AUTISM EXPLODES ON THE M&A SCENE

After nearly 20 years (and 250 plus deals) in health care mergers and acquisitions, The Braff Group has seen some exceptionally hot markets; home medical equipment (2003-2005), pharmacy services (2007), home health care (2007-2010), hospice (2010-2012), and behavioral health (2011 – present), to name a few. Accordingly, when it comes to assessing the M&A climate in health care services, we have a real world perspective that has been honed with 50 shades of premature gray.

So, it's not a casual remark when we say that the M&A market for autism service providers is one of the hottest we have ever seen.

Not in terms of volume of deals. ASD is a niche within a niche, and there are a limited number of providers that truly specialize in the space.

Not in terms of the size of deals. Notably, there aren't many companies nationwide with revenues above $10M.

Not even in terms of the number of buyers pursuing autism providers. While there are many acquirers out there (and this number is growing every day), the sector hasn't quite reached the level where autism is an "automatic" on the wish lists of nearly all health care service buyers.

Rather, the frenzy in the autism market is demonstrated by:

- the **exceptional appetite** we are seeing from buyers circling the space.
- the **rapid response** we are receiving for every ASD provider we put on the market.
- the **volume of offers** our clients are receiving, regardless of their size.
- the **make-up of buyers** in the mix.
- the **movement** they have shown from their first to final offers.
- and lastly, the **volume of financial buyers** pursuing autism deals, even when they are well below their typical minimums for size.

So why is autism suddenly the new black?

Quite simply, **when it comes to the M&A promise of behavioral health, autism speaks.**

How Autism Stacks Up on the Factors Galvanizing Interest in Behavioral Health

Fragmentation

While there are big players in behavioral health, the sector is dominated by smaller operators that have the relationships, programs, and entrepreneurial moxie to mix it up with their major competitors. Generally, such fragmentation supports a classic "roll-up" play in which well-financed buyers consolidate providers to build the kind of critical mass, infrastructure, synergies, and market presence that creates competitive advantage.

Autism clearly fits the profile here. The Braff Group has identified more than 600 companies that list ASD services as one of their primary focus areas, with the overwhelming majority under $10M in revenues. Moreover, there are distinct operating models within ASD – from early intervention programs, to school programs, home and community based services, clinics, and more. So **autism is the embodiment of fragmentation – and the consolidation opportunities this represents.**

Untapped Opportunity

Buyers were slow to move into behavioral health, because it is a somewhat unwieldy collection of disparate treatment areas (addictions, mental health, individuals with intellectual and developmental disabilities, at risk youth, etc.), geared to widely different populations (children, adolescents, adults), and delivered in a variety of operationally different settings (residential, clinics, schools, community). So compared to, say, home health or hospice, behavioral health is far more difficult to build a uniform, synergistic, easy to replicate, national presence.

Difficult. But not impossible.

Consequently, behavioral health represents enormous untapped potential. And when you consider that the first waves of M&A were focused on the most uniform of the behavioral health segments: group homes, psychiatric hospitals, and addictions and substance abuse, **autism is virgin territory in a market that, until recently, was barely on the map.**

Increased Utilization

With (a) greater awareness, acceptance, and de-stigmatization of behavioral health conditions and interventions, and (b) the promise of increased funding due to insurance parity initiatives, buyers have been drawn to the potential of hyper-growth in behavioral health.

In this area, autism particularly shines. Compared to other BH segments, autism is subject to far less stigmatization – and far more empathy from the public. It has garnered extraordinary good will from public awareness campaigns led by well-funded – and well-respected – organizations such as Autism Speaks. The benefits of, and efforts toward, earlier diagnosis are sure to expand the number of children accessing ASD programs. Same for adolescents and young adults as later age programs and treatment options are developed and offered. And insurance reform at state levels has already increased the amount of money being funneled into programs. Together, then, **the promise of increased utilization in autism services is being realized today.**

Payor Source Diversification

With health care so dependent on government funded programs such as Medicare and Medicaid that can be cut – or defunded – with the "stroke-of-a-pen," buyers also like behavioral health (with its substantial private insurance and private pay funding) for the diversification of risk it provides.

Another boost for autism services, especially in light of the expansion of insurance coverage indicated above.

Margin Protection

Buyers have invested in behavioral health because it is also widely resistant to price erosion. In general, services are less subject to commoditization than products. Moreover, in a sector where treatment options, protocols, and techniques are continuously evolving, services can vary widely from provider to provider, creating substantially greater opportunities to offer premium services – at premium pricing.

Once again, this is particularly fertile ground for autism treatment providers. A lot of research dollars are flowing to autism to integrate the fields of medicine, psychology, technology, and education to develop the next wave of diagnostic and support programs and protocols. Accordingly, **ASD has a long runway of innovative interventions before it that will likely be resistant to imitation, and consequently competition, on the basis of price.**

So what are the implications of such a spirited ASD M&A market for both buyers and sellers?

If you're a prospective buyer, the field is wide open to build a powerhouse in autism treatment services. The downside, of course, is that the price of entry will likely be steep. But if your investment horizon is long enough, you can use the initial acquisition as a platform to launch de novo ASD clinics, schools, or other treatment programs – either to complement the initial business or to expand geographic reach. In doing so, you can essentially distribute the market-entry premium across other revenue producing entities that were launched with comparatively (and likely substantially) less capital outlay.

If you're a prospective seller, one way to frame the decision construct is to ask yourself, "is the future stream of growth, income, and potentially higher exit value great enough to compensate me for the risk of not locking down a premium today?" So if you have the ambition, energy, and the resources (financial, human, and operating) to grow the business substantially over the next, say, two to five years, the upsides may be more than enough to offset the inevitable fall-off of fever fueled peak pricing. Alternatively, if your business is in the latter stages of a typical growth cycle where you may be growing 10-15% per year, but your passion is being chipped away by exhaustion, the M&A magic eight ball may portend that you capitalize on the current market frenzy.

Regardless, you can't beat the convergence of awareness, clinical advances, and financial interest that has boosted the entire autism community.

Rock on.

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

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