THE M&A MARKET FOR MEDICATION ASSISTED TREATMENT IS FLYING HIGH: WHAT COULD CLIP ITS WINGS?

The storm was perfect, all the ducks were in a row and Jupiter aligned with Mars.

By the end of 2015, market conditions coalesced to turn the mergers and acquisitions climate for medication assisted treatment from meh to mega. (See The Braff Group's publication: marketALERT: *Medication Assisted Treatment Deals Signal A Shift in Addictions M&A.*)

And it all happened faster than it took Ken Bone and his red sweater to emerge as the break-out star of the second presidential debate.

Which begs the question:

Will the newfound love for MAT last?

And what does this mean if you see yourself as a potential seller? Or a potential buyer?

Well, after completing 280 health care deals, we can confidently say that more value is lost by getting the timing wrong than any other variable.

So it's essential to go through the window while the iron is hot (sometimes, only a mixed metaphor will do). And it's equally essential to embrace the reality that, as fast as windows open, they can slam shut.

Column Break. Yeah, we saw that eye-roll. You're thinking, "These guys are intermediaries; of course they want us to think that the window of opportunity is limited; they just want to get clients signed up."

We get it. It's not true, but we get it.

The plain truth is windows do close. Sometimes unexpectedly. Sometimes spectacularly. But always leaving some owners with regrets of "woulda, shoulda, coulda."

So what kinds of unique variables invariably vex mergers and acquisitions strategies, timing, supply, demand, and value in health care services?

Reimbursement Cuts.

In health care services, providers are largely dependent directly, or indirectly, on third party payors that hold great sway in setting – and reducing – rates. So time and again, we see "stroke-of-the-pen" reimbursement cuts lead to an abrupt "revoke-of-the-yen" to continue pursuing a consolidation strategy.

Examples of this are legion, but let's go with something that's close to home: high-end residential addictions and substance abuse treatment.

While there is still an active market for this niche of providers, just the ***anticipated*** encroachment of in-network reimbursement models into what has been a primarily out-of-network business, has already had a profound effect on both the demand for, and valuation of, providers in this segment.

What's more, this very development is one of the primary reasons that a swath of M&A interest in addictions and substance abuse has shifted toward medication assisted treatment.

Delivery Model Changes.

As sure as a boyfriend of Taylor Swift will be changing his relationship status on Facebook after just a few weeks, health care delivery models will morph over time. And sometimes these transformations can be so fundamental in nature that M&A strategies that once made sense are rendered null and void.

Recall that not too long ago, the dominant theme in health care was managed care. This, in part, gave rise to the "great systemization" movement of the early 90s when hospitals acquired providers across the delivery spectrum to create competitive advantages to better compete for insurance contracts. It soon became apparent, however, that Managed Care 1.0 was long on "managed" and short on "care." Employers and beneficiaries balked. The strategy was largely shelved, and in its place we got the "great systemization ***unwinding***" of the late 90s and early 2000s.

New Clinical Methodologies.

Suppose an industry and a consolidation strategy is built around a then accepted, well established, and deeply entrenched service, device, or technology, and then something new is introduced that completely upends the market - think the implications of digital photography on the film manufacturing and processing industry.

Well, it's not unusual to see such market disruptions in health care.

An interesting example is currently playing out in specialty pharmacy, specifically in the treatment of hepatitis C. A few short years back, a new drug was introduced that cures the disease. Acquisition demand for hep C providers predictably surged. But just as predictably, it began to slowly wane because it transforms a chronic disease – with a chronic need for medications – into a 90 day "drop-the-mike-I'm-out" intervention. Consequently, as cure rates outpace new incidences of the disease, the market will inescapably shrink.

So particularly in health care, the antecedents that can remake a consolidation strategy are never too far away.

Which begs the question:

To what extent, if any, is MAT vulnerable to a game-changing development?

Price Check on Aisle 10.

At this unique point in time, as addictions treatment marches headlong toward more community-based – and cost-effective – alternatives, our sense is that **MAT is foundationally susceptible to margin compression.**

Consider the following:

In a sector with ***comparatively*** modest clinical intensity (and we emphasize "comparatively") and little differentiation in the drugs that are dispensed, it is challenging to establish proprietary advantages in the market. Nevertheless, it has largely enjoyed the kind of margins associated with such hard-to-duplicate products and services.

