

BEHAVIORAL HEALTH

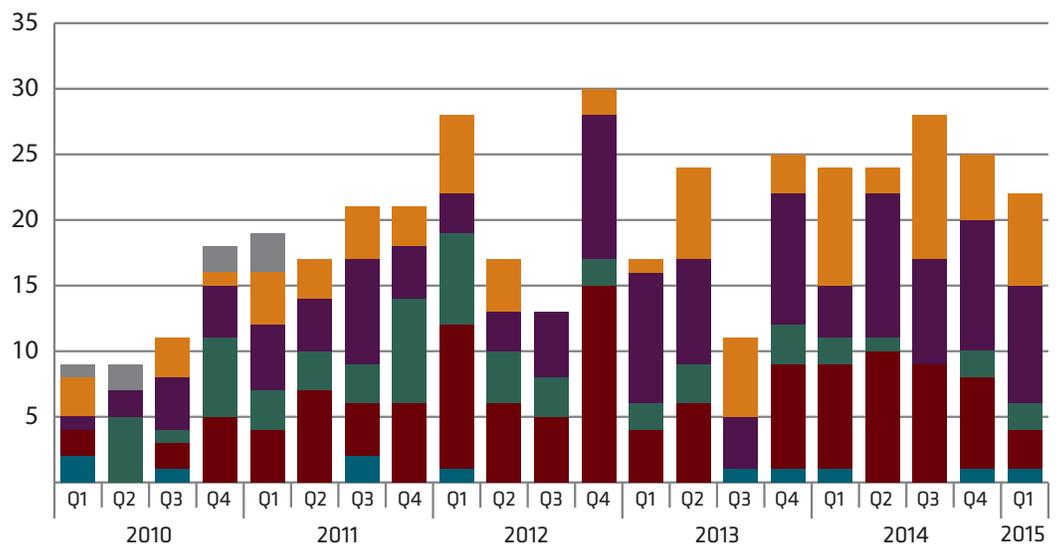
2015 M&A ROUNDUP: A FLURRY OF GOOD NEWS CONTINUES TO BOOST BEHAVIORAL HEALTHCARE M&A

Although aggregate behavioral health deal volume was off 12% in the first quarter of 2015 vs. the fourth quarter of 2014, the 22 deals completed during the period was still a solid performance. What’s more, just a quick glance at the chart below reveals that the sector has been remarkably consistent with six consecutive quarters of elevated activity.

Perhaps more importantly, however, the last few months have also produced a series of legal and regulatory developments that will continue to bolster a “bull run” in behavioral health M&A that began more than four years ago.

Behavioral Health Services Deal Volume

- Addictions, Substance Abuse
- At Risk Youth
- Acquired Brain Injury
- Adult Mental Health
- Intellectual or Dev Disabilities
- BH/SS-Unidentified



Source: The Braff Group



The President's 2016 budget proposal portends new innovative programs in behavioral health.

In February, President Obama unveiled a budget that, in addition to the reversal of sequestration cuts, increased spending for SAMHSA by a net of \$44.6M. Now on a total budget of \$3.66 billion in 2015, the increase amounts to just 1.2% – similar to the statutory increases we will see in hospice and home health next year. What's more, in a political environment in which it was pronounced dead on arrival before it even saw the light of day, the budget submission was more a commentary on spending priorities than an adoptable blueprint. But it bears noting that within its pages were funding requests for new initiatives that are on the forefront of behavioral health policy. Among them:

- \$20 million for Primary Care-Addiction Services Integration, a new program to support integration of primary care services in addiction treatment settings to support high rates of physical comorbidities among this population.
- \$12 million in Grants to Prevent Prescription Drug/Opioid Related Deaths, a new program to promote the use of naloxone to prevent overdose deaths.
- \$10 million in new funding for Crisis Systems, an initiative to support states and communities in developing robust addiction and mental health crisis-response systems.
- \$4 million in new funding for Veterans Mental Health First Aid, a new initiative to provide information and support to veterans and family members affected by mental illness and addictions.

(Source: National Council for Behavioral Health)

While arguably more form than function for now, they provide an advanced look at what could blossom into fully realized programs in the not too distant future. Equally important, they reveal a growing commitment toward supporting and integrating behavioral health into the fabric of our health care system.

CMS proposes rules to strengthen access to mental health and substance use disorder benefits for low income Americans.

