads	Revelstoke Capital Partners	NA	16.6x
Dec-21	Community Medical Services	FFL Partners & Two Sigma	NA	15.0x
Sep-21	Summit BHC	Patient Square Capital	1,300	17.0x
Aug-21	Pyramid Healthcare	Nautic Partners	NA	14.0x
Jul-21	Newport Healthcare	Onex Partners	1,300	18.6x
May-21	Baymark	Webster Equity	NA	13.9x
Apr-20	LifeStance Health	TPG Capital	1,200	17.5x
Dec-18	Behavioral Health Group	The Vistria Group	250	10.0x
Dec-18	Odyssey Behavioral Health	Carlyle Group	200	11.0x
Oct-17	Summit BHC	FFL and Lee Equity	NA	12.7x
Aug-17	Eating Recovery Centers	CCMP Capital	580	12.9x
Aug-16	Pinnacle Treatment Centers	Linden Capital Partners	207	10.9x
Apr-16	The Meadows of Wickenburg	Kolhberg & Co	180	12.0x
Nov-15	Discovery House	Acadia Healthcare	119	9.0x
Oct-15	Meridian Behavioral Health	Audax Group	120	12.8x
Oct-14	CRC Health	Acadia Healthcare	1,175	10.2x
May-10	Psychiatric Solutions	Universal Health Services	3,100	9.4x
Median:				***12.8x***
Average:				***13.1x***

Notes: Per publicly available info. Several data points are estimates based on Engine's market research. EBITDA multiples exclude synergies.