In purely economic terms, this amounts to a "pricing error."

Such "errors" can be obscured by more expensive, or more highly utilized products and services. But as (a) addictions treatment goes mainstream, (b) buyers flood the space, (c) new players enter the market, (d) federal and state agencies turn to medication assisted treatment to combat the growing heroin epidemic, and (e) insurance companies embrace the "outcome economics" of MAT, it is a virtual certainty that as the sector rises in stature, it will let loose the evil twin of heightened scrutiny, competition, contract negotiation, and pricing pressure.

Buprenorphine vs. Methadone vs. Probuphine vs. The Next Big Thing.

SAMHSA's recommendation for buprenorphine to increase the cap on patients a physician can manage to 275, is a real threat to OTP providers that largely distribute methadone. The threat rises further if, for example, the recently approved, once every six months implantable version of bupe (probuphine) gains traction in the market. What's more, regardless of which side of the methadone vs. buprenorphine aisle you're on, given the attention being devoted to substance abuse, we will likely see an increase in resources devoted to treatment alternatives. Given that the sector still has much to learn about the most effective modes of care, it follows that both are, at least, somewhat vulnerable to the next big thing in treatment (just as costly residential programs have become vulnerable to competition from MAT).

Getting Coordinated.

With coordinated care initiatives exploding faster than Mentos in Diet Coke, we've gotten to the point that in an article on the subject, *The New York Times* quipped, "Who's coordinating the coordinators?"

For many providers and "conveners,"[1] coordinated care is taking the form of creating a continuum of care from access points (primary care – and increasingly urgent care), through acute care services (hospitals, ambulatory surgery centers), to the full complement of post-acute services (skilled nursing facilities, rehab facilities, home care, hospice).

In addictions treatment, we are already seeing various combinations of detox, residential, and PHP/IOP programs, as well as blends of outpatient, sober living, and other patient and family support programs.

So as Carrie Bradshaw may have put it: We couldn't help but wonder if medication assisted treatment will be included in these emerging continuums of addictions treatment.

To date, MAT has largely lived outside the other treatment programs and services as an alternative pathway of care.

But imagine if one of the many advanced payment models being rapidly adopted (accountable care organizations, population health management, bundling), which establishes a global payment to treat a specific population or disease state, is applied to addictions treatment.

In such a model, as a cost-effective, evidenced-based program, MAT would likely be an extremely valuable ***component*** of a ***suite of addictions treatment services.***

From an M&A perspective, why is this potentially important?

Quite simply, the extent to which some variation of this model takes root, the value of having a regional or national collection of OTPs only[2] – the investment thesis that is largely driving MAT consolidation today – diminishes. Instead, ***much like we are already seeing in the home health and hospice M&A market***, the next-gen OTP buyer could very well be a highly proximal multi-service provider with a missing link.

But it would be one-deal-and-done, which would reduce acquisition demand (and hence value-enhancing competition), and make it more difficult to identify the "right" buyer.

So is the mergers and acquisitions market for opioid treatment buyers on the precipice of a *Hunger Games*-like dystopian future?

Absolutely not.

The point is that just like virtually every other sector in health care that finds itself at the center of the M&A universe, OTP is faced with the possibility (likelihood) that at least one of the scenarios above will manifest in one way or another, and the investor paparazzi will chase after the next ingénue, like Paris Hilton.

Oh, snap! Paris was replaced by Kim.

Hmmmm.

[1] Conveners are companies that create and manage networks of providers such as Remedy Partners or naviHealth.

[2] This exposure is not limited to OTPs. The same dynamics apply to focused providers of out-of-network and in-network residential treatment programs.

marketALERT

PROPRIETARY DATA. PROPRIETARY INSIGHT.

BRAFF

INTELLIGENT DEALMAKING IN BEHAVIORAL HEALTH CARE M&A

The Braff Group is the leading health care services mergers and acquisitions advisory firm with a team of dealmakers 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 280 transactions completed, The Braff Group is ranked #1 in health care mergers & acquisitions.[3]

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

Let us make it a great one.

[3] Source: Thomson Reuters, based on number of deals between 2007 and 2015.

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

Ted Jordan
Managing Director
Atlanta
888-290-7080

Nancy Weisling
Managing Director
Chicago
888-290-7237

Deirdre Stewart
Director of Research & Development
Pittsburgh
412-833-1355