In April, CMS proposed a rule that would essentially apply the well-known parity provisions contained in the Mental Health Parity and Addiction Equity Act of 2008 to Medicaid and the Children's Health Insurance Program (CHIP). Just a month later, the agency recommended changes to Medicaid HMOs that would similarly favor behavioral health. In a well written analysis of the proposal by Darren Lehigh, an analyst for Deutsche Bank, he explains that "tucked away inside CMS' 653-page Medicaid managed care regulation (CMS 2390-P) is an important proposal that would eliminate the so-called IMD [institution for mental disease] exclusion for adult Medicaid patients covered by Managed Medicaid plans, as well as Medicaid expansion populations enrolled in these types of Medicaid MCOs. The proposal explicitly permits plans to cover stays of 15 days or less in psychiatric hospitals or substance use disorder inpatient/sub-acute facilities. Recall the IMD exclusion is a broad exclusion set forth in the original Medicaid [regulations] (circa 1965) in which Medicaid funding is not permitted for individuals ages 21-64 receiving treatment in freestanding "IMD" facilities. This new proposal modernizes the antiquated IMD exclusion for populations served by Medicaid MCOs, and **it serves as a critically important policy precedent by CMS in terms of authorizing new flexibility for the setting of behavioral health care for adult Medicaid [patients].**"

NY AG Says Excellus Wrongfully Denied Mental Health Requests.

Despite heralded state and federal regulations that have been passed that require insurers to provide mental health benefits "on par" with medical benefits, industry insiders know all too well that, to date, the promise has far exceeded the reality. Doing nothing to dispel the image that the insurance game is on par with Three-Card-Monty, many payors continue to slow-walk their way towards compliance, denying otherwise reimbursable mental health services. Enter the Attorney General for New York which found that Excellus Health Plan, the largest insurance provider in New York, exhibited a pattern of behavior in which it denied beneficiaries access to substance abuse treatment services at a rate seven times greater than that of inpatient medical services. Although Excellus neither admitted or denied any wrongdoing,



the insurer ultimately agreed to a settlement with the AG that not only requires that they change their utilization review procedures to fully comply with parity regulations, but they must also contact as many as 3,300 members that were denied mental health and addictions services between 2011-2014 and allow them to appeal these decisions. If services are deemed to have been improperly denied, these claimants may be able to recoup any out-of-pocket costs incurred, which, in aggregate, could be as much as \$9,000,000. While the dollars will have less effect on Excellus than a call for integrity at FIFA, the bad press will continue to chip away at the wall insurers nationwide have constructed to avoid compliance with parity, moving another step toward the promise of greater access and increased utilization.

The Excellence in Mental Health Act begins to take shape.

In April of 2014, the Excellence in Mental Health Act was signed into law. Described as “the biggest federal investment in mental health and addiction services in generations” by Linda Rosenberg, President and CEO of the National Council for Behavioral Health, the act was established to create an eight

state demonstration project designed to expand access to community mental health services. Well, last month, SAMHSA and CMS finally unveiled guidance to implement the project. Among other things, the guidance provides criteria for the establishment of Certified Community Behavioral Health Clinics and payment methodologies that encourage and incentivize the coordination of care between CCBHCs and other health care providers, further promulgating the efficacy of linking mental health with traditional health care services. As for the potential impact these demonstration projects could have on the entire behavioral health delivery system, Ms. Rosenberg sums it up best. “The Excellence Act is – to borrow words from Vice President Joe Biden – a BFD.”

None of these developments are particularly new. But all of them continue to be more widely supported, expanded, funded, and initiated, with nary a peep of opposition (except shortsighted payors that fail to see how a dollar spent in behavioral health can yield many dollars saved in other health care services).

So the table is set for an extended market run.

Bring your appetite.





INTELLIGENT DEALING IN BEHAVIORAL HEALTH CARE M&A

The Braff Group is the leading health care services mergers and acquisitions advisory firm with a team of deal makers focused exclusively on behavioral health care.

For more than five years, we have provided sell-side only transaction services to the mental health, addictions and substance abuse, autism services, I/DD, at-risk-youth, and acquired brain injury provider community.

With more than 250 transactions completed, The Braff Group is ranked #1 in health care mergers & acquisitions¹.

But we never forget that **your deal** is the one that matters to you.

Let us make it a great one.

¹Source: Thomson Reuters, based on number of deals between 2008 and 2014.

FOR MORE INSIGHT INTO THE M&A MARKET FOR BEHAVIORAL HEALTH AND WHAT IT MAY MEAN TO YOU, CONTACT OUR BEHAVIORAL HEALTH TEAM:

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