Behavioral Healthcare EXECUTIVE

M&A activity high among substance use disorder facilities

By Tom Valentino, Senior Editor

While merger and acquisition activity in the behavioral healthcare sector has leveled off overall in 2018, deals involving facilities that specialize in the treatment of substance use disorders are continuing at an elevated pace, says Dexter Braff, MBA, president of The Braff Group.

Through the end of the third quarter of 2018, substance use disorder treatment facilities have accounted for 43% of the behavioral healthcare sector deals tracked by Braff. The next closest segment is mental health at 23%.

“That has been the largest share of the behavioral health deal flow that we’ve seen since we’ve been tracking this space,” says Braff, who founded his firm in 1998.

Still, Braff tells *Behavioral Healthcare Executive* , while substance use disorder treatment deals represent an unprecedented percentage of overall behavioral health transactions, the actual number of deals still falls a bit short of the record highs seen in 2016. The Braff Group tracked 62 substance use disorder deals in 2016 and 48 the following year. Annualizing this year’s numbers, 2018 is on pace for 52 transactions by the end of the year.

There has been a decline in some of the residential activity from what The Braff Group has seen in the past, most notably a decline in high-end residential deal flow, or what the firm considers the luxury programs that are likely to be predominantly out of network, Braff says.

“We expected high-end residential treatment would begin to give way to lower cost residential and lower cost community-based services,” Braff says. “This, in fact, has begun to happen. I will tell you that it follows suit with what we had expected four years ago, albeit at a substantially slower pace than what we had anticipated.”

Counterintuitively, Braff says, medication-assisted treatment facility deals are among those that have slowed most significantly.

“That sector, in our mind, is smack dab in the middle of where we think addictions and substance abuse treatment is going to be headed,” Braff says. “It’s community-based. It’s non-residential. It’s inexpensive. It has a substantial amount of evidence that it is effective in keeping people employed, in their families, out of jail, and otherwise not abusing, not weighing in on the philosophical issues of whether it’s trading one drug for another.”

Braff says he attributes the fall-off in MAT provider deals to the fact that “there just aren’t a lot of players out there to buy. They’re just not there. It’s a very small micro-segment within substance use disorder.”

What’s next

A recent study conducted by Capital One Healthcare says almost 60% of healthcare investors and operators expect that mergers and acquisitions within healthcare overall will level off or even drop in 2019, but within substance use disorder treatment facilities specifically, Braff says a healthy amount of activity should continue. One reason, he says, is that private equity firms continue to be extremely active within the space. Through the third quarter of 2018, private equity investments in platform deals with substance use disorder already have matched their previous high.

“That high water mark was reached in 2016. Even though we may be seeing a little bit of a slide in overall activity, the private equity community has continued to invest heavily in this space,” Braff says. “They are investing in different areas from before, perhaps, but the interest in all things substance use disorder remains extremely high.”

Braff says he also expects “substantially more significant and consistent” activity with value-oriented residential transaction, such as Medicaid- and Medicare-reimbursed services.

Dexter W. Braff, MBA, will further discuss the current state of substance use disorder mergers and acquisitions at the Treatment Center Investment & Valuation Retreat, which will be held Dec. 10-12 in Scottsdale, Arizona.

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